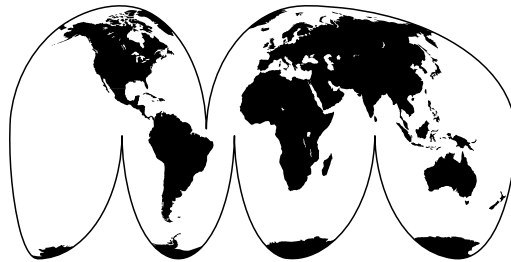


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TWELFTH EDITION



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READER'S GUIDE

GENERAL NOTE: The Twelfth Edition of *Worldmark Encyclopedia of the Nations* (WEN) is comprised of five volumes. Volume 1 is dedicated to the United Nations and its related agencies. Volumes 2 through 5, “Africa,” “Americas,” “Asia and Oceania,” and “Europe,” contain entries on the countries of the world.

Reflecting the ever-changing status of the world geopolitical situation, the Twelfth Edition includes entries for 194 countries, one more than the previous edition. This reflects the 2006 decision of Montenegro to dissolve its relationship with Serbia to become an independent nation in its own right. Seven entries describe dependencies. This edition no longer includes volume 6, which was entitled *World Leaders*.

Some notable changes in previous editions include the Eleventh Edition's inclusion of an entry on East Timor, coverage of the aftermath of the terrorist attacks of 11 September 2001, and the expansion of the European Union and the North Atlantic Treaty Organization (NATO). Changes in the Tenth Edition included recording of the change in status for Macau; as of December 1999 Macau came under Chinese authority, and thus Macau was incorporated into the China entry (previously it was described under Portuguese Asian Dependency). Similarly, the entry for United Kingdom Asian Dependency (Hong Kong) was eliminated with the Ninth Edition; as of 1997 Hong Kong came under Chinese authority and, like Macau, is described in that country's entry. Also with the Tenth Edition, the introduction of the euro as currency in the nations of the European Union was noted. The Eighth Edition of this encyclopedia (1995) reported on the dramatic changes in the world in the early 1990s, including the dissolution of the USSR, Czechoslovakia, and Yugoslavia; the unification of Germany; the unification of Yemen; and the independence of Eritrea. These changes resulted in twenty-five new country articles. Whereas the First Edition of the *Worldmark Encyclopedia of the Nations*, in one volume, contained 119 articles, the present Twelfth Edition now contains 201.

In compiling data for incorporation into the *Worldmark Encyclopedia of the Nations*, substantial efforts were made to enlist the assistance of the government of every nation in the world, as well as of all pertinent UN agencies, who cooperated by supplying data and by revising and updating materials relevant to their sphere of interest. Material received from official sources was reviewed and critically assessed by the editors as part of the process of incorporation. Materials and publications of the UN family and of intergovernmental and nongovernmental organizations throughout the world provided a major fund of geographic, demographic, economic, and social data.

In compiling historical, economic, and political data, primary materials generated by governments and international agencies were supplemented by data gathered from numerous other sources including newspapers (most notably *The European*, the *Financial Times*, the *New York Times*, and the *Wall Street Journal*); periodicals (most notably *Current History*, *Elections Today*, *The Economist*, the *Far Eastern Economic Review*, *Foreign Affairs*, and *World Press Review*); and thousands of World Wide Web sites hosted by government agencies and embassies.

The reader's attention is directed to the Glossary of Special Terms for explanations of key terms and concepts essential to a fuller understanding of the text.

COUNTRY NAMES: Country names are reported (as appropriate) in three forms: the short-form name (generally conformed to the U.S. Central Intelligence Agency's *World Factbook 2006*), as commonly used in the text; the English version of the official name (generally conformed to the United Nations list of country names); and the official name in the national language(s). When necessary, textual usages of some short-form names have been rectified, usually through the substitution of an acronym for the official name, in order to strike a better balance between official usages and universal terminology. Thus the following short-form names have been adopted throughout (except in historical context to preserve accuracy): DROC (Democratic Republic of the Congo—known as Zaire prior to the Ninth Edition); ROC (Republic of the Congo); FRG (Federal Republic of Germany); North Korea: DPRK (Democratic People's Republic of Korea); and South Korea: ROK (Republic of Korea). In addition, Vietnam has replaced Viet Nam to reflect common usage.

MAPS: Spellings on the individual country maps reflect national usages and recognized transliteration practice. To clarify national boundaries and landforms, dark shading has been applied to waters, and lighter shading to lands not within that nation's jurisdiction. Cross-hatching has been used to designate certain disputed areas. Rivers that run dry during certain times of the year are indicated by dashed instead of solid lines.

FLAGS AND NATIONAL EMBLEMS: All depictions of flags, flag designations, and national emblems have been reviewed and, where necessary, corrected or changed to reflect their official usage as of 2006. In general, the term “national flag” denotes the civil flag of the nation.

CURRENCY: In most cases, currency conversion factors cited in the Twelfth Edition are as of the first quarter of 2006.

WEIGHTS AND MEASURES: The general world trend toward adoption of the metric system is acknowledged through the use of metric units and their nonmetric (customary or imperial) equivalents throughout the text. The two exceptions to this practice involve territorial sea limits, which are reported in nautical miles, and various production data, for which (unless otherwise stated) units of measure reflect the system in use by the country in question. All tons are metric tons (again, unless otherwise indicated), reflecting the practice of the UN in its statistical reporting.

HOLIDAYS: Except where noted, all holidays listed are official public holidays, on which government offices are closed that would normally be open. Transliterations of names of Muslim holidays have been standardized. For a fuller discussion on these points, and for a description of religious holidays and their origins and meanings, see the Glossary of Religious Holidays in this volume.

GEOGRAPHIC INFORMATION: To update the sections on Location, Size, and Extent; Topography, Climate, Flora and Fauna, and Environment, the following print publications (and their publishers) were used: *Geo-Data: The World Geographical Encyclopedia* (Gale Group), *World Development Indicators 2005* (The World Bank), and *World Resources* (Oxford University Press). Additional data was acquired from these websites: Library of Congress, *Country Studies: Country Profiles* (<http://lcweb2.loc.gov/frd/cs/profiles.html>); *Ramsar Convention on Wetlands* (<http://www.ramsar.org>); *UNESCO World Heritage Centre* (<http://www.whc.unesco.org>); *United Nations Environment Programme* (<http://www.unep.org>); *Weather Channel: Averages and Records* (<http://www.weather.com/common/home/climatology.html>); *World Conservation Union: Species Survival Commission* (<http://www.iucn.org/themes/ssc>); *World Factbook 2006* (<https://www.cia.gov/cia/publications/factbook>).

POPULATION DATA: Data for the four rubrics describing population (Population, Migration, Ethnic Groups, Languages) were compiled from numerous publications of the U.S. Department of State, the World Bank, the United Nations, and the Organization for Economic Co-Operation and Development (OECD), specifically its publication *Trends in International Migration*. Also consulted were *The State of the World's Refugees* (Oxford University Press) and *International Committee of the Red Cross Annual Report* (International Committee of the Red Cross)

RELIGIONS: Data for this section were compiled in large part from the *2005 International Religious Freedom Report* released by the Bureau of Democracy, Human Rights, and Labor, U.S. Department of State. This is an annual report to Congress compiled in compliance with Section 102(b) of the International Religious Freedom Act (IRFA) of 1998. The *2005 Report* covers the period from 1 July 2004 to 30 June 2005 and includes the work of hundreds of State Department, Foreign Service, and other U.S. government employees. The authors gathered information throughout this period from a variety of sources, including government and religious officials, nongovernmental organizations, journalists, human rights monitors, religious groups, and academics.

TRANSPORTATION: Sources consulted for updated information on transportation include publications of the American Automobile Manufacturers Association, the International Road Transport Union, specifically its publication *World Transport Data*, and the *World Factbook 2006*.

HISTORY: In writing the History rubric, a variety of news and background information sources on each country were used. Full country profiles—including information on the history, economy, political institutions, and foreign relations on most nations of the world—are provided by the U.S. Library of Congress and by the U.S. Department of State; similar formats are published by the *BBC News International* version and *The Economist's* Country Briefings feature. In consulting news sources for up-to-date information on events, only reported facts (not editorials) were used. The *New York Times* and the *Washington Post* are more comprehensive than the *Wall Street Journal*, whose focus is placed on financial and business news. While the website of the United Nations was used extensively in compiling Volume 1 “United Nations,” of the *Worldmark Encyclopedia of the Nations*, its coverage of such problems as politics in the Middle East and global terrorism pertained to and supported the updating of history rubrics of a number of countries. Other organizations that publish journals or studies on global current events, foreign policy, international relations, and human rights include Amnesty International; Human Rights Watch; *Foreign Affairs*, published by the Council on Foreign Relations; and *Great Decisions*, published by the Foreign Policy Association. In addition, the

official websites of each nation were consulted critically for information that could be gleaned from a state's view of its own history and place in the world.

GOVERNMENT: The Government rubric is constructed by outlining the institutions of government as they were formed throughout a nation's modern history, up to those existing under the present constitution. *Countries of the World and Their Leaders Yearbook 2006* (Thomson Gale) outlines the form of government and provides information on political conditions.

The U.S. Library of Congress and the U.S. Department of State chronicle constitutional changes and also provide information on the form of government. Electionworld and the *World Factbook 2006* provide information on officeholders in place at the time of publication. The *BBC News International* "Country Profiles" cover current leaders and their political parties, and *The Economist* is comprehensive in its coverage of political structures and political forces in place and at work in the nations it profiles. The official government websites of individual nations were also consulted.

POLITICAL PARTIES: *Countries of the World and Their Leaders Yearbook 2006* not only lists the political parties present in each nation, but provides additional information on the political parties in its "History" and "Government and Political Conditions" sections. *The Economist* also has sections in its country briefings labeled "political structure" and "political forces," which describe the political climate of each nation the magazine profiles. In addition, *The Economist* provides a brief history of the nation, which often includes the history of political parties. Editors reviewed the profiles of selected nations prepared by the U.S. Library of Congress, which include comprehensive coverage of politics and political parties. The *World Factbook 2006* was consulted for a list of political parties, and often, their leaders. The website, Electionworld.org, describes the major political parties and their leaders, and also lists minor and defunct parties. Political Resources on the Net, a website, compiles links to a variety of sites useful to the researcher with a critical eye.

LOCAL GOVERNMENT: *Countries of the World and Their Leaders Yearbook 2006* lists the administrative subdivisions in each nation of the world; as does the U.S. State Department in its *Background Notes*, and the U.S. Central Intelligence Agency in its *World Factbook 2006*. *The Economist* was consulted for a description of regional legislatures. The U.S. Library of Congress "Country Profiles" briefings describe administrative divisions and provincial and local government.

JUDICIAL SYSTEM: *Countries of the World and Their Leaders Yearbook 2006*, *Background Notes*, and the *World Factbook 2006* all provided basic information on each nation's judicial system. *The Economist* was consulted for a description of the legal systems of each nation it profiles. The U.S. Library of Congress "Country Profiles" briefings provided more in-depth detail about judicial power and structure in the nations it profiles. Jurist, a web-based legal news and real-time legal research service based out of the University of Pittsburgh School of Law in Pittsburgh, Pennsylvania, was consulted as well for concise information on each nation it profiles.

ARMED FORCES: Statistical data on armed forces was compiled from the *World Factbook 2006*, *The Military Balance* (The International Institute for Strategic Studies), the *SIPRI Yearbook* (Stockholm International Peace Research Institute), and other print and online sources including *Current World Nuclear Arsenals* maintained by the Center for Defense Information.

INTERNATIONAL COOPERATION: This section was updated using data provided by news agencies and the following websites: *World Factbook 2006* (<https://www.cia.gov/cia/publications/factbook>) and *Background Notes* (<http://www.state.gov/r/pa/ei/bgn>).

ECONOMY: In addition to numerous official online sources, data on the economies of the world were compiled from the most recent editions of the following U.S. government publications: *National Trade Estimate on Foreign Trade Barriers*, *Country Commercial Guides*, and *Economic Policy and Trade Practices*. *The Economist* was consulted for detailed information on economic structures and select indicators in its "Country Profiles" archive; it also included economic and political forecasts for the nations it profiled. The U.S. Library of Congress "Country Profiles" provided a brief historical overview of the economies of the countries it profiled, in addition to detailing the current state of various sectors of those economies. *The Index of Economic Freedom* (Heritage Foundation) was also consulted for its measurement of independent variables into broad factors of economic freedom.

INCOME: Statistics on national income were obtained from sources published by the United Nations, The World Bank, and the U.S. Central Intelligence Agency (CIA). CIA figures are for gross domestic product (GDP), defined as the value of all final goods and services produced within a nation in a given year. In most cases, CIA figures are given in purchasing power parity terms.

LABOR: Labor statistics were compiled from *World Employment* and *Yearbook of Labour Statistics* (International Labour Office—ILO) and the ILO’s website *Child Labor Statistics by Country* (<http://www.ilo.org/public/english/standards/ipecc/simpoc/countries.htm>); the World Bank publication *World Development Indicators 2004*; and the U.S. State Department’s *Human Rights Reports 2005*.

AGRICULTURE, FISHING AND FORESTRY: In addition to government sources, statistical data for these sections was compiled from the following yearbooks published by the Food and Agriculture Organization of the United Nations: *Trade; Fishery Statistics: Commodities; Fisheries; Production; Agriculture; and Forest Products*.

MINING: Data on mining and minerals production came from various online sources and from statistics compiled by the Minerals Information office of the U.S. Geological Survey, U.S. Department of the Interior, including Volume III of the *Minerals Yearbook*. This volume of the *Minerals Yearbook* is published both electronically on the Internet and in various print formats available from the U.S. Government Printing Office Superintendent of Documents. The *Yearbook* provides an annual review of mineral production and trade and of mineral-related government and industry developments in more than 175 countries.

ENERGY AND POWER: Key sources consulted include *Country Analysis Briefs* (U.S. Energy Information Administration, U.S. Department of Energy), *Key World Energy Statistics* (International Energy Agency), and *World Development Indicators* (The World Bank).

INDUSTRY : The primary source material for the Industry rubric was the U.S. State Department’s *Country Commercial Guides*, which provide a comprehensive look at countries’ commercial environments, using economic, political, and market analysis. *Background Notes* were consulted for the information on the industrial history and climate of each country profiled. Also useful was information contained in the “Country Profiles” published by the U.S. Library of Congress. The *World Factbook 2006* provides a list of key economic indicators. *The Economist* and, to a lesser extent, *BBC News* were useful in providing background material for the Industry rubric.

SCIENCE AND TECHNOLOGY: The following print sources were consulted: *The Nature Yearbook of Science and Technology* (Palgrave Macmillan Publishers Ltd.); *NIRA’s World Directory of Think Tanks* (National Institute for Research Advancement); in addition, the following websites were accessed: *International Science and Technology Activity* (maintained by Industry Canada, Government of Canada); *Economics Departments, Institutes, and Research Centers in the World* (maintained by the Department of Economics, University of Connecticut); *Science and Technology Statistics* (maintained by UNESCO Institute for Statistics); *World Development Indicators* (maintained by The World Bank); and *Annual Statistics* (patent and trademark information, maintained by the World Intellectual Property Organization).

DOMESTIC TRADE: Source material for the Domestic Trade rubric came from the U.S. State Department’s *Country Commercial Guides*, *Background Notes*, and the United Nations publication, *International Trade Statistics Yearbook*. Also used was information contained in the “Country Profiles” published by the U.S. Library of Congress. *The Economist* and, to a lesser extent, the *BBC* were consulted in providing background material for the Domestic Trade rubric. The World Bank’s service “Doing Business” database and the U.S. Commercial Service’s “Buy USA” website were consulted for information on conducting business in a nation, which included business hours and business regulations. Finally, most nations’ government websites provided information on domestic trade.

FOREIGN TRADE: Sources consulted included *2005 International Trade Statistics Yearbook* (Department of Economic and Social Affairs, Statistics Division, United Nations) and *Direction of Trade Statistics* (Real Sector Division, IMF Statistics Department, International Monetary Fund). The U.S. Department of State’s *Country Commercial Guides* and *Background Notes* were also used. *The Economist* and the *World Factbook 2006* were consulted in listing import and export partners and key products traded. Various UN bodies—such as UNCTAD and UNESCO—provided up-to-date trade statistics.

BALANCE OF PAYMENTS: Balance of payments tables were computed from the International Monetary Fund’s *Balance of Payments Statistics Yearbook*. In some cases, totals are provided even though not all components of those totals have been reported by the government of the country. Accordingly, in some instances numbers in the columns may not add to the total. Supplementing the IMF’s *Balance of Payments Statistics Yearbook* were *The Economist*’s “Country Briefings,” the *World Factbook 2006*, and information taken from the U.S. State Department, in particular, the *Country Commercial Guides*. “Country Profiles” from the U.S. Library of Congress were also used. Also consulted was the United Nations publication *National Accounts Statistics: Main Aggregates and Detailed Tables*.

BANKING AND SECURITIES: Statistical data on securities listings and market activity was compiled in part from *Emerging Stock Markets Factbook, 2005* (Standard and Poor’s) as well as from the websites *Country*

Forecasts (www.countrywatch.com) and *International Banking Statistics* (www.bis.org/statistics/bankstats.htm). Various websites specific to the individual countries of the world were also consulted.

INSURANCE: Primary sources for information on insurance include the online resources of the Insurance Information Institute, Rowbotham and Co. LLP, PricewaterhouseCoopers, the Swiss Reinsurance Company, and J. Zakhour & Co., as well as numerous national websites dealing with insurance.

PUBLIC FINANCE: In addition to official government websites, analytical reports from the U.S. Department of Commerce, and news reports, the following publications were consulted for standardized statistical data: *World Factbook 2006*, *International Financial Statistics Yearbook, 2002* (International Monetary Fund), and *Government Finance Statistics Yearbook, 2002* (International Monetary Fund).

TAXATION: Information on Taxation was compiled from country data sheets published by international accounting firms (Deloitte and Ernst & Young). Additional information was obtained from the U.S. Commerce Department and the government websites of the countries of the world.

CUSTOMS AND DUTIES: Information on Customs and Duties was compiled from country data sheets published by the accounting firms of Deloitte and Ernst & Young. Additional information was obtained from the U.S. Commerce Department, the World Trade Organization and the government website of the countries of the world.

FOREIGN INVESTMENT: Source material for the Foreign Investment rubric included the U.S. State Department's *Country Commercial Guides*, which provided a comprehensive analysis of the foreign direct investment environments of the countries of the world, as did the World Bank publication, *A Better Investment Climate for Everyone*. The International Monetary Fund's publications *International Financial Statistics Yearbook* and *Balance of Payments Statistics Yearbook*, and the U.S. State Department's *Background Notes* were consulted for the information on foreign direct investment. Also used was information contained in the "Country Profiles" published by the U.S. Library of Congress. *The Economist* was consulted in providing basic FDI figures and other relevant data.

ECONOMIC DEVELOPMENT: Source material for the Economic Development rubric included the U.S. State Department's *Country Commercial Guides* and *Background Notes*. *The Economist* was consulted for economic and political forecasts for selected nations. The U.S. Library of Congress "Country Profiles" provided a brief historical overview of the economies of the countries profiled, in addition to detailing the current state of various sectors of those economies. The *Index of Economic Freedom* was also consulted for its broad description of economic freedom and development. Information on foreign aid was taken from the print publications and websites of the International Monetary Fund, World Bank, and the United States Agency for International Development (USAID).

SOCIAL DEVELOPMENT: Publications consulted in the preparation of this rubric include *2005 Country Reports on Human Rights Practice* (<http://www.state.gov/g/drl/rls/hrrpt/2005/index.htm>), *International Save the Children Alliance Annual Report 2004* (Cambridge House), *The State of the World's Children* (Oxford University Press), and the *World Development Report* (Oxford University Press). Additional information was obtained from country-specific websites and general news publications.

HEALTH: Statistical sources consulted include *Country Health Briefing Papers* (a series of reports produced by IHSD Limited and DFID Health Systems Resource Centre for the United Kingdom Department for International Development); *Health Care Systems in Transition* (European Observatory on Health Care Systems, World Health Organization Regional Office for Europe); *Health in the Americas*, Volume II (Pan American Health Organization, World Health Organization) as well as numerous websites on the individual nations of the world. In addition, country-specific health profiles published by the World Health Organization and the World Bank were consulted.

HOUSING: The latest government population and housing census information available was used for each country through access of official government websites. Also of use was the World Bank publication *World Development Indicators 2005*. Topics accessed on the World Bank's website included *Countries and Regions*, *Urban Development*, and *Housing and Land*. Other websites consulted included Habitat for Humanity (<http://www.habitat.org>), United Nations Human Settlements Programme (<http://unhabitat.org>) and the U.S. Agency for International Development (USAID—<http://www.usaid.gov>). USAID topics accessed included *Locations* and *Urban Programs*.

EDUCATION: Data on Education was obtained from various UNESCO publications including *World Education Report*, *Global Education Digest*, *Education for All Global Monitoring Report 2005*, and the UNESCO *Statistical Yearbook*. Also consulted was *EdStats* compiled by the World Bank (<http://devdata.worldbank.org/edstats/>), the *World Factbook 2006* (<https://www.cia.gov/cia/publications/factbook>), the UNESCO

website's *Country and Regional Profiles* (<http://www.uis.unesco.org/profiles/>), and *World Data on Education* (International Bureau of Education).

LIBRARIES AND MUSEUMS: Some information concerning libraries and museums was accessed through official government websites of various countries when links were available to tourism, education, and/or cultural ministries or departments. In addition, the following websites were consulted: American Library Association (<http://www.ala.org>); International Federation of Library Associations and Institutions (<http://www.ifla.org>); Museums of the World (<http://www.museum.com>); and United Nations Educational, Scientific, and Cultural Organization (<http://www.unesco.org>).

MEDIA: Primary sources for this section include the annual *Editor & Publisher* publication *International Year Book*, online data provided by UNESCO, and the media sections of the "Country Profiles" featured on the website of *BBC News*. The UNESCO profiles provide key statistics and indicators on education, science and technology, and culture and communication. In addition, government and other websites related to the countries of the world were consulted. Additional sources consulted include the publications *World Development Indicators 2005* (World Bank), *World Media Handbook* (United Nations), *World Factbook 2006*, and *2005 Country Reports on Human Rights Practices*.

ORGANIZATIONS: Lists of member countries were obtained through the official websites of a variety of prominent international organizations and associations, such as the International Federation of Red Cross and Red Crescent Societies, Amnesty International, Kiwanis International, the World Alliance of YMCAs, the World Organization of the Scout Movement, etc. *Associations Unlimited* (Thomson Gale) was also consulted.

TOURISM, TRAVEL, AND RECREATION: Statistical sources consulted include *Yearbook of Tourism Statistics* and *Compendium of Tourism Statistics*, both published by the World Tourism Organization. Tourism websites of the individual countries were also consulted, as well as the United Nations publication *Schedule of Daily Subsistence Allowance Rates* and the U.S. Department of State per diem travel allowances published online at www.state.gov/r/pa/ei/bgn.

FAMOUS PERSONS: Entries are based on information available through March 2006. Where a person noted in one country is known to have been born in another, the country (or, in some cases, city) of birth follows the personal name in parentheses.

DEPENDENCIES: Source material for the Dependencies rubric was taken from *Background Notes* and from the website of the United Nations. The Library of Congress's "Country Profiles" archive provided up-to-date information on dependencies. *The Economist* and the website of *BBC News* were also consulted, as was *Countries of the World and Their Leaders Yearbook 2006*.

BIBLIOGRAPHY: Bibliographical listings at the end of country articles are provided as a guide to further reading on the country in question and are not intended as a comprehensive listing of references used in research for the article. Effort was made to provide a broad sampling of works on major subjects and topics as covered by the article; the bibliographies provide, wherever possible, introductory and general works for use by students and general readers, as well as classical studies, recent contributions, and other works regarded as seminal by area specialists. The country article bibliographies were supplemented with information obtained from a search conducted in July 2006. An extensive bibliography listing key references related to the facts in this encyclopedia follows. However, it is not a complete listing since many fact sheets, brochures, World Wide Websites, and other informational materials were not included due to space limitations.

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GUIDE TO COUNTRY ARTICLES

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

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4	Flora and fauna	30	Domestic trade
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6	Population	32	Balance of payments
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FREQUENTLY USED ABBREVIATIONS AND ACRONYMS

AD—Anno Domini	fl.—flourished	m ³ —cubic meter(s)	rev. ed.—revised edition
AM—before noon	FRG—Federal Republic of Germany	mi—mile(s)	s—south
b.—born	ft—foot, feet	Mt.—mount	sq—square
BC—Before Christ	ft ³ —cubic foot, feet	Mw—megawatt(s)	St.—saint
c—Celsius	GATT—General Agreement on Tariffs and Trade	N—north	UK—United Kingdom
c.—circa (about)	GDP—gross domestic products	n.d.—no date	UN—United Nations
cm—centimeter(s)	gm—gram	NA—not available	US—United States
Co.—company	GMT—Greenwich Mean Time	oz—ounce(s)	USSR—Union of Soviet Socialist Republics
Corp.—corporation	GNP—gross national product	PM—after noon	w—west
cu ft—cubic foot, feet	GRT—gross registered tons	r.—reigned	
cu m—cubic meter(s)	ha—hectares		
d.—died	i.e.—id est (that is)		
E—east	in—inch(es)		
e—evening	kg—kilogram(s)		
e.g.—exempli gratia (for example)	km—kilometer(s)		
ed.—edition, editor	kw—kilowatt(s)		
est.—estimated	kwh—kilowatt-hour(s)		
et al.—et alii (and others)	lb—pound(s)		
etc.—et cetera (and so on)	m—meter(s); morning		
F—Fahrenheit			

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.



ANTIGUA AND BARBUDA



CAPITAL: St. John's

FLAG: Centered on a red background is a downward-pointing triangle divided horizontally into three bands of black, light blue, and white, the black stripe bearing a symbol of the rising sun in yellow.

ANTHEM: Begins "Fair Antigua and Barbuda, I salute thee."

MONETARY UNIT: The East Caribbean dollar (ec\$) is a paper currency of 100 cents, pegged to the US dollar. There are coins of 1, 2, 5, 10, 25 cents and 1 dollar, and notes of 5, 10, 20, and 100 dollars. ec\$1 = us\$0.37037 (or us\$1 = ec\$2.7; as of 2004).

WEIGHTS AND MEASURES: Imperial measures are used, but the metric system is being introduced.

HOLIDAYS: New Year's Day, 1 January; Labor Day, 1st Monday in May; CARICOM Day, 3 July; State Day, 1 November; Christmas, 25 December; Boxing Day, 26 December. Movable holidays include Good Friday, Easter Monday, and Whitmonday.

TIME: 8 AM = noon GMT.

¹ LOCATION, SIZE, AND EXTENT

The state of Antigua and Barbuda, part of the Leeward Islands chain in the eastern Caribbean, is approximately 420 km (261 mi) SE of the US Commonwealth of Puerto Rico and 180 km (110 mi) N of the French overseas department of Guadeloupe. The total land area of 440 sq km (170 sq mi) includes Antigua (280 sq km/108 sq mi); Barbuda (161 sq km/62 sq mi); and uninhabited Redonda (1.3 sq km/5 sq mi), located 40 km (25 mi) to the SW. This total area comprises slightly less than 2.5 times the size of Washington, D.C. The total coastline is 153 km (95 mi). Antigua and Barbuda's capital city, St. John's, is located on the northwestern edge of the island of Antigua.

² TOPOGRAPHY

Partly volcanic and partly coral in origin, Antigua has deeply indented shores lined by reefs and shoals; there are many natural harbors and beaches. Boggy Peak (402 m/1,319 ft), in southwestern Antigua, is the nation's highest point. Antigua's northeastern coastline is dotted by numerous tiny islets; the central area is a fertile plain. Barbuda, a coral island with a large harbor on the west side, rises to only 44 m (144 ft) at its highest point. Redonda is a low-lying rocky islet.

³ CLIMATE

Temperatures average 24°C (75°F) in January and 29°C (84°F) in July, with cooling tradewinds from the east and northeast. Rainfall averages 117 cm (46 in) per year; September through November is the wettest period. The islands have been subject to periodic droughts and to autumn hurricanes.

⁴ FLORA AND FAUNA

Most of the vegetation is scrub, but there is luxuriant tropical growth where fresh water is available. Many varieties of fruits,

flowers, and vegetables are grown. Palmetto and seaside mangrove are indigenous, and about 1,600 hectares (4,000 acres) of red cedar, white cedar, mahogany, whitewood, and acacia forests have been planted. Barbuda is heavily wooded, with an abundance of deer, wild pigs, guinea fowl, pigeons, and wild ducks. Pineapple plantations can be found throughout Antigua.

⁵ ENVIRONMENT

Water management is the principal environmental concern. A water shortage due to limited freshwater resources is exacerbated by limited rainfall and drought. The existing water supply is threatened by pollution from distilleries, food processing facilities, and other industrial operations. Deforestation resulting from the nation's energy demands, combined with agricultural development, contributes to soil erosion, as rainfall, which is concentrated in a short season, quickly runs off, compounding the water shortage problem on the islands. The nation's main city, St. John's, has developed a problem with waste disposal. Untreated sewage from resort hotels travels in open sewage lines across the land and empties into the sea. Construction of a desalination plant in 1970 relieved some of the water shortage.

The government of Antigua and Barbuda supports a Historical, Conservation, and Environmental Commission. There are four main protected areas, including the offshore islands of North Sound and Codrington Lagoon of Barbuda, the latter of which is a Ramsar wetland site. According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), the number of threatened species included 2 species of birds, 5 types of reptiles, 11 species of fish, and 4 species of plants. Endangered species in the nation included the Antiguan ground lizard, the West Indian whistling duck, and the Antiguan racer.

6 POPULATION

The population of Antigua and Barbuda in 2005 was estimated by the United Nations (UN) at 80,000, which placed it at number 182 in population among the 193 nations of the world. In 2005, approximately 8% of the population was over 65 years of age, with another 26% of the population under 15 years of age. According to the UN, the annual population rate of change for 2005–2010 was expected to be 1.4%, a rate the government viewed as satisfactory. The projected population for the year 2025 was 87,000. The population density was 182 per sq km (471 per sq mi).

The UN estimated that 37% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 1.54%. The capital city, St. John's (Antigua), had a population of 28,000 in that year. The majority of the populace resides on the island of Antigua.

7 MIGRATION

The United Kingdom has been the historic destination of Antiguan emigrants, but in recent years St. Martin, Barbados, the US Virgin Islands, and the US mainland have been the principal recipients of the outflow. The primary motive for emigration is the search for work. The net migration rate in 2005 was -6.11 migrants per 1,000 population. The government views both the immigration and emigration levels as too high.

8 ETHNIC GROUPS

Antiguans are almost entirely of African descent. There are small numbers of persons of British, Portuguese, Lebanese, and Syrian ancestry.

9 LANGUAGES

English is the official and commercial language. An English patois is in common use.

10 RELIGIONS

The dominant religion is Christianity. Over 70% of the population belongs to churches represented in the Antigua Christian Council, which include the Anglicans, Methodists, Moravians, Roman Catholics, and the Salvation Army. The Anglican Church is the dominant denomination, representing about 35% of the population. Methodists account for about 15%. The Moravians also make up about 15% of the population and Roman Catholics make up about 6% of the population. There are about 400 Jehovah's Witnesses. Communities of non-Christians are fairly small. Rastafarianism has an estimated 1,000–1,500 adherents. The Baha'i faith has about 50 members. As estimate on the number of Muslims practicing in the country was unavailable. St. John's, as capital, serves as the episcopal seat of both the Anglican and Roman Catholic churches.

The constitution provides for freedom of religion and this right is generally respected in practice. Christian holidays are celebrated as public holidays. The Antigua Christian Council actively promotes tolerance and mutual understanding among religious denominations. The Council has also served as an advocate for peace, particularly during political elections. In early 2004, the council presented a "Code of Ethics" that denounced any use of violence and verbal abuses during March elections; all of the candi-

dates signed the code. The United Evangelical Association unites most of the nation's independent evangelical churches.

11 TRANSPORTATION

In 2002, there were 1,165 km (724 mi) of highways, of which 384 km (239 mi) were paved. In 1995, there were 302 motor vehicles per 1,000 population. The railway consists of 77 km (48 mi) of narrow-gauge track, used mainly to haul sugar cane. The islands have no natural deepwater harbors; a deepwater facility was constructed at St. John's in 1968. The merchant fleet in 2005 consisted of 980 ships (1,000 GRT or over), totaling 5,873,626 GRT. In 2005, there were three airports, two of which had paved runways. Vere Cornwall Bird International Airport, 7 km (4 mi) northeast of St. John's, accommodates the largest jet aircraft; Coolidge Airport, also on Antigua, handles freight. There is also a landing strip at Codrington. Domestic and international scheduled flights carried 1,369,100 passengers in 2001.

12 HISTORY

The first inhabitants of Antigua and Barbuda were the Siboney, whose settlements date to 2400 BC. Arawak and Carib Indians inhabited the islands at the time of Christopher Columbus' second voyage in 1493. Columbus named Antigua after the church of Santa Maria de la Antigua, in Sevilla (Seville), Spain. Early settlements were founded in 1520 by the Spanish, in 1629 by the French, and in 1632 by the British. Antigua formally became a British colony in 1667 under the Treaty of Breda.

In 1674, Sir Christopher Codrington established the first large sugar estate in Antigua. He leased Barbuda to raise slaves and supplies for this enterprise. In 1834 slavery was abolished, but this was a mere technicality, since no support was provided for the new freemen. In 1860, Antigua formally annexed Barbuda. The Federation of the Leeward Islands served as the governing body of the islands from 1871 to 1956, and from 1958 to 1962, they belonged to the Federation of the West Indies.

Antigua became an associated state with full internal self-government as of 27 February 1967. Opposition to complete independence came from the residents of Barbuda, who sought constitutional guarantees for autonomy in land, finances, and local conciliar powers. With these issues still not fully resolved, Antigua and Barbuda became an independent state within the Commonwealth of Nations on 1 November 1981, with Vere Cornwall Bird as prime minister. (Considered a national hero for his role in leading the nation to independence, when Bird died in 1999, thousands turned out to observe a national moment of silence in his honor.) Bird and the Antigua Labor Party (ALP) won renewed mandates in every subsequent election to that of 1976 under his leadership until 1994 and also under the leadership of his son, Lester Bird, up until March 2004, when the ALP lost power in national elections.

Antigua is an active participant in Caribbean affairs. In May 1987, the prime ministers of the members of the Organization of Eastern Caribbean States (OECS) agreed on a merger proposal, creating a single nation out of their seven island states. A national referendum in each of the states was planned for ratification of the accord, but the referendums were defeated and the seven nations remained separate.

In its fifth general election as an independent nation, on 23 March 2004, Antigua and Barbuda experienced a peaceful change of government. The United Progressive Party (UPP), led by Winston Baldwin Spencer, won 13 of the 17 elected seats. The opposition, led by Robin Yearwood, retained four seats. Winston Baldwin Spencer was named prime minister in 2004. The next election was scheduled for 2009.

13 GOVERNMENT

Universal adult suffrage on the islands dates from 1951, and ministerial government from 1956. The bicameral legislature gained its present form in 1967, and the United Kingdom granted formal independence to Antigua and Barbuda in November 1981. Under the constitution, the chief of state is the reigning British monarch. A local governor-general, appointed on the advice of the prime minister, is the chief of state's representative in Antigua and Barbuda. Since 10 June 1993, Governor-General Sir James B. Carlisle has represented Queen Elizabeth II. The bicameral legislature consists of a 17-member House of Representatives, elected from single-member constituencies for up to five years by universal adult suffrage at age 18; and a 17-member Senate, appointed by the governor-general, of whom 11 (including at least one inhabitant of Barbuda) are named on the advice of the prime minister, 4 on the advice of the leader of the opposition, 1 at the governor-general's discretion, and 1 on the advice of the Barbuda council. The governor-general appoints the prime minister, who must have the support of a majority of the House, and the cabinet.

The prime minister as of 2004 was Winston Baldwin Spencer, with the next elections scheduled for 2009. The prime minister, in addition to his role as prime minister, holds a number of other governmental posts, including minister of defense; minister of external affairs; minister of legislature, privatization, printing, and electoral affairs; minister of telecommunications and gambling; minister of public works, sewage, and energy; and minister of urban development and renewal.

14 POLITICAL PARTIES

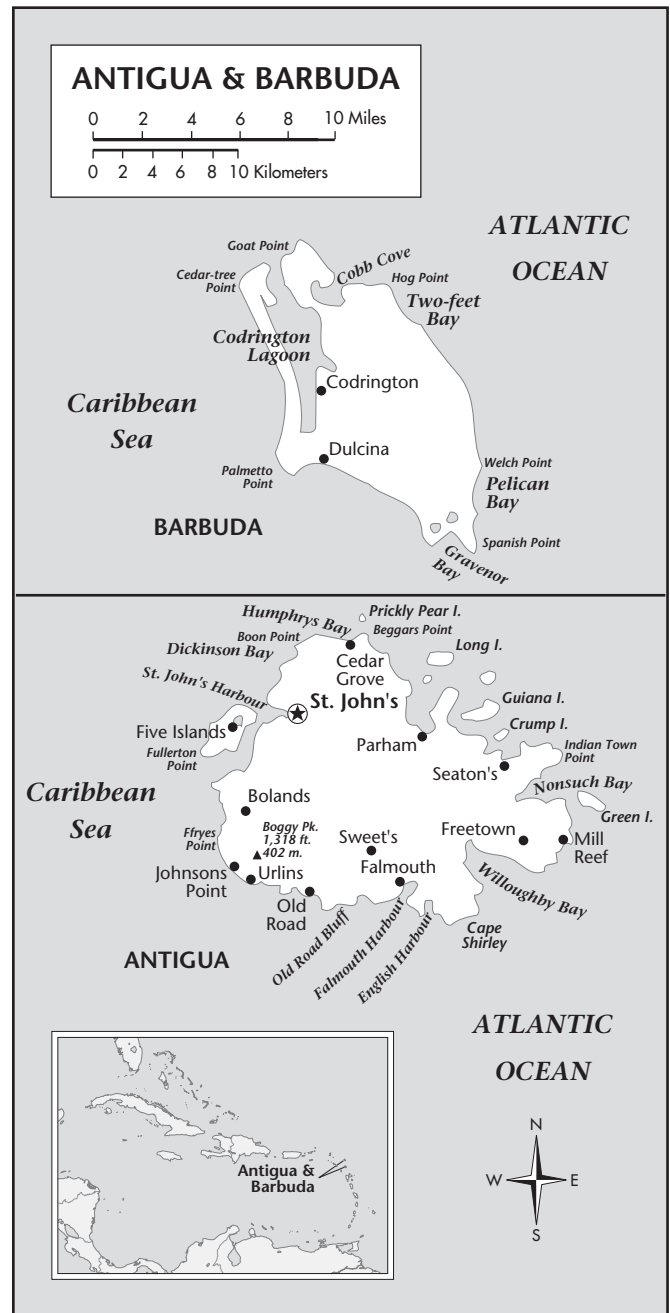
The United Progressive Party (UPP) took over power in 2004 formerly held by the Antigua Labor Party (ALP) since 1946, except for a period from 1971 to 1976, when the Progressive Labor Movement (PLM), led at the time by George H. Walter, held a parliamentary majority. As of 2004 the UPP, a coalition of the Antigua Caribbean Liberation Movement (ACLM), the Progressive Labor Movement (PLM), and the United National Democratic Party (UNDP), was led by Winston Baldwin Spencer. Other active political parties in 2004 included the Antigua Labor Party, led by former Prime Minister Lester Bryant, and the Barbuda's People's Movement.

15 LOCAL GOVERNMENT

The island of Antigua has six parishes and two dependencies, Barbuda and Redonda. Twenty-nine community councils, each with nine members, five elected and four appointed, conduct local government affairs.

16 JUDICIAL SYSTEM

English common law and local statutory law form the basis for the legal system, which the Eastern Caribbean Supreme Court, based



LOCATION: Antigua: 17°9' N; 61°49' W. Barbuda: 17°41' N; 61°48' W. TOTAL COAST-LINE: 153 kilometers (95 miles). TERRITORIAL SEA LIMIT: 12 miles.

in St. Lucia, administers; it also provides a High Court and Court of Appeal. Final appeals may be made to the Queen's Privy Council in the United Kingdom. A court of summary jurisdiction on Antigua, which sits without a jury, deals with civil cases involving sums of up to EC\$1500; three magistrates' courts deal with summary offenses and civil cases of not more than EC\$500 in value. The Industrial Court, for arbitration and settlement of trade disputes, was reintroduced in 1976. On 9 June 2003, Caribbean leaders met in Kingston, Jamaica, to ratify a treaty to establish the Caribbean Court of Justice (CCJ). The first session of the CCJ was scheduled for November 2003. Eight nations—Barbados, Belize,

Dominica, Guyana, Jamaica, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago—officially approved the CCJ, although 14 nations, including Antigua and Barbuda, were planning to use the court for appeals.

The constitution prohibits arbitrary arrest and detention. The suspect must be brought before a court within 48 hours of arrest or detention. The constitution prohibits arbitrary interference with privacy, family, home, or correspondence. The government respects these provisions in practice.

17 ARMED FORCES

As of 2005, there was a Royal Antigua and Barbuda Defense Force of some 170 active personnel (Army, 125; Navy, 45) and 75 reservists. The Navy has three patrol craft. The military budget in 2005 was \$4.81 million.

18 INTERNATIONAL COOPERATION

Antigua and Barbuda joined the United Nations on 11 November 1981. It belongs to several specialized UN agencies, such as FAO, ICAO, IFAD, IFC, ILO, IMF, UNESCO, the World Bank, and WHO. The country joined the WTO 1 January 1995. Antigua and Barbuda is a member of the ACP Group, CARICOM, the CDB, G-77, the ICFTU, the World Confederation of Labor, and the World Federation of Trade Unions. It is also a part of the Commonwealth of Nations, the OECS, the OAS, the Eastern Caribbean's Regional Security System (RSS), the Association of Caribbean States (ACS), and the Alliance of Small Island States (AOSIS).

Antigua and Barbuda is a member of the Agency for the Prohibition of Nuclear Weapons in Latin America and the Caribbean (OPANAL). In cooperation on environmental issues, Antigua and Barbuda is part of the Basel Convention, the Convention on Biological Diversity, CITES, the London Convention, the International Convention for the Regulation of Whaling, the Nuclear Test Ban Treaty, the Kyoto Protocol, the Montréal Protocol, MARPOL, and the UN Conventions on the Law of the Sea, Climate Change, and Desertification.

19 ECONOMY

Sugar and cotton production historically were the mainstays of Antigua and Barbuda's economy. This changed in the 1960s when tourism became the main industry. The sugar industry has become insignificant and cotton output has declined. Antigua and Barbuda's reliance on tourism has made its economy quite vulnerable to natural disasters and global politics. As the production of sugar declined in the 1980s, the country's public sector debt skyrocketed. In the 1990s, the tourism industry was ravaged when five major hurricanes hit the islands. Tourism suffered an additional setback in 2001 and 2002 following the 11 September 2001 terrorist attacks on the United States. As of 2004, the tourism industry had recovered, and logged more than 750,000 visitors, mostly from Europe and the United States, although the industry slowed again in 2005. About 500,000 of the visitor arrivals in 2004 came via cruise ship.

The economy of this small eastern Caribbean island-nation continues to be precarious. Antigua and Barbuda together consist of less than 300 square miles of land, and the nation had a population of 68,722 in July 2005. A troubling report from the International Monetary Fund in 2004 documented the nation's dif-

iculties: debt was 137% of GDP, and salaries of government workers—about 37% of the total work force—were eating up 60% of public revenue.

The International Monetary Fund noted in early 2006, however, that the government had introduced significant economic reforms, many of which have been designed to curb public sector corruption and to overhaul the country's tax system. The international lending authority is generally quite optimistic about Antigua and Barbuda's future.

The economy is primarily service-based. Tourism, financial services and government services are Antigua and Barbuda's major employers. Tourism accounts for more than half of the nation's GDP. What agricultural production remains is directed primarily to the domestic market. Farming faces water and labor shortages, as the lure of higher wages draws more people to tourism and construction. Tourism has helped stimulate the construction industry in recent years, leading to the development of enclave-type assembly plants where bedding, handicrafts, and electronics components are assembled for export.

GDP for Antigua and Barbuda was \$815.2 million in 2004. In 2004, agriculture accounted for 3.2% of GDP and employed 11% of the labor force, while services, including tourism accounted for 76.8%. Antigua and Barbuda's small assembly plants made up the remaining 19.2% of GDP. The GDP growth rate fell to 3.5% in 2000, and hovered as of 2002 at about 3%, as the islands felt the effects of a worldwide slowdown in tourism. However, with the recovery of tourism, GDP rose to 5.2% in 2004. Although GDP growth slowed to 3% in 2005, the IMF anticipated that a rebound in tourism and construction activity associated with the 2007 Cricket World Cup would help stimulate Antigua and Barbuda's economy.

20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 Antigua and Barbuda's gross domestic product (GDP) was estimated at \$750.0 million. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange based on current dollars. The per capita GDP was estimated at \$11,000. The annual growth rate of GDP was estimated at 3%. The average inflation rate in 2005 was 0.4%. It was estimated that agriculture accounted for 3.9% of GDP, industry 19.2%, and services 76.8%.

In 2001 approximately 36% of household consumption was spent on food, 8% on fuel, 3% on health care, and 18% on education. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings.

21 LABOR

The total labor force in 2002 was estimated at 30,000. About 82% of the employed labor force worked in occupations connected with tourism or other services; 7% in industry, and 11% in agriculture, hunting, forestry, and fishing. The unemployment rate was estimated at 11% in 2001.

Around 75% of the workforce is unionized. Workers have a recognized right to strike unless either party in a dispute requests

mediation. Employers found guilty of antiunion discrimination are routinely ordered to make compensation payments to an affected worker, although the employer will not be required to rehire the worker.

The law provides for a maximum 48-hour workweek, but most people work 40 hours on the average. In 2002, the minimum wage averaged us\$2.22 per hour, but generally wages are paid according to experience and skill level. The vast majority of employed persons earned substantially more than the minimum. There is a minimum working age of 16, which is entirely enforced by the Labor Ministry. In addition, those under the age of 18 are prohibited from working later than 10 pm and must have a medical clearance. All forms of compulsory or forced labor (including slavery) are forbidden. Although specific regulations and laws regarding occupational health and safety have yet to be promulgated by the government, workers can leave a workplace deemed to be dangerous, without facing jeopardy to their jobs.

22 AGRICULTURE

Some 30% of land on Antigua is under crops or potentially arable, with 18% in use. Sea-island cotton is a profitable export crop. A modest amount of sugar is harvested each year, and there are plans for production of ethanol from sugarcane. Vegetables, including beans, carrots, cabbage, cucumbers, plantains, squash, tomatoes, and yams, are grown mostly on small family plots for local markets. Over the past 40 years, agriculture's contribution to the GDP has fallen from over 40–4%. The decline in the sugar industry left 60% of the country's 66,000 acres under government control, and the Ministry of Agriculture is encouraging self-sufficiency in certain foods in order to curtail the need to import food, which accounts for up to 25% by value of all imports. Crops suffer from droughts and insect pests, and cotton and sugar plantings suffer from soil depletion and the unwillingness of the population to work in the fields. Mango production in 2004 was 1,430 tons.

23 ANIMAL HUSBANDRY

Livestock estimates in 2004 counted 14,300 head of cattle, 19,000 sheep, and 36,000 goats; there were some 5,700 hogs in the same year. Most livestock is owned by individual households. Milk production in 2004 was an estimated 5,350 tons. The government has sought to increase grazing space and to improve stock, breeding Nelthropp cattle and Black Belly sheep. There is a growing poultry industry. In 1992, the European Development Bank provided us\$5 million to the government to help develop the livestock industry.

24 FISHING

Most fishing is for local consumption, although there is a growing export of the lobster catch to the United States and of some fish to Guadeloupe and Martinique. Antiguan consume more fish per capita (46 kg/101.4 lb) per year live weight than any other nation or territory in the Caribbean. The main fishing waters are near shore or between Antigua and Barbuda. There are shrimp and lobster farms operating, and the Smithsonian Institution has a Caribbean king crab farming facility for the local market. The government has encouraged modern fishing methods and supported mechanization and the building of new boats. Fish landings in

2003 were 2,587 tons; the lobster catch, 243 tons. Exports of fish commodities in 2003 were valued at us\$1.4 million.

25 FORESTRY

About 11% of the land is forested, mainly by plantings of red cedar, mahogany, white cedar, and acacia. A reforestation program was begun in 1963, linked with efforts to improve soil and water conservation.

26 MINING

Few of the islands' mineral resources, which included limestone, building stone, clay, and barite, were exploited until recently. Limestone and volcanic stone have been extracted from Antigua for local construction purposes, and the manufacture of bricks and tiles from local clay has begun on a small scale. Barbuda produced a small amount of salt, while phosphate has been collected from Redonda.

27 ENERGY AND POWER

Electric power produced in 2002 totaled 0.099 billion kWh, all from fossil fuels, and based on a capacity of 27,000 kW. Consumption of electricity was 0.092 billion kWh. The Antigua Public Utilities Authority, run by the Ministry of Public Works and Communications, operates generating stations at Cassada Gardens and Crabbes Peninsula. Gas is now produced and refined locally. Off-shore oil exploration took place during the early 1980s.

As part of the government's energy conservation program, incentives are offered for the manufacture and use of solar-energy units, and there are import surcharges on automobiles with engine capacities exceeding 2,000 cc. Under study as alternatives to fossil fuels are wind power, surplus bagasse from the sugar refinery, and fast-growing tree species. Imports of refined petroleum products in 1994 surpassed 3,000 barrels per day, mostly in the form of jet fuel, distillates, and gasoline.

28 INDUSTRY

Most of the industrial activity in Antigua and Barbuda is assembly-based, although the islands also produce rum, refined petroleum, and paints. Other items, such as furniture, handicrafts, and electrical components, are primarily for export. The government encourages investment in manufacturing establishments, and most industries have some government participation.

Industry accounted for 19.2% of GDP in 2002. Manufacturing—which accounts for approximately 5% of GDP—comprises enclave-type assembly for export with major products being bedding, handicrafts, and electronic components. The industrial park, located in the Coolidge Area, produces a range of products such as paints, furniture, garments, and galvanized sheets, also mainly for export.

29 SCIENCE AND TECHNOLOGY

Technological services for the fishing industry, such as the introduction of depth finders and hydraulic gear, are provided by the government. An extramural department of the University of the West Indies offers technical courses, as does Antigua State Col-

lege. The University of Health Sciences at St. John's, founded in 1982, has a school of medicine.

3⁰ DOMESTIC TRADE

The economy in Antigua and Barbuda is primarily service based with a focus on tourism. General business is usually conducted from 8:30 AM to 4 PM, Monday–Saturday, except for Thursday afternoon, when many shops close. Banks are open from 8 AM to noon five days a week, and on Friday additionally from 3 to 5 PM. St. John's is the main commercial center with many small shops and a few larger supermarkets. Fresh seafood and produce are sold in Saturday morning markets.

3¹ FOREIGN TRADE

Antigua and Barbuda are part of the US Caribbean Basin Initiative that grants duty-free entry into the United States for many goods. Antigua and Barbuda also belongs to the predominantly English-speaking Caribbean Community and Common Market (CARICOM) and the CARICOM Single Market and Economy. However, with tourism as its primary industry, trading relationships between Antigua and Barbuda and other nations are relatively small. The islands import considerably more items than they export. Imports, for instance, totaled \$369 million in 2004 compared with \$20 million for exports. The International Monetary Fund (IMF) projected that Antigua and Barbuda's exports would grow by 7.7% and imports would increase by 3.3% in 2005.

Most of what the country exports goes to the Organization of Eastern Caribbean States (OECS) (24%), the United States (10%), Barbados (21%), and Trinidad and Tobago (7%). Imports include food and live animals, machinery and transport equipment, manufactures, chemicals, and oil. Major providers are the United States (27%), the United Kingdom (10%), and the OECS (1%).

3² BALANCE OF PAYMENTS

Foreign investment in tourism-related construction has helped to compensate for the trade imbalance that Antigua and Barbuda face. However, the dependence on imports is of concern to many experts on Antigua and Barbuda's economy, and the country has begun to take steps to increase its level of exports. The IMF projected that 2005 exports will increase by 7.7% while imports will rise more slowly to 3.6%.

The US Central Intelligence Agency (CIA) reported that in 2004 the purchasing power parity of Antigua and Barbuda's exports was \$214 million. Imports accounted for \$735 million.

3³ BANKING AND SECURITIES

There were eight commercial banks in 1994, five of which were foreign, including the Bank of Antigua and the Stanford International Bank. The Antigua and Barbuda Development Bank, wholly owned by the government, began operations in 1975. Currency is issued by the Eastern Caribbean Central Bank. The financial industry suffered in Antigua and Barbuda in 1999, due to fears of money laundering by drug cartels. The government passed the Money Laundering Prevention Amendment in order to protect foreign investment in the sector.

The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$125.8 million. In that same year, M2—an ag-

gregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$577.6 million.

3⁴ INSURANCE

There are several life insurance companies on the islands.

3⁵ PUBLIC FINANCE

Since the abolition of the income tax on residents, government revenues have been derived mainly from indirect taxes, principally customs and excise duties and consumption taxes. A major source of revenue is the US's military bases.

The US Central Intelligence Agency (CIA) estimated that in 2000 Antigua and Barbuda's central government took in revenues of approximately \$123.7 million and had expenditures of \$145.9

Principal Trading Partners – Antigua and Barbuda (1999)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	15.0	356.0	-341.0
United States	3.2	176.1	-172.9
Montserrat	2.0	...	2.0
Saint Kitts and Nevis	1.7	...	1.7
France-Monaco	1.1	3.3	-2.2
United Kingdom	1.1	22.3	-21.2
Dominica	1.0	3.5	-2.5
Jamaica	0.9	2.7	-1.8
Trinidad and Tobago	0.8	21.4	-20.6
Saint Lucia	0.8	2.2	-1.4
Barbados	0.5	6.7	-6.2

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

Balance of Payments – Antigua and Barbuda (2002)

(In millions of US dollars)

Current Account			-102.6
Balance on goods		-290.8	
Imports	-335.6		
Exports	44.8		
Balance on services		217.2	
Balance on income		-34.5	
Current transfers		5.6	
Capital Account			13.9
Financial Account			84.6
Direct investment abroad		...	
Direct investment in Antigua and Barbuda		47.7	
Portfolio investment assets		-2.9	
Portfolio investment liabilities		0.7	
Financial derivatives		...	
Other investment assets		-10.8	
Other investment liabilities		49.9	
Net Errors and Omissions			11.7
Reserves and Related Items			-7.7

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

million. Revenues minus expenditures totaled approximately - \$22.2 million. Total external debt was \$231 million.

3⁶ TAXATION

The profits tax for corporations in 2003 was 40%. Incorporated businesses are taxed at 2% of gross income with the first \$4,160 of income per month tax-exempt. The income tax, introduced in 1924, was abolished for residents at the end of 1976. Taxes on residential property are based on current replacement values, and in 2003 were subject to surcharges of 0–20% depending on zoning regulations. Hotels are taxed at preferential rate of 0.2% of taxable value while other commercial property is taxed at 0.75% of taxable value. Other taxes include taxes on life and general insurance premiums, and on property transfers.

3⁷ CUSTOMS AND DUTIES

Antigua and Barbuda adheres to the common external tariff schedule of CARICOM; rates (which range up to 35%) are generally ad valorem, based on the cost, insurance, and freight value, and a wide range of goods is permitted duty-free entry. Additional special rates are applied for tobacco, cement, petroleum products, vans and trucks, and certain types of timber.

3⁸ FOREIGN INVESTMENT

The government's efforts to improve the investment climate have met with some success. Antigua and Barbuda offer tax holiday periods of 10 to 15 years, and rebates of 25–50% to export-oriented industries. The country also allows imports of machinery, equipment, spare parts, and raw materials duty free to companies who meet government requirements. The offshore financial sector has grown aggressively, offering tax-haven facilities to international business companies, trusts, banks, and insurance companies. In addition, the country has no capital gains or personal income tax. In addition to local tax and duty concessions, manufacturers have access to the United States, European, Canadian, and Caribbean markets through the Lomé Convention, Caribbean Basin Initiative (CBI), CARICOM, and other agreements.

In 1997 and 1998, the reported inflow of foreign direct investment (FDI) was \$22.9 million and \$27.4 million respectively. Increases in 1999 and 2000 to \$36.5 million and \$33.2 million reflected growth in the islands' technology sector when the Internet gaming company Starnet Communications International moved its headquarters to St. John's. Internet gaming is treated like a financial institution under the law. FDI increased steadily, rising to \$106 million in 2004.

3⁹ ECONOMIC DEVELOPMENT

Because of its reliance on tourism, Antigua and Barbuda's prospects for economic growth will depend on the economic fortunes of the industrialized world, particularly the EU and United States. However, the hurricanes and global slowdown in tourism following the 11 September 2001 attacks have prompted Antigua and Barbuda to begin diversifying the economy in recent years. The island-nation encourages growth in transportation, communications, Internet gambling, and financial services.

Antigua has the largest tourist sector in the Leeward and Windward Islands. Frequent cruise ship arrivals at the St. John's Har-

bour and the Deep Water Harbour play a major part in boosting tourism.

There has been a substantial decrease in agriculture's contribution to the country's gross domestic product (GDP), falling from 40% to just slight more than 3% since the 1960s. However, the Ministry of Agriculture has been implementing policies to encourage farmers to increase output in an effort to decrease imports of agricultural products. The trade imbalance severely endangers the Antiguan and Barbadian economy in the event of decreased tourism revenues.

4⁰ SOCIAL DEVELOPMENT

Social insurance was implemented in 1972, with a social assistance system enacted in 1993. All employees and self-employed between the ages of 16 and 59 are covered, with a few minor exceptions. The program is funded by contributions from employees and employers. It provides old age, disability, and survivor benefits. The cost of a medical insurance scheme that includes maternity benefits is shared equally between employers and employees. Workers' medical services are provided directly through public health facilities.

Although there are no legal restrictions on women's roles in society, traditional expectations tend to limit their activities outside the home, especially in rural areas. Women are well represented in public service, accounting for more than half of the work force. Domestic violence against women is a serious problem, but the legal system is often lenient when addressing this issue. Police are reluctant to intervene, and many abused women refuse to testify for fear of retaliation. Nongovernmental organizations were increasingly advocating women's rights and providing support to abused women. Child abuse also appeared to be prevalent.

Human rights are generally respected by the government, although prison conditions are poor.

4¹ HEALTH

Four institutions are maintained for the care of the sick and aged. Holberton Hospital, with 135 beds, is the only public acute care facility. The only private hospital is Adelin Medical Center. Other facilities include the Fiennes Institute for the aged, with 100 beds, and the Mental Hospital, with 150 beds. In addition, 9 health centers and 18 dispensaries are located throughout the country. As of 2004, there were an estimated 17 physicians, 328 nurses, and 18 dentists per 100,000 people.

The infant mortality rate in 2005 was estimated at 22 per 1,000 live births, up from 12 in 1998. The average life expectancy was 71.9 years in 2005. As of 1995, 100% of the population was immunized against diphtheria, pertussis, and tetanus and 94% against measles, mumps, and rubella. The leading causes of death included cancer, cardiovascular disease, and trauma.

By the end of 2003, 271 cases of HIV/AIDS had been reported. As of that year, the annual incidence of AIDS was 209 per million people. The government approved a national policy on HIV/AIDS and other sexually transmitted diseases in 1997.

4² HOUSING

The housing stock in Antigua and Barbuda is continually threatened by natural disasters, particularly by severe hurricanes which seem to hit the country every three to five years. The Central Hous-

ing and Planning Authority (CHAPA) advises on suitable sites, rehabilitates houses in the event of disaster, develops new housing tracts, and redevelops blighted areas. In March 2003, the government announced that plans were in place for CHAPA to build a number of affordable housing developments on private lands and to institute a Housing Improvement Mortgage program to make it easier for citizens to purchase these homes. At least six housing developments are planned as part of a three-year program to meet increased demand for housing. Most of these planned homes are single family dwellings with two or three bedrooms.

43 EDUCATION

Education for children between the ages of 5 and 16 years is compulsory. Primary education begins at the age of five years and normally lasts for seven years. Secondary education lasts for five years, with three years of lower secondary, followed by two years of upper secondary. In 2001, there were about 13,000 students enrolled at the primary schools and 5,000 students at the secondary schools. About 1,000 secondary school age students were enrolled in vocational programs. As of 2000 the primary pupil-teacher ratio was an estimated 19 to 1; the ratio for secondary school was about 13:1. The government administers the majority of the schools. In 2003, estimated spending on education was about 3.8% of the GDP. In 2000, about 38% of primary school students were enrolled in private schools.

There currently are three colleges. The University of Health Sciences, Antigua, was founded in 1982. It had, in the 1990s, an enrollment of 46 students and 16 teachers. The University of the West Indies School of Continuing Studies (Antigua and Barbuda) was founded in 1949 and offers adult education courses, secretarial skills training programs, summer courses for children, and special programs for women. In 1972, the technical and teacher's training colleges merged and formed the Antigua State College.

The University of the West Indies has campuses in Barbados, Trinidad, and Jamaica, and it maintains extramural departments in several other islands, including Antigua. Those interested in higher education also enroll at schools in the United Kingdom, the United States, Europe and Canada. The adult literacy rate is approximately 89%.

44 LIBRARIES AND MUSEUMS

The largest library is the Antigua Public Library located in St. John's with 50,000 volumes. The library at the University of the West Indies School of Continuing Studies on St. John's has 10,000 volumes. The American University of Antigua College of Medicine has been establishing a fairly good sized library, primarily for use by the students and faculty. The Museum of Antigua and Barbuda is at St. John's, as is Betty's Hope, a historic sugar plantation. A Dockyard Museum is housed in the Naval Officer's House at English Harbor.

45 MEDIA

The islands' automatic telephone system, operated by the Antigua Public Utilities Authority, had approximately 38,000 mainline telephones in 2002. The same year, there were about 38,200 mobile

phones in use. International telephone and telex services are supplied by Cable and Wireless (West Indies), Ltd.

In 2001, the first independent radio station, Observer, began operations. This station is operated by the owners of the *Observer* newspaper. In 2005, there were six main radio broadcast stations. ABS Radio is run by Antigua and Barbuda Broadcasting Service, Crusader Radio is owned by the United Progressive Party, and Caribbean Radio Lighthouse is operated by the Baptist church. The only television station, ABS Television, is operated by the government. In 1997 there were about 36,000 radios and 31,000 television sets in use throughout the country. In 2003, there were about 1,665 Internet hosts within the country serving about 10,000 users.

The *Workers' Voice*, the official publication of the ALP and the Antigua Trades and Labour Union, appears weekly and has a circulation of 6,000 as of 2002. The *Outlet*, published weekly by the Antigua Caribbean Liberation Movement, has a circulation of 5,000. The *Nation*, with a circulation of about 1,500, is published by the government and appears weekly.

The constitution ensures the freedom of expression and press, and the authorities are said to generally respect these rights in practice. However, the government dominates all electronic media, thereby restricting to some degree opposing political expression and news.

46 ORGANIZATIONS

Four employers' organizations represent workers' interests in Antigua and Barbuda. The Antigua Chamber of Commerce has its headquarters in St. John's. The Antigua Cotton Growers Association was founded in 1985.

Many missionary, charity, and family health organizations have operations on the islands, including Planned Parenthood, the Caribbean Family Planning Affiliation, the Inter-American Foundation, the American Bible Society, and the People-to-People Health Foundation. There is a chapter of Lions Clubs International. The Antigua and Barbuda Association of Persons with Disabilities was founded in 1995.

Youth organizations include the Girls Brigade, Red Cross Youth, Young Women's Christian Association, Girl Guides, Young Men's Christian Association, and Youth for Christ. There are also a few national sports organizations, such as the Athletic Association of Antigua and Barbuda and the Antigua and Barbuda Tennis Association.

There are national chapters of the Red Cross, Habitat for Humanity, and UNICEF.

47 TOURISM, TRAVEL, AND RECREATION

Tourism is the main source of revenue in Antigua and Barbuda. Antigua's plethora of beaches—said to number as many as 365—and its charter yachting and deep-sea fishing facilities have created the largest tourist industry in the Windward and Leeward Islands. The international regatta and Summer Carnival are popular annual events. Cricket is the national pastime; local matches are played Thursday afternoons, Saturdays, and Sundays. All visitors, except

nationals of the United States, Canada, and the United Kingdom, must have a valid passport to enter Antigua and Barbuda.

A wide range of hotels and restaurants served approximately 232,000 tourists in 1999. Receipts from tourism climbed to us\$290 million that year.

In 2005, the US Department of State estimated the daily expenses in Antigua and Barbuda at us\$222.

48 FAMOUS ANTIGUANS AND BARBUDANS

The first successful colonizer of Antigua was Sir Thomas Warner (d.1649). Vere Cornwall Bird, Sr. (1910–99) was prime minister from 1981–94. (Isaac) Vivian Alexander (“Viv”) Richards (b.1952) is a famous cricketer. Jamaica Kincaid (b.1949), author of *Autobiography of My Mother* (1996), was born Elaine Potter Richardson; she changed her name when she moved to the United States.

49 DEPENDENCIES

Antigua and Barbuda has no territories or colonies.

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ARGENTINA

Argentine Republic
República Argentina

CAPITAL: Buenos Aires

FLAG: The national flag consists of a white horizontal stripe between two light blue horizontal stripes. Centered in the white band is a radiant yellow sun with a human face.

ANTHEM: *Himno Nacional*, beginning “Oíd, mortales, el grito sagrado Libertad” (“Hear, O mortals, the sacred cry of Liberty”).

MONETARY UNIT: The peso (A\$) is a paper currency of 100 centavos. There are coins of 1, 5, 10, 25 and 50 centavos, and notes of 1, 2, 5, 10, 20, 50, and 100 pesos. The rate of exchange is about A\$0.34722 (or US\$1=A\$2.88) as of 2005.

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

HOLIDAYS: New Year’s Day, 1 January; Labor Day, 1 May; Anniversary of the 1810 Revolution, 25 May; Occupation of the Islas Malvinas, 10 June; Flag Day, 20 June; Independence Day, 9 July; Anniversary of San Martín, 17 August; Columbus Day, 12 October; Immaculate Conception, 8 December; Christmas, 25 December. Movable religious holidays include Carnival (two days in February or March) and Good Friday.

TIME: 9 AM = noon GMT.

¹LOCATION, SIZE, AND EXTENT

Shaped like a wedge with its point in the south, Argentina, the second-largest country in South America, dominates the southern part of the continent. Argentina is slightly less than three-tenths the size of the United States with a total area of 2,766,890 sq km (1,068,302 sq mi); the length is about 3,650 km (2,268 mi) N–S and the width, 1,430 km (889 mi) E–W. To the N Argentina is bounded by Bolivia; to the NE by Paraguay; to the E by Brazil, Uruguay, and the Atlantic Ocean; and to the S and W by Chile, with a total boundary length of 9,665 km (6,006 mi).

Argentina lays claim to a section of Antarctica of about 1,235,000 sq km (477,000 sq mi). Both Argentina and the United Kingdom claim the Falkland Islands (Islas Malvinas), with the United Kingdom exercising effective occupancy. In 1978, Argentina almost went to war over three Chilean-held islands in the Beagle Channel. The case was referred to papal mediation; on 29 November 1984, the two countries signed a treaty that confirmed Chile’s sovereignty over the three islands.

Argentina’s capital city, Buenos Aires, is located along the eastern edge of the country on the Atlantic coast.

²TOPOGRAPHY

Except for the mountainous western area, Argentina is for the most part a lowland country. It is divided into four topographical regions: the Andean region, Patagonia, the subtropical plain of the north, and the pampas. The Andean region, almost 30% of the country, runs from the high plateau of the Bolivian border southward into western Argentina. Within the Andes there are over 1,800 volcanoes, about 28 of which are still considered to be active. Patagonia comprises all the area from the Río Negro to the southern extremity of the continent, or about 777,000 sq km

(300,000 sq mi). Rising from a narrow coastal plain, it extends westward in a series of plateaus. In most places, the altitude range is 90–490 m (300–1,600 ft), although it may rise to 1,500 m (5,000 ft). Patagonia is a semiarid, sparsely populated region. It includes the barren island of Tierra del Fuego, part of which belongs to Chile. A portion of the Gran Chaco, covering the area between the Andean piedmont and the Paraná River, consists of an immense lowland plain, rain forests, and swampland, little of which is habitable.

The most characteristic feature of Argentine topography, however, is the huge expanse of lush, well-watered level plains known as the pampas. Stretching from the east coast estuary, Río de la Plata, the pampas spread in a semicircle from the Buenos Aires area to the foothills of the Andes, to the Chaco, and to Patagonia, forming the heartland of Argentina, the source of its greatest wealth, and the home of 80% of its people.

The major Argentine rivers, which originate in the Andean west or the forested north, flow eastward into the Atlantic Ocean. The Paraná, Uruguay, Paraguay, and Alto Paraná rivers all flow into the Río de la Plata, which reaches a maximum width at its mouth of 222 km (138 mi), between Uruguay and Argentina. The highest peaks in Argentina are Mt. Aconcagua (6,960 m/22,835 ft), also the highest mountain in South America; and Mt. Tupungato (6,800 m/22,310 ft). There is a region of snow-fed lakes in the foothills of the Andes in western Patagonia. Many small lakes, some of which are brackish, are found in the Buenos Aires, La Pampa, and Córdoba provinces.

³CLIMATE

Argentina’s climate is generally temperate, but there are great variations, from the extreme heat of the northern Chaco region, through the pleasant mild climate of the central pampas, to the

subantarctic cold of the glacial regions of southern Patagonia. The highest temperature, 49°C (120°F), was recorded in the extreme north, and the lowest, -16°C (3°F), in the southern tip of the country. Rainfall diminishes from east to west. Rainfall at Buenos Aires averages 94 cm (37 in) annually, and the mean annual temperature is 16°C (61°F). Light snowfalls occur occasionally in Buenos Aires. Throughout Argentina, January is the warmest month and June and July are the coldest. North of the Río Negro, the winter months (May–August) are the driest period of the year. The wide variations of climate are due to the great range in altitude and the vast extent of the country. In the torrid zone of the extreme north, for example, the Chaco area has a mean annual temperature of about 23°C (73°F) and a rainfall of about 76 cm (30 in), whereas Puna de Atacama has a temperature average of 14°C (57°F) and a rainfall of about 5 cm (2 in). The pampas, despite their immensity, have an almost uniform climate, with much sunshine and adequate precipitation. The coldest winters occur not in Tierra del Fuego, which is warmed by ocean currents, but in Santa Cruz Province, where the July average is 0° C (32°F).

4 FLORA AND FAUNA

More than 10% of the world's flora varieties are found in Argentina. The magnificent grasslands have figured prominently in the development of Argentina's world-famous cattle industry. Evergreen beeches and Paraná pine are common. From yerba maté comes the national drink immortalized in gaucho literature, while the shade-providing ombú is a national symbol.

Many tropical animals thrive in the forests and marshes of northern Argentina; among them are the capybara, coypu, puma, and various wildcats. In the grasslands and deserts are the guanaco, rhea, and many types of rodents. The cavy, viscacha, tuco tuco, armadillo, pichichiago, otter, weasel, nutria, opossum, various types of fox, and hog-nosed skunk are common. The ostrich, crested screamer, tinamou, and ovenbird are a few of the many species of birds. Caimans, frogs, lizards, snakes, and turtles are present in great numbers. The dorado, a fine game fish, is found in larger streams, and the pejerrey, corvina, palameta, pacu, and zurubi abound in the rivers.

Spanish cattle on the pampas multiplied to such an extent that the role of wild cattle herds in Argentine history was the same as that of the buffalo herds in the US West. Argentina is richly endowed with fossil remains of dinosaurs and other creatures.

5 ENVIRONMENT

The principal environmental responsibilities are vested in the Ministry of Public Health and the Environment; the Subsecretariat of Environmental Planning in the Ministry of Transportation and Public Works; and the Subsecretariat of Renewable Natural Resources and Ecology within the Secretariat of State for Agriculture and Livestock. In 1977, the Metropolitan Area Ecological Belt State Enterprise was created to lay out a 150-km (93-mi) greenbelt around Buenos Aires, with controls on emission and effluents as well as on building density.

The major environmental issues in Argentina are pollution and the loss of agricultural lands. The soil is threatened by erosion, salinization, and deforestation. Air pollution is also a problem due to chemical agents from industrial sources. The water supply is threatened by uncontrolled dumping of pesticides, hydrocarbons,

and heavy metals. Argentina has a renewable water supply of 276 cu km. In 2002, some 97% of all city dwellers and over 70% of rural dwellers had access to improved water sources.

In 2000, about 12.7% of the land area contained forest and woodland. In 2003, about 6.6% of the total land area was protected. Argentina has four natural UNESCO World Heritage Sites: Los Glaciares, Iguazu National Park, Peninsula Valdes, and Ischigualasto/Talampaya National Parks. There are 14 sites designated as Ramsar Wetlands of International Importance.

According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 32 types of mammals, 55 species of birds, 5 types of reptiles, 30 species of amphibian, 12 species of fish, and 42 species of plants. Endangered species in Argentina include the ruddy-headed goose, Argentinean pampas deer, South Andean huemul, Puna rhea, tundra peregrine falcon, black-fronted piping guan, glaucous macaw, spectacled caiman, the broad-nosed caiman, Lear's macaw, the guayaquil great green macaw, and the American crocodile.

6 POPULATION

The population of Argentina in 2005 was estimated by the United Nations (UN) at 38,592,000, which placed it at number 31 in population among the 193 nations of the world. In 2005, approximately 10% of the population was over 65 years of age, with another 27% of the population under 15 years of age. There were 96 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–2010 was expected to be 1.1%, a rate the government viewed as satisfactory, although reducing fertility among adolescents was a government priority. The projected population for the year 2025 was 46,424,000. The population density was 14 per sq km (36 per sq mi).

The UN estimated that 89% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 1.25%. More than one-third of all Argentines live in or around Buenos Aires, the capital city, which had a population of 13,047,000 in 2005. Other estimated metropolitan area populations in 2000 were Córdoba, 1,592,000; Rosario, 1,312,000; Mendoza, 988,600; La Plata, 838,600; and San Miguel de Tucumán, 837,000.

The majority of the population descends from early Spanish or Italian immigrants. Approximately 10% of the people are of indigenous Indian or mestizo descent.

7 MIGRATION

Migration to Argentina from Spain and Italy has been heavy in the past. Under the rule of Juan Domingo Perón (1946–1955), immigration was restricted to white persons, exceptions being made for relatives of nonwhites (Japanese and others) already resident. More recently, immigrants from across the border in Paraguay have numbered at least 600,000; Bolivia, 500,000; Chile, 400,000; Uruguay, 150,000; and Brazil, 100,000. Some 300,000 illegal aliens were granted amnesty in 1992. Foreigners, on application, may become Argentine citizens after two years' residence. A total of 16,738 were naturalized in 1991, of which 13,770 were from other American countries. In 2000, Argentina's refugee population was estimated at 2,400. Few Argentines emigrated until the 1970s, when a "brain drain" of professionals and technicians began to de-

velop. In the mid-1980s, some 10,000 of the estimated 60,000 to 80,000 political exiles returned home.

Of much greater significance to Argentina has been the tendency for workers in rural areas to throng to the cities. This had particular political and economic overtones during the Perón regime. Perón's encouragement of workers to move to Buenos Aires and surrounding industrial areas drained rural areas of so many persons that agriculture and livestock raising, the base of Argentina's wealth, suffered severely. Moreover, the inability of the economy to absorb all of the new urban masses led to a host of economic and social problems that still besiege the nation in the 21st century. Both the federal government and provincial governments have since vainly entreated aged workers to return to rural areas.

There has been a significant increase in asylum claims in recent years, beginning in the latter half of the 1990s. As of the end of 2004, there were 3,910 refugees and asylum seekers. Of the 990 asylum seekers, 428 received counseling and assistance from the United Nations High Commissioner for Refugees (UNHCR). Most asylum seekers were from neighboring countries, but there were also more than 30 other nationalities from Latin America, Eastern Europe, Africa, and Asia. In 2005 estimates were that there were 0.4 migrants per 1,000 population.

8 ETHNIC GROUPS

Argentina's population is overwhelmingly European in origin (principally from Spain and Italy); there is little mixture of indigenous peoples. An estimated 97% of the people are of European extraction and 3% are mestizo, Amerindian, or of other nonwhite groups. The pure Amerindian population has been increasing slightly through immigration from Bolivia and Paraguay.

9 LANGUAGES

The national language of Argentina is Spanish. Argentine Spanish has diverged in many ways from Castilian, showing the effects of the vast influx of foreigners into Buenos Aires, as well as of Spaniards from Andalucía, Galicia, and the Basque provinces. First- and second-generation Italians have added their touch to the language, and French settlers have contributed many Gallicisms.

The outstanding phonetic feature of Argentine Spanish is the yeísmo, in which the *ll* and *y* are pronounced like the *z* in *azure*. The meaning of many Castilian words also has been modified. The Porteños, as the inhabitants of Buenos Aires are called, rely heavily upon a variety of intonations to express shades of meaning.

English has become increasingly popular as a second language, especially in metropolitan areas and in the business and professional community. There are pockets of Italian, French, and German immigrants speaking their native languages. Some Amerindian languages are still spoken, including a version of Tehuelche in the pampas and Patagonia, Guaraní in Misiones Province, and Quechua in some parts of the Jujuy and Salta provinces.

10 RELIGIONS

Statistics submitted by nongovernmental organizations in 2001 indicate that the Roman Catholics continue to claim the largest number of members, at about 88% of the population. Protestants accounted for about 7% of the population. About 1.5% of the population are Muslims and about 1% are Jewish. These statistics,



LOCATION: 21°47' to 55°16' S; 53°38' to 73°35' W. BOUNDARY LENGTHS: Bolivia, 832 kilometers (517 miles); Paraguay, 1,880 kilometers (1,168 miles); Brazil, 1,224 kilometers (761 miles); Uruguay, 579 kilometers (360 miles); Atlantic coastline, 4,989 kilometers (3,100 miles); Chile, 5,150 kilometers (3,200 miles).

TERRITORIAL SEA LIMIT: 200 miles.

however, simply refer to reported membership and do not indicate active religious practice.

Argentina retains national patronage, a form of the old Spanish royal patronage, over the Roman Catholic Church. Under this system, bishops are appointed by the president of the republic from

a panel of three submitted by the Senate; papal bulls and decrees must be proclaimed by the president and sometimes must be incorporated into an act of the Congress. The government also provides the Catholic Church with certain subsidies. However, the constitution does provide for freedom of religion and the government encourages tolerance and understanding between social and religious groups.

The Secretariat of Worship in the Ministry of Foreign Affairs, International Trade, and Worship is responsible for overseeing relations between religious organizations and the government. According to the National Registry kept by the secretariat, there are about 2,800 religious organizations in the country representing about 30 different religious denominations or groups. Certain Catholic holidays are officially observed; however, the law allows for up to three days of paid leave for those observing Jewish or Islamic holidays. Associations that promote interdenominational understanding and cooperation include the Argentine Jewish-Christian Brotherhood (an affiliate of the International Council of Christians and Jews), the Argentine Council for Religious Freedom, the Foundation for Education and Peace, and the Federation of Arab Entities.

Some members of non-Catholic faiths have reported discrimination in employment through the military and the federal ministries, but these reports have not been substantially verified. Anti-Semitic and anti-Muslim attitudes have surfaced in some social circles, but a number of nongovernmental ecumenical groups are working toward greater levels of understanding and acceptance through all faiths.

¹¹TRANSPORTATION

Argentina has the largest railway system in South America, with 34,091 km (21,204 mi) of track (167 km electrified) as of 2004. Although railroads link all the provinces, the three provinces of Buenos Aires, Córdoba, and Santa Fe contain about one-half the total track and are the destinations of about two-thirds of all goods carried. The seven major railroads and all other lines belong to the state and are administered by Argentine Railways. Until 1947, when Perón bought them at a price exceeding their real value, the railroads were mainly under the control of British interests. Since then, they have been in decline and have regularly run up large deficits. A major problem is that the railway system uses three incompatible track gauges (standard: 1.435-m; broad: 1.676-m; and narrow: 1.000-m and 0.750-m), which severely restricts system interoperability, and forces virtually all interregional freight traffic to pass through Buenos Aires. The railroads' share of merchandise transported has declined steadily since 1946.

A five-year railroad modernization and rationalization plan was initiated by the military government in 1976, but the general decline of the railway system was not halted, and the number of passengers carried dropped from 445 million in 1976 to about 300 million in 1991. The subway system in Buenos Aires, completely state-owned since 1978, consists of five lines totaling 36 km (22 mi).

The continued deterioration of the railroads has resulted in a sharply increased demand for road transportation, which the present highways cannot handle. By 2001, the nation had 215,434 km (133,871 mi) of roads, of which 63,553 km (39,492 mi) were paved. In late 1969, a tunnel under the Río Paraná was opened,

connecting Santa Fe with the nation's eastern region. The road system is still far from adequate, especially in view of Argentina's rapidly increasing automotive industry. In 2003, the total number of registered vehicles reached 6,873,000, including 5,380,000 passenger cars and 1,493,000 commercial vehicles.

The main river system of Argentina consists of the Río de la Plata and its tributaries, the Paraná, Uruguay, Paraguay, and Alto Paraná rivers. There is a total of 10,950 km (6,800 mi) of navigable waterways, offering vast possibilities for efficient water transportation. The river system reaches Paraguay, northeastern Argentina, and regions of Brazil and Uruguay. The La Plata estuary, with its approaches and navigation channels, is the basis of the entire river system. The La Plata ports (Buenos Aires and La Plata) account for more than half of all maritime cargo, including more than two-thirds of all cargo transported on the river system. The Paraná is easily navigable up to Rosario, but the 171-km (106-mi) stretch between Rosario and Santa Fe has considerably less depth and is less suitable for oceangoing vessels. Up-river from Santa Fe, the Paraná rapidly loses depth and is navigable only by small ships.

The port of Buenos Aires handles about four-fifths of the country's imports and exports, and it is the focus of river traffic on the La Plata system. Other major ports are Rosario, Quequén, Bahía Blanca, Campana, and San Nicolás. Most port storage facilities are owned and operated by the government. In 1961, the State Merchant Fleet and the Argentine Overseas Navigation Fleet were merged to form the Argentine Maritime Lines. This state company carries approximately one-half of all Argentine overseas freight. In 2005, the merchant marine consisted of 26 vessels with a total GRT of 149,007.

Buenos Aires is the most important air terminal in South America. The four principal airports include Aeroparque and Ezeiza, both at Buenos Aires, Catarata Iguazu at Iguazu, and El Plumerillo at Mendoza. In 2004, there were an estimated 1,334 airports and landing fields, of which only 144 had paved runways as of 2005. The government line is Aerolíneas Argentinas. However, there are other major Argentine airlines and many foreign lines operating in the country. In 2003, the total scheduled civil aviation services flew 113 million freight ton-km and carried 6.03 million passengers on domestic and international flights.

¹²HISTORY

Before the Spaniards arrived, about 20 Amerindian groups comprising some 300,000 people lived in the region now called Argentina. They were mainly nomadic hunter-gatherers, although the Guandant practiced slash-and-burn agriculture.

Spaniards arrived in Argentina in 1516. They called the region "La Plata" (literally "silver") under the mistaken impression that it was rich in silver. Colonists from Chile, Peru, and Asunción (in present-day Paraguay) created the first permanent Spanish settlements in Argentina, including Buenos Aires in 1580. In 1776, Río de la Plata became a vice-royalty, with Buenos Aires as the main port and administrative center.

During the early colonial period, there was little interest in Argentina. The region had no mineral wealth, and Spaniards overlooked the fertile soil and temperate climate of the region. As a result, Buenos Aires had a population of only about 25,000 at the time of the viceroy's arrival. The Spaniards could not afford to ignore Buenos Aires by the late 1700s, when the city was growing

rapidly thanks to illegal trade financed by British interests. Goods were smuggled to Brazil and the Caribbean Islands. Spain worried about British and Portuguese expansion and sought to control trade and collect more taxes from the growing commerce.

In May 1810, following the example set by Spanish cities after the capture of King Ferdinand VII by the French, Buenos Aires held an open town meeting (*Cabildo Abierto*). A junta was elected, which deposed the viceroy and declared itself in authority. On 9 July 1816, a congress of provincial delegates in San Miguel de Tucumán signed a declaration of independence, and in 1817, Gen. José de San Martín led an army across the Andes to liberate Chile and Peru.

After independence, Buenos Aires was a major force in the region, and strongmen (*caudillos*) from the surrounding provinces attempted to curb its power. The internal power struggle lasted until Juan Manuel de Rosas became governor of Buenos Aires Province. He imposed order and centralism from 1835 until 1852, when the forces of Gen. Justo José de Urquiza defeated him. A new constitution was adopted in 1853, and Urquiza was elected president in 1854. The struggle for power between Buenos Aires, the hub of commercial activity for the country, and the provinces that provided the raw materials, continued through the late 1800s. It was not until 1880, when the city was named the federal capital, that regional peace was achieved. By then, Argentina was becoming a modern nation, with new railroads and roads under construction. Thousands of European immigrants flocked to the country each year looking for a better life. Buenos Aires alone grew from 90,000 people in 1851 to 1.3 million by 1910, when the city was called the “Paris of South America.”

Social conflicts always had been part of Argentina’s history, but they intensified during the late 19th century as the gap between the wealthy classes and the poor widened. The National Party, under the leadership of Gen. Julio Roca (who served two terms as president, 1880–86 and 1898–1904) and supported by the military and landowners, dominated the nation. To combat this powerful coalition, a middle-class party called the Radical Civic Union (*Unión Cívica Radical*) was formed. The Radicals stressed democratic practices and attempted to expand the political system beyond its elite-restricted boundaries. The Radicals’ efforts came to fruition in 1916, when Hipólito Yrigoyen was elected president for a six-year term. But little changed for the working classes. Most workers could barely afford to feed their families during this time, despite the tremendous affluence of the upper class. Workers who sought to improve their working conditions were suppressed. A violent army attack against striking metalworkers in 1919 came to be known as “*La Semana Trágica*” (The Tragic Week). Yrigoyen sat out for a term, and was reelected president in 1928, but he did not last long. An economic crisis precipitated by the world depression led to a military coup in 1930.

For the next 13 years, Argentina was ruled by the old conservative oligarchy. The military-landowner alliance brought both economic recovery and political corruption, as well as the exacerbation of social tensions. Particularly divisive was the matter of Argentina’s foreign relations. While opening Argentina to trade with Europe improved the economic picture, many felt that the leadership had sold out to foreign interests. Argentina’s careful neutrality toward the Axis powers masked considerable Fascist sympathies, further dividing the nation.

Another military coup in 1943 brought to power an even more Axis-sympathetic group but also launched a new era in Argentine politics. Argentina had undergone an industrial expansion, accelerated by the war. This expansion led to the formation of a large blue-collar workforce, which in 1943 came under the direction of the military head of the Labor Department, Col. Juan Domingo Perón. Perón used his new constituency to build a power base that allowed him in 1946 to be elected president, while his supporters won majorities in both houses of congress. Perón, it was later reported, allowed many Nazi German leaders to hide in Argentina.

Perón made sweeping political, economic, and social changes. His ideology was an unusual blend of populism, authoritarianism, industrialism, and nationalism. His strong personal appeal was buttressed by the charm of his wife Eva (“Evita”), a woman of modest upbringing who captivated the masses with her work on behalf of the poor. Peronist rhetoric stressed the rights of *descamisados* (literally “shirtless”), the poor of Argentina.

Perón sought to establish a foreign policy that allied Argentina with neither the West nor East, while acting as protector of weaker Latin American nations against US and British “imperialists.” He coined a new word to describe his approach—*justicialismo* (roughly translated as “essence of justice.” After reelection in 1951, Perón became increasingly dictatorial and erratic, especially after the death of Evita a year later. Economic hardship led to reversals in policy that favored the old oligarchy. Newspapers were shut down and harassed. Perón legalized divorce and prostitution, and began to incite violence against churches. Finally, a military group took over in September 1955.

For the next 20 years, Argentina felt the shadow of Perón. From exile in Spain, Perón held a separate veto power. Under the military’s watchful eye, a succession of governments attempted unsuccessfully to create a new political order.

The first of these efforts came from Gen. Pedro Eugenio Aramburu, who repressed Perón’s followers and declared their party illegal. After two years of provisional government, elections were held. Rival factions of the old Radical Civic Union competed in a contest won by Arturo Frondizi of the more left-leaning UCRI. With the initial support of the Peronistas, Frondizi attempted to balance that support with the military, which grew nervous at the mention of Peronism. Frondizi curbed inflation through an austerity program and increased Argentina’s petroleum production by extending concessions to foreign companies. These economic measures helped increase political tensions, and in the elections of 1961 and 1962, Peronist candidates, running under the banner of the Justicialist Front (*Frente Justicialista*), won sweeping victories. A military junta removed Frondizi from the presidency in March 1962 and annulled the elections, thus denying governorships to the supporters of Perón. Divisions among the military leaders kept the nation in a state of tension until mid-1964, when new elections were held. Dr. Arturo Illía of the rightist UCRP won the presidency. Illía’s administration was beset by rising government debt, inflation, labor unrest, and political agitation, but was most seriously threatened by the military. The chief of the armed forces, Lt. Gen. Juan Carlos Onganía resigned in November 1965, after Illía appointed a Peronist sympathizer as war minister.

In June 1966, following election victories by the Peronist faction, the military leaders installed Onganía as President. Onganía dissolved the nation’s legislative bodies and suspended the con-

stitution. Onganía announced a revolutionary program to restore economic prosperity and social stability, saying that only after this restoration would the democratic system be reestablished. Inflation was cut by means of rigid wage controls, and by the end of 1969, the economy was growing at a rate of 7% annually. His economic policies were overshadowed, however, by growing political tension. With the help of the military, strict controls were imposed on the press and all means of mass communication. Students led in denouncing these repressive policies, and in the early months of 1969, violence erupted in Córdoba and Rosario.

Dissatisfaction mounted early in 1970, and acts of terrorism increased. Several groups were active, some of which claimed to be Peronist, others Marxist, still others claiming to be both. The most serious incident was the kidnapping and killing of former President Aramburu by a Peronist group. Although President Onganía stiffened in response to the disorder, it was becoming clear that Argentina would never be stabilized without the participation of the Peronists. For his part, Perón encouraged these groups from abroad.

In June 1970, a junta of high-ranking military officers removed Onganía, and began to move toward democratic reform. Under two ensuing military governments, preparations were made for elections that would include the Peronists, now organized as the Justicialist Liberation Front (FREJULI). In general elections held in March 1973, the winner was Dr. Héctor J. Cámpora, whose unofficial slogan was “Cámpora to the presidency; Perón to power.” Cámpora was elected president with 49% of the vote, while FREJULI won a congressional majority and 11 of the 22 provincial governorships. However, Cámpora, who assumed office in May 1973, was no better able than his predecessors to cope with a rising tide of terrorism, much of it from extreme Peronist factions. After a consultation with Perón in Madrid, Cámpora announced his resignation, effective in July.

Perón, who had returned to Argentina in June 1973, ran for the presidency and took 61.9% of the vote in a special election in September. His running mate was his third wife, María Estela (“Isabel”) Martínez de Perón, a former exotic dancer. There was no magic left in the elderly Perón. He cracked down on the very terrorist groups he had encouraged, but the economy sagged. When he died in July 1974, his widow succeeded to the presidency.

Isabel had none of Evita’s appeal, and her administration plunged Argentina more deeply into chaos. The first year of Isabel Perón’s regime was marked by political instability, runaway inflation, and a renewal of guerrilla violence. In September 1975, Perón vacated her office for 34 days, ostensibly because of ill health. During her absence, the military strengthened its position. In March 1976, she was arrested in a bloodless coup, and a military junta consisting of the commanders of the army, navy, and air force took over. The leading member of the junta was Army Commander Lt. Gen. Jorge Rafael Videla, who became president.

The junta dissolved congress, suspended political and trade union activity, and mounted a concerted campaign against leftist guerrillas. For seven years, the military attempted to “purify” Argentina by imprisoning, torturing, and executing leftists, Peronists, trade unionists, and members of other political parties deemed divisive. Military officers also kidnapped the babies of the “disappeared” and gave them to officers or released them to adoption agencies. Meanwhile, they attempted a complete liberaliza-

tion of the economy, including the privatization of banking and industry. However, the military was never able to solve the problem of inflation, which remained in triple digits for most of this period.

In March 1981, Gen. Roberto Viola succeeded Videla as president, and in December, Lt. Gen. Leopoldo Galtieri took over. Troubled by economic woes and lacking any political support from the general populace, the military turned to foreign affairs in an attempt to gain support. In April 1982, Argentina invaded the Falkland Islands, claiming sovereignty over them, but in the ensuing war with the United Kingdom, Argentina’s armed forces were routed, surrendering in June. The defeat led to Galtieri’s resignation, and a new junta was formed in July under Maj. Gen. Reynaldo Benito Antonio Bignone. Liberalization measures during the remainder of 1982 led to strikes and antigovernment demonstrations, including a one-day general strike in December in which 90% of the work force reportedly took part. In addition to demands for a return to civilian rule, more and more Argentines demanded to know the fate of at least 10,000—and perhaps as many as 30,000—persons who had “disappeared” during what came to be known as the “dirty war” of 1976–83. Official government figures for the “disappeared” stand at 10,000, but human rights groups believe it is much higher.

In elections for a civilian president held in October 1983, the upset winner was a human rights activist from the People’s Radical Civic Union (Unión Cívica Radical del Pueblo—UCRP), Dr. Raúl Alfonsín. After taking office in December, Alfonsín called for a new inquiry into the “disappearances” and ordered the prosecution of former junta members. In December 1985, five were convicted, including Lt. Gen. Videla. The legacy of the “dirty war” preoccupied the Alfonsín government. The president saw the need to close the 50-year cycle of military intervention and political instability by building a stable democracy. However, the political reality of Argentina could not be changed by wishes. The human rights trials of leading military officers irked the military, and in April 1987, an abortive military uprising spread to a number of bases. Although Alfonsín refused to yield to the rebels, he soon afterward retreated from his position, getting approval from congress for a law that would limit the trials to a few superior officers, thereby accepting the defense of “taking orders” for the lower-ranking officers.

The Alfonsín administration also acted to halt rampant inflation with the “Austral Plan” of mid-1985, which froze wages and prices and created a new unit of currency, the austral, to replace the beleaguered peso. The initial success of the plan was weakened by a resurgence of inflation and labor intransigence over wage demands. With the failure of the Alfonsín administration to stabilize the economy or bring military leaders to justice, Argentines sought change from an old source: the Peronists. In May 1989, Carlos Saul Menem, running under the Justicialist banner, was elected with 47% of the popular vote. Because the Alfonsín government was in such dire straits, the president resigned in July and Menem was immediately installed. This was Argentina’s first transfer of power between democratically elected leaders in more than 60 years.

Menem abandoned his party’s traditional support of state enterprises; he cut government spending and generally liberalized the Argentine economy. He also pardoned and released top mili-

tary leaders involved in human rights violations. In May 1995 after he successfully changed the constitution, following a first term marked by economic success and political stability, Menem was reelected to a second four-year term. He weathered Argentina's 1995–96 economic recession with the aid of Domingo Cavallo, the minister of economics and architect of the anti-inflation plan. Despite the economic successes, many Argentines grew tired of Menem and alleged corruption in his administration. Menem also could not keep his private “playboy” life apart from politics, and began showing the traits of a *caudillo* by pressing for changes to the constitution so he could run for a third term in 1999. His bitter party rival and critic, Eduardo Duhalde, prevailed and represented the Justicialists in the 1999 presidential election. For Duhalde, a downturn in the economy came at a bad time. In 1999, Argentina entered a recession and saw its GDP decline by 3%. Unemployment reached 14%. Menem didn't help his party's cause. He seemed more intent in undermining Duhalde, while actively campaigning for a third term in 2003.

In the meantime, Fernando de la Rúa Bruno, the mayor of Buenos Aires, had balanced the city's budget and even managed to increase and improve services. A leader of the Unión Cívica Radical, de la Rúa aligned his party with a new political movement called Front for a Country in Solidarity (FREPASO), an amalgamation of several center-left parties. De la Rúa's conservatism and successes in Buenos Aires got the attention of voters. He provided a sharp contrast to the excesses of the *bon vivant* Menem. A serious president would take the country's problems seriously, his aides stressed. The campaign worked. In October 1999, voters gave de la Rúa 48.5% of the vote. Duhalde received 38.1%.

After taking office, de la Rúa declared a national economic emergency. By March 2000, he had pushed through Congress a new budget that sliced in half the fiscal deficit and new laws to weaken the bargaining power of unions. While the Alianza held on to a slim majority in the lower Chamber of Deputies, the Senate remained under Justicialist control. Partially because of his inability to restrict spending by provincial governors and because he had little maneuvering space to adopt policies that could stimulate growth, de la Rúa could not overcome the economic crisis and the government was eventually forced to devalue the national currency. Social and political chaos ensued with the economy going into its worst recession in decades. After his party lost the mid-term elections in 2001, President de la Rúa's popularity continued to fall and the economic situation became unbearable. After protests turned violent in Buenos Aires in December 2001, looting and chaos erupted, followed by police repression. De la Rúa was forced to resign. After a few weeks of political instability, the Senate chose Eduardo Duhalde, who had been elected to the Senate in the 2001 midterm election, as a temporary president. Duhalde governed until May 2003, when Néstor Kirchner, elected in April, was inaugurated president. Although former president Carlos Menem obtained the plurality of votes in the first round among a handful of other presidential candidates, the former president withdrew less than a week before the runoff when it became clear that Kirchner, who came in second with 22% of the vote, would win by a landslide. Kirchner was a little-known governor from the southern province of Santa Cruz, but he successfully captured the growing anti-Menem sentiment. In addition, Kirchner was wide-

ly seen as Duhalde's favorite and many expected him to carry on Duhalde's policies.

In the end, the 2003 presidential election turned out to be a contest between the two Peronist rivals, Menem and Duhalde. Although Duhalde's candidate became president, Menem's withdrawal prevented Kirchner from winning a majority of votes in the runoff election. With his legitimacy weakened and his independence of Duhalde under doubt, Kirchner became president of a country in the midst of an economic, social and political crisis. The economy shrank by 14% in 2002 and official unemployment remained at 25%. With a mounting foreign debt and financial obligations to foreign lenders difficult to meet, President Kirchner opted for a radical economic reform package. Argentina opted to default on its foreign debt and called on creditors to renegotiate on terms much more convenient to Argentina's interest. In the end, Kirchner got away with his initiative and successfully lowered Argentina's foreign debt by renegotiating it. Disappointed creditors were forced to choose partial payment or no payment at all. Although the move made Kirchner very popular domestically, Argentina's credit abroad was severely hurt. Almost no foreign investment has entered Argentina since the country defaulted on its past debt.

Yet, because Argentina's exports had been strong and because the country continued to rely on a weak national currency to make its exports more competitive, the economy grew rapidly under Kirchner's administration. The economic recovery, deemed as unsustainable in the long term by many economists, was sufficiently strong to reduce unemployment and improve the president's approval ratings. Kirchner and the Peronist Party went on to win an absolute majority in congress in the 2005 mid-term legislative elections. Kirchner's wife, Cristina Fernández (Cristina Kirchner) won a Senate seat representing the province of Buenos Aires, the most populous in the country. Her victory over Duhalde's wife highlighted the absolute control the Kirchner political machine exerted over the Peronist Party.

Although the economy continued to do well relying on strong exports, some signs of inflationary pressures emerged in early 2005. Price control schemes and a more active intervention in the economy by the central government underlined Kirchner's strong mistrust of free trade policies. The president's decision to attract foreign investment from Venezuela's Hugo Chávez government put Argentina at odds with the United States. But the strong nationalist discourse by the Argentine leader helped boost his popularity at home. Whether or not Kirchner would run for reelection or step down in favor of his wife Cristina was undecided as of mid-2006, but either way, it was felt that the Kirchners were likely to remain in power after the 2007 presidential elections.

13 GOVERNMENT

Argentina's government is ruled by its 1853 constitution, although that document has been suspended many times. The basic structure is federal and republican. In 1949, the Perón government adopted a new constitution, but the subsequent military government expunged that document. Some modifications in the original constitution were subsequently made by a constituent assembly that

met in October 1957. In July 1962, a system of proportional representation was adopted.

The constitution provides for a federal union of provinces that retain all powers not specifically delegated to the federal government by the constitution. There is a separation of powers among the executive, legislative, and judicial branches, but the president is powerful within this arrangement. The president can draw up and introduce his own bills in Congress, appoint cabinet members and other officials without the consent of the Senate, and possesses broad powers to declare a state of siege and suspend the constitution. The president is commander-in-chief of the army, navy, and air force and appoints all major civil, military, naval, and judicial offices, with the approval of the Senate in certain cases. The president is also responsible, with the cabinet, for the acts of the executive branch and has the right of patronage (control over appointments) in regard to bishoprics. The president and vice president are directly elected for a four-year term and cannot be re-elected beyond a second consecutive term. They or their parents must be native-born citizens. Voting is compulsory for all citizens 18 to 70 years of age.

The constitution calls for a National Congress consisting of a Senate and a Chamber of Deputies. The 72 senators are directly elected, 3 from each of the 23 provinces and the Federal District of Buenos Aires. The term of office is set at six years, with staggered elections every three years for one-third of the membership. The Chamber of Deputies is the result of direct elections for 257 seats. Seats are allocated to each province in proportion to its population, but less populated provinces are over-represented. The deputies' term of office is four years, with one-half of the membership being elected every two years. The Chamber of Deputies is authorized to receive the budget and initiate fiscal legislation and has the exclusive right to impeach officials before the Senate.

The most recent suspensions of the constitution were between 1966 and 1973, and then again from 1976 until 1983. During the most recent suspension, a military junta performed the executive, legislative, and judicial functions. Since the resumption of civilian government in 1983, there has been an uneasy relationship between the military and the government. The controversial trials of military leaders led to serious questions about the credibility of the judiciary and mild sentences for the accused. Revisions to the constitution were approved in August 1994. During political crisis of the late 1990s, the military was unwilling to step back into political life signaling a consolidation of democracy and civilian rule in Argentina.

14 POLITICAL PARTIES

Political party activity in Argentina has been sporadic, given the frequency of military takeovers and the many years during which parties have been banned. Still, several parties reformed in the 1980s and continued to be active in the 1990s and into the 21st century.

Traditionally, the alignment of Argentine political parties has been along socioeconomic and religious lines. The landowners, the high clergy, and the more conservative lower class supporters have formed an alliance that defends the church and the status quo. On the other side have been the advocates of change: merchants and professionals who resent the preeminence of the aristocracy and who tend also to be anticlerical. This second group has supported

separation of church and state and decentralization. However, in modern times, new parties have emerged to represent the working class, small farmers, and intellectuals.

During the first half of the 20th century, the Radical Party in Argentina was either the governing party or the chief opposition. The Radicals were committed to the expansion of Argentine politics to the middle and lower classes, and a transformation of the nation's economic and social life. This party was as close to a mass-based party as Argentina had ever had. The core was middle class, but the party was also supported by upper- and lower-class elements. Only radical by the standards of Argentine politics, it occupied a middle ground between the Conservatives and the Socialist left. However, with a heterogeneous membership, tensions and schisms were frequent. The party split into the Radical Intransigent Civic Union (Unión Cívica Radical Intransigente—UCRI), which formed the major support for Arturo Frondizi in 1958, and the People's Radical Civic Union (Unión Cívica Radical del Pueblo—UCRP), led by Ricardo Balbín. The UCRP was somewhat more nationalistic and doctrinaire than the UCRI, but shifting policies made the differences difficult to define. Balbín's party survived into the 1980s as the Radical Civic Union (Unión Cívica Radical—UCR). After the military stepped down in 1983, that party was one of the few viable political entities in Argentina, and emerged victorious in the 1983 elections. However, with the failure of the Alfonsín administration, the UCR found itself again in its old role as loyal opposition. The UCR regained the presidency in 1999 with de la Rúa, but his dismal performance and his early departure sent the UCR into its worst crisis in history. In the 2003 presidential election, the UCR official candidate only captured 2.3% of the vote. In the 2005 mid-term elections, the UCR recovered somewhat, but it remained far below its historic strength.

The Conservatives dominated Argentine politics from about 1874 to 1916 and again from 1932 to 1945 when they were known as the National Democrats. This era of Argentine politics was known as the "Concordancia." The Conservatives were the chief spokesmen for the landed interests, from whom they drew their main support. During the Perón regime, the right lost most of its influence. In 1958, conservative parties banded together to form the National Federation of Parties of the Center (Federación Nacional de Partidos del Centro). Years of military rule in the name of conservatism yielded no mass-based conservative parties, mainly because the military professed a disdain for partisan politics. Currently, there are several small right-wing parties, the largest of which is the Union of the Democratic Center (UCD).

Although leftism in Argentina has a long tradition, it was dealt a serious blow during the 1976–83 military governments. Those governments were committed to the extermination of all leftist influences. This meant the jailing and "disappearance" of leaders of the socialist and communist movements. In addition, Peronism preempted much of the ideological appeal of these parties, as well as their traditional working-class constituencies. The earliest leftist party was the Communist Party, founded in 1918 by Juan B. Justo, who split from Yrigoyen and the Radicals. The Communists were never terribly revolutionary, but concentrated instead on the trade union movement. In the 1970s, Argentine leftism was thrown into confusion by the appearance of several substantial "urban guerrilla" movements. The Trotskyist People's Revolutionary Army (Ejército Revolucionario del Pueblo—ERP), the Montoneros, and the

Peronist Armed Forces (FAP), among others, became major players on the Argentine political scene, if only because of the dramatic impact of their actions. Their presence may well have hastened the return of Perón in 1974, but their persistence became a major justification for the military repression that followed. Refusing to make any distinction between a leftist and a terrorist, the government decimated the Argentine left.

Peronism defies political classification, and it was still alive in Argentina in the early 2000s. Peronism went underground for nearly two decades after the coup of 1955. Operating under the names Popular Union Party, Populist Party, and Laborite Party, a variety of Peronist organizations put up candidates wherever possible. The movement was alternately wooed, tolerated, or repressed, depending on the degree to which the military was involved. In 1973, elections were held in which the Peronists were allowed to field a candidate, Hector J. Cámpora, representing a coalition of various Peronist factions and other smaller parties. This coalition, the Justice Liberation Front (Frente Justicialista de Liberación—FREJULI), took 49% of the vote. Under Cámpora's successors, Juan Perón and Isabel Perón, FREJULI remained the governing coalition until the March 1976 coup, after which political activity was suspended until 1980. A "reform" movement led to infighting that crippled the party in the 1983 elections.

In 1989, Carlos Menem's victory was accompanied by solid legislative majorities in both houses of the legislature. The Justicialist Party (JP) had 122 seats in the Chamber of Deputies and 27 seats in the Senate. In the elections of May 1995, the party took 132 of a total 257 seats in the Chamber of Deputies, and 38 of a total 72 Senate seats. In 1999, the JP suffered a set back in the Chamber, but retained control of the Senate. In 2001, the JP regained seats in the Chamber reaching a total of 116 and increased its hold of the Senate where it controlled 66 seats, two short of a majority. In the 2003 and 2005 parliamentary elections, the Peronistas remained the dominant party in both chambers. Yet, in 2005, Kirchner created an alternative Peronist party (the Front for Victory) that won about one-third of the seats up for election. President Kirchner commanded the loyalty of the large majority of all the Peronist factions that won seats in Congress in 2005.

Argentina's party politics have been contentious and vicious over the years, with various sides coalescing in order to defeat rivals. One notable exception was the formation in July 1981 of the Multipartidaria, an alliance among Argentina's five leading parties—FREJULI, the UCR, the Democratic Christian Federation (Federación Demócrata Cristiana), the Movement for Integration and Development (Movimiento de Integración y Desarrollo—MID), and the Intransigent Party (Partido Intransigente). Claiming the support of about 80% of the voters, this opposition alliance began to negotiate with the military concerning a return to constitutional government, and in July 1982, political parties were formally permitted to resume their activities.

In April 1994, the Front for a Country of Solidarity (Frente del País Solidario or Frepaso) was formed. A center-left group, it has won widespread middle-class support by campaigning against government corruption. It defeated the UCR for second place in the 1995 legislative elections when it gained a representation in the Chamber of Deputies of 29 members. In 1999, Frepaso joined the UCR to create the Alianza (alliance) to elect UCR candidate Fernando de la Rúa. He was elected with 48.5% and assumed the

presidency in December. The Alianza has a slim majority in the lower house of Congress, but the Justicialists remain in control of the Senate. The Alianza proved to be short-lived. With the resignation of Vice President Carlos Álvarez in 2000, the Alianza fell apart. With de la Rúa's resignation in 2001, a new leftwing movement emerged led by former Radical Party deputy Elisa Carrió. Her Alternative for a Republic of Equals (ARI) won 8 seats in the Senate and 17 seats in the Chamber in 2001 and Carrió placed fourth in the 2003 presidential election. It remains to be seen if ARI will remain a political party beyond the parliamentary elections scheduled for October 2003.

Despite the political and social crisis, the Peronista and Radical parties continue to dominate Argentinean politics. In the 2001 midterm election, the Peronistas regained ground in the Chamber and Senate. De la Rúa's demise dealt a severe blow to the Radical Party. In the 2003 presidential election, the Radical Party candidate obtained fewer than 3% of the vote, but two formerly Radical Party militants running as an independent and in a leftist coalition collected more than 30%. The Peronist party also faced the 2003 election in the midst of a division. The three Peronist presidential candidates obtained more than 50% of the vote combined, showing that party's continuous domination of Argentine politics.

15 LOCAL GOVERNMENT

Argentina is a federation of 23 provinces and the federal capital of Buenos Aires. During the 19th century there was a bitter struggle between Buenos Aires and the interior provinces, and there has long been an element of tension regarding the division of powers between the central government and provincial bodies. The federal government retains control over such matters as the regulation of commerce, customs collections, currency, civil or commercial codes, or the appointment of foreign agents. The provincial governors are elected every four years.

The constitutional "national intervention" and "state of siege" powers of the president have been invoked frequently. The first of these powers was designed to "guarantee the republican form of government in the provinces." Since the adoption of the 1853 constitution, the federal government has intervened over 200 times, mostly by presidential decree. Under this authority, provincial and municipal offices may be declared vacant, appointments annulled, and local elections supervised. Between 1966 and 1973, all local legislatures were dissolved and provincial governors were appointed by the new president. A restoration of provincial and municipal government followed the return to constitutional government in 1973. After the March 1976 coup, the federal government again intervened to remove all provincial governors and impose direct military rule over all municipalities. Since 1983, representative local government has been in force again.

Until 1996, the president appointed the mayor of Buenos Aires, and by law, the president and congress controlled any legislation that affected the city. Constitutional reforms that year led to an elected mayoral position, and a 60-member Poder Legislativo (legislative power). The members are elected by proportional representation to four-year terms.

16 JUDICIAL SYSTEM

Justice is administered by both federal and provincial courts. The former deal only with cases of a national character or those to

which different provinces or inhabitants of different provinces are parties. The Supreme Court, which supervises and regulates all other federal courts, is composed of nine members nominated by the president and confirmed by the Senate. Other federal courts include nine appellate courts, with three judges for each; single-judge district courts, at least one for each province; and one-judge territorial courts. The federal courts may not decide political questions. Judges of the lower courts are appointed by the president.

Provincial courts include supreme courts, appellate courts, courts of first instance, and minor courts of justices of the peace (*alcaldes*) and of the market judges. Members of provincial courts are appointed by the provincial governors. Trial by jury was authorized by the 1853 constitution for criminal cases, but its establishment was left to the discretion of congress, resulting in sporadic use.

A 1991 law provides a fund for compensating prisoners who were illegally detained during the 1976–83 military dictatorship. In 1992, a system of oral public trials was instituted in order to speed up the judicial process while improving the protection of procedural rights of criminal defendants.

In practice, there is not a truly independent judiciary. The courts lack power to enforce orders against the executive and federal judges who actively pursue charges of police or military corruption. In 1989, President Menem, in a court-packing maneuver, expanded the number of Supreme Court justices from five to nine. In 2003, shortly after taking office, President Néstor Kirchner signaled his intention to remove some of Menem's appointees and to strengthen the judiciary by undoing some of Menem's moves that turned the Supreme Court into a political ally of the president rather than an autonomous power of the state. Formal and informal constitutional accusation against Menem-appointed Supreme Court justices between 2003 and 2005 allowed Kirchner to appoint new justices who were considered friendly to his regime. Thus, the autonomy and independence of the Supreme Court continued to be weakened by the executive's decision to influence the appointment and tenure of justices.

The constitution prohibits arbitrary interference with privacy, family, home or correspondence. The government respects these provisions. The constitution prohibits torture; however, police brutality remains a serious problem. The judicial system is subject to delays, resulting in lengthy pretrial detention.

17 ARMED FORCES

The Argentine armed forces in 2005 numbered 71,400 active personnel, with no formally established reserves. The Army of 41,400 was organized into 3 corps and included mechanized infantry, engineer, and artillery battalions. Equipment included 200 main battle tanks, 150 light tanks, 74 reconnaissance vehicles, 105 armored infantry fighting vehicles, 422 armored personnel carriers, and 1,701 artillery pieces. The Navy had 17,500 personnel including 2,500 Marines and 2,000 naval aviation personnel. Equipment included 3 tactical submarines, 5 destroyers, 8 frigates, and 14 patrol/coastal vessels. The naval aviation arm had 11 combat capable aircraft including 6 fighter ground attack and 5 antisubmarine warfare aircraft, in addition to 4 maritime patrol aircraft and 7 antisubmarine warfare helicopters. The Air Force numbered 12,500 personnel with 104 combat-capable aircraft that included 13 fighters and 91 fighter ground attack aircraft. Paramilitary forces in-

cluded an 18,000 member gendarmerie and the 13,240 member Prefectura Naval (Coast Guard). In 2005, the defense budget totaled \$1.75 billion. In that same year, Argentine military forces were deployed in five countries or regions as UN peacekeepers.

18 INTERNATIONAL COOPERATION

Argentina is a charter member of the United Nations, having joined on 24 October 1945; it belongs to ECLAC and all the non-regional specialized agencies, such as IAEA, FAO, IFC, UNIDO, UNESCO, WHO, ILO, and IMF. It is a member of the World Bank and joined the WTO on 1 January 1995. Argentina also belongs to the OAS and many other inter-American and intergovernmental organizations, such as the Cartagena Group (G-11), G-15, G-19, G-24, G-77, IADB, LAES, and LAIA. The country is a nonregional member of the African Development Bank and a member of the Permanent Court of Arbitration. Argentina has been an active member of Mercosur (Southern Common Market), the economic and strategic alliance formed by Brazil, Argentina, Uruguay, and Paraguay, with Chile and Bolivia allied as associate members. It is also part of the 19 member Río Group and the South American Community of Nations.

Argentina belongs to the G-6, the Australia Group, the Zangger Committee, the Organization for the Prohibition of Chemical Weapons, the Nuclear Suppliers Group (London Group), and the Agency for the Prohibition of Nuclear Weapons in Latin America and the Caribbean (OPANAL). The country also holds a seat on the UN Monitoring, Verification, and Inspection Commission (UNMOVIC), which was originally established in 1999 as the Special Commission for the Elimination of Iraq's Weapons of Mass Destruction (UNSCOM). Argentina was the only Latin American country to participate in the 1990–91 Gulf War. The United States designated Argentina as a non-NATO ally in January 1998. Argentina has participated in UN peacekeeping and administrative efforts in Kosovo (est. 1999), Western Sahara (est. 1991), Cyprus (est. 1964) and Haiti (est. 2004). The country is a signatory of the 1947 Río Treaty.

In cooperation on environmental issues, Argentina is part of the Antarctic Treaty, the Basel Convention, the Convention on Biological Diversity, Ramsar, CITES, Convention of Antarctic-Marine Living Resources, the London Convention, the International Convention for the Regulation of Whaling, the Kyoto Protocol, the Montréal Protocol, MARPOL, Antarctic-Environmental Protocol, the Nuclear Test Ban Treaty, and the UN Conventions on the Law of the Sea, Climate Change, and Desertification.

19 ECONOMY

Argentina has one of the most highly developed economies and most advantageous natural resource bases of Latin America, but political instability and conflicts among various sectors of the economy have delayed the realization of this potential. The delay has likely been lengthened by the four-year recession that turned into an acute financial crisis in 2001–02 that reduced Argentina's per capita income from \$7,330 in 2001 (the highest in Latin America) to \$2,700 in 2002 (the sixth-highest), and left an estimated 54.3% of the population below the poverty line. It may have

set a modern record for the amount of wealth lost in the shortest period of time.

Argentina's economy had weathered repeated blows to its prospects for sustained growth during 1980–2005—deep recession and slow growth that accompanied hyperinflation in 1989 (4,924%) and 1990 (1,344%), a recession in 1995 following the devaluation of the Mexican peso, nonstop recessions from 1999 that followed the successive impacts of the Asian financial crisis in 1997, the Russian financial crisis in 1998, and the Brazilian financial crisis in 1999, all raising the question of the viability of emerging markets like Argentina's, and finally the global slowdown caused by the United States recession from the beginning of 2001, aggravated by the aftereffects of the 11 September 2001 terrorist attacks on the United States, which in particular put a chill on foreign investment flows. However, the factor that seems to have pushed the Argentine economy over the brink was a tough policy by the administration of US president George W. Bush with respect to IMF rescue packages. Public doubts were expressed by the US treasury as to Argentina's ability to repay its debts and there was public discussion about a willingness to allow an "orderly default." Unpopular steps taken by the government—tax increases (January 2000, April 2001, and August 2001), spending cuts, a "zero deficit" target, and restrictions on bank withdrawals to preserve the peso's convertibility to the dollar—proved of no avail in stopping the decline in investor and consumer confidence, evidenced in widening spreads on Argentine bonds, massive withdrawals from the banks, a halt to investment and a slowdown in production, with a consequent decline in revenues, and a hopelessly worsening debt situation. The IMF had agreed to a standby agreement in December 2000, and to its enhancement in March 2001 when it became apparent that the original targets were not going to be met, but no agreement on a third arrangement could be reached at the end of 2001, as street violence broke out and the country went through an extraordinary five presidents in two weeks. It was the third president who actually took the step of defaulting on payments due on \$132 billion of bonds in late December 2001, and it was the fifth who broke the one-to-one peg of the peso to the dollar in January 2002, which plunged to a low of $\text{us}\$1 = \text{ec}\3.87 in June 2002. With the devalued currency, external debt jumped from 56% of GDP to over 130%. In November 2002, Argentina also defaulted on payments due to the World Bank.

Prior to 1970, Argentina suffered serious deficits in trade balance, but with increased exports, favorable trade balances were achieved during the 1970s. In 1974, increases of 7.6% were registered for agriculture, 7.5% for commerce, and 22.3% for construction. However, the average increase of annual GDP registered only 40% from 1977 to 1987. During the period between 1988 and 1999, average annual growth reached 4.4%, due largely to successful economic planning and political stability. On 23 January 2003 the government entered into a nine-month agreement with the IMF supported by loans of \$6.87 billion with the explicit understanding that a longer term arrangement would be concluded following the presidential election in April 2003. The winner, Nestor Kirchner, a Peronist from Patagonia and not widely known, promised a \$3-billion public works program but without deficit spending.

Twenty years earlier in 1982, the peso had so depreciated that the government decided to redenominate the currency, which it

did in 1983, at 10,000: 1. Also in 1983, Argentina received a stabilization loan from the IMF to compensate for the effects of inflation and recession. As a condition for the loan, the government agreed to reduce the inflation rate to 165% in 1983. By autumn, however, inflation was running at an annual rate of over 900%; the inflation rate for the whole of 1983 was 434%, the highest in the world. Thereafter, it rose without interruption until it reached some 1,200% in mid-1985. At that time, the government introduced the Austral Plan—a bold attempt to halt inflation by freezing wages and prices, revaluing (and redenominating) the currency, and resolving to finance public spending with real assets only (not by printing money); under this plan the annual rate for 1985 was cut to 385%. By the end of 1986, the rate had been cut further to 82%; by early 1987, however, inflation had begun to surge again, and it was expected to exceed 100% by the end of the year.

In July 1989, President Carlos Menem of the Justicialista Party took office at a time when the economy was entangled in a hyperinflationary spiral. In 1991, President Menem unveiled an innovative stabilization/reform program, which was implemented successfully. The cornerstone of the stabilization/reform plan was to link the peso to the dollar at a fixed rate of 0.99 pesos per dollar (under the 1991 "Convertibility Law"), and requiring congressional approval for devaluation. In 1992, economic policy continued to focus on structural adjustment involving a strategy of cleaning up the fiscal accounts. The reforms took on a four-pronged approach: fiscal revenues were strengthened through a broadening of the VAT and an enhancement in revenue enforcement; administrative reforms included a substantial cut in public payroll and revamping of national fiscal accounting; the use of the Central Bank's rediscount window to finance deficits of provincial governments was curtailed; and public enterprises were privatized. Both revenue enhancements and expenditure cutbacks sharply reduced the inflation rate.

After three years of swift growth, the devaluation of the Mexican peso on 20 December 1994 pushed the Argentine economy into a severe recession, but economy minister Domingo Cavallo took an austere line and refused to devalue the Argentine currency in 1995, even though the economy shrank by 4.4% in that year. However, the economy began to recover in 1996, and by 1998 the inflation rate held at about 1%, one of the lowest rates in the world. Even though inflation was low in 1999, a recession brought the realization that high consumer prices were not the only roadblock to economic development. Negative growth also reflected poor labor policies and a lack of capital in 2000.

The country has to a large degree overcome its dependence on imported machinery and finished products, but in their place there has grown a great external demand for parts and raw materials that are assembled or finished within the country. Basic industries, such as iron and steel, petroleum and petrochemicals, aluminum, plastics, and electrical equipment are being established, but these will continue to require extensive raw material imports for some time, or even permanently, because of the absence of certain minerals, such as bauxite (which is needed for aluminum production).

In 2004, the economy expanded by 9.0%, up from 8.8% in 2003, and from a dramatic -10.9% in 2002; in 2005, the GDP growth rate was estimated at 6.7%, while the GDP per capita (at purchasing power parity) grew to \$13,600. The inflation rate was reduced

to 4.4% in 2004, but was estimated to have grown again to 8.8% in 2005. The unemployment rate was on a downwards trend after 2002, and in 2005 it looked like it was brought back under control (at 11.7%). All of the provinces in Argentina achieved a consolidated fiscal surplus of 5.8% in 2004, with the tax burden growing however, to almost 28%.

2⁰ INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 Argentina's gross domestic product (GDP) was estimated at \$537.2 billion. 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 based on current dollars. The per capita GDP was estimated at \$13,600. The annual growth rate of GDP was estimated at 8.2%. The average inflation rate in 2005 was 11.8%. It was estimated that agriculture accounted for 10.5% of GDP, industry 35.8%, and services 53.7%.

According to the World Bank, in 2003 remittances from citizens working abroad totaled \$253 million or about \$7 per capita and accounted for approximately 0.2% of GDP. Foreign aid receipts amounted to \$109 million or about \$3 per capita and accounted for approximately 0.1% of the gross national income (GNI).

The World Bank reports that in 2003 household consumption in Argentina totaled \$81.2 billion or about \$2,142 per capita based on a GDP of \$129.6 billion, measured in current dollars rather than PPP. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the period 1990 to 2003 household consumption grew at an average annual rate of 0.1%. In 2001 it was estimated that approximately 30% of household consumption was spent on food, 17% on fuel, 15% on healthcare, and 15% on education. It was estimated that in 2005 about 38.5% of the population had incomes below the poverty line.

2¹ LABOR

As of 2005, Argentina's labor force was estimated at 15.34 million. According to 1996 estimates (the latest year for which data was available), the labor force was divided as follows: 18.5% in manufacturing, 2.2% in agriculture and mining, 18.1% in commerce, 10.3% in transport and communications, 9.5% in public administration and defense, and the remainder in other sectors. As of September 2005, Argentina's unemployment rate stood at 11%, down from 25% in 2001.

Unions in Argentina came into their own during the reign of Juan Perón, who used the labor movement as a vehicle to achieve and hold dictatorial power. He built the General Confederation of Labor (Confederación General del Trabajo—CGT) from a disjointed membership of about 250,000 into a highly centralized organization of 6 million workers encompassing every aspect of the Argentine economy. Although the labor unions won tremendous benefits in the form of higher wages and improved working conditions as a result of Perón's support, these advances were built on a political rather than on a sound economic foundation, and the fortunes of the CGT waxed and waned with those of Perón and his followers, as well as with successive governments. As of 2005, an estimated 35% of the workforce belonged to a union.

The national minimum wage is set at \$215 per month which does not provide a living wage for a family. However, most workers earn considerably more. The average salary in the formal sector is around \$550 per month. The legal workweek has a maximum of 48-hours, at 8 hours a day. Overtime hours worked in excess of those limits are subject to overtime rates of pay. Children under the age of 14 are legally prohibited from full-time work, as they are required to attend school. However, child labor continues to be a problem, particularly in the informal or underground economy. Children between the ages of 14 and 18 are allowed to work, but only for limited hours and only in a limited number of occupations, and only if they have finished compulsory schooling, which usually ends at 15. There are extensive occupational and health and safety laws but they are not fully enforced because the government has inadequate resources. Cases of very poor labor conditions are known to exist in plants employing illegal aliens.

2² AGRICULTURE

Agriculture and agro-industry in Argentina focus on the production of cereal, oil grains and seeds, sugar, fruit, wine, tea, tobacco, and cotton. Argentina is one of the greatest food-producing and food-exporting countries of the world, with an estimated 35,000,000 hectares (86,500,000 acres) of arable and permanent cropland, or 12.8% of the land area. Agriculture and animal husbandry have traditionally supplied the nation with 70–95% of its export earnings, and the landowners have alternated the two activities in accordance with prices on the world market. As of 2004, agriculture made up 10% of the GDP. Agricultural products also accounted for 43% of exports by value. One of the most important factors in Argentine agriculture is the advanced degree of mechanization; in 2002, an estimated 300,000 tractors and 50,000 harvester-threshers were in use.

The principal agricultural region consists of the humid pampas, one of the world's greatest reaches of arable land. Argentine agriculture is virtually coextensive with this region, although efforts have been made to spread it into other areas. Citrus fruit, tobacco, cotton, and sugarcane are cultivated outside the pampas.

Wheat is the leading crop. Argentina accounted for about 61% of all wheat produced in South America in 2004 and was the world's fifth-leading wheat exporter. The area harvested in 2004 was estimated at 5.74 million hectares (14.18 million acres), and production at 14.5 million tons. Argentina is the sixth-largest corn-growing country in the world. The area harvested in 2004 was 2.33 million hectares (5.75 million acres), and production was 15 million tons. Barley is favored as the grain of greatest yield and resistance to disease; types for feed and beer are grown in the pampas areas having soil unfavorable or a climate too rigorous for wheat. Harvests amounted to 659,000 tons per season in the early 1970s; in 2004 production was 1,004,000 tons.

Rice is a major crop, with a 2004 production of 1,060,000 tons on plantings of 169,200 hectares (418,000 acres). Argentina was once one of the world's biggest producers of flaxseed (linseed); production in 2004 was 29,000 tons (1.5% of world production), down more than 90% from the early 1990s. Most of the crop is exported in the form of linseed oil. The province of Tucumán dominates the sugar-raising industry, which dates from 1646; sugarcane production in 2004 was 19.3 million tons. To control overproduction, the government formed the National Sugar Co. in 1970 and

forbade the construction of new sugar mills through the end of the decade.

Cotton growing dates from 1909 and is concentrated in Chaco province. In 2004 the production of cotton fiber was 112,000 tons, down from 432,000 tons in 1996. Sunflower seed oil is a major industrial plant product; 1.8 million hectares (4.5 million acres) of sunflowers were harvested in 2004, producing 3,100,000 tons of sunflower seeds. Tobacco is raised in several northern provinces, especially Misiones; production in 2004 was an estimated 118,000 tons. Soybean production, only 78,000 tons in 1971–72, increased to 7.1 million tons by 1985–86, and to 31.5 million tons in 2004, 15% of world production.

Fruit growing has developed rapidly since the 1940s. Estimates for 2004 fruit production (in tons) were apples, 1,262,000; oranges, 770,000; lemons and limes, 1,300,000; peaches and nectarines, 272,000; and grapefruit, 170,000. The output of bananas was 400,000 tons in 1974, 10 times the 1961–65 average; it fell to 144,000 tons in 1978 and rebounded to 280,000 tons in 1992 before declining to 180,000 tons in 2004.

The province of Mendoza is the center for the nation's vineyards. In 2004, grape production was 2.36 million tons. Argentina is one of the world's leading producers of wine, exporting 159,826 tons in 2004, or 2% of the world's total wine exports.

23 ANIMAL HUSBANDRY

Argentina is one of the world's preeminent producers of cattle and sheep, possessing approximately 3% of the entire world's stock of the former and 1% of the latter. Livestock and meat exports play an essential part in the nation's international trade. Annual meat exports (including meat extracts) were 598,900 tons in 1978, but fell to 394,900 tons in 1981 and 301,390 tons in 1997 before rising to 1,183,000 tons in 2004. Because of extremely favorable natural conditions, Argentina, with about 50.8 million head of cattle in 2004, is one of the world's leading cattle-raising countries.

Cattle were introduced into Argentina by Pedro de Mendoza in 1536, and these cattle, together with those brought by other explorers, quickly became wild and began to multiply on the lush grasses of the pampas. There was no attempt to control the vast herds; when the inhabitants wanted meat and hides, they would merely kill the animals at random and take the desired parts. The most important single advance was the invention of refrigeration, which enabled ships to transport meat without spoilage. The policy followed by foreign-owned meat-packing firms of purchasing cattle by quality rather than weight led to the introduction of new breeds and selective crossbreeding, which have brought the cattle industry to its present advanced state.

Argentine pastures cover an estimated 142 million hectares (350.9 million acres) and are most productive in the provinces of Buenos Aires, Santa Fe, Córdoba, Entre Ríos, and Corrientes. The most important beef-producing breeds are Shorthorn, introduced in 1823; Hereford, 1858; Aberdeen Angus, 1879; and in recent years, zebu and Charolais.

The dairy industry has shown steady development. In 2004, the following quantities were produced: milk, 8,100,000 tons; cheese, 260,000 tons; and butter, 55,000 tons. The most important dairy breeds are Holstein-Friesian, Jersey, and Holando Argentino. Córdoba, Santa Fe, and Buenos Aires are the three major dairy provinces. Argentina's dairy sector has received the most investments

in recent years, especially foreign investments. Egg production was 300,000 tons in 2004. The number of chickens in 2004 reached 95 million.

In sheep raising, Argentina ranks second in South America after Brazil, with an estimated 12.5 million animals in 2004. Before World War II (1939–45), Argentina accounted for 14% of the world's wool production, but in the 1970s, its production declined; the wool clip (greasy basis) was 60,000 tons in 2004. In 2004, production of mutton and lamb was 51,700 tons. Patagonia has approximately 40% of all the sheep in Argentina.

Total meat production was 3.9 million tons in 2004, of which 2.7 million tons consisted of beef. Beef exports for 2004 were valued at over \$1 billion.

In 2004, Argentina had 3.6 million horses, placing it among the top 5 countries in the world. Argentine horses, especially favored as polo ponies and racehorses, have won many international prizes. Other livestock in 2004 included 3 million pigs and 4.2 million goats. In 2004, Argentina accounted for nearly 5% of the world's production of cow hides. Argentina is South America's largest producer of honey, with an output of 80,000 tons in 2004.

24 FISHING

In a country that is among the world's leaders in meat production, fishing has not been able to develop as an industry of any significance. In recent years, the government has tried with some success to induce the public to eat more fish in order to export more beef, one of the country's largest earners of foreign exchange. Since 1970, the government has offered fiscal incentives to encourage the modernization of the fishing industry. The catch has increased from 475,043 tons in 1982 to 1,256,000 tons in 1996 before falling to 916,246 tons in 2003.

The most favored saltwater fish are the pejerrey, a kind of mackerel; the dorado, resembling salmon but of a golden color; and the zurubí, an immense yellow-and-black-spotted catfish. The principal species in the 2003 catch were Argentine hake (36%), Argentine shortfin squid (15%), and grenadier (11%).

Argentina established a 322-km (200-mi) territorial sea limit in December 1966. In 1982, the government moved to protect Argentina's coastal waters from foreign exploitation, declaring that only 16 foreign vessels would be allowed in Argentine waters at any one time.

25 FORESTRY

Argentina's forests, estimated at some 50.9 million hectares (125.8 million acres), or about 18.6% of the total area, constitute one of its greatest underexploited natural resources. Of the 570 species of trees sold in international commerce, Argentina possesses 370, but of these it exploits only about a dozen species. A major factor in the industry's lack of development is the great distance of most forests from the markets and the resultant high cost of transportation. In the Río Paraná Delta, the woods currently exploited are softwoods, such as the elm and willow, used in the cellulose and container industries; in the Gran Chaco, white quebracho, used as a fuel and in the refining of coal, and red quebracho, from which tannin is extracted; in Misiones Province, several varieties, including cedar for furniture manufacturing; in the Salta-Tucumán re-

gion, cedar and oak; and in Patagonia, araucania, pine, cypress, larch, and oak.

The most important tree is the red quebracho, which contains 21% tannin, the extract used for tanning. Argentina possesses four-fifths of the world's supply of this wood. Many quebracho trees now being used are from 200 to 500 years old, and trees younger than 75 years are of little commercial use. Since the trees are not being replaced, it is estimated that the quebracho forests will eventually be exhausted.

Production of roundwood was 9,307,000 cu m (328,500,000 cu ft) in 2003. Exports of forest products totaled \$280.7 million that year.

26 MINING

Argentina is an important regional producer of minerals, including primary aluminum, mine lead, copper, and zinc, and silver and gold.

In 2003 the value of nonfuel mineral production totaled \$1.1 billion, of which copper concentrate alone accounted for \$467 million.

Argentina was the third-largest Latin American producer of aluminum in 2003, producing 271,932 metric tons; one of six Latin American producers of mine lead and zinc, ranking second to Mexico in lead; and the fourth-largest producer of silver in Latin America.

Mine copper production in 2003 totaled 199,020 metric tons, up slightly from 2001's output of 191,566 metric tons, but down from 2002's level of 204,027 metric tons. Almost all copper production was from Minera Alumbrera, operating from the Bajo de la Alumbrera open pit mine, in Catamarca Province, since 1998.

Gold production in 2003, mostly from the Bajo de la Alumbrera and the Cerro Vanguardia mines, totaled 29,744 kg, down from 32,506 kg in 2002. The country's total silver mine output for 2003 was 133,917 kg, down from 152,802 kg, in 2001.

In 2003, zinc mine production totaled 29,839 metric tons, down from 2001's total of 39,703 metric tons. In that same year lead mine output totaled 12,079 metric tons down slightly from 12,334 metric tons in 2001.

In 2003, Argentina produced 545,304 metric tons of crude boron materials, ranking third in the world, after the United States and Turkey; the 1999 and 2000 totals were 245,450 and 512,624 metric tons, respectively. Among other industrial minerals, output in 2003 for limestone was 8,119,879 metric tons; dolomite, 320,116 metric tons; crushed quartzite, 284,503 metric tons; crushed quartz, 100,000 metric tons; talc, 1,759 metric tons; bentonite, 128,406 metric tons; diatomite, 24,946 metric tons; feldspar, 88,427 metric tons; crude gypsum, 387,936 metric tons; kaolin, 10,653 metric tons; and salt, 1,156,023 metric tons. The country also produced marble, clays, celestite, sodium carbonate, asbestos, barite, and vermiculite. Asphaltite, fluorspar, mica, manganese, and antimony are found mainly in the northwest. There are also deposits of lithium, beryllium, and columbium.

27 ENERGY AND POWER

Despite a shortage of energy resources, production of electric power has steadily increased since 1958, after more than a decade of neglect. In 2002, electrical energy production totaled 81.151 billion kWh (48% thermal, 44% hydropower, 6.6% nuclear and 1.4%

other). In the same year, consumption of electricity was 81.270 billion kWh. Generating capacity was 27.558 million kW in 2002. The government places great emphasis on the development of hydroelectric projects and nuclear power, even though installed capacity exceeds projected demand. The final stage of the Yaciretá-Aripe project on the Paraná River, with an installed capacity of 3,200 MW, was completed in 1998.

In 1974, Argentina became the first country in Latin America to install a nuclear-powered electric generating plant. (As of 2006, the only other South American country to use nuclear power was Brazil.) The Atucha power station in Buenos Aires Province has a capacity of 357 MW; Embalse (648 MW) in Córdoba Province started up in 1983. Construction of a second 692-MW reactor at Atucha began in 1980; one reactor there was operating but a second had not yet come online as of 2006.

The modern petroleum industry dates from 1907; after 1940, it became necessary to supplement domestic production with large-scale imports of foreign fuels. In 1958, ownership of all crude oil and natural gas was taken over by the state, and petroleum was then placed under the control of the state oil corporation, Yacimientos Petrolíferos Fiscales (YPF). Production of crude oil fell from 25.6 million tons in 1982 to 22.3 million tons in 1987 but rose to 37.7 million tons in 1995. Production in 1998 totaled 847,000 barrels per day; it dropped to an estimated 756,000 barrels per day in 2004. In 1978, foreign-owned companies were allowed to drill for oil, after decades of policy changes on the role of foreign companies. In August 1985, the Alfonsín government announced more liberal rules on foreign-company participation; in 1987, YPF's influence was reduced. In July 1993, Argentina privatized YPF via the largest initial stock offering on the New York stock exchange (more than \$3 billion). Large deposits have been found in the San Jorge Gulf near Comodoro Rivadavia. Production rates have exceeded the rate at which depleted reserves have been replaced by new discoveries, however. Proven reserves as of end 2003 were put at 2.7 billion barrels.

In conjunction with petroleum extraction, the significant natural gas industry, which is completely run by the private sector, has rapidly expanded. As of 2002, Argentina had the third-largest proven natural gas reserves in South America, exceeded only by Venezuela and Mexico. Production in 2004 totaled 44.9 billion cu m (1,603 billion cu ft), compared with 5.3 billion cu m (187 billion cu ft) in 1969 and 9.8 billion cu m (356 billion cu ft) in 1982. At the end of 2004, proven reserves were at 0.61 trillion cu m (21.4 trillion cu ft). Argentina has a network of over 9,900 km (6,150 mi) of gas pipelines. Since 1997 Argentina has exported natural gas to Chile, which is its major gas export customer.

A major coal deposit in Santa Cruz Province is estimated to contain 552 million tons of coal, nearly 80% of the nation's total. Production as a whole was reported at 330,000 tons in 2002, down from 505,000 tons in 1988.

28 INDUSTRY

Córdoba is Argentina's major industrial center. It is the center of metalworking, especially for motor vehicle production. Argentina's other principal industrial enterprises are heavily concentrated in and around the city of Buenos Aires. The plants are close to both the many raw materials imported by ship and the vast productive area of the pampas. The major industries in Buenos Aires are food

processing, motor vehicles, consumer durables, textiles, chemicals and petrochemicals, printing, metallurgy, and steel. Other industrial areas include Rosario, with important steel-producing plants and oil refineries, tractor and meat-packing plants, and chemical and tanning industries; Santa Fe, with zinc- and copper-smelting plants, flour mills, and dairy industry; San Miguel de Tucumán, with sugar refineries; Mendoza and Neuquén, with wineries and fruit-processing plants; the Chaco region, with cotton gins and sawmills; and Santa Cruz, Salta, Tierra del Fuego, Chubut, and Bahía Blanca, with oil fields and refineries.

During the 1960s, the average annual growth rate of industry was 5.9%; during the 1970s, it fell to only 1.8%. In the early 1980s, industrial production went into recession, declining by 16% in 1981 and by 4.7% in 1982. The sharp cutback in imports due to the foreign debt crisis spurred local manufacturing to growth of 10.8% and 42%, in 1983 and 1984, respectively; 1985 brought a sharp plunge of 10.5%, but 1986 saw a growth of 12.8%, aided by the "Austral Plan." In all, the 1980s saw an average annual growth rate of -1.0%. From 1988 to 1998, manufacturing grew by an annual average of 3.6%, and in 1997 alone by 9.2%, but in 1998 that rate fell to 1.6%.

Industry accounted for 16% of GDP in 2001; it was 20% of GDP in 2002, and was expected to be at least 25% of GDP in 2003. Industrial goods represented approximately 31% of exports in 2002. Seasonally adjusted manufacturing production fell 6.9% from August 2001 to August 2002, and nonseasonally adjusted manufacturing production registered a 4.5% decrease.

Packing and processing of foodstuffs is the oldest and most important industry in Argentina. Beginning in the last part of the 19th century, the great *frigoríficos*, or meat-packing plants, were founded to prepare beef for export to Europe. In recent times, the Argentine government has entered directly into the meat-processing enterprises, which for many years were under British ownership. The textile industry was also developed quite early, making use of wool from the vast herds of sheep and the cotton from Chaco Province. In addition to these traditional products, a variety of synthetic fibers are now produced.

Portland cement is the country's leading construction material. A major chemical industry produces sulfuric, nitric, and other acids and pharmaceuticals. The most important center of this industry is San Lorenzo on the Río Paraná. The petrochemical industry is related to the increasing production of oil and has received special benefits from the government. In 1985, exports of petroleum fuels exceeded imports for the first time, and by 1999 Argentina was self-sufficient in oil and gas. Natural gas annual output growth should reach 3.4% for the next decade. Output of petroleum fuels reached 800,000 barrels per day in 1999; at the same time, new oil reserves were found in Río Negro Norte. In 2002, Argentina had 10 oil refineries with a total capacity of 639,000 barrels per day.

In 1961, a giant integrated steel mill began production at San Nicolás. Dependent on steel is the automobile industry, which experienced fairly sustained growth during the 1960s and 1970s. Production rose from 33,000 units in 1959 to 288,917 in 1980. Motor vehicle production peaked at 450,000 in 1998, falling back to around 300,000 in 1999. There were 235,577 automobiles produced in 2001, a 31% decrease from the 339,632 units produced in 2000. Tractors, motorcycles, and bicycles also are manufactured. Argentina also produces electric appliances, communica-

tions equipment—including radios and television sets—motors, watches, and numerous other items.

Industry continues to restructure to become competitive after decades of protection. Capacity utilization rates have increased substantially and companies are now focusing on modernization and expansion of their plants to meet both domestic and foreign demand. New technologies are being adopted, work forces pared, and management is focusing on just what its clients want. Output of cement, trucks, machinery, plastics, petrochemicals and other chemicals all rose, while production of basic metal goods held flat or rose off a low base in the 1990s. A recession that began in 1998 was exacerbated by the economic crisis of December 2001, with Argentina's default on its foreign debt, devaluation of the peso, and conversion of dollar debts and deposits to pesos. Industrial production began to increase in late 2002, however, and the best-performing sectors were textiles, automobile tires, and oils.

In 2004, industry made up 35.8% of the economy, and was bested by services, with 53.7%; agriculture accounted for 10.5% of the GDP. The industrial production growth rate was 7.5% in 2005, underperforming the overall economic growth rate, and signaling that targeted policies are needed for troubled industries. Some of the policies implemented by the government included import licenses for footwear, toys, washing machines, paper, bicycles, and tires. In September 2005, President Kirchner announced that the launching of the automobile free trade agreement between Argentina and Brazil was postponed until 2008 (from the predicted January 2006 date), to allow more symmetry in bilateral trade flows to be established.

29 SCIENCE AND TECHNOLOGY

Argentina has five scientific academies: an academy of agronomy and veterinary science (founded in 1909); an academy of exact, physical, and natural sciences (1874); an academy of medicine (1822); and the National Academies of Sciences of Córdoba (1869) and Buenos Aires (1935). Numerous agricultural, medical, scientific, and technological research institutes exist in Argentina, including, as of 1996, some 51 operated by the National Council of Scientific and Technical Research (founded in 1958) and 27 by the National Institute of Industrial Technology (founded in 1957). Research and development expenditures in 2003 amounted to 0.4% of GDP. Argentina has 47 universities and colleges offering training in basic and applied sciences. In 1987–97, science and engineering students accounted for 28% of college and university enrollments.

In 2002–03, Argentina had 715 researchers and 166 technicians per million people actively involved in research and development (R&D). Spending on R&D was approximately \$1.6 million, with about 43.3% coming from government sources, 28.8% from higher education sources, 2.5% from private nonprofit organizations, and 24.2% from private business. In 2002, high technology exports amounted to \$583 million or 7% of the country's manufactured exports.

30 DOMESTIC TRADE

Many leading mercantile firms have their head offices in Buenos Aires and branches or agents in the other large cities. Department stores, retail shops, and specialty shops in Buenos Aires are on a par with similar establishments in most world capitals. The num-

ber of supermarkets and large outlets is increasing as consumers are becoming accustomed to such establishments and are seeking the greater convenience and lower costs that these places afford. Industrial equipment and machinery is primarily sold through agents or trade fairs.

Business hours are generally from 9 AM to 6 PM, Monday–Friday, with a one-hour lunch break. Stores are usually open from 9 AM to 9 PM, Monday–Saturday; banks are generally open on weekdays from 10 AM to 3 PM. Travelers checks are not widely accepted at business establishments. Domestic demand absorbs most of the nation's industrial production.

3¹ FOREIGN TRADE

Many industrial products imported prior to 1960 are now produced in Argentina. Argentina removed virtually all nontariff barriers to trade in 1991 and reduced tariff rates. The only nontariff barrier is the tariff/quota system applicable to auto and auto parts imports. The Argentina/Brazil auto agreement establishes preferential market access treatment for both countries.

A surge in imports during 1991/92 shifted the trade balance from a large surplus to a deficit position. The strong increase in imports is explained by several factors: first, the dynamic growth of the domestic economy which resulted in greater import demand; second, the reduction of import tariffs and elimination of nontariff barriers which released pent-up demand for imports; and third, the real appreciation of the peso which made imports much less expensive since the local currency cost of these goods rose by much less than the accumulated inflation since the beginning of the Convertibility Plan. Because exports contributed only 10% to GDP, increased foreign sales had little impact on aggregate growth, skewing the balance of payments report.

The creation of NAFTA was viewed as an extremely positive development and presented Argentina with the possibility of acceding to NAFTA as either a member of Mercosur or alone. The government remained fully committed to seeing the creation of Mercosur (a common market incorporating Argentina, Brazil, Uruguay, and Paraguay) through its completion (on 1 January 1995). Argentina's exports and imports more than doubled at comparable rates in six years, between 1992 and 1998; but the de-

valuation of the Brazilian real in 1999 was expected to significantly lower export revenues.

For the last few years of the 1990s, Argentina experienced a significant recession. In late 2001, Argentina's economic meltdown came to a breaking point, and the country was forced to default on its \$155 billion foreign debt, the largest such default in history. The resulting devaluation of the peso and the move from a fixed to floating exchange rate regime has proved disastrous for Argentina's trade situation. The peso, which was pegged to the dollar for most of the last decade, has fallen to trading less than two to the dollar, encouraging exports but making imports prohibitively expensive.

Agricultural products from Argentina, including animal feed, vegetable oil, oil seeds, wheat, maize, and produce, make up the majority of the country's commodity export market (31%). Other important exports are petroleum, and motor vehicles and parts. The top 10 exports for 2000 are as follows:

In 2005, exports reached \$40 billion (FOB—Free on Board), while imports grew to \$29 billion (FOB). In 2004, the bulk of exports went to Brazil (15.4%), Chile (10.4%), the United States (10.2%), China (8.7%), and Spain (4.4%). Imports included intermediate goods, capital goods, consumer goods, and fuels, and mainly came from Brazil (36.2%), the United States (16.6%), Germany (5.7%), and China (4.3%).

3² BALANCE OF PAYMENTS

Until 1952, Argentina's foreign-payments position was excellent, owing mainly to its large exports of basic commodities, principally agricultural products. In that year, however, because of widespread crop failures and unfavorable terms of trade, export value decreased sharply while imports remained high. The Argentine deficit was met by foreign credits, with dollar shortfalls partially covered by large credits from the Export-Import Bank, the IMF, and US banks. Over half of the foreign exchange earned was used

Principal Trading Partners – Argentina (2002–2003)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	29,565.8	8,989.5	20,576.3
Brazil	4,663.3	2,518.3	2,145.0
Chile	3,536.3	176.6	3,359.7
United States	3,133.5	1,804.3	1,329.2
China	2,478.4	330.2	2,148.2
Spain	1,387.9	311.0	1,076.9
Netherlands	1,094.4	74.2	1,020.2
Italy-San Marino-Holy See	930.8	311.6	619.2
Mexico	796.2	157.8	638.4
Area nes	723.4	250.9	472.5
Germany	720.8	553.6	167.2

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

Balance of Payments – Argentina (2003)

(In millions of US dollars)

Current Account		7,838.0
Balance on goods	16,447.0	
Imports	-13,119.0	
Exports	29,566.0	
Balance on services	-1,541.0	
Balance on income	-7,669.0	
Current transfers	602.0	
Capital Account		70.0
Financial Account		-16,899.0
Direct investment abroad	-774.0	
Direct investment in Argentina	1,020.0	
Portfolio investment assets	-95.0	
Portfolio investment liabilities	-8,064.0	
Financial derivatives	...	
Other investment assets	-4,448.0	
Other investment liabilities	-4,539.0	
Net Errors and Omissions		-1,729.0
Reserves and Related Items		10,720.0

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

during the 1950s and 1960s to service the external debt. The strict economic controls enacted in 1967 helped curb the inflationary trend and thus stabilized the nation's economy. After a decline during the early 1970s because of the international financial crisis, Argentina registered a surplus between 1973 and 1979, but after 1981, the current account was in deficit because of heavy debt-servicing costs.

The US Central Intelligence Agency (CIA) reported that in 2001 the purchasing power parity of Argentina's exports was \$26.7 billion, while imports totaled \$20.3 billion resulting in a trade surplus of \$6.4 billion. In view of the liberalization of trade policies and the real appreciation of the peso, the current account deficit deteriorated sharply since 1990. This was more than offset by a large influx of foreign capital that was enticed by the government's new economic program. Since 1991, the decline in interest rates internationally and the lack of attractive alternatives for foreign direct investment helped to generate a massive inflow of foreign capital, much of which was actually owned by Argentines but held abroad. A debt restructuring plan in early 1993 permitted the investment of reserves by eliminating the threat of seizure. Nevertheless, Argentina's external public debt increased in 1995 to almost \$80 billion, due to new borrowing in capital markets and lending from international financial institutions. In 1998, external debt reached \$133 billion.

The International Monetary Fund (IMF) reported that in 2001 Argentina had exports of goods totaling \$26.6 billion and imports totaling \$19.2 billion. The services credit totaled \$4.3 billion and debit \$8.40 billion.

Exports of goods and services reached \$36 billion in 2004, up from \$33 billion in 2003. Imports increased from \$18 billion in 2003, to \$27 billion in 2004. The resource balance was consequently positive in both years, deteriorating however from \$15 billion in 2003, to \$9 billion in 2004. The current account balance was also positive, decreasing from \$8 billion in 2003, to \$1.5 billion in 2004. Foreign exchange reserves (including gold) reached \$14 billion in 2003, covering more than nine months of imports.

33 BANKING AND SECURITIES

In 1935, the Central Bank of the Argentine Republic was established as a central reserve bank, having the sole right of note issue, with all capital held by the state. The bank acts as the fiscal agent of the state. Its board of directors is appointed by and responsible to the government. The bank administers banking laws, regulates the volume of credit and interest rates, supervises the securities market, and applies government laws and decrees regarding banking and foreign exchange. Legislation in August 1973 increased its control over the commercial banking system. The National Mortgage Bank, founded in 1886, is the most important institution for housing credit. Other institutions include the National Development Bank, the National Bank for Savings and Insurance, and the Cooperative Credit Bank.

The Central Bank took advantage of the recovery in economic activity and relatively high rate of monetary growth in the early 1990s to further the restructure the financial system, and to strengthen it so that it would be able to withstand even severe external shocks. In late 1996, a schedule was implemented gradually to raise Minimum Liquidity Requirements (MLKs) from the current (1997) 17–20% by March 1998.

In late 1996, the role of the deposit insurance system (DIS) was broadened to allow support for troubled banks before they went bankrupt. Parallel to these measures, the Central Bank continued to encourage concentration in the financial system through mergers and acquisitions. By 2000, there were 120 financial institutions left, out of a total of 300 existing in 1990. Nine banks in 2000 owned 67% of all deposits, including public sector banks Nacion and Banco de la Provincia de Buenos Aires (accounting for 28% together); foreign owned Banco Río and Banco Frances; and the privately owned Argentinian Banco Galicia. Total assets in 1999 added up to \$15.6 billion, reflecting a growth of 7% from the previous year. Total deposits added up to 25% of GDP.

In 2001, after three years of debilitating recession and overspending by the government, Argentina was forced to default on its \$155 billion debt, the largest such default in history. The old fixed currency regime was abandoned after years of high inflation, and the architect of that original regime, Domingo Cavallo, was brought in to construct a new one. He decided to peg the Argentine peso to the US dollar and the euro when the two currencies achieved parity. However, the Argentine people were not convinced by this new scheme, and the policy did not achieve its intended results. Political upheaval resulted, with three interim presidents holding office before Eduardo Duhalde took office. He was defeated in April 2003 in a runoff election against Néstor Kirchner.

The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$15.7 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$73.2 billion. The money market rate, the rate at which financial institutions lend to one another in the short term, was 25%.

The Buenos Aires Stock Exchange is one of 23 markets that form the Buenos Aires Commercial Exchange, which has over 12,000 members and is often confused with the Stock Exchange. The Commercial Exchange, founded in 1854, established the Stock Exchange, which the government subsequently separated from it. The Commercial Exchange now includes a grain market, a foreign currency exchange, a general produce exchange, and the securities exchange. There are also stock exchanges in the cities of Córdoba, San Juan, Rosario, Mendoza, and Mar del Plata, although more than 90% of stock transactions are conducted on the Buenos Aires exchange.

Between late October and early December 1996, Argentine asset prices rose under the influence of a favorable international financial environment, evidence of a recovery in domestic economic activity, and the decision of the government to deepen labor market deregulation. Between 22 October, and 5 December 1996, the Merval Stock index rose 15%, Bocon (peso-denominated) bond prices increased by 8%, and Brady bonds surged 7% (floating rate bond), 8% (discount bond), and 12% (par bond). From 1996 to 1999, while market capitalization rose from \$45 million to \$115 million, average daily market turnover fell from a high of over \$650 million to about \$200 million. As of 2004, there were 104 companies listed on the Buenos Aires Stock Exchange. Market capitalization as of December 2004 stood at \$46.432 billion. The Bolsa Indice General was up 17%, from the previous year at 56,639.1.

3⁴ INSURANCE

In 1984, about 200 insurance companies were in operation in Argentina. Although various legal restrictions have been placed on foreign insurance companies, many retain offices in Buenos Aires. The insurance market is regulated by the Superintendent of Insurance of the nation, which is a branch of the Ministry of Economy.

The Argentine insurance market is characterized by a relatively large number of insurers with no single organization dominating the industry. From 1994 to 1997, there was a reduction in the number of insurers as some closed operations or were liquidated. Observers believe that there will be further reductions in the number of insurance companies as consolidation of the industry and the quest for economies of scale and critical mass continues. Observers expect the Argentine life market to develop significantly, especially under stable currency conditions. In 2003, direct premiums written totaled \$3.293 billion, of which nonlife premiums accounted for \$2.365 billion. Argentina's top nonlife insurer that same year was HSBC Buenos Aires with gross written nonlife premiums of \$167.2 million. The country's top life insurer that year was Origenes Retiro, with gross written life premiums of \$87.4 million.

3⁵ PUBLIC FINANCE

Beginning in 1970, Argentina's budget picture steadily worsened. By the late 1970s, deficit spending annually ranged from 10–14% of GDP, and topped 15% in the early 1980s, when public expenditures consumed some 40% of GDP. By the late 1980s, hyperinflation and depletion of reserves necessitated a public finance reform. Since 1991, the government has considerably narrowed the deficit gap through structural reform efforts. Stricter controls on public spending and more efficient tax collection methods resulted in an overall public sector accounts deficit of only about 1% of GDP, compared to a deficit equivalent to 21.7% of GDP in 1989. The deficit grew marginally worse in the late 1990s, reaching 5% of GDP in 1998. Although tax enforcement has improved, evasion

is still a major problem. Continued heavy expenditures and low tax revenues threatened to generate a deficit in 1999 and 2000. In 2001, Argentina defaulted on its record \$155 billion external debt, the largest such default in history.

The US Central Intelligence Agency (CIA) estimated that in 2005 Argentina's central government took in revenues of approximately \$42.6 billion and had expenditures of \$39.9 billion. Revenues minus expenditures totaled approximately \$2.6 billion. Public debt in 2005 amounted to 69.7% of GDP. Total external debt was \$119 billion.

The International Monetary Fund (IMF) reported that in 2002, the most recent year for which it had data, central government revenues in were A\$42,826 million and expenditures were A\$61,070 million. The value of revenues in US dollars was us\$13,981 million and expenditures us\$19,893, based on an official exchange rate for 2002 of us\$1 = A\$3.06326 as reported by the IMF. Government outlays by function were as follows: general public services, 38.7%; defense, 3.2%; public order and safety, 4.1%; economic affairs, 5.4%; environmental protection, 0.2%; housing and community amenities, 1.3%; health, 4.9%; recreation, culture, and religion, 0.2%; education, 4.1%; and social protection, 37.9%.

3⁶ TAXATION

In 2005, the principal national taxes included personal income tax (in seven brackets ranging from 9–35%), wealth tax (0.5%), value-added tax (21%; up from 18% in 1994), and excise taxes on tobacco, alcohol, soft drinks, perfumes, jewelry, precious stones, automobile tires, insurance policies, gasoline, lubricating oils, and other items. There is no inheritance tax. Corporate taxes are levied at 30% for domestic and foreign companies. Provincial and municipal governments impose various taxes.

3⁷ CUSTOMS AND DUTIES

The Perón regime abolished in large measure the traditional system of exports and imports. Through the use of multiple exchange rates and through control of Argentine agricultural exports by the Argentine Institute for the Promotion of Exchange, Perón was able to obtain goods from producers at low prices and sell them abroad at great increases, employing the difference to promote the development of industry. In 1959, this cumbersome system of import permits and multiple exchange rates was abolished.

The government employed surcharges on imports to promote the growth of Argentine industries. Special import benefits were allowed to industries and regions regarded as significant contributors to the national economy. The petrochemical, cellulose, and steel industries have shared in these benefits, which include exemption from customs duties and exchange premiums on imports of machinery, spare parts, and raw materials. A common MERCOSUR auto policy of a 20% tariff applies to automobiles, as well as a quota system that will probably be eliminated by 2006. Duties of 11% were applied to raw materials and medicines and a duty of up to 30% was applied to electronic appliances. The average Common External Tax rate is 17%, but was reduced to 2.5% in 2001. There are value-added taxes (VAT) levied on goods delivered and services performed in Argentina as well as on imported goods and services. The standard rate is 21%. A 10.5% rate applies to public transport and capital goods, while a 27% rate is applied to some services provided by utilities and telecommunications services.

Public Finance – Argentina (2002)

(In millions of pesos, central government figures)

Revenue and Grants	42,826	100.0%
Tax revenue	29,480	68.8%
Social contributions	8,661	20.2%
Grants	124	0.3%
Other revenue	4,561	10.7%
Expenditures	61,070	100.0%
General public services	23,660	38.7%
Defense	1,979	3.2%
Public order and safety	2,499	4.1%
Economic affairs	3,275	5.4%
Environmental protection	133	0.2%
Housing and community amenities	818	1.3%
Health	2,981	4.9%
Recreational, culture, and religion	95	0.2%
Education	2,481	4.1%
Social protection	23,149	37.9%

(...) data not available or not significant.

SOURCE: *Government Finance Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

There are also advanced VATs of 10% or 5.5% on goods imported for resale. A customs administration fee of 0.5% is also charged.

Argentina, Brazil, Paraguay, and Uruguay officially established a customs union (MERCOSUR) on 1 January 1995 with a common external tariff (CET) covering 85% of traded goods, but excluding capital goods, information technology, and telecommunications equipment.

The government signed the Uruguay Round Agreements in December 1993 and congress ratified the Agreements at the end of 1994. Argentina was a founding member of the World Trade Organization. In the 1990s, Argentina nominally eliminated all non-tariff trade barriers, but customs practices remain cumbersome and time consuming. Argentine beef was exported to the US market in 1997 for the first time in 50 years.

38 FOREIGN INVESTMENT

During the 19th century, Argentina offered a favorable climate for foreign investment and the basic development of the nation's transportation system and shipping facilities was financed with British capital. This system placed ownership of extensive properties in foreign hands, arousing the resentment of Argentine nationalists, who advocated a policy of reducing dependence on outside interests. The organization of a national petroleum agency, YPF, in 1922 was one of the first important steps in implementing that policy. The high point in the drive for nationalization came during the Perón era, when railroads were purchased from foreign owners and numerous state-owned enterprises were established. These measures led to substantially reduced foreign investment.

In 1958, President Frondizi negotiated contracts with a number of foreign companies, allowing them to join YPF in the exploitation of Argentine petroleum. He promoted a bill designed to attract foreign capital under close government supervision. As a result, foreign companies invested over US\$387 million between 1959 and 1961, of which more than half came from the United States.

Between 1961 and 1966, direct foreign investment declined, with the question of foreign ownership constantly entering the political picture. After the military coup, President Onganía declared that his government would renew an "open door" policy and would provide legal guarantees to investors. Net capital inflow continued to grow through the late 1960s.

In the 1970s, government policies toward investors underwent a significant reappraisal. Foreign direct investment, according to a law enacted in 1973, required specific congressional approval if foreign capital exceeded 50% of the total in a company. Profit remittances and capital repatriation were limited and new foreign investments were prohibited in several major areas, including national defense, banking, mass media, agriculture, forestry, and fishing.

In the 1980s the economy was caught in the dynamics of the second oil shock and the third world debt crisis, fighting recurrent bouts of hyperinflation. In 1985, the austral replaced the peso at 1:1000, and then in 1991, the Menem administration replaced the austral with the new Argentine peso at 1:10,000, inaugurating the Convertibility Plan (designed by economy minister Domingo Cavallo) whereby every peso would be backed by at least one dollar in reserves. A currency board was created to maintain the peso's virtual 1:1 equivalency to the dollar.

In December 1989, the government eliminated all restrictions on the movement of capital in and out of Argentina, adopting a single foreign exchange market. By Decree 1853 of 8 September 1993, the government established an extraordinarily open foreign investment regime. Foreign companies could invest without registration or prior government approval on the same terms as national firms in virtually every sector, the few exceptions being real estate in border areas, air transportation (later lifted), ship building, nuclear energy, uranium mining, and some fishing. Foreign portfolio investment in the companies listed on the Argentine stock exchange required no government approval. The Argentinean-US Bilateral Investment Treaty (BIT), signed in 1991, came into full effect in 1994. The treaty provided for national treatment in virtually all sectors of the Argentine economy, although national treatment did not prevent numerous contentious and time-consuming investment disputes, particularly with provincial governments. Incentives were provided for investments in mining, shipbuilding, iron and steel, petrochemicals, forest industries, silo construction, wine, and maritime fishing. Corporate taxes were equal for foreign- and Argentine-owned companies. Argentine Law 24331 of 1994 authorized the federal government to create one free trade zone (FTZ) in each province and four others in border areas. FTZs, offering tax-free and duty-free importing and exporting, were located at Córdoba, La Plata (the most important, opened in 1997), Mendoza, Santa Fe, and Comodoro. Capital inflows were strong. Privatization generated a large source of US dollars. More than 60 state-owned enterprises were sold, most to foreign investors, raising about \$10 billion in direct sales and more, counting cancelled debt and promised post-acquisition capital investments.

Accumulated foreign direct investment (FDI) in Argentina was an estimated \$5.3 billion in 1980 rising only to \$6.56 billion in 1985 and to \$8.77 billion in 1989. However, under the liberalized investment regime, accumulated FDI reached \$25.7 billion by 1995 and \$36 billion by 1997. The rise in market capitalization on the Buenos Aires Stock Exchange (the BCBA, accounting for 95% of transactions on Argentine exchanges in equity shares, corporate bonds, and government debt instruments) was also dramatic, more than doubling from \$18.6 billion in 1990 to \$44 billion in 1993. Argentina does not keep records of foreign investment, but an accepted estimate is that total direct and portfolio foreign investment from 1990 to 1996 was about \$49 billion.

In 1997, annual foreign direct investment (FDI) inflow was over \$9 billion, but fell to \$6.85 billion in 1998 as the effects of the Asian financial crisis were felt. In 1999, FDI inflow soared to \$24.1 billion, including about \$15 billion from US investors, with most going to telecommunications, energy, petrochemicals, financial services, food processing, and motor vehicle manufacturing sectors.

In 2001–02, the Argentina economy went through the worst implosion in its history, much of it connected with the government's effort to attract foreign investment. In 2000, FDI inflow continued at a near-record total of \$11.15 billion but then plummeted to \$3.18 billion in the global economic slowdown in 2001. After the abolishment of the convertibility system in January 2002, FDI inflow fell \$2.2 billion.

In terms of portfolio investment, the total market value of companies on the BCBA, which through the vagaries of the Mexican peso crisis in 1995 and the Asian financial crisis in 1997 was only 3% ahead of the 1993 value in 1998 (\$45.3 billion), jumped to

\$83.9 billion in 1999, then to \$165.8 billion in 2000, peaking at \$203.5 billion in January 2001, a 4.5% increase since 1998 and an 11-fold increase since 1990. A rough estimate is that about half of the transactions on the BCBA are by foreigners. In 2001, average daily trading was \$200 million (up from \$11 million in 1990), 70% in government bonds, 20% in equities, and 10% in corporate bonds. In 2001, portfolio investment in Argentina by US investors amounted to \$4.5 billion, 83.5% in debt instruments (\$3.2 billion in long-term debt bonds and \$344 million in short-term debt) and 16.5% in equity (\$744 million). In 2002, although in pesos the market value of companies on the BCBA had risen to 250 million pesos, with the fall of the value of the peso to more than three to a dollar, total market capitalization of listed companies was only \$75 million, of which all but \$15 million was accounted for by three Spanish companies.

Argentina's economy, at first benefiting from the tie to the US dollar in quelling hyperinflation and attracting records levels of direct and portfolio investment, was then hurt by the tie, first when interest rates were raised in the United States in the late 1990s, making Argentina's borrowing costs and export prices uncompetitive, and then from 2001, when the dollar tie served a means of importing the US recession into Argentina's already contracting and heavily indebted economy. Government efforts to stem capital flight and shore up investor confidence in 2001 were caught between violent popular protests and a hardening of IMF policy. After five presidents in two weeks in December 2001 (the third one carried out the default and the fifth one abandoned the convertibility system on 7 January 2002, allowing the peso to float), with widespread bankruptcies and debt repayments far outpacing new loans, the economy became even more dependent on foreign investment as a means of economic recovery.

The largest sources of FDI in Argentina have been the United States (36%, 1994–2000) and Spain (11.9%). Other important sources of FDI have been France (11%), Chile (9.8%), Italy (7.1%), the United Kingdom (6.2%), Canada, and Japan. The major destinations for FDI from 1999 to 2002 were the oil industry, telecommunications, supermarkets, the automotive industry, energy, construction, banks, insurance, chemicals, and the food industry.

Although Argentina remains a net recipient of FDI, Argentinean firms have recently begun making substantial outward investments regionally, in Brazil, Paraguay, and Uruguay. The peak year for the outward flow FDI was 1997, \$3.65 billion up from \$1.6 billion in 1996. In the recession that gripped the economy from 1998, outward FDI fell to \$2.3 billion in 1998, to \$1.3 billion in 1999, and \$1.1 billion in 2000, according to the latest available UNCTAD estimates

The United States and Spain remain the largest investors in the Argentinean economy, but the pace of investment is dwindling as compared to other years. Thus, the stock of US foreign direct investments decreased from \$11.2 billion in 2002, to \$11.0 billion in 2003. In 2003 and 2004, five US power companies abandoned the Argentinean market due to continued losses. Other US firms have substantially written down the value of their investments. On the other hand, public and private companies from China have signed letters of intent to invest almost \$20 billion over the next coming decade, in transportation, mining, construction, telecommunications, and tourism.

3⁹ ECONOMIC DEVELOPMENT

Argentine economic policy has undergone several cycles of change since the 1940s. During World War II (1939–45), the demand for Argentine beef and wheat boosted the country's exchange reserves to their highest point in history. Under the Perón regime (1950s), however, declining terms of trade and increasing state benefits and subsidies, as well as Perón's attempt to industrialize Argentina at the expense of the agrarian sector, disrupted the nation's economic system. Although inherently a wealthy country, Argentina, with a crushing foreign debt and a shattered economy, was nearly bankrupt.

When Perón fell in 1955, steps were taken to fund foreign obligations with long-term provisions for Argentine repayment and to create a climate favorable to private investment. Complicated multiple exchange rates were abolished, and massive financial assistance was extended by the International Monetary Fund (IMF) and other foreign agencies. Staggering deficits in the railroads and other state enterprises were a constant problem. The government sought to turn over some of these to private hands, and it also encouraged livestock raising and agricultural production, the chief earners of foreign exchange.

The government abolished many of the state subsidies and at the same time tried to hold wages steady. The austerity program fell hardest on the workers, who saw wages increase sluggishly while prices skyrocketed. They sought political solutions to the economic problems through crippling strikes, which in turn robbed the government of the increased production on which it was relying for a solution to the economic crisis. Between 1960 and 1966, the problems continued, with the government fluctuating between economic nationalism and liberal policies designed to seek foreign investment. Inflation, unemployment, and commercial failures reached new highs. Economic strife formed the backdrop for the military coup of 1966 and the suspension of the constitutional government. Despite widespread opposition, steps were taken in the late 1960s to turn over some state enterprises to private owners; other measures sought to put state-owned businesses on a paying basis.

The 1970s brought a resurgence of economic and political instability. The return to constitutional government—and especially the return of the Perónists to power in the late 1960s—brought a period of increased labor influence, extraordinary wage demands, accelerating inflation, and huge government deficits, largely financed through short-term borrowing. The government's Three-Year Plan for Reconstruction and Liberation, announced in December 1973 during Juan Perón's presidency, called for more equitable distribution of income, elimination of unemployment and underemployment, better regional distribution of wealth, and extension of government housing, health, welfare, and education programs and services.

Perón's death in July 1974 and the subsequent political instability aborted this program and led to an economic crisis. In 1978, a medium-term economic adjustment plan, based on free-market principles, was announced. It included regular devaluations of the peso, cuts in public investment, and return of some state enterprises to private ownership; but instead of improving the nation's economic performance, the new policies led to triple-digit inflation and increasing unemployment. In the fall of 1982, the government began to negotiate with the IMF for a standby loan

and committed itself to an austerity program, consisting of cuts in government spending, higher interest rates on bank loans to the private sector, and continuing regular devaluations. Additional financial controls, including a temporary ban on the issuance of new import licenses, were imposed the following autumn.

The “Austral Plan,” launched in June 1985, was an attempt by the government of President Raúl Alfonsín to break out of the stagflation that characterized the economy since 1982. The combination of a wage-price freeze, a new currency pegged to the dollar, and a commitment to austerity in public spending was initially successful in curbing inflation, although somewhat at the expense of development. Since then, the government has attempted to manage price and wage increases and has offered several public corporations for sale. Multilateral assistance to Argentina totaled \$6.3 billion between 1962 and 1986, of which 51% came from the IDB and 41% from the IBRD.

In the 1990s, the industrial sector’s performance was excellent, in particular the food processing, construction, and automotive industries. Demand for consumer durable goods was strong as a result of ample credit availability. Construction activity was boosted by infrastructure projects associated with the privatization. Sweeping privatization and a wave of investment, both foreign and local, modernized old industries and nourished new ones. Farmers started to plant more profitable products, such as garlic, fruit, and olives. A new mining code brought foreign investment to a long-neglected sector. Oil and gas output doubled, attracting investment in petrochemicals, while Mercosur encouraged a boom of car exports. A recession in 1999 caused capital flight and high interest rates. Consumption was slow to pick up, and unemployment remained at around 12%. It was estimated that nearly 40% of the workforce was employed in the black market.

A combination of Argentina’s fixed exchange rate, which made its currency uncompetitive, and continuing fiscal deficits led to the country’s economic collapse and default on the bulk of its \$141 billion in foreign debt in December 2001. The IMF at that time refused to grant Argentina an emergency \$1.3 billion loan. By 2003, the government had suspended the last remaining controls on bank savings, and eased capital controls. The 2002 devaluation of the peso by 2003 had led to growth in exports and a rise in local products being substituted for imported ones. There was a good harvest that year, industry revived, and tourism rebounded as increasing numbers of foreign tourists visited Argentina’s resorts. A standby agreement with the IMF that began in January 2003 was reviewed in June, and resulted in the release of \$320 million.

2005 was expected to be the third year of continued growth, following the deep 2002 recession. This economic expansion was expected to moderate by 2006 and 2007, as the gap between actual and potential output was narrowing. Consumption, driven by higher real incomes, was one of the main growth engines. Investments were projected to be another big contributor, although they were expected to slow after 2007. Export and import values were expected to even out as the economy fell back into its prerecession tracks.

40 SOCIAL DEVELOPMENT

The election of Hipólito Yrigoyen as president of Argentina in 1916 initiated a series of profound changes in the nation’s social structure. The Radical-controlled legislature enacted a series of

economic and social measures, including a measure to establish retirement funds. Despite differences between Radical leadership and labor, limited social welfare measures were continued until 1930, when Yrigoyen was expelled from office. The Conservative regime in power for the next 13 years took little cognizance of demands for social benefits.

The next major advance in the creation of social and economic benefits was made during the government of Juan Perón, who assumed power in 1946. The 44-hour workweek that had been enacted in 1933 was for the first time put into effect. New provisions established salary increases, paid holidays, sick leave, job tenure, and many other benefits. By 1945, a National Social Security Institute administered social insurance programs and the pension system. In the early 1950s, these measures continued and were extended also to the rural sector. The failure of the Argentine welfare system to live up to Perón’s promises helped to bring about his overthrow in 1955. During the 1960s, the pension funds were often diverted for other purposes, and there was a general breakdown in the system. By 1970, many of the persons eligible for welfare payments received none at all, and the secretary of social welfare under the Levingston administration, charged former government authorities with misappropriating millions of pesos.

Most of the social legislation enacted during the Perón years has remained on the statute books. The pension laws, updated in 1993, mandates that workers pay 11% of their wages into a pension fund, and this amount was supplemented by an 16% contribution from the employer. Work injury coverage is funded solely by the employer. Unemployment benefits were introduced for construction workers in 1967 and were expanded to include all employed persons in 1991. Both public and private sector employees are covered by workers’ compensation, which is being expanded to cover domestic workers and others previously excluded from the system. There is also a prenatal allowance, and grants for marriage, birth, and adoption.

Although guaranteed equality under the constitution, women are fighting for equal advancement and pay in the labor force. Despite the government’s efforts, discrimination against women in the workplace and sexual harassment continue to be important social problems. Women are more likely to work in unskilled, low paying jobs, even though, on average, they are more highly educated. Although prohibited by law, women earn less than men for similar work. Domestic abuse and violence against women are recognized as serious social problems. It was estimated in 2004 that one-fourth of the women in Argentina were victims of domestic abuse. A battered women’s shelter and 24-hour hotline are operated by the city of Buenos Aires.

The National Council on Children and Families is working to develop child protection programs and legislation. Handicapped access to public places is specified by law aimed at eliminating barriers to the disabled, and a constitutional amendment recognizes the ethnic and cultural identities of Argentina’s indigenous people. Reports of torture and brutality by police persist.

41 HEALTH

In the field of health and medical care, Argentina compares favorably with other Latin American countries. National health policy is determined by the Department of Public Health, an agency of the Ministry of Social Welfare. In 2004 Argentina had an esti-

mated 301 physicians, 80 dentists, 42 pharmacists, and 239 nurses per 100,000 people. Nutritional requirements are comfortably met and, in 2000, 79% of the population had access to safe drinking water and 85% had adequate sanitation. Health and medical services for workers are provided by clinics of unions, and employers are usually required to provide free medical and pharmaceutical care for injured workers. Total health care expenditure was estimated at 8.4% of GDP. In Argentina the private sector plays a role in the provision of health services, ensuring social security through organizations called Obras Sociales. Funding for health services comes from employee payroll taxes and contributions.

In 2005, the infant mortality rate was 15.18 per 1,000 live births. As of 1999, an estimated 7% of all births were classified as low birth weight. As of 1998 maternal mortality was estimated at 38 per 100,000 live births. The overall death rate in 1999 was 7.6 per 1,000 people. Approximately, 74% of married women (ages 15–49) used contraception.

Of the major infectious diseases, smallpox, malaria, and diphtheria have been virtually eliminated and poliomyelitis has been greatly reduced. The incidence of tuberculosis in 1999 was 55 per 100,000 people, down 47% from 20 years earlier. In the same year, one-year-old children were immunized against the following diseases: diphtheria, pertussis, and tetanus, 88%; and measles, 99%. Life expectancy averaged 75.91 years in 2005.

The HIV/AIDS prevalence was 0.70 per 100 adults in 2003. As of 2004, there were approximately 130,000 people living with HIV/AIDS in the country. There were an estimated 1,500 deaths from AIDS in 2003. Argentina reported the second-highest incidence of AIDS cases (41 per million) in South America during the mid-1990s. HIV spread rapidly throughout Argentina via intravenous drug use soon after the first cases of HIV infection were reported.

4² HOUSING

Economic collapse in late 2001 left at least 50% of the population below the poverty line. In early 2001, it was estimated that about 17.7% of all households lived in substandard housing units. In 2005, it was estimated that 30% of the population lived in inadequate housing.

Houses in Argentina reflect the Italian and Spanish ethnic backgrounds of the population. Except for marginal rural dwellings and urban shanty towns, concrete, mortar, and brick are favored as the principal construction materials. Wood is generally considered less durable and feared as a fire hazard.

4³ EDUCATION

Education is free, secular, and compulsory for all children at the primary level (ages 5–14). In 1993 Argentina switched from seven years of primary and five years of secondary education to a system known as EGB, consisting of nine compulsory years divided into three-year stages. This is followed by a three-year “multimodal” course of study offering either general or specialized training. In 2003, about 60% of children ages three to five were enrolled in preprimary school programs. At last estimates, primary school enrollment was about 94% (1991) while secondary school enroll-

ment stood at about 81% (2002). The academic year runs from March to November.

Private, foreign, and religious schools are permitted, but they must conform to a nationally prescribed pattern of teaching in the Spanish language.

The Ministry of Education supervises the National Council on Technical Education and the National Administration of Middle and Higher Education. The Consejo Nacional de Evaluación y Acreditación Universitaria (CONEAU), established in 1997, oversees the external evaluations of all universities. In 2003 public expenditure on education totaled about 4% of GDP.

Traditionally, university students have played an active role in campus policy, based in part on the concept of university autonomy established in the Córdoba reform movement of 1918. Student organizations have also been outspoken in national politics, denouncing the policies of the military government in the late 1970s and early 1980s. Argentina has over 46 officially accredited universities. The largest is the University of Buenos Aires. All institutions of higher learning had a combined total enrollment of 1.9 million students as of the 2001. The adult literacy rate for 2003 was estimated at about 97%, with an even distribution between men and women.

4⁴ LIBRARIES AND MUSEUMS

The National Library was founded in 1810 and has occupied its present site in Buenos Aires since 1902; in 2002 it had about 1.9 million volumes. The libraries of the University of Buenos Aires have combined holdings of over 2.5 million volumes, while the library of the National Congress has two million volumes. The Catholic University of Argentina, with five campuses, has a combined collection of 90,000 volumes. The National Academy of Medicine has a library with 50,000 volumes in Buenos Aires and the Museum of Ethnography in Buenos Aires has a specialized collection of 100,000 volumes. The Buenos Aires Stock Exchange Library has a collection of 12,000 books, along with more than 200 periodicals, CD-ROMs and videotapes, covering the topics of the stock market, finances, and economics. The National Teachers Library is an initiative of the Ministry of Education, Science and Technology, designed to serve as a national reference center for knowledge and data management within the education system. There are thousands of public and school libraries and innumerable private libraries.

The National Museum of Fine Arts in Buenos Aires contains modern Argentine, American, and European works, as well as paintings attributed to old masters, paintings of the conquest of Mexico executed 300–400 years ago, and wooden carvings from the Argentine interior. Also in Buenos Aires are the National Historical Museum; the Isaac Fernández Blanco Museum of Hispanic-American Art, which contains an interesting and valuable collection of colonial art; the Mitre Museum and Library, containing the manuscripts, documents, printed works, and household objects of Gen. Bartolomé Mitre, which constitute a unique record of Argentine political development; the Natural Science Museum; and the Municipal Museum. There are several important historical museums in the provinces, including the Colonial and Historical Museum at Luján and the Natural History Museum of the University of La Plata, which is world-famous for its important collections of the skeletons of extinct pre-Pliocene reptiles (for which the Argentine pampas form one of the richest burial grounds).

45 MEDIA

In 2003, there were an estimated 219 mainline telephones for every 1,000 people. The same year, there were approximately 178 mobile phones in use for every 1,000 people. Internal telegraph facilities and some international circuits to nearby countries are wholly government operated.

As of 1999 there were 260 AM and an unspecified number of unlicensed FM radio stations. There were 42 television stations the same year stations. Many of the stations are privately owned. In 2003, there were an estimated 697 radios and 326 television sets for every 1,000 people. The same year, there were 82 personal computers for every 1,000 people and 112 of every 1,000 people had access to the Internet. The number of secure Internet servers in 2004 was about 386.

Buenos Aires is one of the principal editorial centers of the Spanish-speaking world, with more than 50 publishing houses. Numerous literary magazines and reviews, as well as books, are published. Press coverage in Argentina is one of the most thorough in the hemisphere, with over 150 daily newspapers published throughout the country. At least three news agencies were operating in 2005: Noticias Argentinas, coordinated by a group of privately owned newspapers; TELAM, run by the state; and Diarios y Noticias, owned in part by Grupo Clarin. The major international news services were also represented.

La Prensa is probably the most famous newspaper in Latin America. Throughout the early days of the Perón regime, *La Prensa* battled the dictatorship, but it was finally taken over forcibly by Perón and given to the CGT, the dictator's central labor organization. The provisional government of Gen. Eduardo Lonardi returned *La Prensa* to its rightful owner, Alberto Gainza Paz, and it resumed publication in February 1956. In 1969, the Onganía government imposed siege regulations on the press, and in August of that year, two weekly papers were closed down. After the 1976 coup, no formal censorship was introduced, but some journalists were arrested for "subversive" articles. With the restoration of democratic government, harassment of the media stopped.

The largest dailies, with their estimated daily circulation figures in 2004, included: *La Nación*, 250,000 (down from 630,000 in 2002); *Clarín*, 300,000 (down from 560,000 in 2002); *Diario Popular*, 140,000; *El Cronista*, 65,000; *La Voz del Interior*, 100,000; *La Gaceta*, 55,000; *El Día* (La Plata), 55,000; and *El Litoral*, 37,000. The Sunday edition of *Clarín* had a circulation of about 300,000, down from the one million copies reported in 2002.

46 ORGANIZATIONS

Argentine organizations fall into the following main categories: agricultural, business and industrial, social and cultural, and political and humanitarian action. The Argentine Agricultural Association, established in 1866, with a membership predominantly of owners of large ranches (estancias), occupies itself mainly with the improvement of agricultural and livestock production. The Argentine Association of Cooperatives and the Argentine Agrarian Federation also represent rural interests. The Milk Industry Center and the Argentine Meat Industry Union are based in Buenos Aires.

Social and leisure organizations are found in almost every community of any size. The Athletic and Fencing Club in Parque Palermo, a suburb of Buenos Aires, has extensive recreational facili-

ties. The Argentine capital also sponsors numerous clubs in the delta region. At the other social extreme is the exclusive Jockey Club of Buenos Aires, with a wealthy membership. There are several yacht clubs. The Automobile Club operates a chain of service and rest stations throughout the country, giving travel information and selling gasoline at a slight discount.

Many intellectuals belong to the Argentine Writers' Society. The Academia Nacional de Bellas Artes, Argentine Academy of Letters, the National Academy of History, and the National Arts Foundation support and encourage activities in the arts and humanities.

Industrialists and business leaders participate in the Argentine Industrial Union, which originated in 1887 and was reestablished in 1977 through the merger of the Argentine Industrial Confederation and the General Confederation of Industry. The leading chambers of commerce in 1993 were the Argentine Chamber of Commerce; the Chamber of Commerce, Industry, and Production of the Argentine Republic; the Chamber of Foreign Trade of the Federation of Trade and Industry; and the Chamber of Exporters of the Argentine Republic. Argentina also has a committee with the International Chamber of Commerce. There are three national consumers organizations and a regional office for the Consumers Association of Mercosur is in the capital. There are professional associations representing a wide variety of fields, including dozens of medical and health associations.

Youth organizations supporting a variety of political and social interests include: the Federation of Argentine University Students (FUA, founded in 1918), the Argentine Youth Hostel Federation, Argentine Student Tourism Association, Youth of the Popular Socialist Party, Youth of the Radical Civic Union, Communist Youth Federation of Argentina (FJCA), the Latin American Youth for Democracy (JULAD), Scouts de Argentina, and Asociación Guías Argentinas (Girl Guides). There are also organizations representing the Special Olympics and both the YMCA and YWCA. Organizations focusing on the rights and role of women include Equal Rights for Argentine Women, the Foundation for Women's Equality, and the Foundation for Women's Research and Studies.

Greenpeace, Amnesty International, Caritas, Friends of the Earth, and the Red Cross have organizations within the country.

47 TOURISM, TRAVEL, AND RECREATION

The government promotes tourism through the National Tourist Bureau, with headquarters in Buenos Aires. Visitors from all countries are required to have a passport to enter Argentina, although Australians and New Zealanders must also have a visa. There are no required vaccines to enter Argentina.

Mar del Plata, on the southern Atlantic coast about 400 km (250 mi) from Buenos Aires, is the most popular ocean resort. The delta of the Río Paraná, forming a series of inland waterways, is a center for pleasure boats and launches. Córdoba, with its fine colonial cathedral, and nearby Alta Gracia attracts many visitors. San Carlos de Bariloche, at the entrance to Nahuel Huapi National Park in the Andean lake region of western Patagonia, has become famous as a summer and winter resort, with some of the best skiing in the Southern Hemisphere. The Iguazú Falls, in the province of Misiones, on the border of Argentina and Brazil, is a major tourist attraction. Mendoza, situated in a fertile oasis below the towering Andes, offers such historical attractions as the Cerro de la Gloria, with its monument to San Martín, and the Historical Museum, with its collection on San Martín.

The most popular sport is football (soccer). Tennis, rugby, basketball, and golf are also played. Opportunities for gambling include a weekly lottery, football pools, horse racing at the Palermo and San Isidro tracks (in Buenos Aires), and the casino at Mar del Plata, whose profits go to the Ministry of Social Welfare.

In 2003, about 2,995,000 foreign tourists visited Argentina, 65% of whom came from other countries in South America. Receipts from tourism were estimated at \$2.4 billion. As of that year, there were 174,629 hotel rooms with 417,995 beds.

The US Department of State estimated the daily cost of staying in Buenos Aires in 2005 at \$228 per day. Expenditures at other locations averaged \$175 per day.

48 FAMOUS ARGENTINES

The most famous Argentine is José de San Martín (1778–1850), known as the Protector of the South, who was principally responsible for freeing southern South America from the Spanish yoke.

The tyrannical dictator Juan Manuel de Rosas (1793–1877) ruled Argentina from 1829 to 1852. The political tactics and the pen of the statesman and essayist Domingo Faustino Sarmiento (1811–88) did much to undermine him. While in exile, Sarmiento wrote some of his best works, including *Facundo*, the story of a rival caudillo. The most literary of Argentina's statesmen was Gen. Bartolomé Mitre (1821–1906), who was president from 1862 to 1868. Mitre, the founder and owner of the newspaper *La Nación*, wrote several important historical works and biographies. The most famous Argentine political figures of modern times have been Juan Domingo Perón Sosa (1895–1974) and his second wife, Eva Duarte de Perón (1919–52), known as "Evita." Perón's third wife, María Estela ("Isabel") Martínez de Perón, was vice-president during 1973–74 and, after her husband's death, president from 1974 to 1976.

José Hernández (1834–86), one of the first Argentine literary figures to use the uncultured language of the gaucho in his writings, is the author of *Martín Fierro*, considered the greatest of gaucho poems. Ricardo Güiraldes (1886–1927) kept the "gauchesco" spirit alive in his novel *Don Segundo Sombra*, a spiritual study of an Argentine gaucho. A less romantic view of these hardy horsemen of the pampas appears in the writings of Benito Lynch (1885–1951). The works of the poet Leopoldo Lugones (1874–1938) form a panorama of all Argentine life and landscape. José Mármol (1817–71) gave a good description of life in Buenos Aires under the tyrant Rosas in his novel *Amalia*, and Enrique Rodríguez Larreta (1875–1961) wrote the first Latin American novel to win international fame, *La gloria de Don Ramiro*, a reconstruction of Spanish life during the reign of Philip II. The leading contemporary writer of Argentina is Jorge Luis Borges (1899–1986), best known for his essays and collections of tales such as *Historia universal de la infamia*. Other world-famous writers are Julio Cortázar (1914–84) and Adolfo Bioy Casares (1914–1999). Outstanding in the visual arts are the sculptor Rogelio Irurtia (1879–1950) and the painters Miguel Carlos Victorica (1884–1955) and Emilio Pettoruti (1892–1971). Argentina's foremost composers are Alberto Williams (1862–1952), founder of the Buenos Aires Conservatory; Juan José Castro (1895–1968); Juan Carlos Paz (1901–72); and Alberto Ginastera (1916–83). Ástor Piazzolla (1921–92), is regarded as the world's foremost composer of modern tango music. A bandoneon player, his compositions incorporated jazz and

classical music with the traditional tango in a style called *nuevo tango*. In Argentina, he is regarded as "El Gran Ástor" ("The Great Ástor"). Piazzolla is credited with having redefined the music of tango singer Carlos Gardel (1890–1935). Another important Argentine musician is pianist Martha Argerich (b.1941), who avoids the limelight but is recognized as one of the great piano virtuosos of the 21st century. Pianist and composer Lalo Schifrin (b.1932) composes music for film, television, and video games. He has won numerous Grammy Awards and Oscar nominations.

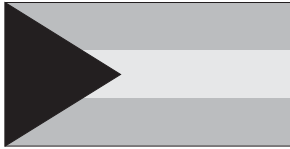
The most famous Argentine scientist, Bernardo Alberto Housay (1887–1971), was awarded the 1947 Nobel Prize in medicine for his work on diabetes; French-born Luis Federico Leloir (1906–87) won the Nobel Prize for chemistry in 1970. Notable philosophers include Alejandro Korn (1860–1936), whose work marked a reaction against positivism, and Francisco Romero (1891–1962). Carlos Saavedra Lamas (1878–1959), an authority on international law, received the Nobel Prize for peace in 1936. Adolfo Pérez Esquivel (b.1931), a sculptor and professor of architecture, received the Nobel Peace Prize in 1980 for his work in the Argentine human-rights movement.

49 DEPENDENCIES

Argentina continues to claim the Falkland Islands (Islas Malvinas), held by the United Kingdom, and a sector of Antarctica as dependencies.

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THE BAHAMAS

Commonwealth of the Bahamas

CAPITAL: Nassau

FLAG: Three horizontal stripes of blue, gold, and blue, with a black triangle at the hoist.

ANTHEM: *March on Bahamaland.*

MONETARY UNIT: The Bahamas dollar (B\$) of 100 cents has been in use since May 1966. As of June 1972, the Bahamas dollar ceased to be part of the sterling area and was set on a par with the US dollar. There are coins of 1, 5, 10, 15, 25, and 50 cents, and 1, 2, and 5 dollars, and notes of 50 cents and 1, 3, 5, 10, 20, 50, and 100 dollars. B\$1.00000 (or US\$1=B\$1; as of 2004).

WEIGHTS AND MEASURES: Imperial weights and measures are in use.

HOLIDAYS: New Year's Day, 1 January; Labor Day, first Friday in June; Independence Day, 10 July; Emancipation Day, first Monday in August; Discovery Day, 12 October; Christmas Day, 25 December; Boxing Day, 26 December. Movable religious holidays include Good Friday, Easter Monday, and Whitmonday.

TIME: 7 AM = noon GMT.

¹ LOCATION, SIZE, AND EXTENT

The Commonwealth of the Bahamas occupies a 13,940 sq km (5,382 sq mi) archipelago which extends 950 km (590 mi) SE–NW and 298 km (185 mi) NE–SW between southeast Florida and northern Hispaniola. Comparatively, the area occupied by the Bahamas is slightly smaller than the state of Connecticut. There are nearly 700 islands, of which about 30 are inhabited. New Providence, 207 sq km (80 sq mi), although not the largest, is by far the most populous and most densely populated island. The total coastline is 3,542 km (2,201 mi).

The Bahamas occupy a strategic location adjacent to the United States and Cuba.

The Bahamas' capital city, Nassau, is located on New Providence Island in the center of the island group.

² TOPOGRAPHY

The Bahamas were formed as surface outcroppings of two oceanic banks, the Grand Bahama Bank and the Little Bahama Bank. The islands are for the most part low and flat, rising to a peak elevation of about 63 m (206 ft), which is Mt. Alvernia on Cat Island. The terrain is broken by lakes and mangrove swamps, and the shorelines are marked by coral reefs.

³ CLIMATE

The climate is pleasantly subtropical, with an average winter temperature of 23°C (73°F) and an average summer temperature of 27°C (81°F). Rainfall averages 127 cm (50 in) and there are occasional hurricanes.

⁴ FLORA AND FAUNA

Because of a favorable combination of soil and climate conditions, the islands abound in such tropical flora as bougainvillea, jasmine,

oleander, orchid, and yellow elder. Native trees include the black olive, casuarina, cascarilla, cork tree, manchineel, pimento, and seven species of palm. There are 218 species and subspecies of birds, including flamingos, hummingbirds, and other small birds and waterfowl.

⁵ ENVIRONMENT

Among the government's priorities in environmental protection are monitoring industrial operations, providing potable water and regular garbage collection throughout the country, maintenance and beautification of public parks and beaches, and the removal of abandoned vehicles. Other significant environmental issues are the impact of tourism on the environment, coral reef decay, waste disposal, and water pollution. The principal environmental agency is the Department of Environmental Health Services. A rookery on Great Inagua affords protection to some 30,000 flamingos as well as to the roseate spoonbill. Land clearing for agricultural purposes is a significant environmental problem because it threatens the habitats of the nation's wildlife. Inagua National Park is a Ramsar international wetland site.

According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), the number of threatened species included 5 types of mammals, 10 species of birds, 6 types of reptiles, 15 species of fish, and 5 species of plants. Endangered species included Kirtland's warbler, Bachman's warbler, the green sea turtle, hawksbill turtle, Allen Cays rock iguana, and Watling Island ground iguana. The Caribbean monk seal and American crocodile are extinct.

⁶ POPULATION

The population of Bahamas in 2005 was estimated by the United Nations (UN) at 319,000, which placed it at number 167 in popu-

lation among the 193 nations of the world. In 2005, approximately 5% of the population was over 65 years of age, with another 30% of the population under 15 years of age. There were 95 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–2010 was expected to be 1.2%; while the government is satisfied with this rate, it is concerned about high adolescent fertility. The projected population for the year 2025 was 398,000. The population density was 23 per sq km (60 per sq mi).

Only 30 to 40 of the islands are inhabited, and some two-thirds of the population reside on the island of New Providence, the site of Nassau, the capital and largest city with a population of 222,000 in 2005. The UN estimated that 89% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 1.17%. The population of Freeport on Grand Bahama Island grew from a few hundred in 1960 to an estimated 24,423 in the 1990s.

The first census was conducted in 1838, and in 1980 a law was passed requiring one to be conducted every ten years.

7 MIGRATION

Emigration to the United Kingdom, considerable in the past, has fallen off since the mid-1960s. Some Bahamians migrate to the United States in search of employment. There is also inter-island migration, chiefly to New Providence and Grand Bahama islands.

Located between the United States and other Caribbean islands, the country's position has made it a transit point for migrants, including asylum seekers, trying to reach the United States. An estimated 100 Cuban nationals seek asylum in the Bahamas each month. The estimated net migration rate of the Bahamas was -2.18 migrants per 1,000 population in 2005. As of 2000 there were 30,000 migrants living in the Bahamas, including 100 refugees. There has also been an increasing number of asylum seekers from Europe, Asia, and Africa.

In 2004, the government spent us\$521, 000 repatriating 3,034 illegal immigrants, including 2,500 Haitians. An estimated us\$678,000 was spent on repatriation in 2003. Besides Haitians, there are increasing numbers of other nationalities—such as Cubans, Jamaicans, and Chinese—illegally landing in the Bahamas.

8 ETHNIC GROUPS

About 85% of the population are descendants of slaves brought to the Western Hemisphere from Africa. About 12% of the total is white, largely of British origin, and 3% are Asian and Hispanic.

9 LANGUAGES

English is the official language of the Bahamas. Haitian immigrants speak French or a Creole patois.

10 RELIGIONS

As of 2000, at least 90% of the population claimed religious affiliation, and most accounts indicated that these were generally active participants. The population was overwhelmingly Christian, with Baptists comprising about 35%. About 15% of the population were Anglicans and about 24% belonged to other Protestants groups such as Pentecostals (8%), the Church of God (5%), the Method-

ists (4%), the Presbyterians, Seventh-Day Adventists, and members of the Salvation Army. About 13.5% of the population were Roman Catholics. There is also a strong Greek Orthodox community. Smaller groups include Jews, Baha'is, Muslims, Hindus, and Rastafarians.

The constitution provides for the freedom of religion and this right is generally respected in practice. Religion, with a focus on Christianity, is considered an academic subject in government schools. Although students may freely choose not to participate in religious instruction or observance outside of their own faith, the topic is included in mandatory standardized tests.

11 TRANSPORTATION

The larger islands have modern road networks. In 2002 there were about 2,693 km (1,673 mi) of highways, of which 1,546 km (961 mi) were paved. There were 83,500 passenger cars and 27,000 commercial vehicles in 2003. About 60% of all vehicles are on New Providence. There are no railways.

The Bahamas established a shipping register in 1976. In 2005, this archipelago nation had a merchant fleet of 1,119 ships of 1,000 GRT or over. Nassau is a major port of call for cruise ships, which visit Freeport as well. Airports in 2004 totaled an estimated 63. Of that number in 2005, a total of 30 had paved runways and there was also a single heliport. There are international airports at Nassau and Freeport, with frequent connections to the United States, Canada, and the United Kingdom. In 2001, a total of 1,625,700 passengers were carried on scheduled domestic and international airline flights. Bahamas Air, a state-owned enterprise, is the national airline.

12 HISTORY

Christopher Columbus is believed to have made his first landfall on the island now called San Salvador (formerly Watlings Island) on 12 October 1492, but the Spanish made no permanent settlement there. Spanish traders captured the native Lucayan Indians and sold them as slaves. The Eleutherian Adventurers, a group of religious refugees, established the first permanent European settlement in 1647. They and subsequent settlers imported blacks as slaves during the 17th century. The islands were also used as bases for pirates, including the notorious Blackbeard.

The British established a crown colony to govern the islands in 1717. The first royal governor, Captain Woodes Rogers, himself an ex-pirate, drove away the privateers, leaving the slave trade as the main economic enterprise on the islands.

After the end of slavery in 1838, the Bahamas served only as a source of sponges and occasionally as a strategic location. During the US Civil War, Confederate blockade runners operated from the islands. After World War I, prohibition rum-runners used the islands as a base. During World War II, the United States used the islands for naval bases.

Like other former British colonies, the Bahamas achieved independence in stages. After self-government was established in 1964, full independence was granted on 10 July 1973. The country's first prime minister was Lynden O. Pindling, leader of the Progressive Liberal Party. Pindling ruled for nearly 20 years, during which the Bahamas benefited from tourism and foreign investment. By the early 1980s, the islands had also become a major center for the

drug trade, with 90% of all the cocaine entering the United States reportedly passing through the Bahamas. Diplomatic relations were established with Cuba in 1974. A decade later, as increased Cuban immigration to the islands strained the Bahamas' resources, Cuba refused to sign a letter of repatriation.

In August 1992, the Bahamas had its first transfer of political power, when Hubert Ingraham became prime minister. Ingraham was reelected in March 1997 for another four-year term. The principal focus of his administration was economic development and job creation. Under Ingraham's watch, a number of government enterprises were privatized. In September 1999, Hurricane Floyd did extensive damage in the Abacos and Eleuthera, causing a significant dip in tourism revenues. Tourism operations in other parts of the Bahamas were able to resume normal operations days after the Category-4 storm. Also during Ingraham's administration, a stock exchange, Bahamas International Securities Exchange, officially opened (15 December 1999); trading in local companies was initiated in May 2000 and in mutual funds in April 2001.

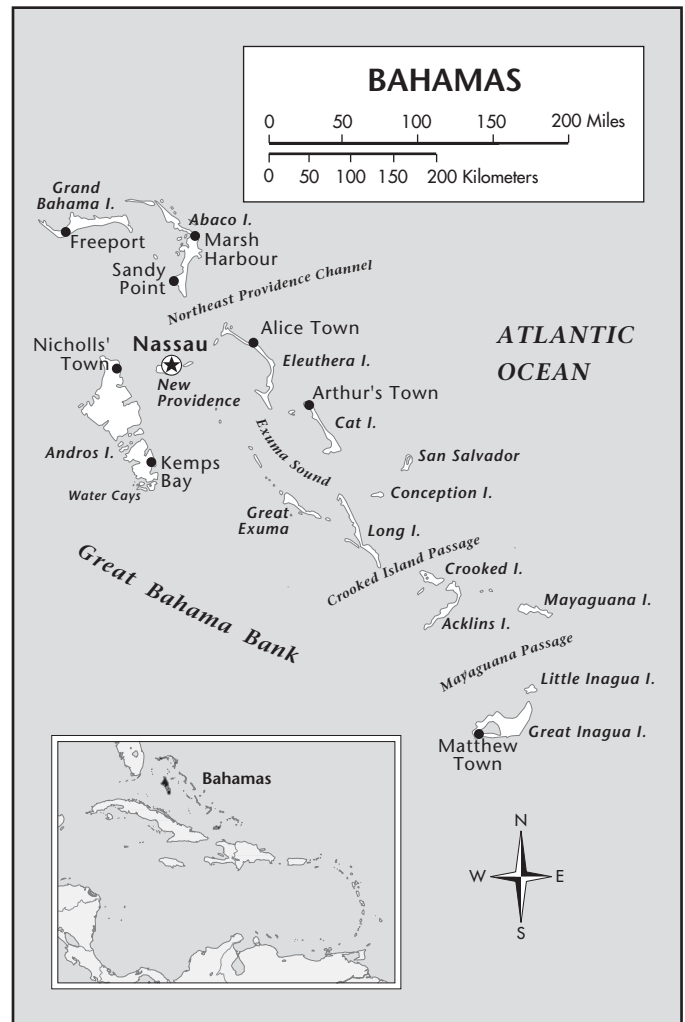
In the May 2002 election, the PLP came back to power and its leader Perry Christie became the new prime minister. Christie promised to bring about more economic development to the tourism-dependent economy. He also vowed to further develop the country's fast-growing financial industry. Christie actively broadened the Bahamian political sphere by establishing diplomatic relations with Singapore (December 2004), Pakistan (February 2005), Sri Lanka (July 2005), and the Czech Republic (July 2005), as well as, opening the door for Sino-Bahamas bilateral ties with a visit to China. On 4 February 2005, the Bahamas signed the Comprehensive Nuclear Test Ban Treaty (CTBT) banning any nuclear weapon test explosion in any environment. The total number of signatories was then 175 worldwide, with 28 in the Latin America and the Caribbean Region.

In September 2004, Hurricane Frances swept through the Bahamas, leaving widespread damage in its wake. Just three weeks later, Hurricane Jeanne flattened the islands. Jeanne uprooted trees, blew out windows, and sent seawater flooding through neighborhoods on the islands of Abaco and Grand Bahama. Receding floodwaters left boats tossed on roads and homes battered.

On 3 May 2005 Christie suffered a stroke. Although rest was indicated, within weeks he returned to a reduced schedule of official duties. General elections were scheduled for no later than 2 May 2007, but in September 2005 Christie hinted that the next elections were "not too far down the 'political highway.'"

13 GOVERNMENT

Under the constitution of 10 July 1973, the Bahamas adheres to a republican form of government, formally headed by the British sovereign, who is represented by a governor-general. In 2001, at age 71, Dame Ivy Dumont became the Bahamas' first woman governor-general. Executive authority is vested in a prime minister and a cabinet. The bicameral legislature consists of a 16-member Senate, appointed by the governor-general (9 on the advice of the prime minister, 4 on the advice of the opposition leader, and 3 at the governor's discretion), and an elected 40-member House of Assembly. The prime minister is the leader of the majority party in the House. The normal span of the elected legislature is five years,



LOCATION: 20°50' to 27°25' N; 72°37' to 82°32' W. TOTAL COASTLINE: 3,542 kilometers (2,201 miles) TERRITORIAL SEA LIMIT: 3 miles.

but, as in the United Kingdom, elections can be called at any time. Suffrage is universal at age 18.

14 POLITICAL PARTIES

The Progressive Liberal Party (PLP), a leader in the pro-independence movement, emerged as the Bahamas' majority party in the early 1970s. The Free Progressive Liberal Party, a splinter group formed in 1970, merged with another opposition group, the United Bahamian Party, to form the Free National Movement (FNM). After years of loyal opposition, the FNM took power in 1992, winning 32 seats to 17 for the PLP. In the 1997 elections, the FNM increased its majority to 34 seats and another seat was added in a by-election later the same year. Meanwhile PLP representation in the House dwindled to six seats and Lynden Pindling resigned as party leader. In 2002, under the leadership of Perry Christie, the PLP won 50.8% of the vote and 29 seats in the 40-member legislature, enough to command majority control.

15 LOCAL GOVERNMENT

There are 21 administrative districts, consisting of various islands and groups of islands. A commissioner responsible to the national minister of local government heads each.

16 JUDICIAL SYSTEM

British common law forms the basis of the Bahamas' judicial system. The highest court is the Court of Appeal, consisting of three judges. The Supreme Court is composed of a chief justice, two senior justices, and six justices. The governor-general makes High Court appointments. Ultimate appeals go to the Privy Council of the United Kingdom. In 2003 the Bahamas was not among the eight Caribbean nations that ratified a treaty to establish the Caribbean Court of Justice to handle some cases formerly heard by the Privy Council. Lower courts include three magistrates' courts on New Providence and one on Freeport. For other islands, commissioners decide minor criminal and civil cases.

The judiciary is independent. The executive branch with the advice of the Judicial and Legal Services Commission appoints judges.

Long pretrial detentions are not uncommon in cases involving narcotics. In 1993, new magistrate's courts were established in order to work toward a reduction of backlogs requiring long pretrial detentions. A new Supreme Court was established in Freeport in addition to the Supreme Court in Nassau.

The lowest level courts are magistrate's courts, which handle crimes with a maximum sentence of five years. The Supreme Court handles most major cases as the trial court. Jury trial is only available for the Supreme Court cases.

Criminal defendants have the right to an attorney, but government appointed counsel is provided only in capital cases. There is also a right to be brought before a magistrate within 48 hours, a right to bail, a presumption of innocence, and a right to appeal.

The constitution prohibits torture and other cruel punishment. However, in 1991, corporal punishment was reinstated after having been abolished for seven years. Capital punishment is still used despite protests from the United Kingdom, which has requested its former colonies to eliminate the death penalty.

17 ARMED FORCES

The Royal Bahamian Defence Force in 2005 consisted of 860 active personnel including 70 women. They operate 7 patrol/coastal vessels 7 logistics/support ships, and 4 transport aircraft. The defense budget totaled \$32 million in 2005.

18 INTERNATIONAL COOPERATION

The Bahamas joined the UN on 18 September 1973 and belongs to ECLAC and several nonregional specialized agencies. The Bahamas is an observer in the WTO (2001). It is a member of the Commonwealth of Nations, the ACP Group, CARICOM, G-77, LAES, and OAS. It is also a part of the Alliance of Small Island States (AOSIS), the Association of Caribbean States (ACS), and the Inter-American Development Bank. The Bahamas is a member the Nonaligned Movement and of the Agency for the Prohibition of Nuclear Weapons in Latin American and the Caribbean (OPANAL). The country is a signatory of the 1947 Río Treaty. In environmental cooperation, the Bahamas are part of the Basel Con-

vention, the Convention on Biological Diversity, Ramsar, CITES, the Kyoto Protocol, the Montréal Protocol, MARPOL, the Nuclear Test Ban Treaty, and the UN Conventions on the Law of the Sea, Climate Change, and Desertification.

19 ECONOMY

Tourism and financial services drive the Bahamas economy. Tourism, the mainstay of the economy, directly or indirectly involves about half of the population and accounts for about 40% of GDP, with an additional 10% coming from tourism-related construction. More than five million tourists visited the Bahamas in 2004, 87% from the United States.

The reliance on tourism, particularly from the United States, makes the Bahamas vulnerable not only to worldwide economic shocks such as the decline in travel that followed the 11 September 2001 attacks on the United States but also to cyclical slowdowns that occur in the US economy.

The absence of direct taxation makes the Bahamas a financial haven for banking and trust companies, mutual funds, investment firms, and offshore sales and insurance companies. The financial services sector made up about 15% of GDP in 2004, constituting the second most important activity in the Bahamas economy. According to the US State Department, the Bahamas government had 262 banks and trust companies as of 2005. However, legislative measures passed since 2000 to better regulate money laundering have led to the closure of some offshore banks and international business companies since 2002. The government is considering new legislation that would keep the financial sector competitive while continuing to comply with international standards.

Besides tourism, tourism-related construction, and financial services, other contributors to GDP include government spending (20%), manufacturing (8%), and agriculture and fisheries (3%). Local companies produce a small array of exports, including salt, aragonite, cement, timber, pharmaceuticals, petroleum products, and rum. Agricultural and fisheries products—which include fruits, vegetables, lobster and fish—are produced mainly for domestic consumption.

After a decade of slow growth, the economy began to pick up in the mid-1990s due to increased private investment in tourism, shipping, construction and the expansion of financial services. Renewed economic buoyancy followed privatization of major hotels in 1994 and completion of major renovations by the new owners since, as well as increased marketing and an improved foreign investment regime. Real GDP growth, at 3–3.5% in 1997 and 1998, increased to 6% and 5% in 1999 and 2000. The global economic slowdown in 2001 and particularly, in tourism, after the 11 September 2001 terrorist attacks on the United States, reduced growth to 3.5% in 2001. However, since 2002, the government has attempted to stabilize its tourism services base through an encouragement of large-scale private sector investments. Still, GDP growth has not kept up with its 1999 pace, and was reported at 3% in 2004 and 2005. The US State Department predicted that plans to develop tourism on the Family Islands, expand ship-repair facilities, and encourage film production would help stabilize the Bahamas economy for the long-term.

Steady economic growth has brought a steady decline in unemployment: from 11.5% in 1996 to an estimated 6.9% in 2001. Unemployment has climbed in recent years, however, and was 10.2%

in 2004. Inflation remained low, averaging 1.27% from 1996 to 2001. Inflation was 1.2% as of September 2004.

20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 The Bahamas' gross domestic product (GDP) was estimated at \$5.7 billion. 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 based on current dollars. The per capita GDP was estimated at \$18,800. The annual growth rate of GDP was estimated at 3%. The average inflation rate in 2004 was 1.2%. It was estimated that agriculture accounted for 3% of GDP, industry 7%, and services 90%.

Approximately 32% of household consumption was spent on food, 5% on fuel, 3% on health care, and 8% on education.

21 LABOR

The total number of workers was put at 156,000 in 1999 (the latest year for which data was available). Of that total in that same year, an estimated 50% were employed in tourism-related activities, with another 40% in other service industries. The remaining 10% of workers were equally distributed between industrial and agricultural employment. In 2004, the unemployment rate in the Bahamas was estimated at 10.2%.

Labor unions operate with constitutional protection, and approximately 25% of the workforce belongs to a union. In the important hotel industry, 80% of the workers are union members. The three leading union federations are the Trade Union Congress, the National Workers Council of Trade Unions and Associations, and the National Congress of Trade Unions. Members of the police force, defense force, fire brigade, and prison guards are not permitted to unionize. All labor unions have the right to affiliate with international trade organizations.

In 2000 (the latest year for which data was available), the government set a minimum wage for all hourly and temporary workers in the public sector at us\$4.45 per hour, and in 2002 (the latest year for which data was available), a minimum wage for private sector employees was set at us\$4.00 per hour. The law limits the regular workweek to 40 hours, requires time-and-a-half overtime pay over that limit, and a standard 24-hour rest period. The Ministry of Labor promulgates minimum health and safety standards. It enforces these standards with routine inspections, and the standards are generally respected by employers. Children under the age of 14 are not permitted to work in industry or during school hours. Children under the age of 16 are not permitted to work at night.

22 AGRICULTURE

Agriculture is carried out on small plots throughout most of the islands. Only about 1% of the land area is cultivated. The nature of the terrain limits the scope of farming, which is mainly a household industry. The main crops are vegetables: onions, okra, and tomatoes, the last two raised mainly for export. Inadequate production has necessitated the import of some 80% of the islands' food supply. Among steps the government has taken to expand and improve agriculture is the reserving of 182,000 hectares (450,000 acres) exclusively for farming, 8,000 hectares (20,000 acres) of

which were converted to fruit farming. Export-oriented orange, grapefruit, and cucumber production occurs on Abaco. Agricultural products in 2004 included 55,500 tons of sugar cane, 13,000 tons of grapefruit, 8,700 tons of lemons and limes, 5,000 tons of tomatoes, and 880 tons of sweet potatoes.

23 ANIMAL HUSBANDRY

Except for poultry and egg production, the livestock industry is relatively insignificant. In 2004, the livestock population included 750 head of cattle, 6,500 sheep, 14,500 goats, 15,000 hogs, and 3,000,000 poultry. About 700 tons of cow's milk, 1,050 tons of goat's milk, and 900 tons of eggs were produced in 2004. Poultry production in 2004 (8,050 tons) accounted for almost all domestic meat production. In December 1991, the government banned foreign chicken, in order to protect local poultry producers from cheaper imports, mainly from the United States.

24 FISHING

The 2003 catch amounted to 12,736 tons, over 81% of which was spiny lobsters (crayfish). Crayfish and conch exports are commercially important. There is excellent sport fishing for wahoo, dolphin fish, and tuna in Bahamian waters. In 2003, fisheries exports totaled \$93.8 million. Since the Bahamas imports 80% of its food, the government is interested in expanding the role of domestic commercial fishing. Aquaculture and mariculture development are planned to grow into a \$150 million annual business by the government, with the anticipation of 15,000 new jobs created. In 2003, fishery exports accounted for 25% of agricultural exports.

25 FORESTRY

Caribbean pine and cascarilla bark are the major forestry products, but there is no commercial forestry industry. About 32% of the total land area consists of forests and woodlands. Roundwood production in 2003 totaled 17,000 cu m (600,000 cu ft). That year, the Bahamas imported \$21.3 million in wood and forest products.

26 MINING

The mineral sector played a minor role in the economy of the Bahamas. Salt and aragonite stone, a component in glass manufacture, were the two most commercially important mineral products. Estimated 2003 production had figures of 900,000 metric tons for salt and 1.2 million metric tons for aragonite, figures which have remained unchanged since 1999. The major salt producer on the Islands was Morton Bahamas Salt Company, the only major industry and the largest employer on the island of Inagua, where the second-largest solar saline operation in North America was located. Limestone sand was produced by Freeport Aggregate Ltd. for the local construction industry.

27 ENERGY AND POWER

Most electricity is produced at thermal plants owned by the Bahamas Electricity Corp. Production totaled 1.716 billion kWh in 2002 with capacity for that year at 401,000 kW. Fossil fuel accounts for all power production. Electricity consumption in 2002 was 1.596 billion kWh. In 1991, a 28,000 kW upgrade was initiated at the Clifton Power Plant on the west end of New Providence

Island. Gas turbines were added to the Blue Hill Power Station and were operational in late 2002 and early 2003.

2⁸ INDUSTRY

A few Bahamas-owned industrial companies dominate this sector: the BORCO oil facility, based in Freeport; the Commonwealth Brewery in Nassau, which produces Heineken, Guinness, and Kalik beers; and Bacardi Corp., which distills rum in Nassau for shipment to US and European markets. In addition, a formerly US-owned pharmaceuticals company now operates in Freeport as PFC Bahamas and is owned by the Swiss pharmaceutical company Roche. In addition to these companies, sun-dried sea salt and aragonite (a form of limestone) are produced. Cruise ship repairs are carried out at a wet dock facility in Freeport.

Large-scale oil refining began in 1967 with the installation of a large refinery on Grand Bahama with a daily capacity of 500,000 barrels, but by 2000 no oil was being refined. The BORCO facility now services primarily as a resource for regional oil transshipments.

A duty-free zone and nearly industrial park in Freeport have been established to encourage foreign industrial investment. Through these efforts, Hong Kong-based Hutchison Whampoa opened a container port. The Bahamian Parliament approved legislation in 1993 that extended most Freeport tax and duty exemptions through 2054.

2⁹ SCIENCE AND TECHNOLOGY

Agricultural research facilities include the Bahamas Agricultural Research Center, Central Agricultural Station, and the Food Technology Complex.

3⁰ DOMESTIC TRADE

Lack of a strong production infrastructure means that most of what residents of the Bahamas consume comes from outside the country, mainly from the United States. Shopping hours are from 9 AM to 5 PM, except Sunday. Banks are open from 9:30 AM to 3 PM, Monday–Thursday, and from 9:30 am to 5 PM on Friday.

3¹ FOREIGN TRADE

The United States is the Bahamas' major trading partner and takes 77.5% of its exports. Other trading partners include EU (17.6%), Canada (1.6%) and Mexico (0.4%). Trade agreements that the Bahamas participates in the Caribbean Basin Initiative (CBI), the Caribbean-Canada Agreement (CAIBCAN), and the Lomé Convention.

Exports include pharmaceuticals, cement, rum, crawfish, and aragonite.

Foods, manufactured goods, hotel, restaurant, and medical supplies; and computers and electronics are all imported. In 2004, 83.3% of the imports came from the United States, with small amounts coming from Venezuela (5.5%), the Netherlands Antilles (2.6%), the EU (2.1%) and Japan (1.2%). Nassau is the principal distribution and import center.

3² BALANCE OF PAYMENTS

The US Central Intelligence Agency (CIA) reported that in 2005 the GDP of the Bahamas was \$5.685 billion. Exports totaled \$1.507 billion in 2004, while imports totaled \$5.804 billion, result-

ing in a significant trade deficit. Although the Bahamas remains an import-oriented economy, income from tourism and financial services is a vital offsetting factor in the country's balance-of-payments position. The CIA described the Bahamas economy as "stable" and "developing."

An International Monetary Fund (IMF) statement on the Bahamas in 2005 reported an increase in the country's net international reserves, which strengthened the Bahamas' position on balance of payments. Net international reserves rose through early 2005, which also helped increase the size of excess bank reserves.

3³ BANKING AND SECURITIES

Banking started in the Bahamas in 1837, when the first commercial bank opened in New Providence. The Central Bank of the Bahamas, established in 1973, is the central issuing and regula-

Principal Trading Partners – The Bahamas (2001)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	375.9	1,927.3	-1,551.4
United States	291.5	1,605.5	-1,314.0
France-Monaco	21.5	10.9	10.6
Germany	14.5	6.1	8.4
Spain	12.5	3.5	9.0
United Kingdom	12.0	9.9	2.1
Canada	5.9	19.9	-14.0
Italy-San Marino-Holy See	5.4	4.2	1.2
Mexico	1.7	7.3	-5.6
Australia	0.9	...	0.9
Japan	0.9	22.6	-21.7

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

Balance of Payments – The Bahamas (2003)

(In millions of US dollars)

Current Account		-429.8
Balance on goods		-1,204.7
Imports	-1,629.5	
Exports	424.8	
Balance on services		900.4
Balance on income		-163.1
Current transfers		37.6
Capital Account		-37.4
Financial Account		259.7
Direct investment abroad		...
Direct investment in The Bahamas		145.0
Portfolio investment assets		...
Portfolio investment liabilities		...
Financial derivatives		...
Other investment assets		46,576.8
Other investment liabilities		-46,462.1
Net Errors and Omissions		317.5
Reserves and Related Items		-110.0

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

tory authority. Funds for local development are made available through the Bahamas Development Bank.

Low taxation and lenient regulations have encouraged the establishment of about 420 financial institutions in the country in 2000, half of which operate offshore banks, dealing exclusively with nonresidents. The banking sector accounts for more than 20% of GDP. Many of the loans of domestic banks are denominated in foreign currency. Major Bahamian banking institutions include Bank of the Bahamas Limited, Barclay's Bank, British-American Bank, Canadian Imperial Bank of Commerce (CIBC), Citibank, Commonwealth Bank, and the Royal Bank of Canada. Anti-money laundering acts have provided for the security of the banking sector.

The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$767.0 million. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$3.6 billion. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 5.75%.

The Bahamas International Securities Exchange (BISX) opened in 2000. It opened in two phases; domestic stocks (from about 20 companies listing an estimated \$30 billion in shares) followed by international offerings. In April 2001 the BISX launched a mutual fund listing facility. In 2003 there were 17 public companies listed on the exchange.

34 INSURANCE

The establishment of a large number of insurance firms in the Bahamas has been encouraged by a 1970 law that permits companies to conduct part or all of their business out of the country while still benefiting from local tax advantages. The government is encouraging the formation of "captive" insurance companies created to insure or reinsure the risks of offshore companies. In 1997, there were approximately 30 captive insurers in the Bahamas. Supervisory jurisdiction is provided by the Ministry of Finance, Registrar of Insurance Companies. In 2003, the value of direct premiums written totaled \$405 million, with life accounting for the largest portion at \$223 million. Royal & SunAlliance was the country's top nonlife insurer with gross nonlife written premiums totaling \$84.8 million.

35 PUBLIC FINANCE

The Bahamian government budget receives revenues primarily from import duties (65%), but Hemispheric Free Trade scheduled for 2005 was expected to greatly reduce revenues. The government has looked for other sources of funds, including a restructuring of the banking system. Tourism remains about 60% of GDP.

The US Central Intelligence Agency (CIA) estimated that in FY03/04 the Bahamas's central government took in revenues of approximately us\$1 billion and had expenditures of us\$1 billion. Total external debt was us\$308.5 million.

The International Monetary Fund (IMF) reported that in 2003, the most recent year for which it had data, budgetary central government revenues were B\$901.1 million and expenditures were B\$1,067.7 million. The value of revenues in US dollars was us\$736 million and expenditures us\$872 million, based on a principal exchange rate for 2003 of us\$1 = B\$1.2250 as reported by the IMF.

Public Finance – The Bahamas (2003)

(In millions of Bahamian dollars, budgetary central government figures)

Revenue and Grants	901.1	100.0%
Tax revenue	823.9	91.4%
Social contributions	...	...
Grants	...	...
Other revenue	77.2	8.6%
Expenditures	1,067.7	100.0%
General public services	295.9	27.7%
Defense	30.9	2.9%
Public order and safety	129.3	12.1%
Economic affairs	166.1	15.6%
Environmental protection	...	...
Housing and community amenities	12.3	1.2%
Health	173.3	16.2%
Recreational, culture, and religion	...	...
Education	199.5	18.7%
Social protection	60.4	5.7%

(...) data not available or not significant.

SOURCE: *Government Finance Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

Government outlays by function were as follows: general public services, 27.7%; defense, 2.9%; public order and safety, 12.1%; economic affairs, 15.6%; housing and community amenities, 1.2%; health, 16.2%; education, 18.7%; and social protection, 5.7%.

36 TAXATION

The absence of direct taxation has enabled the Bahamas to attract a substantial number of financial enterprises in search of tax-shelter advantages. The country has no income taxes, capital gains taxes, or profit taxes, and residents are free from succession, inheritance, gift, or estate taxes. The only indirect taxation is a real property tax, ranging from 1–2% based on appraised value, owner's nationality, location and development status.

37 CUSTOMS AND DUTIES

Import duties make up approximately 60% of government revenues. As of 2005, import levies range from 1–260% and average 35%, but are subject to change quite frequently. Most duties are applied ad valorem. Preferential rates apply to imports from Commonwealth countries. Exemptions are available for many basic commodities. Luxury goods are taxed at separate tariff rates, for example: cigarettes are taxed at 210% with a stamp tax of 7%, pool tables at 100%, bottled water at 70%, automobiles from 45–75%, and air conditioners at 35%.

38 FOREIGN INVESTMENT

The absence of corporate and personal income taxes, as well as any form of sales, estate or inheritance taxes, acts as a direct inducement to foreign capital. In addition, specific investment incentives are included through the following: the Industries Encouragement Act, providing total exception from import duties and taxes for development of approved industries; the Hawksbill Act, which provides for tax-free development of the Freeport area; the newer Bahamas Free Trade Zone Act; the Export Manufacturing Industries Encouragement Act; the Spirits and Beer Manufacturing Act,

which allows duty-free importation of construction materials and raw material; the Hotels Encouragement Act, which, as amended, exempts large new hotels from all taxes for up to 20 years with reductions for the next 10 years; the Agricultural Manufacturers Act, which allows machinery and raw materials for an agricultural factory to be imported duty-free; and recent amendments to the Tariffs Act, which allow duty exemptions for construction on some of the outer "Family Islands." Investment proposals are processed by the Bahamas Investment Authority, established under the Foreign Investment Law in 1993 to be a one-stop shop.

In 2000, in response to multilateral organizations' concerns, the government enacted stronger measures to regulate the financial sector and prevent money laundering in the country's banking sector. The measures included establishment of a Financial Intelligence Unit and enforcement of "know-your-customer" rules. By 2004, all banks without a meaningful presence in the country were to be shut down. These rules had the effect of reducing the number of offshore banks registered in the Bahamas (50) and prompted half of the international business companies to close shop. Though painful, the IMF has praised the effort as increasing the efficiency of the financial services sector and reducing the number of non-performing loans.

Net international reserves have climbed from \$484 million in 2003 to \$668 million in 2004, and were project to end 2005 at \$642 million.

The government actively seeks foreign investment in every sector of the economy, but reserves many businesses exclusively for Bahamians, including wholesale and retail operations, commission agencies in import/export trade; real estate; domestic newspaper and magazine publication; domestic advertising; local night clubs and restaurants; security services; construction; beauty parlors and barber shops; shallow water scalefish, crustacean, mollusk, and sponge fishing operations; auto and appliance service; and public transportation.

The Bahamas has the world's third-largest registry of ships, administered by the Bahamas Maritime Authority (BMA) headquartered in London. The registry has been famous for cruise ships, but with the development of the Freeport deep-water container facility and transshipment, larger vessels can be accommodated.

Foreign investment remains mainly in the tourism-related sector and the banking and related services sector. Since the enactment of a revised foreign landholding act in 1993, investment in the second-home sector has been growing. The United Nations Conference on Trade and Development estimates the inflow of foreign direct investment (FDI) for 2004 at \$206 million, compared with \$147 million in 2003. FDI stocks accounted for \$2.20 billion in 2004, or about 39.9% of the Bahamas GDP. Despite the declines in FDI in 2001 and 2002 that resulted from a global economic slowdown and worldwide declines in foreign investment and tourism after the 11 September 2001 terrorist attacks on the US World Trade Center, FDI continued to remain a significant source of revenue for the Bahamas.

The Bahamas' only stock exchange is the Bahamas International Stock Exchange (BISX) started as a private venture with a \$5 million investment in 2000. It has not developed into an efficient channel for foreign portfolio investment. By 2003, the BISX had lost an estimated \$2 to \$3 million and was being sustained by government subsidies of \$50,000 a month. In March 2003, 14 compa-

nies were listed with a market capitalization value of \$1.4 billion. In 2001, US investors held \$1.16 billion in equity in Bahamian companies.

39 ECONOMIC DEVELOPMENT

The promotion of tourism and financial activity by foreign firms continued as a basic tenet of the Bahamas government. Since the late 1960s, increased emphasis has been focused on development of local industry, with the liberal tax structure remaining the key incentive. In 1976, the government began a series of measures to foster greater participation by Bahamians in the economy. The new ruling included increased work-permit fees for foreigners and sharp rises in property-transfer taxes and business licensing for non-Bahamians. Since late 1979, government permission has been required for the sale of land to non-Bahamians. The Bahamas Development Bank helps provide financing for non-Bahamian entrepreneurs. In 1996, the government implemented an income tax on foreign workers. The government is attempting to diversify the economy and attract new industry, as well as to conserve and develop the country's 324,000 hectares (800,000 acres) of forest.

Economic challenges facing the Bahamas included meeting continued employment demands, encouraging privatization and keeping a rising level of government debt in check. Bahamas's residents do not pay income or sales taxes. Most government revenue comes from tariffs and import fees. This situation may change when the Free Trade Area of the Americas incorporates the Bahamas. Because trade barriers will be reduced, the country is likely to require some form of taxation.

Other future hopes for economic growth lie in continued tourism investment. Two major hotel projects were in the works in late 2004: the Atlantis Resort and Casino on Paradise Island and a \$1.2 billion hotel resort development project in the Cable Beach area of Nassau. In addition, the Baha Mar Company was to purchase three major hotels and a development site, including the last assets of the state-owned Hotel Corporation. As part of the deal, the government was to expand the Nassau International Airport. In 2004 and 2005, the government also began to expand its outreach to foreign investors, making trips to Asia, Europe, Latin America, and Canada to promote the islands. Special attention was paid to China, with the Bahamas government making multiple trips there to encourage tourism and investment.

40 SOCIAL DEVELOPMENT

Old age, disability, and survivorship benefits are available to all employees, self-employed individuals, and those who are voluntarily insured. Contributions are shared between employers and employees, but there are no governmental contributions. There is a maternity grant for each live birth, and a 13-week maternity benefit of 60% of the average weekly earnings. Funeral benefits are provided in a lump sum.

Bahamian women are well represented in business, the professions, and government. However, the constitution and the law have continued to discriminate against women. For example, inheritance laws mandate that in the absence of a will, a deceased person's estate be passed on to the oldest son or nearest male relative. Violence against women increased in 2004. The government was taking measures to combat the widespread problem of domes-

tic abuse. Economic difficulties prevent the government from improving standards for child welfare. Child labor laws are in effect.

Human rights are generally respected by the government, although there are occasional reports of arbitrary arrest and detention. Illegal immigrants, mainly Haitians and Cubans, are detained until arrangements are made to either leave the country or remain legally.

41 HEALTH

The government operates the 436-bed Princess Margaret Hospital in Nassau and two other hospitals, the Sandilands Rehabilitation Center and the 82-bed Rand Memorial Hospital. In addition, 57 clinics and 54 satellite clinics are maintained throughout the islands, with emergency air links to Nassau. Health expenditures totaled us\$132,492,992, or 14.8% of the national budget.

In 2004, there were 105 physicians, 447 nurses, and 7 dentists per 100,000 people. In 2005, the infant mortality rate was 25.21 per 1,000 live births. In 2000, low birth weight babies accounted for an estimated 10.4% of all births. In 1999, the birth rate was 20 per 1,000 people, and the general mortality rate was 5.4 per 1,000. Average life expectancy in 2005 was 65.54 years. Approximately 28% of all deaths were attributable to diseases of the circulatory system, 20% to communicable diseases, 14% to cancer, and the remainder to other causes.

Approximately 88% of one-year-old children were immunized against measles and 91% were immunized against diphtheria. The HIV/AIDS prevalence was 3.00 per 100 adults in 2003. As of 2004, there were approximately 5,600 people living with HIV/AIDS in the country. There were an estimated 200 deaths from AIDS in 2003.

42 HOUSING

Frequent severe hurricanes in the past decade have caused damage and destruction to thousands of homes. Overcrowding is a problem in some areas and adequate low-cost housing is in short supply. An estimated 70% of housing units were detached houses, nearly 15% were apartments, and more than 10% were single attached dwellings. Over 50% of all homes were stone, concrete and/or brick, and over 30% were wood. The Bahamas Housing Authority was established by the government in 1983, with a mandate to develop housing for low-income people.

To encourage construction of new homes in remote areas the government has waived customs duties on building materials to less developed islands. As of 2001, the government had also launched a "new birth" program to renovate dwellings in traditional communities and to create new housing in urban centers, particularly for low or middle-class residents. Churches, businesses, and other organizations have been called on to find ways to provide shelter for low-income families, women, and children. The government has also sponsored housing projects for senior citizens and the disabled.

43 EDUCATION

Primary education begins at age five and lasts for six years. Secondary education lasts for five years and is divided into a three-year junior high school course and a two-year senior high school

course. Education is compulsory for children between the ages of 5 and 16.

In 2001, about 30% of all children between ages three and five attended some form of preschool program. Primary school enrollment in 2003 was estimated at about 86% of age-eligible students; 85% for boys and 88% for girls. The same year, secondary school enrollment was about 76%; 74% for boys and 77% for girls. The student-to-teacher ratio for primary school was at about 17:1 in 2003; the ratio for secondary school was about 15:1.

Postsecondary training is provided by the government primarily through the College of the Bahamas. The College of Bahamas (founded in 1974) provides a two-year/three-year program that leads to an associate degree. It also offers a Bachelor of Arts degree in education. Other schools of continuing education offering academic and vocational courses include the Bahamas Hotel Training College, the Catholic Continuing Education College of St. Benedicts, and the Industrial Training College. In addition, the Bahamas has been affiliated with the University of the West Indies since 1960.

Education is under the jurisdiction of the Ministry of Education and Culture and is free in all government-maintained schools. English is the official language. As of 2003, public expenditure on education was estimated at 3.7% of GDP. An IDB-funded program for the Improvement of Primary and Secondary Education is under way. The adult literacy rate in 2003 was estimated at about 95.6%; 94.7% for men and 96.5% for women.

44 LIBRARIES AND MUSEUMS

The Nassau Public Library is the largest of four public libraries on New Providence, with some 80,000 volumes. The Ranfurly Out Island Library, a private institution, distributes free book packages to school libraries throughout the country. The Haynes Library is a public library on Eleuthera. The library of the College of the Bahamas in Nassau maintains a collection of 75,000 volumes. There is a Bahamas Library Association and a Bahamas Association of Law Libraries.

Most museums in the Bahamas are archaeological and historical. In Hope Town is the Wyannie Malone Historical Museum, which features the history of the town and its early American loyalist settlers. In Nassau there is the Bahamia Museum (1973), featuring ethnology and folklore; the Bahamas Historical Society Museum (1959), a public affairs museum with a Marine Salvage collection; the Nassau Public Library and Museum; the Pompey Museum of Slavery and Emancipation (1992), a historical, ethnological, and folklore museum; and Angelo Roker's Art Centre and Museum.

45 MEDIA

All telephone, telegraph, and teletype service is provided by the Bahamas Telecommunications Corp. In 2003, 131,700 mainline telephones were in service, with automatic equipment in use on the major islands. A submarine cable connects New Providence with Florida, and direct dialing to the United States has been available since 1971. In 2002, there were about 121,800 mobile phones in use.

In 2004, there was one government-run radio station (ZNS Bahamas) and five privately owned radio broadcasters. The country has two television stations, one operated by the state-owned

Broadcasting Corporation of the Bahamas, and a privately owned station. In 1997 there were 215,000 radios and 67,000 television sets in use nationwide. In 2003, there were about 84,000 Internet users.

Three daily newspapers are published in the country. The *Nassau Daily Tribune* had a circulation of 12,000 in 2002 while *The Nassau Guardian* had a circulation of 14,100. The daily *Freeport News* has a circulation of 4,000. All three papers are privately owned. There are also several weekly papers.

The government is said to respect the constitution's provisions for freedom of speech and press.

46 ORGANIZATIONS

Commercial associations include the Bahamas Chamber of Commerce (with locations on Nassau and Grand Bahama) and the Bahamas Agricultural and Industrial Corporation (BAIC). Employers' groups include the Bahamas Employers' Confederation and the Bahamas Union of Teachers.

International amateur sports activities are coordinated by the Bahamas Olympic Association and the Bahamas Amateur Athletic Association (BAAA).

There is a Bahamas Historical Society promoting education and preservation of native culture. The Medical Association of the Bahamas promotes high standards of medical care and serves as an alliance for specialized medical professional associations.

There are about 15 prominent youth organizations throughout the country, including some which are affiliated with political parties. Other groups include the Girl Guides and the Scout Association of the Bahamas, Progressive Young Liberals, Torchbearers Youth Association, and the YMCA and YWCA. Sports associations represent a number of particular pastimes and include the Bahamas Association of Athletic Associations (track and field), the Bahamas Baseball Federation, Bahamas Lawn Tennis Association, and the Bahamas Olympic Association.

There are branches of the Red Cross, the Red Cross Youth Society, and Amnesty International. Other service groups include Kiwanis International, Rotary, and Lions Clubs.

47 TOURISM, TRAVEL, AND RECREATION

Tourism in the Bahamas makes up almost 40% of the economy. Visitors are attracted to the excellent climate, beaches, flora, fauna, and recreational and resort facilities. Water sports (including excellent deep-sea fishing) are the favorite pastimes. Gambling is legal for non-Bahamians. Major hotels are being renovated and built to accommodate for the growing tourism industry in the Bahamas.

Passports are not required for tourists from the United States and Canada for stays of less than three weeks. Passports but not

visas are required of most visitors from Western Europe, Commonwealth countries, and Latin America. All visitors who enter the Bahamas must possess proof of funds to support the visit and either a return or onward ticket. In 2003, approximately 1,500,000 tourists visited the islands, spending a total of us\$1.8 billion. There were 15,393 hotel rooms and 30,786 beds with a 59% occupancy rate. The average length of stay was 4.5 nights.

According to 2004 US Department of State estimates, the cost of staying in the Bahamas varied between seasons and location. Averages were as low as us\$25 per day for a stay on Andros Island to us\$350 per day on Nassau (from November to June).

48 FAMOUS BAHAMIANS

Lynden Oscar Pindling (1930–2000), a lawyer and leader of the PLP, was the Bahamas' first prime minister following independence in 1973 until he was succeeded by Hubert Ingraham (b.1947) in 1992. Actor Sidney Poitier (b.USA, 1924) was appointed Bahamian ambassador to Japan in 1997.

49 DEPENDENCIES

The Bahamas has no territories or colonies.

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BARBADOS



CAPITAL: Bridgetown

FLAG: The national flag has three equal vertical bands of ultramarine blue, gold, and ultramarine blue and displays a broken trident in black on the center stripe.

ANTHEM: *National Anthem of Barbados*, beginning “In plenty and in time of need, when this fair land was young. . .”

MONETARY UNIT: Officially introduced on 3 December 1973, the Barbados dollar (BDS\$) of 100 cents is a paper currency officially pegged to the US dollar. There are coins of 1, 5, 10, and 25 cents and 1 dollar, and notes of 1, 2, 5, 10, 20, 50, and 100 dollars. BDS\$1 = US\$0.50000 (or US\$1 = BDS\$2; as of 2004).

WEIGHTS AND MEASURES: The metric system is used.

HOLIDAYS: New Year’s Day, 1 January; Errol Barrow Day, 23 January; May Day, 1 May; Kadooment Day, first Monday in August; CARICOM Day, 1 August; UN Day, first Monday in October; Independence Day, 30 November; Christmas Day, 25 December; Boxing Day, 26 December. Movable religious holidays are Good Friday, Easter Monday, and Whitmonday.

TIME: 8 AM = noon GMT.

¹ LOCATION, SIZE, AND EXTENT

Situated about 320 km (200 mi) NNE of Trinidad and about 160 km (100 mi) ESE of St. Lucia, Barbados is the most easterly of the Caribbean islands. The island is 34 km (21 mi) long N–S and 23 km (14 mi) wide E–W, with an area of 430 sq km (166 sq mi) and a total coastline of 97 km (60 mi). Comparatively, Barbados occupies slightly less than 2.5 times the area of Washington, DC.

The capital city of Barbados, Bridgetown, is located on the country’s southwestern coast.

² TOPOGRAPHY

The coast is almost entirely encircled with coral reefs. The only natural harbor is Carlisle Bay on the southwest coast. The land rises to 336 m (1,102 ft) at Mt. Hillaby in the parish of St. Andrew. In most other areas, the land falls in a series of terraces to a coastal strip or wide flat area.

³ CLIMATE

The tropical climate is tempered by an almost constant sea breeze from the northeast in the winter and early spring, and from the southeast during the rest of the year. Temperatures range from 21–30°C (70–86°F). Annual rainfall ranges from about 100 cm (40 in) in some coastal districts to 230 cm (90 in) in the central ridge area. There is a wet season from June to December, but rain falls periodically throughout the year.

⁴ FLORA AND FAUNA

Palms, casuarina, mahogany, and almond trees are found on the island, but no large forest areas exist, most of the level ground having been turned over to sugarcane. The wide variety of flowers and shrubs includes wild roses, carnations, lilies, and several cacti.

Natural wildlife is restricted to a few mammals and birds; finches, blackbirds, and moustache birds are common.

⁵ ENVIRONMENT

Principal environmental agencies are the Ministry of Housing, Lands, and Environment, established in 1978, and the Barbados Water Authority (1980). Soil erosion, particularly in the northeast, and coastal pollution from oil slicks are among the most significant environmental problems. The government of Barbados created a marine reserve to protect its coastline in 1980.

As of 2000, the most pressing environmental problems result from the uncontrolled handling of solid wastes, which contaminate the water supply. Barbados is also affected by air and water pollution from other countries in the area. Despite its pollution problems, 100% of Barbados’ urban and rural populations have safe water.

According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), the number of threatened species included 3 species of birds, 4 types of reptiles, 11 species of fish, 25 other invertebrates, and 4 species of plants. The Barbados yellow warbler, Eskimo curlew, tundra peregrine falcon, and Orinoco crocodile are endangered species. The Barbados raccoon has become extinct.

⁶ POPULATION

The population of Barbados in 2005 was estimated by the United Nations (UN) at 258,000, which placed it at number 171 in population among the 193 nations of the world. In 2005, approximately 12% of the population was over 65 years of age, with another 22% of the population under 15 years of age. There were 94 males for every 100 females in the country. According to the UN, the annual

population rate of change for 2005–2010 was expected to be 0.6%, a rate the government viewed as satisfactory. The projected population for the year 2025 was 272,000. The population density was 600 per sq km (1,554 per sq mi).

The UN estimated that 50% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 1.42%. The capital city, Bridgetown, had a population of 140,000 in that year.

7 MIGRATION

The estimated net migration rate for Barbados in 2005 was -0.31 migrants per 1,000 population. Foreign-born residents are mainly from the other countries in the region, such as St. Lucia, St. Vincent, and Guyana. Extra-regional foreign-born residents are mainly from the United Kingdom, United States, and India. To meet the problem of overpopulation, the government encourages emigration. Most emigrants now resettle in the Caribbean region or along the eastern US coast. As of 2004, Barbados recorded a small refugee population of nine. Barbados was expected to receive greater numbers of asylum seekers in the future due to extra-regional migration to and migrant trafficking through the Caribbean.

8 ETHNIC GROUPS

About 90% of all Barbadians (colloquially called Bajans) are the descendants of former African slaves. Some 4% are of European descent and about 6% of the population are Asian or of mixed descent.

9 LANGUAGES

English, the official language, is spoken universally, with some local pronunciations.

10 RELIGIONS

Christianity is the dominant religion, with over 95% percent of the population claiming Christian affiliation, even if they are not active members of a particular denomination. The largest denomination is the Anglican Church, which has 70,000 members, about 65% of whom are considered active participants. The second-largest denomination is the Seventh-Day Adventists with 16,000 reported members. The Roman Catholic Church reports having 11,000 members, of whom about 20% are considered to be active participants. Pentecostals have a membership of about 7,000 with 50% active participation. There are about 5,000 Methodists with about 60% active participation. Of the 2,500 members of the Jehovah's Witnesses, 95% are active members. Other Christian denominations include Moravians, Baptists, and the Church of Jesus Christ of Latter-Day Saints (Mormons). About 17% of the population claims no religious affiliation and about 12% profess other faiths, including Islam, Baha'i, Judaism, Hinduism, and Rastafarianism (Nyabinghi school).

The constitution provides for religious freedom and the right is generally respected in practice. Interfaith associations promoting tolerance and mutual understanding include the Barbados Christian Council and the Caribbean Conference of Churches.

11 TRANSPORTATION

The highway system had a total length of 1,600 km (995 mi) in 2003, all of which was paved. There were 66,900 passenger cars and 13,200 commercial vehicles registered in 2003. Grantley Adams International Airport, situated 18 km (11 mi) southeast of Bridgetown, is the only airport. Barbados is served by 1 local and 14 international airlines. There is also a deep water harbor at Bridgetown, with berthing facilities for cruise ships and freighters. In 2005, Barbados had a merchant fleet of 58 ships of 1,000 GRT or over, totaling 427,465 GRT. The Barbados ships registry is the second Ships Registry worldwide that received Lloyd's Registry Quality Assurance approval under the Quality Management System Standard ISO 9002.

12 HISTORY

Barbados originally supported a considerable population of Arawak Indians, but invading Caribs decimated that population. By the time the British landed, near the site of present-day Holetown in 1625, the island was uninhabited. Almost 2,000 English settlers landed in 1627–28. Soon afterward, the island developed the sugar-based economy, supported by a slave population. Slavery was abolished in 1834 and the last slaves were freed in 1838.

During the following 100 years, the economic fortunes of Barbados fluctuated with alternating booms and slumps in the sugar trade. In 1876, the abortive efforts of the British to bring Barbados into confederation with the Windward Islands resulted in the "confederation riots."

In the 1930s, the dominance of plantation owners and merchants was challenged by a labor movement. Riots in 1937 resulted in the dispatch of a British Royal Commission to the West Indies and the gradual introduction of social and political reforms, culminating in the granting of universal adult suffrage in 1950. In 1958, Barbados became a member of the West Indies Federation, which was dissolved in 1962. The island was proclaimed an independent republic on 30 November 1966. Political stability has been maintained since that time. Barbados helped form CARICOM in 1973, the same year the nation began issuing its own currency. The country was a staging area in October 1983 for the US-led invasion of Grenada, in which Barbadian troops took part. In 1995 it was designated as a center for the Regional Security System, funded by the United States, which conducted military exercises in the region.

Laws enacted in the early 1980s led to the development of Barbados as an offshore business center in the 1980s and 1990s, although tourism remained the nation's primary source of revenue. The international recession of the early 1990s negatively affected the economy of Barbados, touching off a decline in tourism and other sectors, and leading to a crisis of confidence in the government. After a no-confidence vote on 7 June 1994, Prime Minister Erskine Sandiford dissolved the House of Assembly, the first time since independence that such an action had been taken, and a new government was installed following general elections in September. Economic recovery in the subsequent years helped Prime Minister Owen S. Arthur lead to BLP to a landslide victory in the 1999 elections. Prime Minister Arthur won the 2004 elections and was leading his country for the launch of a single CARICOM economic market scheduled to take place in 2005.

In 2004 Barbados and Trinidad and Tobago struggled bitterly over their maritime boundary and associated fishing rights. Barbados decided to submit the issue to binding arbitration in the United Nations. Barbados continued to experience an almost yearly rise in narcotics trafficking and violent crime. Joint patrols of the Royal Barbados Police Force and the all-volunteer Barbados Defense Force increased patrols of the island. Barbadian US-foreign policy was hampered somewhat as Barbados refused to agree to the immunity of US military personnel from proceedings in the International Criminal Court. The United States responded by suspending military equipment sales. As of late 2005, the two countries remained at an impasse over the issue.

13 GOVERNMENT

The constitution of Barbados, which came into effect on 30 November 1966, provides for a crown-appointed governor-general (who in turn appoints an advisory Privy Council) and for independent executive, legislative, and judicial bodies. The bicameral legislature consists of a Senate and a House of Assembly. The Senate, appointed by the governor-general, has 21 members: 12 from the majority party, 2 from the opposition, and 7 of the governor-general's choice. The 28-member House of Assembly is elected at intervals of five years or less. The voting population is universal, with a minimum age of 18. The governor-general appoints as prime minister that member of the House of Assembly best able to command a majority. The prime minister's cabinet is drawn from elected members of the House of Assembly.

14 POLITICAL PARTIES

The leading political groups grew out of the labor movement of the 1930s. The Barbados Labor Party (BLP) was established in 1938 by Sir Grantley Adams. The Democratic Labor Party (DLP) split from the BLP in 1955. The National Democratic Party (NDP) was formed in 1989 by dissident members of the DLP. The parties reflect personal more than ideological differences.

Errol W. Barrow, the DLP leader, was prime minister from independence until 1976. The BLP succeeded him under J.M.G. ("Tom") Adams, the son of Grantley Adams. In 1981, the BLP retained its majority by 17–10, and Adams continued in that office until his death in 1985. On 28 May 1986, Barrow and the DLP won 24 House of Assembly seats to three for the BLP. After Barrow's death on 2 June 1987, Deputy Prime Minister Erskine Sandiford, minister of education and leader of the House of Assembly, assumed the prime ministership.

Despite the resignation of finance minister Dr. Richie Haynes in 1989, and his subsequent formation of the National Democratic Party, the DLP under Sandiford continued in power, retaining 18 of the now 28 seats in the House of Assembly. The BLP won the remaining 10 seats, leaving the dissident NDP without any representation.

After losing a vote of confidence in the legislature on 7 June 1994, Sandiford dissolved the House of Assembly and scheduled a general election for September. The BLP won by an overwhelming margin, with 19 seats; the DLP won 8, and the NDP, 1. The BLP leader, Owen S. Arthur, became the new prime minister. The BLP swept the next elections, held in January 1999, winning 26 of the 28 House seats, while the DLP claimed only 2. The 2003 elections



LOCATION: 13°2' to 13°20' N; 59°25' to 59°39' W. TOTAL COASTLINE: 101 kilometers (63 miles). TERRITORIAL SEA LIMIT: 12 miles.

resulted in a slight loss for the BLP with 23 seats and the DLP with 7; the next elections were scheduled to take place in 2008.

15 LOCAL GOVERNMENT

All local governments, including those on the district and municipal levels, were abolished on 1 September 1969; their functions were subsumed by the national government. The country is divided into 11 parishes and the city of Bridgetown for administrative and electoral purposes.

16 JUDICIAL SYSTEM

The Barbados legal system is founded in British common law. The Supreme Court of Judicature sits as a high court and court of appeal; vested by the constitution with unlimited jurisdiction, it consists of a chief justice and three puisne judges, appointed by

the governor-general on the recommendation of the prime minister after consultation with the leader of the opposition party. Magistrate courts have both civil and criminal jurisdiction. On 9 June 2003, Caribbean leaders met in Kingston, Jamaica, to ratify a treaty to establish the Caribbean Court of Justice (CCJ) to hear many of the cases formerly brought to the Judicial Committee of Her Majesty's Privy Council in the United Kingdom. The first session of the CCJ was scheduled for November 2003. Eight nations—Barbados, Belize, Dominica, Guyana, Jamaica, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago—officially approved the CCJ, although 14 nations were planning to use the court for appeals.

The courts enforce respect for civil rights and assure a number of due process protections in criminal proceedings including a right of detainees to be brought before a judge within 72 hours of arrest. The Judiciary is independent and free from political influence.

In October 2002, Attorney General Mia Mottley announced that a National Commission

on Law and Order would be established to assist the government in achieving civil peace and harmony by promoting cultural renewal and social cohesion, thereby reducing crime and the fear of crime. The Commission published a National Plan on Justice, Peace and Security in June 2004 that included 68 recommendations on constitutional support for social institutions, governance and civil society, cultural values, law enforcement, and criminal courts.

17 ARMED FORCES

In 2005 the armed forces numbered 610 active personnel and 430 reservists, of which 500 were in the Army and 110 in the Navy. The Navy was equipped with five patrol boats. The defense budget in 2005 was \$14 million.

18 INTERNATIONAL COOPERATION

Barbados became a member of the United Nations (UN) on 9 December 1966 and belongs to several UN specialized agencies, such as the ILO, IMF, FAO, IFC, UNESCO, the World Bank, and WHO. The country joined the WTO on 1 January 1995. Barbados is also a member of the Commonwealth of Nations, ACP group, the Caribbean Development Bank, the Inter-American Development Bank, the Latin American Economic System (LAES), G-77, OAS, the Association of Caribbean States (ACS), and the Alliance of Small Island States (AOSIS). Barbados was one of the founding members of CARICOM (1973). Barbados is part of the Non-aligned Movement and Agency for the Prohibition of Nuclear Weapons in Latin America and the Caribbean (OPANAL). In environmental cooperation, Barbados is part of the Basel Convention, the Convention on Biological Diversity, CITES, the London Convention, the Kyoto Protocol, the Montréal Protocol, MARPOL, and the UN Conventions on the Law of the Sea, Climate Change, and Desertification.

19 ECONOMY

Sugar, rum, and molasses used to be Barbados' main sources of revenue. In recent years, however, economic activity has focused more on light industry and tourism. Offshore finance and information services also contribute to the country's gross domestic

product (GDP), providing an important source of foreign reserve holdings.

The dependence on tourism and foreign exchange makes Barbados vulnerable to shifts in the global economic climate. That became especially clear in 2002–03 when a worldwide slowdown in tourism that accompanied the 11 September 2001 attacks on the United States hit the Caribbean country's economy hard. The economy suffered a severe decline in foreign investment and went into recession as a result. Conditions began to improve with the recovery of tourism in 2003 and 2004. GDP grew at a 3.4% rate in 2004 and at a more modest 2.5% rate in 2005.

The 2005 figures indicated that Barbados still had not recovered from the earlier slowdown. Through the mid-1990s to early 2000, GDP growth averaged 3.4% annually, and hit 5% in 2000. Yet, the country has managed to keep its historically high unemployment rate in check. Inflation also has remained relatively low, coming in at a manageable 2.4% in 2004.

The transition from an economy dependent upon sugar production to one more oriented toward tourism has helped make Barbados one of the most prosperous nations in the western hemisphere, besides the United States and Canada. Per capita GDP was \$17,300 in 2005. For the short term, much of Barbados' economic activity has been focused on tourism development. The country is scheduled to host several games and the final of the World Cricket Match in 2007. Much of the country's construction work has been aimed at accommodating an anticipated influx of visitors.

Services—of which the largest sector for Barbados is tourism—comprised 83% of the country's GDP in 2004, with industry (12%) and agriculture (4%) lagging significantly behind.

20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 Barbados's gross domestic product (GDP) was estimated at \$4.8 billion. 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 based on current dollars. The per capita GDP was estimated at \$17,300. The annual growth rate of GDP was estimated at 2.5%. The average inflation rate in 2003 was -0.5%. It was estimated that agriculture accounted for 6% of GDP, industry 16%, and services 78%.

According to the World Bank, in 2003 remittances from citizens working abroad totaled \$97 million or about \$358 per capita and accounted for approximately 3.7% of GDP.

21 LABOR

The total labor force as of 2001 was estimated at 128,500. In 1996 (the latest year for which data was available), it was estimated that the service sector accounted for 75% of the labor force, industry 15%, and agriculture 10%. Unemployment, traditionally high, was estimated at 10.7% in 2003.

There is one major union, the Barbados Workers' Union, and several smaller specialized ones. As of 2005, about 19% of the workforce was organized, and were concentrated in important sectors of the economy such as agriculture, transportation and the government. Workers freely enjoy the right to organize and join unions, and unions (except in certain "essential" sectors) are not restricted in their right to strike. Trade unions are affiliated

with a variety of regional and international labor organizations, and the Caribbean Congress of Labor has its center of operations in Barbados.

The standard legal workweek is five days and 40 hours, with overtime pay required for additional hours worked. In addition, all overtime is voluntary. A minimum of a three-week paid holiday each year (four weeks for those employed at least five years) is required by law. There is a legal minimum work age of 16, which is generally observed, and is reinforced by compulsory primary and secondary educational rules. The law sets the minimum wage for only household domestics and shop assistants, which (as of 2005) was \$2.50 per hour.

22 AGRICULTURE

About 17,000 hectares (42,000 acres), or 39.5% of the total land area, are classified as arable. At one time, nearly all arable land was devoted to sugarcane, but the percentage devoted to ground crops for local consumption has been increasing. In 2004, 361,200 tons of sugarcane were produced, down from the annual average of 584,000 tons in 1989–91. In 2004, sugar exports amounted to us\$22.4 million, or 8% of total exports. Major food crops are yams, sweet potatoes, corn, eddo, cassava, and several varieties of beans. Some cotton is also grown.

23 ANIMAL HUSBANDRY

The island must import large quantities of meat and dairy products. Most livestock is owned by individual households. Estimates for 2004 showed 9,000 head of cattle, 13,500 sheep, 18,500 hogs, 5,100 goats, and 3,370,000 chickens. Poultry production in 2004 included 13,300 tons of meat and 1,928 tons of hen eggs.

24 FISHING

The fishing industry employs about 2,000 persons, and the fleet consists of more than 500 powered boats. The catch in 2003 was 2,500 metric tons. Flying fish, dolphinfish, tuna, turbot, kingfish, and swordfish are among the main species caught. A fisheries terminal complex opened at Oistins in 1983.

25 FORESTRY

Fewer than 20 hectares (50 acres) of original forests have survived the 300 years of sugar cultivation. There are an estimated 5,000 hectares (12,350 acres) of forested land, covering about 12% of the total land area. Roundwood production in 2003 totaled 5,000 cu m (176,500 cu ft), and imports amounted to 5,000 cu m (176,500 cu ft). In 2003, Barbados imported us\$25.9 million in wood and forest products.

26 MINING

Deposits of limestone and coral were quarried to meet local construction needs. Production of limestone in 2003 amounted to 1.23 million metric tons. Clays and shale, sand and gravel, and carbonaceous deposits provided limited yields. Preliminary production figures for hydraulic cement in 2003 totaled 330,000 metric tons. Hydraulic cement output in 2002 totaled 297,667 metric tons.

27 ENERGY AND POWER

Electricity supply and distribution is managed by Barbados Light and Power, a private company under government concession. Production in 2002 totaled 800 million kWh, with consumption at 744 million kWh for that year. Capacity in 2002 stood at 166,000 kW. Fossil fuels met 100% of energy demand (petroleum roughly 95% and natural gas the remainder). The world oil crisis of the mid-1970s initiated an active search for commercial deposits of oil and natural gas. Limited pockets of natural gas were discovered, and oil was found in St. Philip Parish. Daily oil production in 2004 averaged 1,000 barrels; natural gas production was 1 billion cu ft in 2003. According to the Oil and Gas Journal, proven oil reserves in 2005 totaled 2.9 million barrels. Barbados's oil is refined in Trinidad. As of the beginning of 2000, Barbados was planning to privatize its energy companies, including the National Petroleum Corporation and the Barbados National Oil Company (BNOC).

28 INDUSTRY

Although tourism is the main economic driver, Barbados was gradually developing a healthy offshore banking and financial services sector. The sugar industry made up less than 1% of the country's GDP and employed about 800 people in a labor force of 146,300 in 2004.

Barbadian tourism has benefited from continued income growth in its major source markets and dynamic marketing efforts by the national authorities. The United Kingdom is the largest market for Barbados, providing about one-third of all overnight visitors to the island. The construction industry has grown as a result of tourism-related construction projects (such as a hotel, golf course, condominiums, and a marina), in addition to a series of public works projects. Barbados also has garment and furniture making enterprises.

29 SCIENCE AND TECHNOLOGY

Barbadian learned societies include the Barbados Astronomical Society and the Barbados Pharmaceutical Society, founded in 1956 and 1948 respectively. The Bellairs Research Institute, associated with McGill University in Montréal, is a center for the study of the tropical environment. The Cave Hill Campus of the University of the West Indies has faculties in medicine (located in Bridgetown, founded in 1963) and social sciences. Barbados Community College, founded in 1968, offers training in science and technology. The Barbados Museum and Historical Society, in St. Ann's Garrison, established in 1933, has collections illustrating the island's geology, prehistory, natural history, and marine life.

30 DOMESTIC TRADE

Domestic trade is centered on fish, fruit, and vegetable markets, as well as tourism-related shopping. Many food products and other consumer goods are imported. General business is conducted on weekdays from 8 AM to 4:30 PM. Most shops are also open Saturdays from 8 AM to noon. Banks are open Monday through Thursday from 8 AM to 3 PM and Friday from 8 AM to 5 PM.

Principal Trading Partners – Barbados (2003)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	249.8	1,195.0	-945.2
Bunkers, ship stores	53.0	...	53.0
United States	36.1	453.0	-416.9
Trinidad and Tobago	28.4	236.4	-208.0
United Kingdom	27.5	74.5	-47.0
Jamaica	15.4	10.1	5.3
Saint Lucia	11.7	5.3	6.4
Saint Vincent and the Grenadines	9.2	3.6	5.6
Grenada	7.4	...	7.4
Antigua and Barbuda	6.3	...	6.3
Guyana	6.2	12.3	-6.1

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.**3¹ FOREIGN TRADE**

Barbados consistently imports more than its exports, which has caused it historically to operate with a negative trade balance. That imbalance has widened in recent years, raising some concerns among international lending authorities such as the International Monetary Fund (IMF).

Exports in 2004 totaled \$278 million, with major markets being the United States (15%), Trinidad and Tobago (10%), the United Kingdom (10%), and Jamaica (4%). Primary export products include agricultural commodities such as sugar, honey, molasses, and rum; electrical equipment and small manufactures; medications, printed materials, and pesticides and disinfectants. Imports outpaced exports by a ratio of nearly 5:1 in 2004, totaling \$1.413 billion. Most trading activity occurred with the United States (36%), Trinidad and Tobago (21%), the United Kingdom (6%), and Japan (5%).

The government and private sector were both working to prepare the country for the CARICOM Single Market and Economy (CSME)—a European Union-style single market that was to begin in 2006.

3² BALANCE OF PAYMENTS

The consistently adverse trade balance is substantially alleviated by foreign currency remittances from various emigrants and by tourist expenditures. Furthermore, the IMF notes that the rise in imports is related to an increase in economic activity. More mortgages were being sought in Barbados and construction for the 2007 World Cricket Games was on the rise.

However, the growth in import activity has resulted in a shift in balance of payments: Barbados used to maintain a surplus but ended 2004 with a deficit accounting for 5.5% of GDP. Gross international reserves fell to approximately 3.75 months of imported goods and services.

3³ BANKING AND SECURITIES

The bank of issue is the Central Bank of Barbados. In 1972, it replaced the East Caribbean Currency Authority (ECCA). Com-

Balance of Payments – Barbados (2003)

(In millions of US dollars)

Current Account			-169.4
Balance on goods		-801.4	
Imports	-1,065.6		
Exports	264.2		
Balance on services		646.7	
Balance on income		-106.9	
Current transfers		92.2	
Capital Account			...
Financial Account			202.4
Direct investment abroad		-0.5	
Direct investment in Barbados		58.3	
Portfolio investment assets		-22.9	
Portfolio investment liabilities		84.1	
Financial derivatives		...	
Other investment assets		-83.1	
Other investment liabilities		166.5	
Net Errors and Omissions			34.4
Reserves and Related Items			-67.4

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

mercial banks include the Bank of Nova Scotia, Barbados National Bank, Barclay's Bank, Broad Street, Caldon Finance Merchant Bank, Canadian Imperial Bank of Commerce, Caribbean Commercial Bank, Caribbean Financial Services Corporation, Mutual Bank of the Caribbean, and Royal Bank of Canada. Public institutions include the Barbados Development Bank and the Sugar Industry Agricultural Bank. Barbados has begun development of the offshore banking sector, including the Republic Bank of Trinidad and Tobago in 1999.

The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$571.9 million. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$1.9 billion. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 7.5%.

There is no stock exchange in Barbados, although the Central Bank has established the Barbados Securities Marketing Corp. in anticipation of the future development of a securities exchange. Mutual funds provide a tax-exempt vehicle for investment in existing shares.

3⁴ INSURANCE

The regulatory authority is the Supervisor of Insurance of the Ministry of Finance. The General Insurance Association of Barbados is the general trade association. A full range of life and nonlife insurance is available. Barbados Mutual Life Assurance Society and Life of Barbados Limited provided most insurance services to the nation in 1999.

3⁵ PUBLIC FINANCE

Revenues are derived mostly from import duties, internal consumption taxes, and income tax. Public sector deficits grew during

the 1980s as the economy weakened. The international recession of 1990–91 magnified problems of debt service and debt management. By the end of 1990, the national debt was 9.5% higher than that of 1989. By 1991, the fiscal deficit had become unsustainable; in February 1992, the government began a stabilization program in fiscal policies with assistance from the IMF. By 2000, the deficit problem had been resolved.

The US Central Intelligence Agency (CIA) estimated that in 2000 Barbados's central government took in revenues of approximately us\$847 million and had expenditures of us\$886 million. Revenues minus expenditures totaled approximately -us\$39 million. Total external debt was us\$668 million.

The International Monetary Fund (IMF) reported that in 2003, the most recent year for which it had data, budgetary central government revenues were BDS\$1,827.5 million and expenditures were BDS\$1,981.6 million. The value of revenues in dollars was us\$914 million and expenditures us\$925 million, based on a official exchange rate for 2003 of us\$1 = BDS\$2 as reported by the IMF. Government outlays by function were as follows: general public services, 28.8%; defense, 2.0%; public order and safety, 6.4%; economic affairs, 16.2%; environmental protection, 6.6%; housing and community amenities, 1.5%; health, 11.7%; recreation, culture, and religion, 2.2%; education, 19.3%; and social protection, 5.3%.

36 TAXATION

The top individual tax rate, as of 2005, was 37.5% and applies to incomes over BDS\$24,200. However, in 2006, that rate was scheduled to drop to 35%. The corporate income tax rate was 30% but like the top individual tax rate, was slated for reduction to 25% in 2006. There is also a 10% branch remittance tax. Other taxes were levied on insurance premiums, property transfers, land value, bank assets, and rental income. A value-added tax (VAT) was

instituted in 1997, that is levied at 15% generally, and 7.5% on hotel accommodations. Basic commodities are exempt.

37 CUSTOMS AND DUTIES

Most imports, except those from other CARICOM members, are subject to import duties that include a customs duty, a consumption tax, and a stamp tax. The Common External Tariff (CET) was reduced to 20% in 1999 and the 35% surtax was removed in 2000. Items that carry a higher import duty rate include fruit and vegetables (40%), jewelry (60%), watches (50%), and motor vehicles (45%). The value-added tax of 15% replaced eleven different taxes, mostly on imports. In addition to the VAT, an excise tax of 46.95–93.73 % is placed on imported vehicles. Import licenses are needed to import many agricultural products, but there are no export controls. Beer and fruit drinks may be imported only from CARICOM countries, but fruit juices may be imported from non-member states.

Barbados became a signatory to the World Trade Organization agreement in 1994, agreeing to dismantle all nontariff barriers by the year 2004.

38 FOREIGN INVESTMENT

Various investment incentives, administered through the Barbados Investment and Development Corporation (BIDC), are available to both domestic and foreign investors. These include exception from custom duties, tax reduction and exceptions, and training grants. The government favors productive foreign investments with an emphasis on tourism and banking because of their employment and foreign exchange generating potential. Special incentive packages exist for the hotel industry, manufacturing, and offshore business sectors. The Fiscal Incentives Act of 1974 provides for tax holidays up to 10 years for investment in manufacturing, plus a schedule of rebates on income tax is available for any manufacturing company deriving profits from exports. There is full exemption from all income and withholding taxes for investors in some offshore industries (captive insurance, foreign sales corporations), while most International Business Corporations (IBCs), provided they export 100% of their manufactured output, pay 1–2.5% corporate tax rate, can import production equipment duty free, and are free of exchange controls. Foreign ownership of Barbadian enterprises or participation in joint ventures must be approved by the Central Bank. The offshore sector offers many opportunities, particularly given the island's strong educational base. The government is stable, labor relations are comparatively tranquil, political violence is unknown, and corruption is not considered a problem.

Barbados has concluded double taxation treaties with the United States, Canada, the United Kingdom, CARICOM, Cuba, China, Venezuela, Sweden, Finland, Norway, and Switzerland.

Foreign direct investment (FDI) picked up significantly in 2003 and 2004. The UN Conference on Trade and Development reported FID inflows of \$58 million in 2003, and \$50 million in 2004. These shifts were significant compared with the slowdown in FDI that affected Barbados even before the worldwide decline in tourism that accompanied the 11 September 2001 attacks on the United States. In 2001, FDI fell to \$17.5 million, after hitting a previous peak of \$19.4 million in 2000. FDI remained at \$17 million in

Public Finance – Barbados (2003)

(In millions of Barbados dollars, budgetary central government figures)

Revenue and Grants	1,827.5	100.0%
Tax revenue	1,620.4	88.7%
Social contributions	100.4	5.5%
Grants	9.1	0.5%
Other revenue	97.6	5.3%
Expenditures	1,981.6	100.0%
General public services	570.7	28.8%
Defense	39.9	2.0%
Public order and safety	127.8	6.4%
Economic affairs	321.2	16.2%
Environmental protection	131.2	6.6%
Housing and community amenities	28.8	1.5%
Health	231.5	11.7%
Recreational, culture, and religion	42.7	2.2%
Education	381.8	19.3%
Social protection	106	5.3%

(...) data not available or not significant.

SOURCE: Government Finance Statistics Yearbook 2004, Washington, DC: International Monetary Fund, 2004.

2002 before starting to turn around in 2003. Barbados held \$451 million in FDI stocks in 2004, which comprised 15.9% of GDP.

39 ECONOMIC DEVELOPMENT

Government planning, in operation since 1951, has helped Barbados make a successful transition from a sugar-based economy to one with a more globalized presence, particularly in the tourism and financial services sector.

The economy recovered well from its 1990 recession, and showed signs in 2005 of bouncing back from the post-11 September 2001 slowdown. The IMF and US State Department both describe Barbados as a healthy, open economy with steady growth rates, low inflation, and falling unemployment.

While the IMF projects that growth prospects for Barbados will remain strong through 2008, the international lending agency expresses some concern about the country's decline in foreign reserves and growing trade imbalance.

For the long-term, Barbados needs to diversify its economy to protect itself from the shock effects of worldwide recessions and other crises. As a small, open economy, the nation itself has little ability to protect itself from the vagaries of market shifts. This is particularly the case with tourism, as the economic contraction that followed the 11 September 2001 attacks showed.

40 SOCIAL DEVELOPMENT

A national social security system provides old age and survivors' pensions, sickness, disability, and maternity benefits, and employment injury benefits. All employed persons are covered. Unemployment insurance was introduced in 1982 and is funded by equal contributions from employers and employees. Sickness and maternity benefits are provided for employed persons. Free medical care is available in health centers and public hospitals.

Although women are well-represented in all aspects of national life, women's rights advocates cite domestic violence and abuse as a serious problem. A domestic violence law requires an immediate police response to reports of violence against women and children. There are public and private counseling services for victims of rape, domestic violence, and child abuse. Sexual harassment continued in the workplace. In 2004, the government continued to address the issues of children's rights and welfare.

Human rights are protected under the constitution. Prison conditions are inadequate consisting of one overcrowded adult facility that is more than 150 years old.

41 HEALTH

Barbados has a national health service. In 2004, there were 120 physicians, 13 nurses, and 23 dentists per 100,000 people. Life expectancy in 2005 was 72.59 years and the overall death rate was estimated at 8 per 1,000 people as of 2002. The infant mortality rate was 11.72 per 1,000 live births in 2005. By the mid-1990s, the under-five mortality rate had improved to only 10 per 1,000 from 1960, when it was 90 per 1,000 children. In the mid-1990s, the birth rate was 14 births per 1,000 people. As of 1994, 97% of one-year-old children were vaccinated against measles. The HIV/AIDS prevalence was 1.50 per 100 adults in 2003. As of 2004, there were

approximately 2,500 people living with HIV/AIDS in the country. There were an estimated 200 deaths from AIDS in 2003.

42 HOUSING

The Barbados Housing Authority is empowered to acquire land, construct housing projects, and redevelop overcrowded areas. Rising land costs continued to be a hindrance to new home construction, but since 1996, the government has been looking at new ways to help private owners finance land and home purchases. Also since 1996, the government has initiated a new building code to improve existing structures, particularly focusing on renovations that may prevent destruction from hurricanes.

At last estimate, 90% of all housing consisted of detached homes and more than 5% of apartments. About 76% of all homes were owner occupied. The average household size is 4.3 people. An important concern for the government has been to offer a supply of adequate, low-income housing to both improve and supplement the existing housing stock. In the late 1990s, it was estimated that about 30% of the population in Greater Bridgetown lived in "chattel" homes, portable makeshift homes that are built and owned by a household but placed on land rented from the government or other private landlord. As of 2004, the government was still behind schedule on completion of new housing projects.

43 EDUCATION

Education is compulsory for children between the ages of 5 and 16. Primary school covers six years and secondary school covers seven years. Primary school enrollment in 2003 was estimated at close to 100% of age-eligible students. The same year, secondary school enrollment was about 90% of age-eligible students. Nearly all students complete their primary education. The student-to-teacher ratio for primary school was at about 16:1 in 2003; the ratio for secondary school was about 15:1.

As of 2000, there were 93 government primary schools and a small number of private primary schools. Secondary education was provided in 22 government secondary schools, 15 assisted private schools, and 7 senior schools for students ages 14–16. The education program in Barbados is administered by the Ministry of Education and is free in all government-run schools. As of 2003, public expenditure on education was estimated at 7.6% of GDP.

Scholarships are awarded for study in the United Kingdom and in Caribbean institutions. The Barbados branch of the University of the West Indies opened at Cave Hill in 1963. The government pays the fees of all Barbadian students at the Cave Hill Campus of the University of West Indies. The Barbados Community College was established in 1968. The adult literacy rate for 2004 was estimated at about 99.7%.

There is also advanced education for adults at the Extramural Center of the University of West Indies, the Erdiston Teachers Training College, and the Samuel Jackman Prescod Polytechnic. There are special schools for the deaf, blind, and mentally retarded, including two residential institutions for disabled persons.

44 LIBRARIES AND MUSEUMS

A free library (1847) is maintained by the government in Bridgetown. There are seven branches, with bookmobile stops throughout the island. By 2002, the system had 126,000 volumes. The library of the Barbados branch of the University of the West

Indies has 179,000 volumes and serves as a depository library of the United Nations. The Law Library of the University of the West Indies holds about 110,000 books.

There were seven museums in the country in 2001. There are also 17 monuments and historic sites and 5 zoos and botanical gardens. The Barbados Museum and Historical Society (1933) in Saint Michael is a general museum with collections showing the geology, history, natural history, marine life, and plantation home furnishings of the island, as well as Arawak artifacts. Other museums include the Mallalieu Motor Museum in Christ Church, the Sir Frank Huts on Sugar Museum in Saint James, and a science museum at the Rum Factory and Heritage Park in Saint Phillip.

45 MEDIA

Automatic telephone service is provided by a private firm, the Barbados Telephone Co. Ltd. In 2003, there were 134,000 main-line phones in use, as well as 140,000 mobile phones. A wireless telephone service provides overseas communications and a telex cable connects Barbados with the United Kingdom. The Congor Bay Earth Station, opened in 1972, links Barbados with the global satellite communications system.

Barbados has a government-controlled television and radio broadcasting service (The Caribbean Broadcasting System—CBS) and a commercial rediffusion service that broadcasts over a cable network. In 2004, there were nine radio stations, three of which were owned by CBS. The country's only television station is also owned by CBS. In 1997, there were about 237,000 radios and 76,000 television sets in use throughout the country. In 2003, there were 100,000 Internet subscribers.

There are two major daily newspapers (both independently operated, in Bridgetown), the *Advocate* (circulation 15,000 in 2002) and the *Daily Nation* (32,000), as well as some periodicals, including a monthly magazine, the *New Bajan*.

The Constitution of Barbados provides for freedom of expression and the government is said to uphold freedom of speech and press. The government prohibits the production of pornographic materials.

46 ORGANIZATIONS

Barbados has a chamber of commerce in St. Michael. The Barbados Association of Office Professionals provides some general business training and networking options. There is also a Barbados Employers' Confederation, a Barbados Manufacturers' Association, and a Barbados Workers' Union. Associations are available a number of professionals, including lawyers, teachers, journalists, and medical professionals. Some notable medical associations include the Barbados Cancer Society, Barbados Dental Association, Barbados Family Planning Association, and the Barbados Association of Medical Practitioners.

The Barbados Museum and Historical Society is a key organization for the preservation and promotion of art and culture. The Evangelical Association of the Caribbean and the Caribbean Conference of Churches are multinational organizations based in the country.

International youth organizations include 4-H Clubs, Boy Scouts, Girl Guides, YMCA, and YWCA. Other youth organizations include the Anglican Young People's Association, the Caribbean Youth Business Network, the Caribbean Youth Environ-

ment Network, the Guild of Undergraduates of Barbados, and the League of Progressive Youth. There are a number of sports associations in the country, promoting such pastimes as track and field, weightlifting, badminton, and lawn tennis.

The Barbados Council of Women serves as an umbrella organization for women's groups. Branches of international service organizations include Kiwanis International, Lions Club, and Rotary Club. There are national chapters of the Red Cross, Amnesty International, and UNICEF.

47 TOURISM, TRAVEL, AND RECREATION

Barbados, with its fine beaches, sea bathing, and pleasant climate, has long been a popular holiday resort. Cricket is the national sport, followed by surfing, sailing, and other marine pastimes. A valid passport and onward/return ticket are required of all visitors entering Barbados. Visas are not required for citizens of the United States, Canada, or Australia, but visas are required for citizens of some 78 countries.

In 2003, about 531,000 tourists visited Barbados. There were 6,210 hotel rooms that year with 10,770 beds and a 49% occupancy rate. The cost of staying in Barbados varied seasonally. According to 2005 US Department of State estimates, the daily cost of staying in Barbados between December and April was us\$394. At other times of the year, daily costs averaged us\$284.

48 FAMOUS BARBADIANS

Sir Grantley Adams (1898–1971) was premier of the Federation of the West Indies (1958–62). His son, John Michael Geoffrey Manningham “Tom” Adams (1931–85) was prime minister from 1976 until his death, succeeding Errol Walton Barrow (1920–87). In 1985, Barrow again assumed the office of prime minister until his death. Erskine Sandiford (b.1938) succeeded Barrow. Barbados-born Edwin Barclay (1882–1955) was president of Liberia from 1930 to 1944. George Lamming (b.1927) is a well-known West Indian novelist. Sir Garfield Sobers (b.1936) has gained renown as the “world's greatest cricketer.”

49 DEPENDENCIES

Barbados has no territories or colonies.

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BELIZE



CAPITAL: Belmopan

FLAG: The national flag consists of the Belize coat of arms on a white disk centered in a blue rectangular field with a narrow red stripe at the top and the bottom.

ANTHEM: *Land of the Free.*

MONETARY UNIT: The Belize dollar (B\$), formerly tied to the UK pound sterling and now pegged to the US dollar, is a paper currency of 100 cents. There are coins of 1, 5, 10, 25, 50 cents and 1 dollar, and notes of 1, 5, 10, 20, 50, and 100 dollars. B\$1 = US\$0.50000 (or US\$1 = B\$2) as of 2005.

WEIGHTS AND MEASURES: Imperial weights and measures are used. The exception is the measuring of petroleum products, for which the US gallon is standard.

HOLIDAYS: New Year's Day, 1 January; Baron Bliss Day, 9 March; Labor Day, 1 May; Commonwealth Day, 24 May; National Day, 10 September; Independence Day, 21 September; Columbus Day, 12 October; Garifuna Day, 19 November; Christmas, 25 December; Boxing Day, 26 December. Movable holidays are Good Friday and Easter Monday.

TIME: 6 AM = noon GMT.

¹LOCATION, SIZE, AND EXTENT

Belize (formerly British Honduras), on the Caribbean coast of Central America, has an area of 22,966 sq km (8,867 sq mi), extending 280 km (174 mi) N-S and 109 km (68 mi) W-E. Comparatively, the area occupied by Belize is slightly smaller than the state of Massachusetts. Bounded on the N by Mexico, on the E by the Caribbean Sea, and on the S and W by Guatemala, Belize has a total boundary length of 516 km (320 mi).

The capital city of Belize, Belmopan, is located in the center of the country.

²TOPOGRAPHY

The country north of Belmopan is mostly level land interrupted only by the Manatee Hills. To the south the land rises sharply toward a mountainous interior from a flat and swampy coastline heavily indented by many lagoons. The Maya and the Cockscomb mountains (which reach a high point of 1,122 m/3,681 ft at Victoria Peak, in the Cockscombs) form the backbone of the country, which is drained by 17 rivers. The coastal waters are sheltered by a line of reefs, beyond which there are numerous islands and cays, notably Ambergris Cay, the Turneffe Islands, Columbus Reef, and Glover Reef.

³CLIMATE

The climate is subtropical and humid, tempered by predominant northeast trade winds that keep temperatures between 16–32°C (61–90°F) in the coastal region; inland temperatures are slightly higher. The seasons are marked more by differences of humidity than of temperature. Annual rainfall averages vary from 127 cm (50 in) in the north to more than 380 cm (150 in) in the south.

There is a dry season from February to May and another dry spell in August. Hurricanes occur from July to October.

⁴FLORA AND FAUNA

Most of the forest cover consists of mixed hardwoods—mainly mahogany, cedar, and sapodilla (the source of chicle). In the flat regions there are extensive tracts of pine. The coastal land and the cays are covered with mangrove. Indigenous fauna include armadillo, opossum, deer, and monkeys; common reptiles include iguana and snakes.

⁵ENVIRONMENT

Due to its low population density, Belize has suffered less than its neighbors from such problems as soil erosion and pollution. However, substantial deforestation has occurred and water quality remains a problem because of the seepage of sewage along with industrial and agricultural chemicals into the water supply. It is estimated that 18% of the country's rural population does not have access to pure water. Pollutants also threaten Belize's coral reefs. Removal of coral, picking orchids in forest reserves, spear fishing, and overnight camping in any public area (including forest reserves) are prohibited.

Approximately 21% of Belize's total land area is protected. Natural hazards to Belize's environment include hurricanes and coastal flooding. Belize's national capital was moved 129 km (80 mi) inland from Belize City to Belmopan because of hurricanes. The Belize Barrier Reef Reserve System is a UNESCO World Heritage Site.

According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), the number of threatened species included 5 types of mammals, 3

species of birds, 4 types of reptiles, 6 species of amphibian, 18 species of fish, and 30 species of plants. Endangered species in Belize included the tundra peregrine falcon, hawksbill, green sea and leatherback turtles, American crocodile, and Morelet's crocodile.

6 POPULATION

The population of Belize in 2005 was estimated by the United Nations (UN) at 292,000, which placed it at number 170 in population among the 193 nations of the world. In 2005, approximately 4% of the population was over 65 years of age, with another 36% of the population under 15 years of age. There were 101 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 2.3%, a rate the government viewed as too high. The government is especially concerned about the growing adolescent fertility rates. The projected population for the year 2025 was 396,000. The population density was 13 per sq km (33 per sq mi).

The UN estimated that 49% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 2.32%. That year, the largest city was Belize City, with an estimated population of 52,600; the capital, Belmopan, had an estimated population of 9,000.

The first case of HIV infection was diagnosed in 1986; by 2005 approximately 2.4% of the population was believed to be infected. A national plan to combat HIV/AIDS was implemented in 1999.

The largest ethnic group in Belize is the Mestizo, which comprises 44% of the population. Other ethnic groups include Creole (30%), Mayan (10%), and Garifuna (6%).

7 MIGRATION

The population of Belize increased significantly in 1993, when 40,000 Central American refugees and other immigrants, mostly from Guatemala and El Salvador, arrived in the country. This offset the heavy Creole emigration to North America. As of 1995, Belize still had 6,000 refugees from El Salvador and 2,000 refugees from Guatemala. United Nations High Commissioner for Refugees (UNHCR) negotiations with the government produced two significant developments in 1999. First, as of February 1999 refugees are able to apply for naturalization after five years of residence in the country. Second, in May 1999 the government enacted an amnesty program, offering permanent resident status for illegal immigrants and unregistered refugees. By 30 June 1999, some 10,000 families had registered. The total number of migrants in Belize in 2000 was 17,000.

In 2005, the net migration rate was estimated as zero. Worker remittances in 2002 amounted to us\$13.8 million.

8 ETHNIC GROUPS

According to the latest estimates, 46.4% of the population are mestizo (mixed White and Mayan); about 27.7% are Creole (of African descent); another 10% are Mayan; 6.4% are Garifuna (Carib); and 9.5% are comprised of various other groups, including those of Arab, European, Chinese, East Indian, North American, and Syrian-Lebanese ancestry.

9 LANGUAGES

The official language is English. At least 80% of the people can speak standard English and/or a Creole patois. Spanish is spoken

by approximately 60% of the population; for one-third to one-half it is the first language. Although English is the language of instruction, other languages spoken include Garifuna (Carib), Mayan and other Amerindian languages, and, in the Mennonite colony, Low German.

10 RELIGIONS

About 58% of inhabitants are Roman Catholic. Only 7% of the populace are Anglicans; another 6% are Pentecostals. Other faiths and denominations generally have fewer than 11,000 members each. These include Methodists (4.2%), Seventh-Day Adventists (4.1%), and Mennonites (4%). There are approximately 6,000 Nazarenes and smaller numbers of Hindus, Baha'is, Baptists, Buddhists, Jehovah's Witnesses, Mormons, Muslims, Rastafarians, and Salvation Army members. About 6% of the population claim to be nonbelievers or to have no religious affiliation.

There is no state religion, however, the preamble of the constitution recognizes the religious history of the country by asserting that the nation "shall be founded upon principles which acknowledge the supremacy of God." Freedom of religion is generally respected in practice. Spirituality is a required topic in public schools as part of the social studies curriculum and all schools, both public and private, are required to provide 220 minutes per week of religious education or chapel services for students in kindergarten through sixth grade. However, students are not forced to participate in such instruction and the faith of the individual student, or their parents, is generally respected. Traditional Christian holidays are celebrated as public holidays.

11 TRANSPORTATION

In 2002, Belize had 2,880 km (1,789 mi) of roads, of which 490 km (304 mi) were paved. In 2003, there were 25,880 registered motor vehicles, 11,500 of which were passenger cars and 14,380 were commercial vehicles. The country had no railways. There are 825 km (513 mi) of waterways consisting of seasonally navigable river networks used by shallow-draft craft. Belize City is the main port. In the late 1970s, deepwater facilities were constructed through financing from the Caribbean Development Bank (CDB). Other ports and harbors include Big Creek, Corozol, and Punta Gorda. In 2005 Belize's merchant marine was comprised of 295 ships, totaling 1,015,270 GRT. Several shipping lines provide regular services to North America, the Caribbean, and Europe. In 2004, there were an estimated 44 airports, of which only 5 had paved runways as of 2005. International airports at Belize City (P.S.W. Goldson) and Punta Gorda handle services to the United States and Central America. Maya Airways provides domestic service, and there are various international air carriers.

12 HISTORY

Numerous ruins indicate that the area now called Belize was once heavily populated by Maya Indians, whose civilization collapsed around AD 900. Columbus sailed along the coast in 1502, but did not land. The first permanent settlement was established in 1638 by shipwrecked English seamen. Later immigrants included African slaves and British sailors and soldiers.

In its early colonial history the area was a virtual backwater, used only for logging and as a pirate base. A power struggle between England and Spain ensued over possession of the area, with

the British prevailing by the 19th century. In 1862 the British organized the area as the colony of British Honduras. For the next century, forestry continued as the main enterprise until eventually supplanted by sugar.

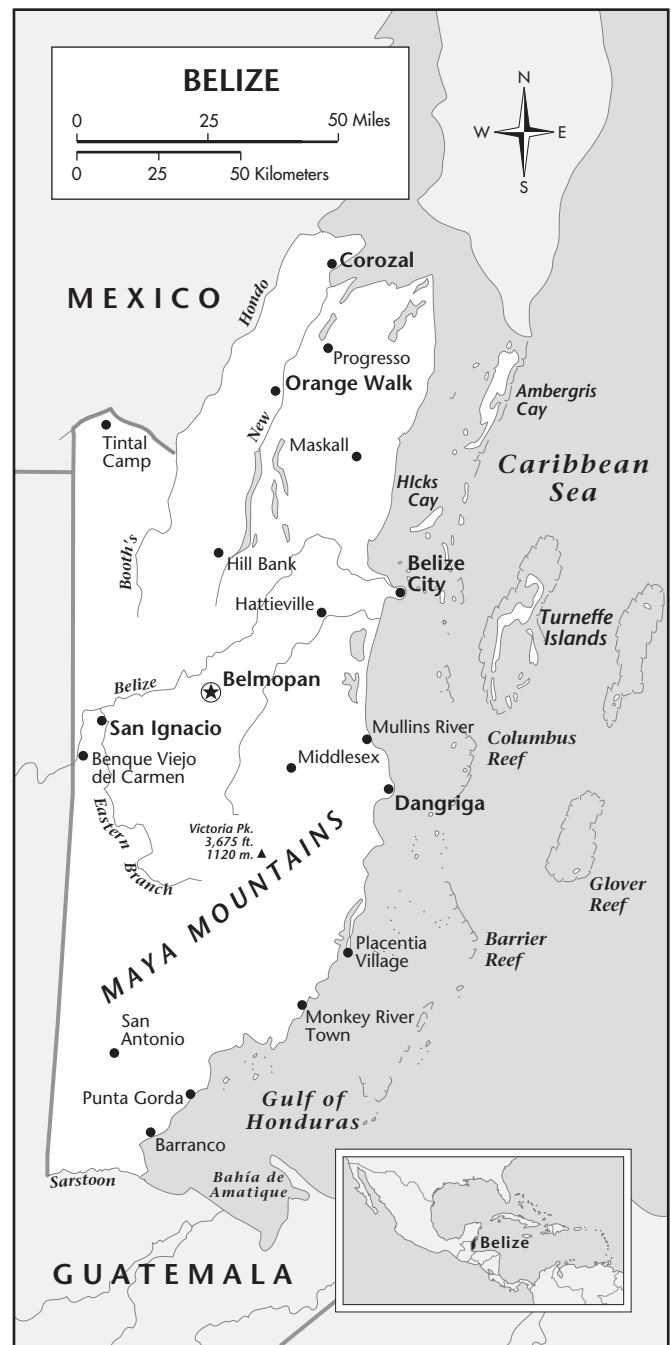
On 1 January 1964, a constitution was promulgated, providing for self-government, although the United Kingdom maintained the defense force. That force remained in place partly because of a border dispute with Guatemala, going back to an 1859 treaty. The Guatemalan government pressed territorial claims over the southern quarter of the area. A settlement guaranteeing the country's independence by 1970 seemed to resolve the dispute, but rioting in British Honduras in May 1968 led to the repudiation of the agreement by both the United Kingdom and Guatemala.

The country dropped the appearance, if not the reality, of colonial dependence in 1973, adopting Belize as the official country name. The border dispute continued unabated until 1977, when Guatemala and the United Kingdom began new negotiations on Belize. The United Kingdom, Guatemala, and Belize reached agreement on a solution in March 1981, but disagreement soon followed. Finally, the United Kingdom decided to take matters into its own hands and granted Belize independence as of 21 September 1981. Guatemala refused to recognize the new nation, severed diplomatic relations with the United Kingdom, and declared the date of independence a national day of mourning. In December 1986, the United Kingdom and Guatemala resumed diplomatic ties, but the 1,800-member British garrison remained in Belize. Since independence, control of the government has alternated between the People's United Party (PUP) led by George C. Price, which had dominated Belize's politics since the 1950s, and the United Democratic Party (UDP), led by Manuel Esquivel. The UDP won the elections of 1984 and 1993; in between, the PUP governed from 1989 to 1993. The PUP won the parliamentary elections of 1998 and 2003. Said Musa was prime minister under these PUP wins.

In 1991 Belize was admitted to the Organization of American States (OAS). The same year, Guatemala's new president, Jorge Serrano, reached an agreement with then-prime minister George Price that led to full Guatemalan recognition of Belize's independence the following year and the signing of a nonaggression pact between the two nations in 1993. The United Kingdom withdrew its troops from Belize in 1994.

Belize's tourism industry became a mainstay of the economy in the 1980s and 1990s, growing from 64,000 tourists in 1980 to 247,000 in 1992. By 1995, tourism surpassed all other sectors, including the sugar industry, as a source of foreign exchange, and it continued to grow through the remainder of the decade. Challenges facing Belize in the late 1990s included high unemployment, a growing involvement in South American cocaine trafficking, and increased urban crime, which worsened in 1998 and 1999, prompting new gun control measures.

Negotiations continued with Guatemala over territorial disputes not settled by the 1991 agreement, mainly Guatemalan claims to land in the southern part of the country. Tensions between the two countries continued into the early months of 2000, when Belize's ambassador was expelled from Guatemala, and talks scheduled for February were suspended. But a hurricane in 2001 hurt Belize and Guatemala and helped reduce tensions between both countries. After three years of rapid economic growth, Belize's econo-



LOCATION: 15°53' to 18°31' N; 87°16' to 89°8' W. BOUNDARY LENGTHS: Mexico, 250 kilometers (155 miles); Caribbean coastline, 386 kilometers (240 miles); Guatemala, 266 kilometers (165 miles). TERRITORIAL SEA LIMIT: 3 miles.

my expanded by just 3% in 2001 and 2002. Under the auspices of the OAS, both countries agreed to each having their own facilitator look into the territorial dispute. In August 2003, before facilitators' proposals were submitted to referenda in either country, the Government of Guatemala rejected the facilitators' proposals. The Guatemalan claim remained unresolved.

In January 2004, Britain's Privy Council by a split 3-2 decision dismissed an appeal to overturn the Belize government's approval of the proposed Chalillo hydroelectric dam. The then proposed dam on the Macal River at Chalillo would have created a lake

extending 20 km (12 mi) up the Macal and 10 km (6 mi) up its tributary the Raspaculo, flooding 10 sq km (2,471 acres). The Canadian company Fortis, Inc. of Newfoundland under agreement with the Belizean government would build a 49.5 m (160 ft) high dam to provide hydroelectric power for Belize. The flooded locale would include areas designated for preservation as national environmental resources—habitat to the highest density of big cats, jaguar, puma and ocelot, in Central America, rare Morelet's crocodiles, tapirs and scarlet macaws, as well as to cultural remains. Dissent against the project was worldwide. Fires used to remove forest cover to protect the construction area were large enough to be picked up by satellite. By October 2005, the dam was tested prior to its complete start.

In January 2005, public and private sector workers went on strike over budget measures, including tax increases, and for salary increases. By April antigovernment protests in the capital resulted in rioting. Opposition political groups and trade unions called for general elections (next scheduled for March 2008) citing Musa's mismanagement of the country. Acts of sabotage deprived the population of basic services including water, electricity and communications. In his "State of the Nation" address, 19 September 2005, Musa noted that despite the fear and uncertainty of the previous months, the economy had not collapsed. He intended to pursue his tax reform measures and highlighted the effect of rising oil prices on higher domestic costs of production consumer prices and as a drain on foreign reserves.

In October 2005, Belize reported its first case of dengue hemorrhagic fever in the country. It occurred in the Cayo District.

13 GOVERNMENT

The independence constitution of 21 September 1981 (based on that of 1 January 1964) vests governmental authority in a governor-general appointed by the UK monarch, a cabinet headed by a prime minister, and a bicameral National Assembly. The governor-general on the advice of the prime minister appoints the cabinet ministers. The National Assembly consists of a 29-member House of Representatives elected by universal adult suffrage to serve five-year terms, and a Senate of eight members appointed by the governor-general (5 on the advice of the prime minister, 2 on the advice of the opposition, and 1 on the recommendation of the Belize Advisory Council). Parliamentary elections must be held at intervals of no longer than five years. The voting age is 18.

14 POLITICAL PARTIES

The two major parties in Belize are the current majority People's United Party (PUP) and the United Democratic Party (UDP). George C. Price dominated Belize's politics after becoming the country's premier in 1964. The PUP had dominated the electoral scene for more than 30 years and was the party in power when Belize became independent. At independence in 1981, Price became prime minister and ruled for three years. The UDP coalition, under Manuel Esquivel's leadership, took 21 House seats in 1984 and ruled until 1989, when the PUP again gained control and Price once again became prime minister. He called an early election in June 1993, which his party unexpectedly lost, placing the UDP in a dominant position, UDP 15 seats, PUP 13 seats.

Although it won a sweeping victory in the 1997 municipal elections, the opposition UDP held only three elected seats at the

national level as of 1999. The PUP had increased its position in the subsequent August 1998 elections (PUP 26 seats and UDP 3 seats), after which Said Musa succeeded Manuel Esquivel as party leader and prime minister. The elections of 2003 were the fifth National Assembly elections since independence in 1981 and the first time that a political party had been in government for two successive terms. In the March 2003 elections, the PUP won 22 seats and the UDP 7 seats. Said Musa remained as prime minister. After the death of a minister in October 2003 the PUP lost one seat in the by-election, but still retained a majority. Dean Barrow led the opposition. There was one political pressure group, the Society for the Promotion of Education and Research or SPEAR headed by Adele Catzim.

15 LOCAL GOVERNMENT

Belize is divided into six administrative districts: Corozal, Orange Walk, Belize City, El Cayo, Stann Creek, and Toledo. Except for Belize City, which has an elected city council of nine members, each is administered by a seven-member elected town board. Local government at the village level is through village councils.

16 JUDICIAL SYSTEM

The crown appoints the independent judiciary. The law of Belize is the common law of England, augmented by local legislation. The judiciary consists of the Magistrate's Courts, the Supreme Court, and the Court of Appeal. The Supreme Court is presided over by a Chief Justice. Appeals are to the court of appeal, established in 1968, and, until 2003, to the Judicial Committee of the Privy Council in the United Kingdom. Six summary jurisdiction courts (criminal) and six district courts (civil) are presided over by magistrates.

On 9 June 2003, Caribbean leaders met in Kingston, Jamaica, to ratify a treaty to establish the Caribbean Court of Justice (CCJ). The first session of the CCJ was scheduled for November 2003. Eight nations—Barbados, Belize, Dominica, Guyana, Jamaica, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago—had officially approved the CCJ, although 14 nations were planning to use the court for appeals. Haiti had agreed to use the CCJ for resolution of trade disputes.

The judiciary has protected individual rights and fundamental freedoms. Detainees must be brought before a judge within 72 hours of arrest. Bail is liberally afforded. A jury trial is required in capital cases. The 1981 Constitution provides a wide range of fundamental rights and freedoms. Criminal defendants have rights to presumption of innocence, protection against self-incrimination, counsel, appeal, and public trial. The constitution prohibits torture and other cruel, inhuman, or degrading treatment or punishment. The constitution also prohibits arbitrary interference with privacy, family, home, or correspondence. The government generally respects these provisions.

17 ARMED FORCES

The armed forces totaled an estimated 1,050 active personnel in 2005, supported by 700 reserves. The Army was structured into 3 infantry battalions, a maritime wing with 14 patrol craft, an

air wing with 2 transports, but no combat aircraft, and 1 support group. The defense budget totaled \$16 million in 2005.

18 INTERNATIONAL COOPERATION

Belize was admitted to the UN on 25 September 1981, four days after independence. Belize participates in a number of UN specialized agencies, such as ILO, ICAO, IFAD, IFC, UNESCO, UNIDO, the World Bank, and WHO. Belize joined the WTO in January 1995. Belize is also a member of the ACP Group, the Commonwealth of Nations, CARICOM, the Caribbean Development Bank, the Latin American Economic System, G-77, the Association of Caribbean States (ACS), and the OAS. The country is part of the Nonaligned Movement and the Agency for the Prohibition of Nuclear Weapons in Latin American and the Caribbean (OPANAL). Belize has an unresolved boundary dispute with Guatemala. In environmental cooperation, Belize is part of the Basel Convention, the Convention on Biological Diversity, Ramsar, CITES, the Kyoto Protocol, the Montréal Protocol, MARPOL, and the UN Conventions on the Law of the Sea, Climate Change, and Desertification. Belize is also a signatory to the Central American-US Joint Declaration (CONCAUSA).

19 ECONOMY

The economy is dependent on agriculture and fishing. Sugar, bananas, and citrus fruits are the main cash crops. Until a recent depletion, the country's main export had been forest products, especially mahogany. Belize continues to import most of its consumer goods, including much of its food and all of its petroleum requirements. The tourism industry, fishing industry, and the garment manufacturing industry grew in importance during the late 1990s.

Belize started the decade of the 1990s positively. However, after five years of economic growth averaging 4.3%, the economy decelerated to 1.5% in 1996. This was largely due to a slowdown in tourism, a decline in fisheries production, and cutbacks in public spending and construction. The agricultural sector grew rapidly in that year, with banana and sugar production up by significant amounts, while production of oranges was nearly flat. Fishing was also hurt by corrective measures to overcome the taura virus, which affected farmed shrimp production and lowered lobster catches. In 1997, the government implemented austerity measures and capital projects that continued the economic depression in the short-run. The agricultural industry experienced a decline of production in 1998, but the fishing, tourism, and garment manufacturing industries gained ground. In 1997 and 1998, GDP growth hovered around 3%, but by 2004, the economy was growing at a rate of 4.5%, due to strong growth in the agriculture, fishing, and tourism industries. Inflation remained subdued at around 3% in 2004 and 2005. In 2005, the GDP growth rate was estimated at 3.8%.

Belize's future economic growth is linked to the improvement of technology and physical infrastructure. The Agency for International Development (USAID), the World Bank, the United Kingdom, the EU, the Caribbean Development Bank (CDB), Canada, and Taiwan have provided assistance to Belize for the reconstruction and pavement of major highways, and the construction of houses. Electricity has become dependable, and the telecommunications system is reliable.

20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 Belize's gross domestic product (GDP) was estimated at \$1.8 billion. 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 based on current dollars. The per capita GDP was estimated at \$6,800. The annual growth rate of GDP was estimated at 3.8%. The average inflation rate in 2005 was 3%. It was estimated that agriculture accounted for 22.5% of GDP, industry 23%, and services 54.5%.

According to the World Bank, in 2002 remittances from citizens working abroad totaled \$14 million or about \$51 per capita and accounted for approximately 1.5% of GDP.

In 2001 it was estimated that approximately 27% of household consumption was spent on food, 5% on fuel, 3% on health care, and 13% on education. It was estimated that in 1999 about 33% of the population had incomes below the poverty line.

21 LABOR

The Belize labor force in 2001 (the latest year for which data was available) was estimated at 90,000. Of that number in that same year, approximately 27% of the labor force was employed in agriculture, 18% in industry, and 55% in services. In 2003, the unemployment rate was estimated at 12.9%. The Belize labor market is marked by a shortage of skilled labor and technical personnel.

Labor legislation covers minimum wages, work hours, employment of young persons, and workers' safety and compensation. The National Trades Union Congress of Belize is the major union federation, and the United General Workers' Union is the leading trade union. In 2005, there were eight independent unions, comprising about 11% of the labor force, which represented a cross-section of white-collar, blue-collar, and professional workers, including most civil service employees. There are procedural requirements that a union must meet, but the government freely recognizes the right to join unions and to strike. Unions representing "essential" service workers must give an intent to strike notice two days prior to a strike.

The labor act prohibits all employment for children under the age of 12, and children between the ages of 12 and 14 are not permitted to work during school hours. The minimum age for hazardous industry employment is 17. A minimum wage of \$1.12 per hour covers all workers and is effectively enforced. This wage does not provide a decent standard of living. The legal workweek, as of 2005, was set at 45 hours or six days, with overtime pay required if work is beyond those limits. Workplace safety and health regulations are also effectively enforced by the Ministry of Labor and Public Health, particularly in Belize City.

22 AGRICULTURE

Only 4% (89,000 hectares/220,000 acres) of total land area is used for the production of seasonal and permanent crops. Most Mayans still practice the traditional slash-and-burn method of farming, under which at any one time some 80% of the land is left idle. More efficient agricultural colonies have been established by Mennonite immigrants. Sugar, citrus, and bananas are the leading agricultural exports. In 2004, Belize's major exports amounted to

B\$410.1 million, with sugar accounting for 20%; orange concentrate, 13.5%; bananas, 13%; and grapefruit, 5.8%. Sugarcane production, centered in the northern lowland around Corozal and the town of Orange Walk, totaled 1,149,000 tons in 2004. Citrus production is concentrated in the Stann Creek valley; the 2004 output included 213,000 tons of oranges and 56,000 tons of grapefruit. The US-based Hershey Foods Corp. has invested B\$4 million in cacao cultivation in El Cayo; production in 2004 totaled 40 tons.

Because agriculture is not sufficiently diversified, the country relies heavily on food imports. By establishing a marketing board to encourage production of rice, beans, and corn, the government hopes eventually to become self-sufficient in these crops. Rice paddy production, which averaged 9,000 tons annually during 1979–81, fell to a reported 4,000 tons in 1990 but rose to 10,600 tons by 2004. Corn production, which had been hovering at 18,000 tons per year, rose to a reported 30,500 tons in 2004. Dry bean production was 4,000 tons. Export earnings from sugar in 2004 exceeded US\$35.5 million. Belize's sugar industry is heavily dependent on preferential price markets; over 50% of its exports are sent to preferential price markets (principally the European Union). Citrus output (exported in concentrate form), expanded by 170% as new acreage planted in the late 1980s came into production and weather conditions were very favorable. In 1985, a consortium that included Coca-Cola paid B\$12 million for 383,000 hectares (946,400 acres) northwest of Belmopan for a citrus farming project. Banana production was aided by privatization and restructuring in the production and marketing areas, which has acted as a catalyst to improve technology (success in combating sigatoka disease) and infrastructure. Banana production, however, fell from 68,000 tons in 1994 to 45,000 tons in 1995 before rising back to 79,400 tons in 2004. Papaya production totaled 27,700 tons in 2004; mangoes totaled 563 tons. Peanuts, pineapples, and winter vegetables are also grown for export.

23 ANIMAL HUSBANDRY

Mennonite farms account for much of Belize's dairy and poultry output. In 2004, the nation had an estimated 21,200 hogs, 5,300 horses, 4,600 mules, 6,300 sheep, and 1,600,000 chickens. Cattle suited for breeding or crossbreeding with local cattle are Red Poll, Jamaica Black, Hereford, and Brahman (zebu); there were 57,800 head of cattle in 2004. Some 14,000 tons of poultry meat and 3,600 tons of milk were produced in 2004.

24 FISHING

Fishing resources and development are good. In 2003, the total catch was 15,353 tons. Lobster, squid, and conch are the leading products; US\$16.2 million in export earnings were derived from fishing in 2003. In the mid-1990s, shrimp production increased by 75% as a result of three new shrimp farms opening in 1992. Aquaculture accounted for 66% of the total catch in 2003. Fishery exports accounted for 12% of agricultural exports and almost 8% of total merchandise exports in 2003.

25 FORESTRY

Although Belize is still rich in forest resources, the accessible stands of commercial timber have been depleted. Reforestation and natural regeneration in the pine forest (mainly in Cayo, Stann

Creek, and Toledo Districts) and artificial regeneration of fast-growing tropical hardwood species are creating a resurgence in forestry. About 92% of Belize's land area is covered with forests and woodlands. Timber cutting is usually done during the short dry season. Total roundwood production in 2003 was 188,000 cu m (6.64 million cu ft). The principal varieties of trees cut are mahogany, pine, cedar, and rosewood. Exports of forest produce (including chicle) in 1965 amounted to one-third of total exports; in 2003, however, the export value was US\$4.0 million.

26 MINING

Clays, limestone, marble, and sand and gravel for construction were the mainstays of Belize's minerals industry; none was reportedly exported in 2003. The Belize, Sibun, and Monkey rivers, as well as North and South Stann creeks, were the sites of clay, limestone, and sand and gravel operations. Clay production amounted to 500,000 tons in 2003; dolomite, 5,000 metric tons; limestone, 400,000 tons; sand and gravel, 130,000 cubic meters; marl, 1,140 cubic meters; and gold, 1,000 grams, by stream panning.

27 ENERGY AND POWER

Electric power supplied by ten diesel-powered generators is inadequate. As of 2002 Belize imported about half its electricity from Mexico. Of the remainder, 30% came from the Mollejon dam and 20% from thermal sources. A central authority, the Belize Electricity Board, supplies and operates the national power system. In 2002, total capacity stood at 0.052 million kW, including power from the Board's generators and additional wattage supplied by private industries and individuals. Production in 2002 was 0.117 billion kWh, of which 0.039 billion kWh came from thermal sources (fossil fuels) and 0.078 billion kWh from hydropower. Construction of a 7 MW, US\$50 million hydroelectric power station on the Macal River, upstream from the Mollejon dam, was under way as of 2002 despite a suit by environmental groups pending before Belize's supreme court. The dam would be privately owned until 2034, after which the plant would be transferred to the government. In 2002, the consumption of electricity in Belize totaled 0.109 billion kWh.

28 INDUSTRY

The manufacturing sector is small but has been expanding. Major industrial activities include textiles and garments, and sugar, citrus, and banana processing. The Development Finance Corporation promotes private capital investment in industry.

Aside from the processing of sugar, citrus, and bananas, the manufacturing sector in Belize continues to be quite small. Garment production stabilized and grew in the late 1990s after significant declines in 1994 and 1995 that resulted from heavy competition from Mexico and the United States. Other manufacturing products—batteries, beer, and beverages—represent a minimal share and are protected by import substitution policies. Belize has witnessed increased export earnings from marine products in the late 1990s and into the 2000s. Construction projects have included a multimillion dollar housing project designed to build 10,000 units, a US\$14.7 million project to rehabilitate the country's southern highway, and US\$9.5 million in upgrading health centers and hospitals.

Tourism is the number one source of foreign exchange earnings. Offshore business in Belize is a fledgling industry with high growth potential. Attractive incentives to foreign investment have been promoted by the government in order to attract capital.

29 SCIENCE AND TECHNOLOGY

University College of Belize and Wesley College, both in Belize City, offer some scientific and technical training, but Belizean students must go abroad for advanced study. The National Library Service operates a Technical/Reference Library in Belize City.

30 DOMESTIC TRADE

Except for warehouses and shops in Belize City, open markets still predominate in Belize. The domestic market is limited by high labor and energy costs. Small industries include cigarettes, beer, dairy products, and agricultural processing. Many residents shop in Mexico and Guatemala where prices for goods and services are lower. Within the country, most consumer goods are imported from the United States and Mexico. Since 1987, the government has maintained price controls on some basic items, such as bread, flour, rice, and fuel. A 9% sales tax applies to most goods (basic food items are exempt). A 14% sales tax applies to petroleum products, alcohol, and tobacco.

Normal business hours in Belize cities are 8 AM to noon and 1 to 5 PM, Monday through Friday. Banks are open from 8 AM to 1 PM, Monday through Thursday, and from 8 AM 4:30 PM on Fridays.

31 FOREIGN TRADE

Belize's major partners are NAFTA, the United Kingdom, CARICOM and the European Union (EU). In 2004, the United States imported 37.2% of Belize's total exports, and supplied 30.1% of all Belizean imports.

The Belize export market depends mostly upon agriculture, in particular on the sugars, and fruit and nut trade. There are a few clothing exporters that deal in men's outerwear and undergarments. Other substantial exports include shellfish, wood, and vegetables.

32 BALANCE OF PAYMENTS

The visible trade deficit is counterbalanced by overseas aid, British military expenditures, foreign remittances from expatriates, and receipts from tourism. Since the end of 1998, the trade deficit has widened, due to an increase in manufactured good purchases for the industrial and construction sectors. In 2005, the value of Belize's exports was estimated at us\$349.9 million, and imports were valued at us\$622.4 million. The current-account balance was estimated at -us\$200.1 million in 2005. That year, Belize had us\$90.45 million in reserves of foreign exchange and gold. As of June 2004, the external debt burden was us\$1.362 billion.

33 BANKING AND SECURITIES

The bank of issue is the Central Bank of Belize. Two foreign banks, Barclay's Bank and the Bank of Nova Scotia, and two local banks, the Atlantic Bank and Belize Bank, conduct commercial banking. The Banking Ordinance was amended in 1996 to authorize offshore banking; in March 2000 over 14,000 offshore financial institutions were operating in Belize. Anti-laundering legislation was

put into effect in 1998, and a small farmers' and business bank was created with bilateral aid from Taiwan.

In the fourth quarter of 1996, the Central Bank of Belize was obliged to defend the exchange rate by selling foreign exchange to commercial banks. The quantities involved were not announced, but international reserves fell from us\$71 million at the end of September 1996, to us\$65 million at the end of December 1996. However, year-end reserves were still significantly higher than the end-of-June figure of us\$39 million. Contributing to this rise was the receipt in August of a Taiwanese government loan of us\$26 million, as well as the proceeds of a bond issue for the new Central Bank building and increased sugar export receipts.

In 1998, the new government led by Said Musa lowered the liquidity and cash reserve requirements of commercial banks, and increased government spending on capital projects, in order to increase funds. Foreign assets had declined even further, from us\$65 million in 1997 to us\$51 million in 1998. A us\$50 million loan from the Taiwanese government was granted for infrastructure development in 1998. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to us\$189.8 million. In that same year, M2—an aggregate equal to M1 plus savings deposits, small-time deposits, and money market mutual funds—was us\$505.5 million. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 12%.

There is no securities exchange in Belize.

34 INSURANCE

There are several insurance companies doing business in Belize.

35 PUBLIC FINANCE

About half of Belize's recurrent expenditures are financed by customs duties; nearly all capital spending is funded by foreign loans

Balance of Payments – Belize (2002)

(In millions of US dollars)

Current Account		-162.7
Balance on goods		-189.9
Imports	-500.3	
Exports	310.4	
Balance on services		53.4
Balance on income		-72.1
Current transfers		45.9
Capital Account		7.5
Financial Account		143.7
Direct investment abroad		...
Direct investment in Belize		25.0
Portfolio investment assets		...
Portfolio investment liabilities		110.0
Financial derivatives		0.8
Other investment assets		-1.4
Other investment liabilities		9.4
Net Errors and Omissions		3.8
Reserves and Related Items		7.7

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

and grants. Since an IMF standby stabilization program was implemented in 1985, fiscal responsibility has improved. The government typically budgets over 50% of projected spending to capital development, and raises 60% of current revenues from trade taxes. Government spending accounts typically for almost one-third of GDP.

The US Central Intelligence Agency (CIA) estimated that in 2005 Belize's central government took in revenues of approximately us\$262 million and had expenditures of us\$329 million. Revenues minus expenditures totaled approximately -us\$67 million. Total external debt was us\$1.362 billion.

The International Monetary Fund (IMF) reported that in 1997, the most recent year for which it had data, budgetary central government revenues were B\$322 million and expenditures were B\$362 million. The value of revenues in US dollars was us\$161 million and expenditures us\$181 million, based on an official exchange rate for 1997 of us\$1 = B\$2.0000 as reported by the IMF. Government outlays by function were as follows: general public services, 20.9%; defense, 5.4%; public order and safety, 7.1%; economic affairs, 28.1%; housing and community amenities, 2.6%; health, 8.2%; recreation, culture, and religion, 1.3%; education, 20.5%; and social protection, 5.9%.

36 TAXATION

Income tax is levied on companies and individuals. Corporate taxes are set at a fixed rate of 35% of the chargeable income. Personal income tax is levied on those earning more than us\$10,000 per year, at a flat rate of 25%. A company granted a development concession has a tax holiday of up to 25 years. The Sales Tax Act of 1999 implemented a 12% tax on alcohol, tobacco, and fuel, and a 8% tax on all other items.

37 CUSTOMS AND DUTIES

Customs duties are generally ad valorem. Belize uses the CARICOM common external tariff (CET), which ranges from 5–45%. There is also a stamp tax (normally 12%) on certain goods. Import duties on industrial products average 20% and there is a duty of 15–25% on luxury items. Certain products require import licenses to protect domestic industry, including sugar and citrus fruits, but these will be removed.

The 1990 Export Processing Zone (EPZ) Act and the Commercial Free Zone (CFZ) Act of 1995 foster the import-export industry with tax incentives. Belize is a CARICOM member state, has free trade agreements with Venezuela and Colombia, and was working on a free trade agreement with Mexico in 1999.

38 FOREIGN INVESTMENT

As of 2006, proposals for foreign investments and applications for incentives are processed by BELTRAIDE—Belize Trade and Investment Development Service—formerly the Trade and Investment Promotion Service (TIPS). BELTRAIDE was designed as a one-stop shop for investors. In 2006, it was identifying as priority areas for investment agroindustries and food processing, tourism, aquaculture and horticulture, light manufacturing and assembly plants, deep-sea fishing, and forestry-related industries. An Aliens Land-Holding Ordinance governs real estate investment through licensing procedures.

Several incentive packages are available, outlined in the Fiscal Incentives Act of 1990, the International Business and Pub-

lic Companies (IBC) Act, the Export Processing Zone (EPZ) Act of 1990, and the Commercial Free Zone (CFZ) Act of 1995. No sectors are closed to foreign investment, but special permits and licenses for activities mostly reserved for Belize citizens—merchandising, sugar cane cultivation, internal transportation, beekeeping, accounting, beauty salons, etc.—may not be granted to foreigners. Fiscal incentives include tax holidays up to 25 years, tax and duty exemptions, reduced rents, and guaranteed repatriation of initial investment and profits.

IBCs are offered a host of tax exemptions and other incentives. EPZs offer duty exemptions on imports of capital equipment, spare parts, office furniture, and intermediate goods; tax exemptions; tax holidays of 20 years with options to extend; and no-cost work permits for professional and technical staff and up to 20% of the workforce. CFZ businesses are offered comparable incentives tailored to commercial enterprises. Three locations are designated EPZs-CFZs: the San Andres EPZ, eight miles from the Mexican border; an area adjacent to the Philip Goldson International Airport; and Price Barracks near Belize City.

Foreign direct investment was only us\$7 million in 1987. In 1997, FDI was us\$11.9 million, but rose to us\$19 million 1998, and peaked at us\$56 million in 1999. In 2000, FDI inflow was us\$27.6 million and in 2001, us\$34.2 million. In 2004, FDI amounted to us\$254.8 million. In 1999, amendments to existing legislation and new legislation—the Gaming Control Act, the Retired Persons (Incentive) Act, the Limited Liability Partnership Act, the Mutual Funds Act, the International Insurance Act, the Belize Business Bureau Act, and the International Financial Services—provided the legal framework for expanded offshore services, e-commerce and real estate development. The government also began the sale of Belize citizenship to those willing to pay from \$35,000 up to \$50,000 for the honor, especially to those from the United States, the United Kingdom, Ireland, and Canada. More CFZs are being created in Belize City, Benque Viejo del Carmen, and Punta Gorda. E-zones, equipped with the latest information technology, were fused with the EPZs. All concessions must be negotiated through BELTRAIDE.

39 ECONOMIC DEVELOPMENT

The government has opted to concentrate on developing agriculture, livestock, forestry, fishing, and tourism as foreign exchange earners. The main sources of bilateral aid are the United States and the United Kingdom; of multilateral aid, the United Nations (UN), Caribbean Development Bank (CDB), Organization of American States (OAS), and the Inter-American Development Bank (IDB). Belize joined the OAS and IDB in 1992 in a move to increase its access to developing financing and external technical cooperation.

Belize undertook several fiscal adjustment measures in 1996, including the retrenchment of the public sector work force and the introduction of a major value-added tax (VAT) of 15%. These two measures caused an increase in annual inflation from 3.2% in 1995 to 4.7% in 1996 and an increase of 1.3% in the rate of unemployment, to 13.8% of the labor force. In 2005, the inflation rate was estimated at 3%. The unemployment rate stood at 12.9% in 2003.

The National Development Strategy 1996–2000 drafted by the Ministry of Economic Development stressed fiscal restraint, and identified activities to stimulate private sector development, in-

cluding physical infrastructure improvement and financial sector reforms. Belize continues to strive toward meeting these goals.

A rural electrification project was underway in 2001–02, and the government pledged \$20 million to restore essential services such as health and education facilities and transportation networks to communities harmed by Hurricane Keith. The government is investing in projects to alleviate poverty. The government has been engaged in implementing an IDB-funded project to improve the competitiveness of the country's agricultural products in foreign markets. The country aims to promote the growth of commercial agriculture through Caribbean Community and Common Market (CARICOM) although most of its trade is conducted with the United States and Europe, not with other Caribbean nations. Tourism averaged 20% of gross domestic product (GDP) from 1997–2005, but the industry was adversely affected by the September 2001 terrorist attacks on the United States and the subsequent decline in tourism to the region.

40 SOCIAL DEVELOPMENT

Social security systems provide benefits to all employed persons aged 14–64. Both employers and employees make contributions towards old age pensions, disability, survivor, and health benefits. Retirement is set at age 60 for both men and women. There is a social assistance program for women aged 65 and older. Sickness and maternity benefits are available, as well as work injury. Full medical care is provided at government hospitals and clinics, and if necessary, treatment abroad is available.

Women have access to education and are active in all areas of national life, but face domestic violence and certain types of discrimination in the business sector. In 2004 domestic violence reports against women increased. The Women's Bureau of the Ministry of Labor and Social Services develops programs to improve the status of women. Despite these efforts, few women hold top managerial positions, and women generally earn less than their male counterparts. Child abuse is not a societal problem, however there are reports of families selling daughters to older men.

The rights of minority groups in Belize are generally well protected, although there have been continued reports of poor treatment of immigrant agricultural workers. Human rights are generally respected, although as of 2004 there have been reports of excessive police force and other violations. Prison conditions are improving.

41 HEALTH

Belize is relatively free of endemic diseases; during 1996–2000, communicable diseases were on the decline. Cardiovascular disease, mental illness, external trauma, and HIV/AIDS are significant public health problems. In 1995, 9,413 malaria cases were diagnosed. Belize was reported as a cholera-infected country in 1996, with 25 reported cases during that year. There are eight public hospitals. The Cayo and Belize districts have two hospitals each and all the remaining districts have one. There are 40 health centers and 35 rural satellites. As of 2004, there were an estimated 105 physicians and 126 nurses per 100,000 people.

Life expectancy was 68 years in 2005 and the infant mortality rate for that year was 25 per 1,000 live births. The total fertility rate was 4.0 per woman. There were 30 births per 1,000 people in 1999. The total mortality rate was estimated at 4.6 deaths per 1,000 people as of 2002. About 90% of one-year-old children had

been vaccinated against measles by the mid-1990s. Approximately 82% of the Belize population had access to safe water and 57% had access to adequate sanitation. However, only 69% of rural households in the south of the country had safe water. The HIV/AIDS prevalence was 2.40 per 100 adults in 2003. As of 2004, there were approximately 3,600 people living with HIV/AIDS in the country. The government has implemented a strategic program to deal with the AIDS epidemic.

42 HOUSING

Housing is inadequate, overcrowding is prevalent, and the situation has been aggravated by hurricane devastation (such as Hurricane Mitch 1998 and Hurricane Keith 2000). The government has put aside small sums for low-cost housing programs.

According to the 2001 census, about 83% of the population lived in undivided private homes and about 62% of all housing units were owner-occupied. About 44% of all households contained five or more members. About 32.8% of the housing stock was built in the period 1980–94; about 22% was built in 1979 or before. Only about 26% of all households had piped water leading directly into their homes. Another 17% had access to piped water to their yards. About 43.9% of the population still used outdoor pit latrines; but about 50% were linked to septic tanks or the public sewer system.

43 EDUCATION

Primary education is free and compulsory for children between the ages of 5 and 14. Primary schooling covers an eight-year course of study. Secondary education covers four years and consists of either a general course of study or classes at a vocational or trade school. Most schools are church-affiliated but still supported by the government. About 28% of children between the ages of three and four attend some type of preschool program. Primary school enrollment in 2003 was estimated at about 100% of age-eligible students. The same year, secondary school enrollment was about 69% of age-eligible students. The student-to-teacher ratio for primary school was at about 21:1 in 2003. The ratio for secondary school was about 23:1.

The University of Belize was founded in 2000 by the merger of the University College of Belize (est. 1986), Belmopan Junior College, Belize School of Nursing, Belize School of Education, and Belize College of Agriculture. The University of the West Indies maintains a School for Continuing Education (SCE) in Belize. There are also several colleges providing specialized training such as the Belize Technical College, the Belize Teachers' College, and the Belize Vocational Training Center. In 2003, it was estimated that about 2% of the tertiary age population were enrolled in some type of higher education program. The adult literacy rate for 2004 was estimated at about 76.9%, with 76.7% for males and 77.1% for females.

The Ministry of Education, Youth, and Sports is the primary administrative body. As of 2003, public expenditure on education was estimated at 5.2% of GDP, or 18% of total government expenditures.

44 LIBRARIES AND MUSEUMS

The National Library Service maintains a central library in the Bliss Institute, a children's library, and a branch library in Belize City. The National Library Service was established in 1966 to over-

see the nation's public library system. In 2003, the public library network included 12 branch (operating on a full-time basis) and 17 sub libraries (open only about 20 hours per month). The University of Belize Library System includes four department branch libraries and one resource center, including the Management and Social Science Library (MASS Library) and the Engineering Resource Center.

The Museum of Belize, opened in 2002, houses historical and cultural exhibits in a former prison. The remains of the ancient Maya civilization—the best known are at Xunantunich—are being excavated by the government. The Department of Archaeology in Belmopan houses artifacts thus far uncovered.

45 MEDIA

Belize is connected by radiotelegraph and telephone with Jamaica, Guatemala, Mexico, and the United States. This service, along with cable and telex services, is operated by Cable and Wireless Ltd. An automatic telephone network, covering the entire country, is operated by the Belize Telecommunications, which was fully privatized in early 1992. In 2003, Belize had 33,300 mainline telephones and 60,400 mobile phones in use.

The Belize National Radio Network, a government station in Belize City, transmits in English and Spanish. The first privately owned commercial radio station began broadcasting in 1990. In 2004, there were 10 privately owned commercial radio stations and 1 British military station. There were also two privately-owned television stations and several cable stations. The Belize Broadcasting Authority regulates all broadcasting and retains the right to preview certain broadcasts. In 1997, there were 133,000 radios and 41,000 television sets in use nationwide. In 2002, there were 30,000 Internet users in the country.

There are no daily newspapers. The largest weeklies in 2002 were *Amandala* (*Black Power*, circulation 45,000) and *The Reporter* (6,500), both published in Belize City. *Belize Today*, a monthly publication out of Belmopan, has a circulation of 17,000. The Belize Press Association was formed in 1995.

Though Belize's constitution assures the freedom of speech and press, there are provisions for the curtailment of these freedoms, including a law forbidding citizens from questioning financial statements submitted by public officials. The Supreme Court has warned journalists that questioning the integrity of the court or of its members could result in criminal charges. The government makes free use of Belize's largest radio facilities to produce partisan advertisements and party propaganda. The Belize Broadcasting Authority (BBA) asserts its right to delete defamatory or libelous material from political broadcasts.

46 ORGANIZATIONS

The Belize Chamber of Commerce and Industry has its headquarters in Belize City. There are active workers' unions and professional associations, including the Belize Citrus Growers' Association and the Belize National Teachers' Union.

Youth organizations include the Belize Union of Students and Youth (BUSY), YMCA, YWCA, The Scout Association of Belize,

an organization of Girl Guides, and a branch of the Red Cross Youth as part of the national chapter of the Red Cross. There are sports associations in the country for such pastimes as tennis, football (soccer), and track and field.

The United Democratic Party National Organization of Women (UPNOW) encourages involvement in party activities and educates women about political and social issues. The group also serves to defend women against discrimination and violence.

There are active chapters of Habitat for Humanity, the Lions Club, and Kiwanis International.

47 TOURISM, TRAVEL, AND RECREATION

Belize is attracting growing numbers of tourists to its Mayan ruins, its barrier reef (the longest in the Western Hemisphere), and its beaches, forests, and wildlife. Tourist arrivals totaled 220,574 in 2003; mostly from the Americas. There were 5,050 hotel rooms in Belize with 8,166 beds and an occupancy rate of 41%. Visitors stayed an average of seven nights.

In 2005, the US Department of State estimated the cost of staying in Belize City at us\$183 per day.

48 FAMOUS BELIZEANS

George C. Price (b.1919), leader of the PUP, became the country's first premier in 1964. Manuel Esquivel (b.1940), leader of the UDP, was prime minister from 1984–89 and from 1993–98. Said Wilbert Musa (b.1944) succeeded Esquivel in 1998.

49 DEPENDENCIES

Belize has no territories or colonies.

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BOLIVIA

Republic of Bolivia
República de Bolivia



CAPITAL: La Paz (administrative capital); Sucre (legal and judicial capital)

FLAG: The flag is a horizontal tricolor of red, yellow, and green stripes, representing the animal, mineral, and vegetable kingdoms.

ANTHEM: *Himno Nacional*, beginning “Bolivianos, el hado propicio coronó nuestros volos anhelos” (“Bolivians, propitious fate crowned our outcries of yearning”).

MONETARY UNIT: The boliviano (B) was introduced on 1 January 1987, replacing the peso at a rate of P1,000,000 = B1. There are coins of 2, 5, 10, 20, and 50 cents and 1 boliviano and notes of 2, 5, 10, 20, 50, 100, and 200 bolivianos. B1 = \$0.12330 (or \$1 = B8.11) as of 2005.

WEIGHTS AND MEASURES: The metric system is the legal standard, but some Spanish weights are still used in retail trade.

HOLIDAYS: New Year’s Day, 1 January; Labor Day, 1 May; National Festival, 5–7 August; Columbus Day, 12 October; All Saints’ Day, 1 November; Christmas, 25 December. Movable holidays include Carnival, Ash Wednesday, Holy Thursday, Good Friday, Holy Saturday, and Corpus Christi.

TIME: 8 AM = noon GMT.

¹LOCATION, SIZE, AND EXTENT

Situated in South America just N of the Tropic of Capricorn, Bolivia has a total area of 1,098,580 sq km (424,164 sq mi), extending about 1,530 km (950 mi) N–S and 1,450 km (900 mi) E–W. Comparatively, the area occupied by Bolivia is slightly less than three times the size of the state of Montana. Completely landlocked, Bolivia is bounded on the N and NE by Brazil, on the SE by Paraguay, on the S by Argentina, on the SW by Chile, and on the W by Peru, with a total boundary length of 6,743 km (4,190 mi).

The capital city of Bolivia, La Paz, is located in the west-central part of the country.

²TOPOGRAPHY

Bolivia has three geographic zones: the Andean highlands in the southwest, running north to south; the moist slopes and valleys on the eastern side of the Andes, called the Yungas and Valles; and the eastern tropical lowland plains, or Oriente. In Bolivia, the Andes, divided into two chains, attain their greatest width, about 640 km (400 mi), and constitute about one-third of the country. Between the Cordillera Occidental, forming the border with Chile and cutting Bolivia off from the Pacific, and the complex knots of the Cordillera Oriental lies a broad sedimentary plateau about 4,000 m (13,000 ft) above sea level, called the Altiplano, which contains about 28% of Bolivia’s land area and more than half of its population. In the north of this plateau, astride the border with Peru, lies Lake Titicaca, 222 km (138 mi) long and 113 km (70 mi) wide; with its surface at an altitude of 3,805 m (12,484 ft), it is the highest navigable lake in the world. The lake is drained to the south by the 322-km (200-mi) Desaguadero River, which empties into shallow, salty Lake Poopó. Farther south are arid salt flats.

The Cordillera Oriental has high habitable basins and valleys collectively referred to as the Puna. Bolivia’s most majestic moun-

tains are in the northern part of the Cordillera Oriental around Lake Titicaca, where the mountain sector is capped with snow; the highest of these is Ancohuma (6,550 m/21,489 ft). Illimani and Illampu, both rising more than 6,400 m (21,000 ft), overlook the city of La Paz, which is protected from cold winds by its position in the spectacular gorge formed by the headwaters of the La Paz River. The three important valleys of this region, Cochabamba, Sucre, and Tarija, are from 1,830 to 3,050 m (6,000 to 10,000 ft) in altitude.

Bolivia’s important rivers descend across the Yungas and Valles into the low tropical plains of the Oriente, which comprises three-fifths of the land but has only about one-fifth of the population. The Guaporé, the Mamoré, the Beni, and the Madre de Dios rivers cross the often-flooded northern savanna and tropical forests, all converging in the northeast to form the Madeira, which flows into Brazil. The plains become drier in the southeast, forming Bolivia’s scrub-covered Chaco. Crossing the Chaco to the southeast, the Pilcomayo River leaves Bolivia to form the border between Paraguay and Argentina.

³CLIMATE

Although Bolivia lies entirely in the tropics, extreme differences in altitude and rainfall give it a great variety in climate. The mean annual temperature of La Paz, at 3,697 m (12,130 ft), is about 8°C (46°F); that of Trinidad, in the eastern lowlands, is 26°C (79°F). In the western highlands, cold winds blow all year round; at night the temperature often drops below freezing, but the sun is intense and the air brilliant during the day. The rainy season lasts from December to February, but during most of the year the high Altiplano plateau is parched and inhospitable. Around Lake Titicaca, rainfall is adequate, but there is less than 13 cm (5 in) a year in the

extreme southwest. The fertile valleys in the Cordillera Oriental have a warmer, semiarid Mediterranean climate.

The Yungas and Valles have a semitropical, moist climate that gradually becomes hotter as one descends from the eastern slopes of the Andes to the tropical eastern lowlands. Rainfall is heavy in the northeast, and floods are common in March and April. The lowland plain becomes drier to the south, until it reaches drought conditions near the Argentine border.

4 FLORA AND FAUNA

Bolivia shares much of the wide variety of flora and fauna found in the four countries surrounding it. Because of the wide range in altitude, Bolivia has plants representative of every climatic zone, from arctic growth high in the sierra to tropical forests in the Amazon basin. On the high plateau above 3,050 m (10,000 ft) grows a coarse bunch grass called ichu, used for pasture, thatching, and weaving mats. A reed called totora, which grows around Lake Titicaca, is used for making small fishing boats (balsas). The low bushlike tola and the resinous mosslike yareta are both used for fuel. The Lake Titicaca region is believed to be the original home of the potato.

In the tropical forest, the quinine-producing quina tree grows, as does the Pará rubber tree. There are more than 2,000 species of hardwoods. Aromatic shrubs are common, as are vanilla, sarsaparilla, and saffron plants. Useful native plants include palms, sweet potatoes, manioc, peanuts, and an astonishing variety of fruits. The Chaco is covered with a prickly scrub collectively called monte; tannin-producing quebracho trees also abound there.

On the Altiplano, the most important animal is the llama, one of the most efficient carrier animals known; alpaca and guanaco and several varieties of cavy (guinea pig) are found there, too. Lake Titicaca has several varieties of edible fish. In the tropical Amazon region are the puma, coati, tapir, armadillo, sloth, peccary, capiguara (river hog), and ant bear, as well as several kinds of monkeys. Birdlife is rich and varied. The Andean condor, usually found in the mountain regions, is the largest flying bird in the Americas. Reptiles and an enormous variety of insects are found below 3,050 m (10,000 ft).

5 ENVIRONMENT

The chief environmental problem in the densely populated Altiplano is soil erosion, resulting from poor cultivation methods (including slash-and-burn agriculture) and overgrazing. Erosion affects about 30% of the land in Bolivia. Salinity and alkalization are also a significant problem. Inadequate sanitation and solid-waste disposal, as well as effluents from mining activities, contribute to the Altiplano's declining water quality, which poses a threat both to fish life and to human health. Bolivians have about 316 cu km of renewable water resources, but only 95% of the city dwellers and 68% of all rural people have access to improved water sources. The main sources of water pollution are fertilizers, pesticides, and mining. Most environmental legislation dates from the 1970s, when Bolivia enacted the Health Code of 1978 (which contains provisions governing water quality), the National General Forest Act of 1974, and the Law of Wildlife, National Parks, Hunting, and Fishing (Decree Law No. 12,301) of 1975.

In July 1987, the Bolivian government became the first government in history to agree to protect a part of its environment in

return for a reduction of its foreign debt, when Conservation International, a US nonprofit group, purchased \$650,000 of the debt in return for Bolivia setting aside 1.5 million hectares (3.7 million acres) of tropical lowlands in three conservation areas. As of 2003, 13.4% of Bolivia's total land area was protected. There are eight Ramsar wetland sites in the nation. The Department of Science and Technology, within the Ministry of Planning and Coordination, plans and coordinates all governmental and intergovernmental activities related to the environment.

As of 2002, there were at least 316 species of mammals, 504 species of birds, and over 17,360 species of plants. According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), the number of threatened species included 26 types of mammals, 30 species of birds, 2 types of reptiles, 21 species of amphibian, and 70 species of plants. Another 100 species of animals were considered to be near threatened or at a low concern of threat. Endangered species in Bolivia included the puna rhea, South American river turtle, broad-nosed caiman, spectacled caiman, black caiman, jaguar, jaguarundi, margay, ocelot, emperor tamarin, and giant anteater. The llama and the alpaca are also threatened with extinction.

6 POPULATION

The population of Bolivia in 2005 was estimated by the United Nations (UN) at 8,922,000, which placed it at number 85 in population among the 193 nations of the world. In 2005, approximately 4% of the population was over 65 years of age, with another 37% of the population under 15 years of age. There were 99 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 2.1%, a rate the government viewed as satisfactory. The projected population for the year 2025 was 12,018,000. The population density was 8 per sq km (21 per sq mi).

The UN estimated that 63% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 2.50%. The capital city, La Paz (administrative capital) had a population of 1,477,000 in that year. Sucre (legal and judicial capital), had a population of 190,000. Santa Cruz, a departmental capital, had a metropolitan population of 1,352,000. Other important departmental capitals and their estimated populations include Cochabamba, 815,800; Oruro, 211,700; and Potosí, 115,000.

7 MIGRATION

Aside from Spaniards during the colonial period, European immigration has been insignificant. Small numbers of Italians, Poles, and Germans have settled mainly in the vicinity of La Paz and Cochabamba, and some Jewish refugees from Nazi Germany arrived in the 1930s. After World War II, about 1,000 Japanese settled in colonies around Santa Cruz and became successful in truck farming, and several hundred Okinawan families established themselves as rice growers in the same area.

From the 1950s to the 1980s, migration to neighboring countries increased: 30,000 left Bolivia in 1950–55; 40,000 left in 1980–85. Since the emigrants tend to have basic training or technical skills, a drain of important human resources is occurring. A number of Bolivian *braceros* (contract agricultural laborers) go to northwestern Argentina to work in rice and sugar harvests. In the 1970s, Brazilian settlers, drawn by improved railroad and high-



LOCATION: 9°40' to 22°53' s; 57°29' to 69°35' w. BOUNDARY LENGTHS: Brazil, 3,400 kilometers (2,108 miles); Paraguay, 750 kilometers (465 miles); Argentina, 832 kilometers (516 miles); Chile, 861 kilometers (535 miles); Peru, 900 kilometers (558 miles).

way links, migrated to northeastern Bolivia in growing numbers; these immigrants had a substantial influence on the region, since they continued to speak Portuguese and to use Brazilian currency as their medium of exchange. Within the country, migration is swelling the sparsely populated lowlands, particularly in Santa Cruz and its environs. High unemployment among agricultural laborers and miners has caused significant migration to the cities. The net migration rate estimated for 2005 was -1.27 migrants per 1,000 population. The government views the migration levels as satisfactory.

As of 2000, the number of migrants in Bolivia totaled 61,000. In 2004 there were 546 refugees living in Bolivia. Worker remittances for 2003 totaled \$85.5 million.

8 ETHNIC GROUPS

Among the Amerindian population, an estimated 30% are Quechua and 25% are Aymará. Cholos (Bolivians of mixed white and Amerindian lineage) make up another 25 to 30%, and those of wholly European background account for virtually all of the re-

mainder. One reason for the uncertainty of these estimates is that although the distinction between Amerindian, cholo, and white was at one time racial, it has gradually become at least partially sociocultural: Amerindians become cholos when they abandon their native costumes, learn to speak Spanish, and acquire a skill or trade. Not all those classified as whites are without some Amerindian mixture.

The rapidly disappearing Amerindians who populate the tropical plains in the southeast, the Chiriguano, are believed to be a Guaraní tribe that moved west from Paraguay before the Spanish conquest. The Mojenos, Chiquitanos, and Sirionós inhabit the forest-grassland border in the far east.

⁹LANGUAGES

Spanish, Quechua, and Aymará are all official languages. Spanish as spoken by educated Bolivians differs less from Castilian than do the dialects of many regions in Spain itself. An increasing number of Amerindians also speak Spanish.

¹⁰RELIGIONS

Roman Catholicism is the official religion. As such, the Roman Catholic Church receives support from the state and exercises a certain degree of political influence through the Bolivian Bishops' Conference. Courses in Catholicism are offered in public schools, but students of other faiths are not required to attend. Non-Catholic organizations register with the Ministry of Foreign Affairs and Worship for tax and legal benefits, but unregistered groups are not restricted from gathering. Freedom of religion is provided for in the constitution and this right is generally respected in practice.

According to a 2001 survey, about 78% of the population were Roman Catholic. Between 16 and 19% of the population were Protestant, including Mennonites, Lutherans, Mormons, Methodists, Seventh-Day Adventists, Baptists, Pentecostals, and various evangelical groups. There is a Mormon temple in Cochabamba which is believed to serve more than 100,000 Mormons from across the country. Less than 0.2% of the population were affiliated with other faiths such as Judaism, Bahá'ism, Islam, Buddhism, and Shintoism. There is a small Jewish community with a synagogue in La Paz, as well as a Muslim community with a mosque in Santa Cruz. Korean immigrants also have a church in La Paz.

Indigenous beliefs and rituals are exercised by the Aymará, Quechua, Guaraní, and Chiquitano, many of whom practice a blend of Roman Catholicism and traditional customs. Common traditional beliefs include a focus on Pachamama, who is a mother earth figure, and Akeko, a god of luck, harvests, and abundance.

¹¹TRANSPORTATION

Transportation in Bolivia has been seriously impeded both by the geographic configuration of the country and by the concentration of population and mineral wealth in the mountain regions. Railroads and highways twist along the Andean Range, and are often blocked by mudslides during the rainy season. The shortage of transportation facilities is one of the most serious barriers to economic development. Railroads are almost entirely single, 1,000 m narrow gauge track, totaling 3,519 km (2,189 mi) in 2004. The railway system, National Railway Co, is in two distinct parts separated by the eastern Andes. All of the trackage was government owned and operated until privatized in 1996. A major portion of

the railway system, the Andina, services the Altiplano, the western mountainous region, providing vital international connections with Pacific coast ports. The remaining track, the Oriental, connects the eastern city of Santa Cruz with Brazil and Argentina. An important route to Puerto Suárez eventually reaches the Brazilian port of Santos, while the line to Argentina via Villazón continues on to Buenos Aires. Two smaller lines (157 km/98 mi) are run by the Mining Corp. of Bolivia and by the Pulacayo mining enterprise.

In 2003, of a total of 60,762 km (37,794 mi) of roads, only about 4,314 km (2,683 mi) were paved, including 11 km (7 mi) of expressways. The Cochabamba-Santa Cruz highway, completed in 1963, was a major achievement in connecting lowland and highland Bolivia. In 2003 there were 493,600 motor vehicles, of which 203,500 were passenger cars, and 290,100 were commercial vehicles.

Airlines are particularly important in view of Bolivia's topography and the underdevelopment of other means of transportation. In 2004, there were an estimated 1,065 airports, only 16 of which had paved runways as of 2005. The hub of air traffic is El Alto airport near La Paz, the world's highest commercial airport; the other international airport is at Santa Cruz. Lloyd Aéreo Boliviano (LAB), with 50% government capital, services most of the country. In 2003, a total of about 1.768 million passengers were carried on scheduled international and domestic flights. Military Air Transport, operated by the air force, provides some civilian freight and passenger service, and numerous air taxi companies are also in service.

Little use has been made of Bolivia's 10,000 km (6,214 mi) of commercially navigable waterways. The merchant marine had 32 vessels (1,000 GRT or over), totaling 413,407 GRT in 2005. There are no regular riverboat services. Bolivia has free port privileges at Antofagasta and Arica (Chile), at Mollendo (Peru), and at Santos (Brazil).

¹²HISTORY

By about AD 600, Amerindians (believed to belong to the Aymará-speaking Colla tribe) were settled around the southern end of Lake Titicaca. As they came into contact with coastal tribes, the highly developed classic Tiahuanaco civilization emerged, reaching its peak about AD 900. Lake Titicaca became a place of worship and a great commercial center. Then cultural and political disintegration set in, and by 1300, the Quechua-speaking Incas had conquered the region and had colonized villages in most of what is now Bolivia.

The demise of the Inca empire began in 1527 with the death of the Inca Emperor Huayna Capac. His two sons, Huáscar and Atahualpa, fought a civil war over succession. Francisco Pizarro, taking advantage of the civil war raging between the two heirs, led the Spanish conquest of the Inca Empire in 1532–33. In 1539, Pedro de Anzures established La Plata, subsequently called Charcas and Chuquisaca and now known as Sucre, Bolivia's legal and judicial capital.

The Spaniards did not become interested in the land called Alto Peru, or Upper Peru, until the discovery in 1545 of the fabulously rich silver mine called the Cerro Rico (Rich Hill) de Potosí. Three years later, La Paz was founded on the main silver transport route between Potosí and the coast. In 1559, the *audiencia* (region un-

der a royal court) of Charcas was established in Upper Peru under the viceroyalty of Lima. The mines continued to produce vast amounts of wealth for the Spanish Empire, and for years the city of Potosí was the largest city in the Western Hemisphere. In 1776, the *audiencia* was appended to the viceroyalty of La Plata (Buenos Aires).

The independence of Upper Peru came from the revolt of the small, native-born Spanish ruling class. In 1809, a year after Napoleon's invasion of Spain, the Spanish authorities in Chuquisaca (Sucre) were temporarily overthrown, and the local elite proclaimed independence. The movement was quickly put down by Spanish arms. The young government in Buenos Aires showed some interest in the region, having included delegates from Upper Peru when independence was declared at the Congress of Tucumán in 1816. However, independence came from Peru, after Simón Bolívar's victory at the battle of Ayacucho in December 1824. Bolívar then sent his young general, Antonio José de Sucre, to free Upper Peru. On 6 August 1825 a congress at Chuquisaca formally proclaimed the independence of the Republic of Bolívar, a name soon changed to Bolivia. Sucre was chosen as the first president in 1826, and Chuquisaca was renamed Sucre in his honor.

A period of instability followed, with civilians and army officers succeeding one another, usually by force of arms. The almost constant civil war retarded Bolivia's economic organization and helped bring about the loss of a large part of its land. The first of these losses came after the War of the Pacific (1879–84), pitting Chile against Bolivia and Peru. Chile's superior military force routed the Bolivians and seized what was then the Bolivian port of Antofagasta. The postwar settlement took away Bolivia's only coastal territory, as well as the nitrate-rich coastal area around it. Bolivia was forever after a landlocked country, with only rights of access to the Pacific under a 1904 treaty. Another territorial loss came in 1903 with the cession to Brazil of the Acre region, rich in natural rubber, in exchange for an indemnity and other minor concessions. Sucre was driven out of office after only two years. He was succeeded by Gen. Andrés de Santa Cruz, a man with imperial ambitions. In 1836, Santa Cruz conquered Peru and formed the Peruvian-Bolivian Confederation. In 1839, Chilean forces defeated and dissolved the confederation and ended the life term of Santa Cruz.

The economy was aided in the late 19th century by a silver boom. When prices collapsed, silver production gave way to tin mining. The dominance of mining in Bolivia's economy conditioned the political system. A few wealthy mine and plantation owners, allied with various foreign interests, competed for power. Indians, excluded from the system, found their lot unchanged after almost 400 years.

This arrangement began to unravel with yet another loss of Bolivian territory. In 1932, Bolivia warred with Paraguay over the Chaco, the lowland area believed at the time to be rich in oil. Despite their numerical superiority, the Bolivians were defeated by 1935, and Paraguay controlled about three-fourths of the disputed territory. The formal settlement in 1938 gave most of this land to Paraguay, although Bolivia was promised a corridor to the Paraguay River.

The Chaco war pointed out the weaknesses in Bolivia's political and social structure. Bolivia's loss was in part due to the poor morale of its soldiers, an army of conscripted Indians with no loy-

alty to the elite officer corps. In 1936 Bolivia's rigid caste system cracked, and Col. David Toro came to power with labor support and a vaguely socialist/nationalist platform. The government expropriated Standard Oil of New Jersey's Bolivian properties in 1937. Toro's government attempted social reform, and its efforts to control mining and banking led to fierce opposition. The tension continued after Toro was forced out of office by Col. Germán Busch. Busch challenged Bolivia's three large tin-mining interests, owned by Patiño, Aramayo, and Hochschild. With strong labor backing, Busch arranged for the constitution of 1938, a document guaranteeing the right of labor to organize, universal education, and nationalized subsoil rights. The very next year, Busch died in what was officially ruled a suicide.

World War II brought further strains to Bolivia. As world demand skyrocketed, the tin market boomed, but working conditions remained miserable, and wages remained low. In 1942, protests by tin workers against the "tin barons" and their American financiers were met with force by the government of Gen. Enrique Peñaranda, resulting in the "Catavi massacre." Wishing to retain the strategic materials in mid-war, the United States commissioned a US-Bolivian commission to study working conditions. This report confirmed the workers' grievances, but was completely ignored by Peñaranda. In December of 1943, a coalition of the army and the Nationalist Revolutionary Movement (Movimiento Nacionalista Revolucionario—MNR), which had gained considerable support among the mineworkers, engineered a coup, ousting Peñaranda and putting Maj. Gualberto Villarroel into power. The tin market collapsed at the war's end, weakening the government's power base. In 1946, Villarroel was overthrown and hanged, along with others, by a mob of workers, soldiers, and students, and a conservative government was installed.

In 1951, the MNR's candidate, Víctor Paz Estenssoro, a former associate of Villarroel, apparently won the presidential election, but a military junta stepped in, denying the legality of the vote. Paz, representing the left wing of the MNR, became president in 1952 as a result of a party-led uprising. For the next 12 years, Bolivian politics would be dominated by the MNR.

The leadership of the MNR was shared by four men: Paz, Juan Lechín Oquendo, leftist head of the miners' union, Hernán Siles Zuazo, close ally of Paz, and the right-wing Walter Guevara Arze. A pact among the four was to allow them to take turns in the presidency over the next 16 years. The Paz government made dramatic moves in an attempt to transform Bolivian society. The tin holdings of the three dominant family interests were expropriated, and a comprehensive land reform program was begun, along with wide-scale welfare and literacy programs. Industry was encouraged, the search for oil deposits was accelerated, and a new policy gave Amerindians the right to vote and sought to integrate the Amerindian community more fully into the national economy. The right to vote, previously restricted to literate Bolivian males (who constituted less than 10% of the population), was made universal for all Bolivians over 21.

In 1956, as expected, Hernán Siles succeeded to the presidency. But Siles only governed under Paz's watchful eye, and in 1960, Paz challenged the candidacy of Guevara Arze. Guevara went into exile, and Paz again assumed the presidency, with Lechín as his vice president. Paz became increasingly dictatorial, and the splits within the MNR worsened. Paz conspired to give himself yet another

er presidential term, complete with rigged elections in June 1964. Siles, now leading the right wing of the MNR, and Lechín, now leading the leftist opposition, conducted a hunger strike protesting Paz's authoritarian designs. Finally, the military defected when it became clear that Paz was without any allies. The military coup occurred in November 1964, with the junta selecting as president Paz's vice president René Barrientos Ortuño.

Barrientos moved quickly to consolidate his new government, removing Paz's old supporters and sending Lechín into exile. In the following year, a military faction forced Barrientos to allow Gen. Alfredo Ovando Candia to become his "co-president." This odd arrangement was resolved in 1966 with new elections. Barrientos and his newly formed Popular Christian Movement won a resounding victory.

In 1967, an active guerrilla movement with pro-Castro tendencies emerged in southeastern Bolivia. The Bolivian authorities imprisoned the French intellectual Jules Régis Debray, who revealed that the famous comrade of Fidel Castro, Ernesto "Che" Guevara, was leading the guerrilla movement. Later in the year, the Bolivian army apprehended and killed Guevara.

Barrientos died in a helicopter crash in April 1969, and a civilian, Vice President Adolfo Siles Salinas, became president. Siles was overthrown in September by Barrientos' former rival, Gen. Ovando, who presented himself as a presidential candidate for 1970 but then canceled the election. In October 1970, President Ovando was overthrown by rightist elements of the military, but the next day a leftist faction succeeded in making Gen. Juan José Torres Gonzales the new president.

The Torres regime was marked by increasing political instability. Backed by students and the Bolivian Labor Council, Torres expelled the US Peace Corps, permitted the expropriation of both US and privately owned Bolivian properties, sanctioned the seizure of land by landless peasants, established a labor-dominated People's Assembly, and declared his support for the reestablishment of diplomatic relations with Cuba. In a bloody three-day revolution in August 1971, the Torres government was ousted by a coalition of the armed forces and political leaders from the MNR and the Bolivian Socialist Falange (Falange Socialista Boliviana—FSB), together with other middle-class groups. The leader of the coup was Hugo Bánzer Suárez, who was installed as president later in the month. Bánzer consolidated his support with the founding of the Nationalist Popular Front, which became the political framework of the new government. Ex-president Paz returned from exile to head the MNR.

The first threats to the Bánzer government came from the left. There were reports late in 1971 of renewed activity by the Guevarist National Liberation Army. The government launched a vigorous antiguerrilla campaign and claimed nearly complete success. In 1973, however, Bánzer's coalition began to splinter. In 1974, when the MNR threatened to withdraw from the coalition, Paz went into exile again. After two coup attempts had been crushed in the fall of 1973 and two others in the summer of 1974, Bánzer formed a new all-military cabinet. In November 1974, the MNR, the FSB, and other political parties were abolished, and trade union meetings were declared illegal.

In response to industrial and political unrest, Bánzer announced the restoration of political parties in 1977 and of unions in 1978. He promised to hold new elections in July 1978. Paz again re-

turned from exile to run. The election results were annulled, however, and a new military government came to power in a bloodless coup. Another election took place in July 1979, but because no candidate received a majority and the Congress could not decide whom to select from among the three main candidates, an interim president was named. Another coup followed in November, but constitutional government was restored only two weeks later, in the wake of popular resistance. New presidential and congressional elections in June 1980 again failed to produce a majority winner, and in July there was another coup, staged by Gen. Luis García Meza, who promptly suspended the Congress, banned most political parties and all union activity, and established strict censorship in order to remove the "Marxist cancer" from Bolivia. Paz again went into exile. During the García regime there were frequent reports of arbitrary arrests, use of torture, and other human rights violations. In August 1981, García, who was suspected, along with other top officials in the government, of involvement with the cocaine trade, was deposed in a coup—the 190th in Bolivian history. He went into exile in Argentina in October 1982, and in May 1983, he was ordered arrested on charges of "corruption and economic crimes"—specifically, the fraudulent use of government funds in agricultural, construction, and oil refinery deals. Meanwhile, under two more military governments, political and union rights were gradually restored.

In October 1982, amid a worsening economic situation and increasing labor unrest, the Congress elected Hernán Siles Zuazo to the presidency. Siles, returning to office 22 years after the end of his previous presidency, could still count on electoral support, and had received a plurality of votes in the 1979 and 1980 elections. His shaky coalition faced continued economic problems, including food shortages and rampant inflation, and a right-wing threat from paramilitary groups whose activities were reportedly financed by cocaine smuggling. In November 1983, the Bolivian government announced an austerity program that included a 60% devaluation of the peso and hefty food price increases. By mid-1985, Siles had so mismanaged the economy and the political situation that labor unrest and social tension forced him to call national elections and to agree to relinquish power a full year before the expiration of his term. Bánzer won a plurality of the popular vote, but the MNR won more seats in the congressional elections, resulting in a fourth term of office for the 77-year-old Paz. In a departure from the norm, the MNR and Bánzer's party agreed to cooperate, allowing a comprehensive economic reform package to pass through the legislature.

Faced with runaway inflation, which reached an annual rate of 14,000% in August 1985, the government abandoned controlled exchange rates, abolished price controls, liberalized external trade, and instituted more restrictive monetary and wage policies. The result was sharply lower inflation and interest rates, and a more stable economy, although the shocks of this liberalization were felt through government layoffs and falling consumer buying power.

More importantly, Paz was able to forge a fundamental consensus among competing political parties in support of a continuing democracy. In 1989, despite a hotly contested presidential race, power passed from the MNR to the left-wing movement of the Revolutionary Left (MIR). The peaceful transfer of power from one party to another was a milestone in itself. An equally hopeful sign was the fact that the MIR leader, Jaime Paz Zamora, was able

to hold together a coalition with the right-wing national Democratic Alliance (ADN) to serve a full four-year presidential term. In Bolivia, this is a major accomplishment.

The elections of 1993 brought the MNR back to power, with Gonzalo Sánchez de Lozada assuming the presidency. Sánchez chose as his running mate Victor Hugo Cárdenas, an advocate for Bolivia's Aymara-speaking Amerindians. While some saw the move as a cynical ploy, others expressed hope that Bolivia's long-suffering native population might be brought into the political system. Sánchez de Lozada's administration embarked on a wide-ranging program of reforms that included decentralization of government, tariff reduction, educational reform, and most notably, a major privatization campaign. State enterprises that were privatized included the national railroad, the state-owned airline, and the nation's electric power generation facilities. Sánchez de Lozada's plans also included privatization of Bolivia's mining sector through joint ventures with foreign investors. In spite of continued economic stabilization and progress, the government's policies drew protests and labor strikes leading to the declaration of a 90-day state of siege in 1995.

In 1997, Gen. Hugo Bánzer, the former dictator who had tried unsuccessfully to regain power by legal means since his ouster in 1978, came in first in the June presidential elections and, in the absence of an electoral majority, was chosen by Congress to be the nation's next president. Bánzer, a conservative democrat, pledged to halt his predecessor's privatization program while improving basic services and expanding jobs. Shortly into his term, Bánzer faced growing social unrest resulting from an economic crisis and the government's inability to fight corruption and implement an effective anti-narcotics program. Due to health reasons, Bánzer resigned in 2001 before the end of his term and was replaced by his young vice president Jorge Quiroga who served as a caretaking president until Gonzalo Sánchez de Lozada, the plurality winner in the June 2002 election, took office for the second time in his life. After failing to win a majority of the popular vote, Sánchez de Lozada was elected by Congress over second-place finisher, indigenous and peasant activist Evo Morales.

Sánchez de Lozada's second term was marked by social and political upheaval. One year into his term, the economy was stagnant, and social and racial tensions kept the country in turmoil. Sánchez de Lozada's initiative to attract foreign investments to exploit Bolivia's large and rich natural gas reserves was met with indignant opposition by indigenous leaders. Social protests against Sánchez de Lozada turned violent and the government ordered the police to repress protestors. The vice president, Carlos Mesa Gisbert, announced his withdrawal of support for Sánchez, thus forcing him to resign. Mesa was appointed president and promised to implement social and economic reforms to mitigate poverty and bring about political reform. Mesa also took on a harder stance against Chile and promised that Bolivian natural gas would not be exported through Chilean ports. Although he did experience some positive response, Mesa soon found himself under the same heavy fire that brought his predecessor down. Mesa was forced to resign on 9 June 2005. A new care-taking government, led by Supreme Court President Eduardo Rodríguez, took charge to conduct new presidential elections.

Indigenous leader Evo Morales was widely seen as the favorite to win the presidential election. Having led the opposition against

Sánchez de Lozada and Mesa, Morales was blamed for the political instability that characterized Bolivia in the preceding years. Yet, he was also the most important indigenous political leader and represented an excluded class of Bolivians who had been historically subjected to neglect and poverty. Thus, his electoral victory was considered the only way to bring about stability and political inclusion.

Presidential elections were held in December 2005. Evo Morales won an absolute majority of the vote (53.7%) and became the first indigenous president in Bolivia's history. He defeated former President Jorge Quiroga (28.6%). Morales's strong showing was unusual for Bolivia, where presidents are usually elected by Congress after candidates fail to get an absolute majority of the vote. Evo Morales is the leader of the Movement Towards Socialism (MAS). MAS obtained a clear majority control of the Chamber of Deputies (72 seats in the 130-member Chamber) and 12 of the 27 seats in the Senate. As of this election there had been no other president in Bolivian history that had enjoyed such a clear mandate. Morales promised to bring about economic reforms to help the marginalized and poor, to fight corruption, and nationalize mining interests.

13 GOVERNMENT

Constitutionally, Bolivia is a centralist republic. The constitution of 3 February 1967 (amended in 1994) provides for a representative democracy, with its government divided into an executive branch, a bicameral legislature (a Congress consisting of a Chamber of Deputies and a Senate), and the judiciary. President Morales promised to call special elections in 2006 for a constitutional assembly mandated with drafting a new constitution.

Bolivia has had a spotty constitutional history. The current constitution is the result of a series of actions begun by the military junta that took control in November 1964. The junta replaced the 1961 constitution with the 1945 constitution, as amended in 1947. At the same time, it retained those sections of the 1961 constitution that dealt with universal suffrage, nationalization of the tin mines, land reform, and compulsory education. The 1967 constitution was further amended to circumscribe the power of militia forces. In practice, the constitution has not been rigorously observed. Coups and states of siege have been frequent. Congress was dissolved by the armed forces from 1969 to 1979 and again between 1980 and 1982. The constitution was amended in 1994 to give more power to the president and recognize indigenous people. If successful, President Morales would have a new constitution written. It would be the first where an indigenous majority took an active role in shaping the institutional order of Bolivia.

Under the constitution, the president and the vice president are elected by direct popular vote for a four-year term and cannot serve consecutive terms. If no candidate receives a majority in a presidential election, the Congress chooses among the three leading candidates. However, between 1966 and 1978, no presidential elections were held. The president's powers are considerable, and presidential authority often extends beyond the constitution. The president has the prerogative to declare a state of siege and may then rule by decree for 90 days. The Congress consists of 27 senators (three from each department) and 130 deputies. Deputies and senators are elected for five-year terms concurrently with the president. Bolivia utilizes a form of proportional representation to

ensure minority representation in the Chamber of Deputies and an incomplete-list system for the Senate. The regular session of Congress lasts for 90 days.

Universal suffrage, with no literacy or property qualifications, was decreed in 1952 for married persons at 18 years and single persons at 21. The constitution includes a bill of rights, which guarantees the right to express ideas freely, petition the government, and obtain a release under a writ of habeas corpus in case of illegal detention.

14 POLITICAL PARTIES

Bolivia's proportional representation system has encouraged the formation of several political parties. Numerous parties and coalitions have formed and dissolved over the years, usually tied to the personalities of the various leaders.

The Nationalist Revolutionary Movement (Movimiento Nacionalista Revolucionario—MNR) was founded by Víctor Paz Estenssoro, Hernán Siles Zuazo, and others in 1941. Although militant originally, the years have moderated the party's stance. The MNR came to power in 1952, with the help of the Revolutionary Workers Party, the carabinieri (national police), and the miners' and peasants' militias. In the subsequent years, the MNR began to rely increasingly on foreign aid, especially from the United States, and became increasingly autocratic and corrupt. Finally, quarreling among the party leadership weakened the party, and by 1964 the MNR's monopoly on power had dissolved. In November 1964, Paz was sent into exile in Peru.

The MNR was then eclipsed by the charisma of President René Barrientos and his Popular Christian Movement. The MNR returned as part of the Nationalist Popular Front, organized by Hugo Bánzer Suárez. Bánzer then outlawed the MNR in November 1974. In the late 1970s, the MNR reappeared, along with a dissident MNRI (the "MNR of the left") headed by Hernán Siles.

With the restoration of Bolivian democracy, the MNRI won the presidency under Siles along with a coalition of leftist parties that included the Communist Party of Bolivia and the Movement of the Revolutionary Left (Movimiento de la Izquierda Revolucionaria—MIR), headed by Jaime Paz Zamora. MIR was an active partner in the Siles government; Paz Zamora was the vice president, and several MIR officials were in the cabinet. MIR won the presidency in 1989 after an extremely close election, and only after seeking support from the right wing Democratic Nationalist Alliance (Alianza Democrática Nacionalista—ADN).

The ADN was closely tied to former President Hugo Bánzer Suárez until his death. Bánzer, a former military officer, came to power in an alliance with the MNR, but eventually ruled as a military dictator. This right-wing party was denied power in 1985 by the MNR/MIR coalition. However, the ADN was instrumental in bringing Paz Zamora to power, and held half the ministerial positions in that government. In the most recent presidential election, the ADN candidate only managed to obtain 6.3% of the vote, generating doubt about the future of a party associated with the late leader, Hugo Bánzer.

In June 1997 Bánzer, whose dictatorial regime ruled Bolivia from 1971 to 1978, placed first in the nation's presidential election and, with the backing of Congress, was sworn in as president in August. Bánzer's own party, the ADN, formed a coalition government with the MIR, the UCS, and Condepa. In 2002, former

president Sánchez de Lozada narrowly edged peasant activist Evo Morales in the presidential election. As mandated by the constitution, Congress had to choose the president from among the top two vote-getters. Sánchez de Lozada, who had obtained 22.5% of the vote, won with overwhelming support from most established political parties, but new groups and party splinters supported Morales. The alternative candidates demonstrated little willingness to work with the Sánchez de Lozada administration but they also failed to mount an organized and coherent political opposition. The strength of political parties in Bolivia has been weakened by the emergence of populist activists like Morales and by the resistance of aging party leaders like Sánchez de Lozada and Paz Zamora to retire from politics. In addition to the center-left MNR, the leftist MIR, and the center-right ADN, leading political parties include the New Republican Force (NFR) and Movement Toward Socialism (MAS), both populist parties created by presidential candidates Manfred Reyes and Evo Morales respectively. Morales narrowly edged Reyes out in the 2002 presidential election to face Sánchez de Lozada in the runoff election in the electoral college. As a result of no candidate winning a majority in the June 2002 election, Sánchez de Lozada was chosen president by Congress. Morales led MAS strong parliamentary representation during the unstable Sánchez de Lozada and Mesa governments. After the 2005 elections, MAS, whose indigenous identity shapes its politics and policies, was the largest political party in the country.

Democratic and Social Power (PDS), a new alliance formed around former President Jorge Quiroga, became the second-largest party in congress after the 2005 elections. With a center-left, free market approach, PDS sought to replace the discredited and weakened rightwing MNR and ADN parties.

15 LOCAL GOVERNMENT

Bolivia is essentially a unitary system, with a highly centralized national government. Bolivia's nine departments—La Paz, Cochabamba, Chuquisaca, Potosí, Oruro, Santa Cruz, Tarija, El Beni, and Pando—were historically administered by prefects appointed by the president for four-year terms. However, in the 2005 elections, Bolivians also chose their provincial prefects directly. The departments are subdivided into 94 provinces, each headed by a subprefect appointed by the prefect. The provinces are further divided into 1,713 cantons, each of which is under the jurisdiction of a magistrate (*corregidor*). As of 1997, Bolivia had 312 municipalities. There are no local legislatures. Important towns and cities have more self-government. Each has a popularly elected council of from 5 to 12 members, but municipal tax ordinances must be approved by the Senate. Mayors (*alcaldes*) are also elected. The Amerindian communities, although they are not formal administrative units, are recognized by law.

16 JUDICIAL SYSTEM

The Bolivian judiciary usually defers to the political direction of the nation's executive. Judicial power is exercised by the Supreme Court, the superior district courts in each department (courts of second instance), and the local courts (courts of first instance). The Supreme Court, which sits at Sucre, is divided into four chambers: two deal with civil cases, one with criminal cases, and one with administrative, mining, and social cases. The 12 Supreme Court judges, called ministros, are chosen for 10-year terms by

a two-thirds vote of the Chamber of Deputies from a list of three names submitted for each vacancy by the Senate. They may be re-elected indefinitely.

Most cases that reach the Supreme Court are appellate; its area of original jurisdiction is limited mainly to decisions on the constitutionality of laws and to disputes involving diplomats or important government officials. Each district court judge is elected by the Senate for six years from a list of three submitted by the Supreme Court.

The district courts usually hear appeals from the courts of first instance. Judges of the courts of first instance (tribunales and juzgados) are chosen by the Supreme Court from a list submitted by the district courts. There is also a separate national labor court and an agrarian court, dealing with agrarian reform cases.

Defendants have a right to counsel, to confront witnesses, to present evidence, and to appeal. These rights are generally respected.

17 ARMED FORCES

As of 2005, Bolivia's armed forces totaled 31,500 active personnel, of which the Army numbered 25,000, the Navy 3,500, and the Air Force 3,000 personnel. The Army's equipment included 36 light tanks, 24 reconnaissance vehicles, 77 armored personnel carriers, and over 168 artillery pieces. The Navy's main naval units were 60 patrol/coastal vessels and 18 support vessels. The service also had a 1,700 member Marine force. The Air Force had 37 combat capable aircraft that included 18 fighter ground attack aircraft. Paramilitary forces consisted of a national police force of more than 31,100 and a narcotics police force of over 6,000. Bolivia participated in seven UN peacekeeping missions. The defense budget totaled \$146 million in 2005.

18 INTERNATIONAL COOPERATION

Bolivia is a charter member of the UN, having joined on 14 November 1945, and participates in several specialized agencies, such as the FAO, IFC, IMF, ILO, UNESCO, UNIDO, the World Bank, and WHO. Bolivia joined the WTO on 12 September 1995. The country is also a member of the Cartagena Group (G-11), G-77, Río Group, the Amazon Pact, the Latin American Economic System, the Latin American Integration Association, the OAS, the Inter-American Development Bank, and the Andean Community of Nations. Bolivia is an associate member of Mercosur.

The country is part of the Nonaligned Movement and the Agency for the Prohibition of Nuclear Weapons in Latin American and the Caribbean (OPANAL). Bolivia has offered support to UN efforts in Kosovo (est. 1999), Liberia (est. 2003), Sierra Leone (est. 1999), East Timor (est. 2002), Burundi (est. 2004), Côte d'Ivoire (est. 2004), and the DROC (est. 1999). The country is a signatory of the 1947 Río Treaty, an inter-American security agreement.

In environmental cooperation, Bolivia is part of the Basel Convention, the Convention on Biological Diversity, Ramsar, CITES, International Tropical Timber Agreements, the Kyoto Protocol, the Montréal Protocol, MARPOL, the Nuclear Test Ban Treaty, and the UN Conventions on the Law of the Seas, Climate Change, and Desertification.

19 ECONOMY

Bolivia is one of the Western Hemisphere's poorest countries, despite an abundance of mineral resources. Its economy has always been dependent on mineral exports, principally of tin, but these have gradually declined since World War II. Little of the nation's great agricultural and forest potential has been developed; agriculture remains little above the subsistence level, and Bolivia must import large quantities of food. Moreover, evidence is that the coca crop eradication program, without effective crop substitution, has led to a substantial contraction in the informal market. The opening in 1999 of the \$2-billion, 3,150-km (1,969-mi) Bolivia-Brazil pipeline holds the promise of the development of new export markets—in Brazil and, eventually, in the United States, via extensions into Mexico—for Bolivia's previously untapped natural gas reserves, but the project has been fraught with controversy and delays. Originally agreed to in 1974, construction did not begin until 1994, and then it was under a contract that gave Enron Corporation a 40% share, allegedly without a proper bidding process. Protests against Enron's involvement began immediately, but after Enron's bankruptcy in 2001, many new complaints surfaced concerning its failure to meet the terms of the contract, including its failure to donate a promised \$10 million for rural electrification; its failure to supply land deeds for indigenous people whose land was being transversed by the pipeline; its failure to secure financing for the project (a task eventually taken over by Brazil), and, its failure, apparently, to make any investments in the project beyond an undocumented \$22 million in the planning stage.

In 2003, President Sánchez de Lozada, who in a previous term had sponsored the "capitalization" program that brought in private foreign investors like Enron as partners in public sector enterprises and who had won a second term in June 2002, faced violent protests that threatened to unseat the government. In February 2003, there were violent clashes with coca farmers, and in March, the police joined protests against an IMF-sponsored tax hike, which the government subsequently rescinded. Sánchez de Lozada appealed to foreign governments, particularly the United States, for \$100 million in immediate aid to help his government survive, and as of June 2003, the Bush administration had sent \$10 million. The United States gives Bolivia \$150 million a year in aid conditional on the government's satisfactory progress in the coca crop eradication and crop substitution program.

Bolivian economic production grew at a fairly steady rate of about 5% during the 1960s and 1970s; but in the 1980s, after the second oil shock, growth turned negative. Inflation, which had averaged 3.5% in the 1960s, averaged 22% in the 1970s, and then got out of control in the early 1980s, after the second oil shock. Attempts to implement IMF austerity programs to contain inflation back-fired in the face of violent protests and government efforts to their limit human costs. When world tin prices plummeted to a fraction of production costs in 1985 after the collapse of the International Tin Agreement (ITA), a consumer-producer international commodity agreement (ICA) for tin, inflation reached as high as 24,000%. After 1985, a strong anti-inflation consensus allowed the government to apply strong austerity measures that brought annual inflation down to 10.87% by 1987. In August 1985, President Paz implemented a drastic anti-inflationary program: he floated the peso, froze public-sector wages, cut public spending, eliminated controls on bank interest rates, authorized banks to make

foreign-currency loans and offer foreign-currency accounts, initiated a comprehensive tax reform, eliminated price controls, established a uniform 20% tariff, removed tariff exemptions, eliminated virtually all import and export restrictions, and modified labor laws to permit greater flexibility in hiring and firing. The immediate result was a jump in capital repatriation and retention as a result of the rise in interest rates. The government also restructured several public-sector institutions, including the Central Bank and COMIBOL, the national mining corporation. The Central Bank closed several branches and reduced staff by 70%, and COMIBOL closed numerous mines and dismissed nearly 20,000 workers. Inflation was held to double digits until 1993, after which averages have been held to single digits.

In 1994, the first Sánchez de Lozada government introduced the innovative “capitalization” plan for privatizing six major state enterprises (the national airlines, the railways, electricity, telecommunications, the ironworks, and, most controversially, the oil and gas corporation). The plan provided for a private company to take over 50% ownership plus the operation of the enterprise, with the other shares distributed to the adult population to be deposited in private pension funds. Bolivia’s high foreign debt obliged it to seek private partners in order to raise capital. The average GDP growth between 1977 and 1987 was -1.8%, but this improved during the 1990s with an average rate of 4.2%. By 1999, Bolivia was in its second decade of democratic rule and its thirteenth consecutive year of economic expansion. Market reforms were firmly in place, investment was growing steadily and inflation under control, at 4.4% in 1998. Privatization of state-owned industries had improved the investment environment of Bolivia. Growth was led by energy (particularly investments in the gas pipeline to Brazil and in hydrocarbons exploration), mining, and agriculture (particularly in soy products as a substitute for coca).

In 1999, however, real GDP growth slowed to 0.4% due mainly to the Brazilian financial crisis, which caused revenues from the newly opened Bolivia-Brazil gas pipeline to fall well below expectations. Another factor thought to be dampening growth was the success of the coca crop eradication program coupled with a lack of success in crop substitution. An estimated 50,000 to 60,000 hectares of coca had been eliminated by 2002, leaving between 5,000 and 10,000 hectares (although in 2003 there were reports of substantial increases). An improvement to 2.4% growth in GDP in 2000 was cut short by the world-wide economic slowdown in 2001, during which growth fell to 1.2%. Inflation also increased in 2000, to 4.8%, up from 2.4% in 1999, but then declined to 1.6% in 2001. Real GDP growth in 2002 was estimated at 2.5%, and average inflation at a new low of 0.9%.

On 2 April 2002, the IMF agreed to a one-year standby arrangement with the government with credit totaling about \$120 million, less than Bolivia’s IMF quota. For 2003, the government has laid out a program it hopes to see supported by a three-year arrangement under the IMF’s Poverty Reduction and Growth Facility (PRGF), established in 1999 and normally permitting borrowing up to 140% of a country’s quota. The program aims at containing public sector borrowing while increasing social expenditures, containing inflation, increasing international reserves, and adopting policies to strengthen the banking sector.

As of 2004, Bolivia’s GDP per capita remained lower than many other countries in the region (including Mexico, Chile, Venezuela, Argentina, Uruguay, Brazil, Peru, Ecuador, Colombia, and Paraguay). Its GDP growth rate was also less than all of the same countries, with the exception of Bolivia. With an inflation rate less than 5%, however, Bolivia’s consumer prices were near average for the region.

20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 Bolivia’s gross domestic product (GDP) was estimated at \$23.6 billion. 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 based on current dollars. The per capita GDP was estimated at \$2,700. The annual growth rate of GDP was estimated at 3%. The average inflation rate in 2005 was 5.4%. It was estimated that agriculture accounted for 12.6% of GDP, industry 35%, and services 52.4%.

According to the World Bank, in 2003 remittances from citizens working abroad totaled \$126 million or about \$14 per capita and accounted for approximately 1.6% of GDP. Foreign aid receipts amounted to \$930 million or about \$105 per capita and accounted for approximately 12.3% of the gross national income (GNI).

The World Bank reports that in 2003 household consumption in Bolivia totaled \$5.8 billion or about \$658 per capita based on a GDP of \$8.1 billion, measured in current dollars rather than PPP. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the period 1990 to 2003 household consumption grew at an average annual rate of 3.3%. In 2001 it was estimated that approximately 37% of household consumption was spent on food, 11% on fuel, 9% on health care, and 14% on education. It was estimated that in 2004 about 64% of the population had incomes below the poverty line.

21 LABOR

Bolivia’s labor force was estimated at 4.22 million in 2005. In 2000, (the latest year for which data was available), the 28.2% of the work force was in manufacturing, while 4.9% was in agriculture, and 66.8% in the services sector. As of 2005, unemployment in Bolivia was estimated to be widespread. In the country’s urban areas, the unemployment rate was estimated at 8% that year.

Workers may form and join unions, but the labor courts and inadequate government laws undermine the effectiveness of this right. The government must authorize a union, may dissolve a union, and must confirm the legitimacy of elected officers. Workers, however, are generally not penalized for union activity. The Bolivian Labor Federation theoretically represents all workers, but only one half of the employees actually belong. About 25% of the country’s workers in the formal economy belong to unions. However, the formal economy covers only about 30% of the country’s entire workforce. Strikes are prohibited in public services, although some strikes were initiated and workers were not penalized.

The law prohibits child labor under age 14, but this is generally ignored. According to statistics from UNICEF and the Bolivian government, about 32% of the country's children and adolescents between the ages of 7 and 19 were engaged in some kind of work. The minimum wage is subject to annual negotiation and in 2005 was set at \$55 per month. This does not provide a decent standard of living, and most workers earn more than the minimum. However, the minimum wage does not cover the 30% of workers in the informal sector. The workday is set at eight hours a day with a maximum of 48 hours per week, but this is not effectively enforced.

22 AGRICULTURE

An estimated 2.9% of Bolivia's land area is devoted to arable farming and permanent crops. Agricultural development has been impeded by extremely low productivity, poor distribution of the population in relation to productive land, and a lack of transportation facilities. Prior to 1953, about 93% of all privately owned land was controlled by only 6.3% of the landowners. The agrarian reform decree of August 1953 was aimed at giving ownership of land to those working it and abolishing the large landholdings (*latifundios*). By 1980, 30.15 million hectares (74.5 million acres) had been distributed to 591,310 families. In 2004, 43% of Bolivia's economically active population was engaged in agriculture.

Except around Lake Titicaca, about two-thirds of the cultivated land on the Altiplano lies fallow each year. Dry agriculture is the rule, and the most important crops are potatoes, corn, barley, quinoa (a millet-like grain), habas (broad beans), wheat, alfalfa, and oca (a tuber). The potato is the main staple; dehydrated and frozen to form *chuño* or *tunta*, it keeps indefinitely. The Yungas and Valles contain about 40% of the cultivated land. The eastern slopes, however, are too steep to permit the use of machinery, and erosion is a serious problem despite the practice of terracing. The most lucrative crop in the Yungas is coca, which is chewed by the local population and from which cocaine is extracted. The government allows up to 12,000 hectares (29,600 acres) of legal coca cultivation to supply the legitimate pharmaceutical market. The net production of coca leaf was estimated at 29,100 tons in 2003, down from 85,000 tons in 1995. Coca leaf production represents about 20% of world production. Coffee, cacao, bananas, yucca, and aji (a widely used chili pepper) are also important. In the fertile irrigated valleys, the important crops are corn, wheat, barley, vegetables, alfalfa, and oats. The Tarija area is famous for grapes, olives, and fruit. The region east of Santa Cruz de la Sierra, where most of the nation's unused fertile lands lie, is considered the "promised land" of Bolivian agriculture. Lowland rice production is increasing rapidly and already satisfies domestic need. The sugar grown there is used mostly for alcohol, but in the 1960s, the mills increased their refining capacity, thus meeting internal consumption requirements. In the tropical forests of the northeast, the Indians practice slash-and-burn agriculture.

The leading commercial crops are soybeans, cotton, sugar, and coffee. Production in 2004 for selected crops was soybeans, 1,670,000 tons; seed cotton, 80,000 tons; sunflowers, 167,000 tons; wheat, 107,900 tons; coffee, 24,000 tons; sugar, 4.8 million tons; and rice, 304,500 tons. Droughts and freezing weather in the west

during the 1990s caused harvests to fall for basic crops like quinoa, potatoes, barley, and garden vegetables.

23 ANIMAL HUSBANDRY

In 2004 there were an estimated 6.8 million head of cattle, 8.6 million sheep, 1.5 million goats, 3 million hogs, 635,000 donkeys, and 323,000 horses. Poultry numbered 75 million in 2004.

The main cattle-raising department is El Beni, in the tropical northeast, which has about 30% of the nation's cattle. In 1994, a joint program began with Brazil to eradicate and control hoof and mouth disease in cattle, which had caused exports of beef to fall that year. Cochabamba is the leading dairy center, and improved herds there supply a powdered-milk factory. Genetic development helped increase milk production from an average of 113,000 tons annually during 1989–91 to 233,000 tons by 2004. The Amerindians of the high plateau depend on the llama because it can carry loads at any altitude and provides leather, meat, and dung fuel. Leading animal product exports are hides, alpaca and vicuña wool, and chinchilla fur. Breeding of alpacas and llamas is by and large left to chance; disease is rampant, and production is low, considering the relatively large numbers of animals. Llamas and alpacas are grown for their wool and meat in the Altiplano of La Paz, Potosí, and Oruro. In 1995, the llama population was about two million, and the alpacas numbered 324,336. The United Nations and the Integrated Association of Camelmen in the High Andes began a program in 1994 to improve the quality of the animals' meat and wool.

24 FISHING

Fishing is a minor activity in Bolivia. A few varieties of fish are caught in Lake Titicaca by centuries-old methods and sent to La Paz. The catch was 6,974 tons in 2003. Bolivia has some of the world's largest rainbow trout, and Bolivian lakes are well stocked for sport fishing.

25 FORESTRY

Bolivia is potentially one of the world's most important forestry nations. More than half of the total area is held as public land by the state, and more than 40 million hectares (100 million acres) of forest and woodland are maintained as reserves or for immediate exploitation. About 53% of Bolivia's land area consists of forests and woodlands. Trees are mostly evergreens and deciduous hardwoods, with the richest forests on the Andes' eastern slope along the tributaries of the Amazon; humid tropical and subtropical forests account for 37% of Bolivia's forests. More than 2,000 species of tropical hardwoods of excellent quality, such as mahogany, jacaranda, rosewood, palo de balsa, quina, ironwood, colo, and cedar, abound in this area. Sawmills are few, however, and the almost total lack of transportation facilities has made exploitation expensive. Most of the sawmills are in the eastern department of Santa Cruz. Roundwood production in 2003 was 2.86 million cu m (101 million cu ft), up from 1.6 million cu m (56 million cu ft) in 1991. About 50% of Bolivia's exports are derived from forestry.

26 MINING

Bolivia has traditionally been a mining country—mining was the country's top industry—producing antimony, bismuth, copper, gold, lead, silver, tungsten, and zinc. It had large reserves of gold, lithium, iron ore, natural gas, and petroleum.

Production totals for 2003 were: zinc, 144,985 metric tons; gold, 9,362 kg; silver, 465,309 kg; tin, 16,755 metric tons; lead, 9,740 metric tons; antimony, 2,911 metric tons; tungsten, 556 metric tons; rough amethyst, 144 kg; hydraulic cement, 1,138,000 metric tons; and arsenic, 276 metric tons. The richest and most productive alluvial gold deposits were located in Challana and the Kaka, the Mapiiri, and the Tipuani River valleys, in the northern area of La Paz Department.

For two centuries following the discovery of silver at Cerro Rico de Potosi in 1545, the area that became Bolivia was the largest producer of silver. Cerro Rico was protected as a United Nations Educational, Scientific, and Cultural Organization site, making the use of expensive backfill mining techniques necessary to maintain the mountain's shape. New studies at the base of the mountain estimated 3.3 million kg of silver in its gravel bed channel deposits.

Bolivia's tradition of state-owned monopolies has been a highly politicized topic; the government's capitalization plan became a way to bring Bolivia the benefits of privatization, without entirely turning over state companies to private investors. Mining codes enacted in 1991 allowed foreign firms to operate with fewer restrictions and replaced royalties with a 30% tax on profits. By 1994, privately owned commercial mines became the dominant producers, responsible for 52% of the value of all mine production. In 2000, the medium-sized mining sector was responsible for 59% of the value of mine production; the small-sized mining sector accounted for 36%; and COMIBOL's share was 2%, down from 25% in 1997, and 51% in 1985. Starting in 1999, companies looking to invest in the minerals sector were granted a deferral on value-added tax and customs duty payments, representing a savings of up to 20% on investment project costs. The large number of available prospects and a new mining code have encouraged mineral exploration in the country.

27 ENERGY AND POWER

Capacity at Bolivian electric power plants rose from 267,000 kW in 1970 to 1.3 million kW in 2001 and stood at 1.228 million kW in 2002. Of the last amount, 25% was hydroelectric and 75% thermal. Electric power output in 2000 was 3.8 billion kWh, of which 50.1% was hydroelectric, 48.4% was from fossil fuels, and 1.5% was from other sources. In 2002, electric power output rose to an estimated 4.049 billion kWh, of which, 2.202 billion kWh was generated by hydroelectric means; 1.766 was produced by thermal sources; and 0.081 billion kWh was from geothermal or other sources. Bolivia's national electrical grid, Sistema Interconectado Nacional (SIN) connects approximately 83% of the nation's installed generating capacity. The 17% that remains is independent of the grid and is classified as "Aislados." As of 2003, SIN was supplied by nine generating firms, of which, three: Empresa Electrica Valle Hermoso (EVH); Empresa de Generacion Guaracachi (EGSA); and Compania Boliviana de Energia Electrica (COBEE), supplied 58% of the power. Consumption of electricity in 2000 to-

taled 3.6 billion kWh. In 2002, consumption was estimated at 3.8 billion kWh.

According to the Oil and Gas Journal (OGJ), Bolivia has the fifth-largest proven reserves of crude oil in South America at 441 million barrels as of January 2004. However, the estimates tend to vary. Bolivia's Ministry of Mining and Hydrocarbons reports that the nation's proven reserves stand at 462 million barrels, as of end 2003. While Bolivia's domestic oil production is able to meet the country's internal needs, the country must still import certain petroleum products, in particular, diesel. As of November 2004, refinery capacity stood at 67,000 barrels per day. Production of natural gas has gradually increased from the mid-1980s until the early 1990s. Meanwhile, estimates of Bolivia's natural gas reserves keep growing. In 2002, Bolivia's natural gas reserves were put at 680 billion cu m (24 trillion cu ft), according to an official estimate. As of January 2004, the nation's proven reserves of natural gas were placed at 27.6 trillion cu ft by the Bolivian government. If potential reserves are included, Bolivia may have the second-largest in South America. Estimated production in 2000 was 3.3 billion cu m (116 billion cu ft). In 2004, production totaled 8.5 billion cu m.

The first phase of a pipeline project linking Bolivia to São Paulo, Brazil, was completed in February 1999 at a cost of \$2.1 billion and went into operation later the same year. Future pipeline plans include a pipeline to northern Chile, and a project to run a pipeline to Asunción, Paraguay, with a possible extension to Curitiba, Brazil. In February 2002 Bolivia and Brazil signed an agreement pledging further cooperation in the energy sector, including the possibility of a new \$5 billion gas pipeline.

28 INDUSTRY

Historically, industrial development has been severely restricted by political instability, the small domestic market, the uncertain supply of raw materials, and the lack of technically trained labor. Domestic industry supplies less than one-fourth of the processed food and manufactured goods consumed. Over one-half of manufacturing output is in nondurable consumer goods—food, beverages, tobacco, and coffee. Handicrafts and hydrocarbons account for much of the remainder.

At their peak, Bolivia's tin mines accounted for 70% of the country's total export earnings, but in 1985 the London Metal Exchange abruptly halved the price of tin, causing economic chaos. The ensuing economic stabilization program was a mixed blessing to industry. The easing of foreign-exchange restrictions, the uniform 20% tariff, and the significant reduction in duties on nonessential consumer goods improved the availability of raw materials and semi-manufactured goods, thereby stimulating industrial growth.

In 1992, growth in the construction industry was a remarkable 15%, sustained both by the larger number of public works projects and by private investment. By 1995, this growth had slowed to 5%. The manufacturing sector grew by 3.8% in 1995, with the largest gains occurring in agriculture-based industries despite the problems resulting from the precarious state of agriculture. The mining and hydrocarbon sector contracted because of the decline in mining output and stagnation in the production of petroleum and natural gas. The drastic reduction of COMIBOL's production resulted from the closing of several mines and frequent labor dis-

putes. The slump in the hydrocarbons subsector was because of the depletion of a number of wells, lack of investment in exploring for new deposits, and the torrential rains that damaged the infrastructure of the state-owned company.

In the late 1990s, Bolivia experienced a renaissance in the mining and hydrocarbons sectors due to privatization of the state-owned interests in these sectors. This attracted foreign interest in developing the energy and minerals potential of the country. In 2002, Bolivia had three oil refineries with a production capacity of 63,000 barrels per day.

The construction and manufacturing sectors were experiencing a slowdown in 2002, after three years of a stagnant economy. The development of the country's infrastructure was expected to be an engine for industrial growth, however. The opening of a gas pipeline to Brazil in 1999 was expected to take in much of Bolivia's natural gas production.

29 SCIENCE AND TECHNOLOGY

The Bolivian National Academy of Sciences was founded in 1960. Notable scientific and technological research institutes and learned societies include the Bolivian Geological Service and Bolivian Petroleum Institute, both in La Paz. Bolivia has eight universities offering courses in basic and applied sciences. In 1987–97, science and engineering students accounted for 30% of college and university enrollments. In 2002, Bolivia had 118 researchers and 6 technicians per million people actively engaged in research and development (R&D). In that same year, Bolivian expenditures on R&D totaled \$60.692 million or 0.28% of GDP. Higher education accounted for 31% of R&D expenditures in 2002, with 20% coming from the government, 14% from foreign sources, 19% from nonprofit institutions, and 16% from business. Undistributed expenditures accounted for the remainder. High technology exports in 2002 totaled \$15 million, or 7% of all manufactured exports.

30 DOMESTIC TRADE

La Paz is the chief marketing center. Oruro is second to La Paz as a market for imported goods and is the main distributing center for mining supplies. Santa Cruz is also quickly becoming an important market center for imported goods. Cochabamba distributes its agricultural production to La Paz and the mining districts. Though most retail is accomplished through small shops and street vendors, there are a number of large import houses and wholesalers in the major cities. In more rural areas, most buying and selling is carried on at weekly markets and village fairs and barter may still be common. Advertising has become highly developed over the past few years, with television being the most used medium, followed by newspapers and radio. There are at least 12 major market research firms active in the country.

In the past decade, the government has sponsored several programs of capitalization/privatization for public sector enterprises. Under these programs, investors receive 50% of the companies' shares and management control but are required to invest directly into the company for a number of years. However, many of these companies are controlled by foreign investors, which has made some capitalization plans nationally unpopular. In 2000, violent protests over plans to capitalize the water company of Cochabamba forced the government to cancel an arrangement with foreign investors and keep the utility under public control.

Regular retail store hours are weekdays, 9 AM to noon and 2:30 to 6:30 PM. Business hours differ somewhat by city. In La Paz and Cochabamba, hours are 9 AM to noon and 2:30 PM to 6:30 or 7 PM. In Santa Cruz, hours are generally from 7 or 8 AM to 4:30 PM with a two-hour lunch break around the middle of the workday. Bank hours are 9 AM to noon and 2 to 4:30 PM.

31 FOREIGN TRADE

Bolivia depends primarily on its mineral exports, especially zinc, natural gas, and gold. Tin exports, which had been an integral part of the Bolivian export schedule, have been gradually decreasing since 1946. The 1985 devaluation of tin caused major problems in the Bolivian economy, and now tin plays a minor role in Bolivia's exports, as the country moves to diversify. Exports of natural and manufactured gas and petroleum are expected to surpass those of other minerals in the future, as a new pipeline has facilitated exports of natural and manufactured gas to neighboring Brazil. In 2004, natural gas exports totaled \$619.6 million, and zinc exports totaled \$151 million. Agricultural exports include wood, oil seeds, soya, and animal feed. Principal imports include \$984.6 million in raw materials and semi-manufactures, \$498.4 million in capital goods, and \$407.4 million in consumer goods.

The United States has historically been Bolivia's chief trading partner. However, recently Bolivia has been diversifying its trade relations to include more regular trade with regional and European partners. As a member of the Comunidad Andina (CAN—Andean Community), Bolivia has been trading with the other members, including Peru, Venezuela, Colombia, and Ecuador. Since 1997, Bolivia has also been an associate member of the Mercado Comun del Sur (Mercosur—the Southern Cone customs union). Though devaluations in Brazil and Argentina (1999 and 2002 respectively) and nontariff barriers in CAN have discouraged trade somewhat, Brazil has nonetheless become Bolivia's main trading partner due to gas exports (something that China has been increasingly interested in importing, as well). Bolivia's drive to diversify its exports is assisted by Chinese demand for soybeans and other Bolivian commodity exports.

Principal Trading Partners – Bolivia (2003)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	1,650.7	1,684.5	-33.8
Brazil	495.9	343.4	152.5
United States	236.0	302.9	-66.9
Colombia	170.4	48.1	122.3
Switzerland-Liechtenstein	165.9	6.7	159.2
Venezuela	155.5	8.8	146.7
Peru	89.5	104.4	-14.9
Argentina	56.6	281.4	-224.8
Chile	43.7	122.0	-78.3
United Kingdom	33.5	13.5	20.0
Mexico	21.0	34.7	-13.7

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

Balance of Payments – Bolivia (2003)

(In millions of US dollars)

Current Account		35.6
Balance on goods	75.1	
Imports	-1,498.3	
Exports	1,573.4	
Balance on services	-179.4	
Balance on income	-301.1	
Current transfers	441.0	
Capital Account		...
Financial Account		-64.1
Direct investment abroad	-2.5	
Direct investment in Bolivia	166.8	
Portfolio investment assets	-68.2	
Portfolio investment liabilities	...	
Financial derivatives	...	
Other investment assets	-463.3	
Other investment liabilities	303.0	
Net Errors and Omissions		-33.0
Reserves and Related Items		61.6

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

tial Norms Financial Committee (CONFIP) regulates finance companies. The Bolivian Development Corp. channels credits from the Inter-American Development Bank into industrial expansion projects.

There are 13 private banks, accounting for over 85% of the deposits and loans of the financial system. Private banks, which had been under strict control since 1953, were largely deregulated in mid-1985. Commercial banks include: Banco Boliviano Americano (BBA), Banco de Credito de Bolivia, Banco de la Nacion Argentina, Banco de La Paz, Banco de la Union, Banco Economico, Banco Industrial SA (BISA), Banco Mercantil, Banco Nacional de Bolivia, Banco Real, Banco Santa Cruz, and Citibank. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$717.9 million. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$3.7 billion. The money market rate, or the rate at which financial institutions lend to one another in the short term, was 6.99%. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 8.5%.

The Bolivian Stock Exchange is the main stock exchange, with seven listed companies trading in 1995. There is also the Santa Cruz Stock Exchange.

3² BALANCE OF PAYMENTS

Unlike many nations, Bolivia has no large earnings from tourism or shipping to compensate for trade deficits. After World War II, falling exports and rising imports led to depletion of the nation's gold and foreign currency reserves. By 1969, in part because of increased US aid, the unfavorable balance had been considerably reduced; five years later, thanks to import restrictions and a sharp rise in export earnings, Bolivia had a favorable payments balance of \$72.5 million. In the late 1970s, Bolivia's international financial position again began to worsen, and by the end of 1986, the country had accumulated \$3.7 billion in foreign debt (perhaps \$100 million of it in the private sector), an amount equal to the GDP. External debt equaled \$4.4 billion at the end of 2000.

In 2000, foreign direct investment stood at \$750 million, some 25% lower than in 1999, due in part to the completion of capitalization contracts. Foreign direct investment was concentrated in the hydrocarbons and service sectors. Bolivia's inclusion in the IMF/World Bank Heavily Indebted Poor Countries (HIPC) Initiative will provide the country significant debt relief by both bilateral and multilateral creditors.

The International Monetary Fund (IMF) reported that in 2003, Bolivia had exports of goods totaling \$1.57 billion and imports totaling \$1.50 billion, making for the first positive trade balance since 1999, when the trade balance was at a \$487 million deficit. The current account balance was also positive in 2003, at \$35.6 million; the balance had been steadily decreasing annually from the deficit of \$488 million recorded in 1999.

3³ BANKING AND SECURITIES

The Central Bank of Bolivia, established in 1928 and reorganized in 1945, is the sole bank of issue. The 1995 Central Bank Law refined the CBB's controls on the banking sector. The Superintendent of Banks regulates the operations of banks, and the Pruden-

3⁴ INSURANCE

In 1995, there were over 20 insurance companies doing business in Bolivia. The insurance industry in Bolivia grew during the 1990s, as premium income increased 170% between 1988 and 1998, while the country's GDP grew only 86%. Liability insurance grew at the extraordinary rate of 555% within that same time frame. Motor vehicle insurance is the largest sector, comprising 43% of the market, and is followed by fire, engineering, and miscellaneous risks insurance. Members of the Bolivian Insurance Association accounted for 93% of all 1998 premiums.

3⁵ PUBLIC FINANCE

Many of the expenditures and revenues of autonomous agencies—government development, mining, petroleum corporations, and the universities—do not appear in the central budget. Also, an estimated 15% of revenues come from illegal drug shipments. Since April 1992, comprehensive privatization has helped decrease the need for public sector expenses. In 1996, both current and capital spending had been reduced as a percentage of GDP. On the one hand, state capital spending, in the productive sector, fell overall as the privatization and capitalization programs relieved the state of responsibility for the capital spending of leading industrial enterprises; on the other, social investment rose sharply.

The US Central Intelligence Agency (CIA) estimated that in 2005 Bolivia's central government took in revenues of approximately \$2.9 billion and had expenditures of \$3.4 billion. Revenues minus expenditures totaled approximately -\$522 million. Total external debt was \$6.43 billion.

The International Monetary Fund (IMF) reported that in 2003, the most recent year for which it had data, central government revenues were B14,123 million and expenditures were B18,806 million. The value of revenues in US dollars was US\$1,844 million and expenditures US\$2,433 million, based on a market exchange

Public Finance – Bolivia (2003)

(In millions of bolivianos, central government figures)

Revenue and Grants	14,123	100.0%
Tax revenue	8,031	56.9%
Social contributions	1,431	10.1%
Grants	2,487	17.6%
Other revenue	2,174	15.4%
Expenditures	18,806	100.0%
General public services	3,716	19.8%
Defense	1,157	6.2%
Public order and safety	1,368	7.3%
Economic affairs	2,955	15.7%
Environmental protection	169	0.9%
Housing and community amenities	159	0.8%
Health	1,798	9.6%
Recreational, culture, and religion	36	0.2%
Education	4,249	22.6%
Social protection	3,200	17.0%

(...) data not available or not significant.

SOURCE: *Government Finance Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

rate for 2003 of us\$1 = B7.6592 as reported by the IMF. Government outlays by function were as follows: general public services, 19.8%; defense, 6.2%; public order and safety, 7.3%; economic affairs, 15.7%; environmental protection, 0.9%; housing and community amenities, 0.8%; health, 9.6%; recreation, culture, and religion, 0.2%; education, 22.6%; and social protection, 17.0%.

36 TAXATION

The Bolivian revenue system contains an unusually large number of taxes, leading to complexity and confusion that make the system difficult to enforce. Income taxes are extremely low, with a flat individual rate of 13%. In December 1994, a 25% tax on corporate income was established which replaced the 3% national income tax on corporations' taxable net worth. Both local and foreign corporations can receive tax holidays, exemptions, and other benefits if they invest in new companies or in production of nontraditional exports. There is an effective tax rate of 12.5% on income and net dividends to nonresident parent companies. There are taxes on the value of particular assets, such as motor vehicles, boats, and airplanes, which can be deducted from income tax, and taxes of 10–18% on the price of a vehicle. Bolivia also levies excise taxes on alcoholic and nonalcoholic beverages (1.61 bolivianos and 0.20 bolivianos per liter, respectively) and a 50% tax on tobacco products. There is also a 20% tax on perfumes and a 30% tax on cosmetics, and other items classed as luxuries. A value-added tax (VAT) of 13%, which can be deducted from income tax, is in effect. The hydrocarbons industry, as outlined in the Hydrocarbon Law, pays an 18% royalty and tax rate for new projects, and a 60% royalty and tax rate on existing projects.

37 CUSTOMS AND DUTIES

Export and import duties have traditionally been an important source of government revenue, but in mid-1985, as part of a drive to stimulate the economy, the government established a uniform 20% duty (which has since been lowered to 10%) on all imports,

eliminated tariff exemptions, removed import restrictions except for those related to health and state security, and eliminated all export controls except those on dangerous substances, endangered species, and cultural treasures. Most import charges end up totaling between 30 and 45%. This is considerably higher than the 20% uniform duty due to inspection company fees (2%), customs tariffs (2% for publications, 5% for capital goods, and a 10% flat rate), customs warehouse fees, Internal Revenue Service fees (15%), a specific consumption tax (for luxury goods, up to 60%), customs broker fees (up to 2%), and monies for forms and fees. Customs brokers charge up to 20% in fees to cover their own tax liability.

The 1990 Investment Law created a number of Free Trade Zones (FTZs), including those in El Alto, Puerto Aguirre, Cochabamba, Santa Cruz, Oruro, and Desaguadero. Bolivia had free trade agreements with MERCOSUR countries (Brazil, Argentina, Paraguay, Uruguay, and Chile) starting in 1997. In 1994, Bolivia signed a free trade agreement with Mexico and continues to lower or eliminate trade barriers.

38 FOREIGN INVESTMENT

The Patiño, Hochschild, and Aramayo mining groups, expropriated in 1952, accounted for nearly all the foreign capital in mining at that time. In 1955, Bolivia issued the Petroleum Code, safeguarding foreign investment in the exploitation of petroleum, and US oil companies began large-scale exploration and development. Although the investment law of December 1971 granted substantial benefits to foreign investors, political instability, inadequate infrastructure, and Bolivia's poor debt-repayment record held foreign investments down. The 1990 Investment Law guaranteed basic rights to foreign investors: national treatment, free currency conversion, no restrictions on remittances, and the right to international arbitration in most industries. Under the Capitalization Program (Bolivia's version of privatization) in 1996–97, 50% ownership in five of the largest parastatals—in transportation, energy, and telecommunications—was exchanged for the pledge of \$1.7 billion in new investment by foreign "strategic partners." Subsequent laws governed activities in the mining, hydrocarbon, and banking sectors. Bolivia's economic future lies in the development of large reserves of natural gas discovered by foreign companies working in Bolivia. Plans to construct pipelines to deliver gas to Mexico and California depend on foreign investment.

Bolivia has free trade zones (FTZs) in El Alto (the Department of La Paz), Santa Cruz, and Cochabamba. In 2000, foreign investment activities were the focus of two widespread social protests. In April, protests spread nationwide over the issue of foreign investment in municipal water systems and in September/October, economically damaging roadblocks were thrown up around the country by indigenous farmers, coca growers, and a variety of labor and social movements to protest the government's policies. Relevant to the investment climate, in 2003 Bolivia remained on the US government's list of 23 "major" drug-producing and/or drug-transit countries.

Foreign direct investment (FDI) inflow to Bolivia averaged \$928 billion from 1997 to 1999 under the impetus of the Capitalization Program, but then dropped to an average of \$670 million for 2000 and 2001 mainly due to the fall in investment from Argentina (from \$158 million in 1999 to \$9.2 million in 2000) and Brazil (\$144 million to \$38.5 million). The United States has been

Bolivia's major foreign investor, accounting for a third to a half of all investment. In 1999 and 2000, other major investors were the Netherlands (\$145 million total), Italy (\$116.2 million total) and Spain (\$59 billion total). Smaller investments were made by Chile, Peru, and Canada.

As an associate member of Mercosur, Bolivia has benefited from increasing investment from regional partners and Europe. In the place of the United States, which invested in the privatized oil and electricity industries, now Brazil, Italy, and the United Kingdom are big investors. However, the Economist Intelligence Unit predicts that political uncertainty may stem foreign investment in energy in 2006.

3⁹ ECONOMIC DEVELOPMENT

In 1985, Bolivia was one of the first Latin American countries to institute market liberalizations—following the model set by Chile years earlier. In 1993, newly elected President Lozada furthered these liberalizations by increasing privatizations, which were called capitalizations in order to deflect criticism, increasing money spent on education and decreasing the federal government's regulatory power.

Unrest among the large indigenous population and the difficulties of cracking down on cocoa leaf production hampered economic development in South America's poorest country. Bolivia reached the completion point of the International Monetary Fund (IMF) and World Bank's Heavily Indebted Poor Country (HIPC) debt relief initiative in 2001, becoming the second country to do so, after Uganda. Total debt-service relief under the HIPC Initiative was to amount to around \$2 billion. The HIPC assistance and bilateral debt relief was to reduce Bolivia's total external debt by one-half. A \$121 million Stand-By Agreement with the IMF was approved in April 2003, and was due to expire in April 2004. In 2003, the government was pursuing policies aimed toward poverty reduction and the stabilization of the financial system, including the enacting of a modern bankruptcy law. Many public sector enterprises have been capitalized, meaning investors in Bolivia may acquire a 50% share and management control of the public enterprises by investing in them directly over a period of years rather than paying cash to the government. The capitalization program raised foreign direct investment in Bolivia in the amount of \$1.7 billion in stock during 1996–2002. Total external debt, however, ranged between \$5.5 billion and close to \$5.8 billion from 1999–2003 with a slight dip to \$4.7 billion in 2001. In 2003, the total external debt to GDP ratio was 70.3%. In December 2005, \$232 million in debt to the IMF was cancelled.

Evo Morales became president in January 2006, and it was expected that economic policy would become more state-led during his five-year term. Increased public spending will likely cause the fiscal deficit—a deficit that had narrowed in May 2005 due to revenues generated by the new hydrocarbons law—to grow in 2006–2007.

4⁰ SOCIAL DEVELOPMENT

Social security coverage, through private insurance, is compulsory for all workers, and voluntary coverage is available to the self-employed. Those covered by the program receive medical, hospital, dental, and pharmaceutical care for themselves and their families. Old age pensions begin at age 65. Maternity benefits cover female

workers and workers' wives. Family allowances include cash payments for birth, nursing, and burial and monthly subsidies for each unmarried child. Employers contribute 2% of payroll for workers' compensation and are also required to grant two months' severance pay to dismissed employees. Employees contribute 10% of earnings for old age, and additional amounts for other benefits.

Although guaranteed equal rights under the law, women by and large do not enjoy the same social status as men due to limited political power and social traditions. In most cases, women earn less than men for doing similar work. Spousal abuse and domestic violence are widespread in Bolivia. As of 2004, the government had taken little action to combat domestic abuse. Laws are in place to protect women, but they are irregularly enforced. Sexual harassment, although illegal, is considered to be common.

The government does not give priority to improve the welfare of children. Government surveys show that nearly one in three children are physically or psychologically abused. Corporal punishment is used widely at home and in schools. Child labor and prostitution continue to be major problems.

Human rights improved in 2004 but there were still problems in many areas including excessive force, extortion, and improper arrest by security forces. The prison system is harsh and life-threatening.

4¹ HEALTH

Health conditions have been notably poor, owing to poor hygiene and an insufficient number of doctors and hospitals, especially in rural areas. The most common disorders are acute respiratory diseases, tuberculosis, malaria, hepatitis, and Chagas' disease. In 1996, 618 per 100,000 people were diagnosed with malaria and in 1999 there were 238 cases of tuberculosis per 100,000 people. In 1995, cholera was reported in 2,293 cases. Malnutrition is a serious and growing problem, with 27% of children under five-years-old considered malnourished as of 2000. In the same year, 79% of the population had access to safe drinking water and 66% of the rural population had adequate sanitation. In 2004, there were an estimated 73 physicians, 107 nurses, and 8 dentists per 100,000 people. Bolivia had 3,165 public and private health care facilities, with a total of 12,554 beds, as of 2002. The country's public health care expenditures as of 1999 equaled an estimated 6.5% of GDP. The 1997–2002 Strategic Health Plan was designed to ensure universal access to primary care through a system of basic insurance.

There was a birth rate of 31 per 1,000 people in 1999. Approximately 49% of married women (ages 15–49) were using contraception as of 2000. The government of Bolivia paid 65% of vaccination costs in 1995. In 1999, one-year-old children were immunized at the following rates: diphtheria, pertussis, and tetanus, 78%, and measles, 79%. The infant mortality rate has declined from 117 per 1,000 live births in 1985 to 53 per 1,000 in 2005. As of 2000, an estimated 27% of all children were suffering from malnutrition. Life expectancy in 2005 was estimated at 65.5 years. The overall death rate was 8 per 1,000 people.

The HIV/AIDS prevalence was 0.10 per 100 adults in 2003. As of 2004, there were approximately 4,900 people living with HIV/AIDS in the country. Health conditions in Bolivia have improved since the World Health Initiative Program in 1991. The Bolivian government has taken a greater role in the health of its citizens.

42 HOUSING

At the 2001 census, there were a total of about 2,270,731 housing units nationwide. The majority of all housing units were detached private dwellings. About 66% of all housing units are owner occupied. According to reports from Habitat for Humanity, about 52% of all homes are built with adobe and 69% have dirt floors.

Although the government intended to provide adequate drinking water systems for all places of 2,000 or more inhabitants and to alleviate the sewage system shortage, water systems remain inadequate in some areas. In 2000, only about 79% of the population had access to improved water sources and only 66% had access to improved sanitation.

43 EDUCATION

Primary education, which lasts for eight years, is compulsory and free of charge. Secondary education lasts for another four years and students have the option of choosing either a general education or a technical studies track. The academic year runs from March to December. The language of instruction is Spanish.

In 2001, about 46% of all children between the ages of three and five were enrolled in some type of preschool program. Primary school enrollment in 2003 was estimated at about 95% of age-eligible students. The same year, secondary school enrollment was about 71% of age-eligible students. Most students complete their primary education. The student-to-teacher ratio for primary school was at about 24:1 in 2003; the ratio for secondary school was about 24:1.

Bolivia has about 10 state-funded and 23 private universities. The University of San Andrés (founded in 1930) in La Paz is Bolivia's largest university; the University of San Francisco Xavier in Sucre, dating from 1624, is one of the oldest universities in Latin America. In 2003, it was estimated that about 39% of age-eligible students were enrolled in tertiary education programs. The adult literacy rate for 2004 was estimated at about 86.5%, with 92.9% for males and 80.4% for females.

As of 2003, public expenditure on education was estimated at 6.3% of GDP, or 19.7% of total government expenditures.

44 LIBRARIES AND MUSEUMS

There are a small number of public libraries throughout Bolivia, with a combined collection of 200,000 volumes. The National Archives and Library in Sucre (114,000 volumes) serves as a public library for that city and as a depository library of the United Nations. A second facility, the United Nations Information Center, is located in La Paz. Another important public library is the Mariscal Andrés de Santa Cruz Municipal Library (80,000 volumes) in La Paz. The most important university libraries are those of the University of San Andrés in La Paz (121,000 volumes) and the University of San Simón in Cochabamba (62,000 volumes). The Department of Culture operates a large library in La Paz with 140,000 volumes, as does the Institute of Bolivian Culture, housing 150,000 volumes.

The National Museum of Archaeology (1846) in La Paz is the most prominent museum. Also in La Paz are the National Museum of Art (1961) and the National Museum of Tihuanaca, featuring the art and culture of the indigenous people of Bolivia. There are several provincial museums, including the House of Liberty in

Sucre, commemorating Bolivian independence, and the Institute of Anthropology and Archaeology Museum in Cochabamba.

45 MEDIA

In 2003, there were an estimated 72 mainline telephones for every 1,000 people. The same year, there were approximately 152 mobile phones in use for every 1,000 people. The telegraph system is owned by the Ministry of Communications; remote parts of the country are connected by wireless.

A government-owned television station broadcasts from La Paz, but there are several privately owned stations in the country as well. There were 171 AM and 73 FM radio stations in 1999. There were 48 television stations as of 1997. In 2003, there were an estimated 671 radios for every 1,000 people. Due to low literacy rates, radio is the most important source of news and information for many rural dwellers. In 2003, there were 22.8 personal computers for every 1,000 people and 32 of every 1,000 people had access to the Internet. There were 16 secure Internet servers in the country in 2004.

In 2004 there were at least 13 major daily newspapers. The largest La Paz daily newspapers are *El Diario*, *La Razon*, *El Deber*, and *Presencia* (2004 circulation figures were unavailable). Important provincial dailies are *Los Tiempos* (Cochabamba), with 19,000 circulation, and *El Mundo* (Santa Cruz), with 15,000.

The Constitution of Bolivia provides for the freedom of speech and press, and the government is said to allow free operation of electronic and print media. However, the penal code provides that persons found guilty of slandering government officials may be jailed, though it is said that this law is infrequently enforced.

46 ORGANIZATIONS

Learned societies include the Institute of Bolivian Sociology, the Society of Geographic and Historical Studies, the Center of Philosophical Studies, the Bolivian Language Academy, the National Academy of Fine Arts, the National Academy of Sciences, the Archaeological Society of Bolivia, and the Tiahuanaco Institute of Anthropology, Ethnology, and Prehistory.

Youth organizations include Girl Guides, the Scout Association of Bolivia, YWCA/YMCA, and programs of the Special Olympics.

The National Chamber of Commerce and the National Chamber of Industry are both headquartered in La Paz. There are departmental chambers of commerce throughout the country.

There are national chapters of the Red Cross, Habitat for Humanity, UNICEF, and Caritas.

47 TOURISM, TRAVEL, AND RECREATION

The dry season (May–November) is Bolivia's peak tourist season. La Paz and Sucre have many colonial churches and buildings, and there are Inca ruins on the islands of Lake Titicaca, which also offers opportunities for fishing and sailing. The world's highest ski run is located at Chacaltaya. Mountain climbing and hiking are available on the country's cordilleras and other peaks.

In 2003, there were about 367,000 visitor arrivals in Bolivia, including 209,715 visitors from the Americas. Tourism receipts totaled \$176 million. Hotel rooms numbered 20,611 with 33,338 beds and a 20% occupancy rate. Visitors stayed an average of two nights.

In 2005, the US Department of State estimated the cost of staying in La Paz at \$109 per day. Costs in Santa Cruz were an estimated \$127 per day and in Cochabamba, \$98 per day. In other areas, daily expenses averaged \$83 per day.

48 FAMOUS BOLIVIANS

Pedro Domingo Murillo (1757–1810) was the precursor and first martyr of Bolivian independence. Andrés de Santa Cruz (1792–1865), who considered himself the “Napoleon of the Andes,” dominated the early years of the independent nation. The most infamous of the 19th-century Bolivian dictators was Mariano Melgarejo (1818–71). Ismael Montes (1861–1933), who was president of Bolivia from 1904 to 1909 and from 1913 to 1917, is identified in Bolivian history as the “great president.” Simón Patiño (1861–1947), the richest of the “big three” tin barons, began his career as a loan collector and acquired his first mine by chance; he later became one of the world’s wealthiest men. Víctor Paz Estenssoro (1907–2001), architect of the national revolution of 1952 and founder of the MNR, served as president during from 1952 to 1956 and was reelected in 1960 and 1964; he was deposed shortly thereafter by a military junta but returned to office from 1985 to 1989. Hernán Siles Zuazo (1914–1996), also connected with the MNR and later founder of the MNRI, was president in 1956–60 and again in 1982–85. Juan Lechín Oquendo (1914–2001), a leader of the 1952 uprising, led the powerful Bolivian Workers’ Federation from its formation in 1952 until 1987. Juan Evo Morales Ayma (b.1959) became the first Amerindian president of Bolivia in 2006.

Bolivia’s outstanding literary figure is Gabriel René-Moreno (1836–1909), a historian, sociologist, and literary critic. The highly original poet and philosopher Franz Tamayo (1879–1956), although belonging to the landed aristocracy, was a champion of the downtrodden Amerindian. Tamayo was elected president in 1935, but an army revolt prevented him from taking power. Alcides Argüedas (1879–1946) achieved fame throughout Latin America with his historical works on Bolivia and his novels *Wata wara* and *Raza de bronce*, concerned with the plight of the Indian; his critical sociological study *Pueblo enfermo* provoked an enduring con-

troversy. The archaeologist and anthropologist Arturo Posnansky (1874–1946), born in Austria, did pioneering work in studying the civilization that once flourished at Lake Titicaca. Jaime Laredo (b.1941) is a world-famous violinist.

49 DEPENDENCIES

Bolivia has no territories or colonies.

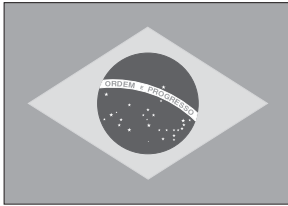
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BRAZIL

Federative Republic of Brazil
República Federativa do Brasil



CAPITAL: Brasília

FLAG: The national flag consists of a green field upon which is a large yellow diamond twice as wide as it is high. Centered within the diamond is a blue globe showing constellations of the southern skies dominated by the Southern Cross. Encircling the globe is a white banner bearing the words *Ordem e Progresso*.

ANTHEM: *Hino Nacional Brasileiro*, beginning “Ouviram do Ipiranga” (“Listen to the cry of Ipiranga”).

MONETARY UNIT: On 1 July 1994, the real (R\$), a paper currency of 100 centavos, replaced the cruzeiro real (CR\$). R\$1 = US\$0.40161 (or US\$1 = R\$2.49) as of 2005.

WEIGHTS AND MEASURES: The metric system is the legal standard, but some local units also are used.

HOLIDAYS: New Year’s Day, 1 January; Tiradentes, 21 April; Labor Day, 1 May; Independence Day, 7 September; Our Lady of Aparecida (Patroness of Brazil), 12 October; All Souls’ Day, 2 November; Proclamation of the Republic, 15 November; Christmas, 25 December. Movable holidays include the pre-Lenten carnival, usually in February, Good Friday, and Corpus Christi.

TIME: At noon GMT, the time in Fernando de Noronha is 10 AM; Rio de Janeiro, 9 AM; Manaus, 8 AM; Rio Branco, 7 AM.

¹ LOCATION, SIZE, AND EXTENT

Situated on the east-central coast of the continent, Brazil is the largest country in South America and the fourth-largest in the world in coterminous area, ranking after Russia, Canada, and China (the United States is larger with Alaska, Hawaii, and the dependencies included). Occupying nearly half of the South American continent, it covers an area of 8,511,965 sq km (3,286,488 sq mi), extending 4,395 km (2,731 mi) N–S and 4,320 km (2,684 mi) E–W. Contiguous with all continental South American countries except Ecuador and Chile, Brazil is bounded on the N by Venezuela, Guyana, Suriname, and French Guiana, on the NE, E, and SE by the Atlantic Ocean, on the S by Uruguay, on the SW by Argentina and Paraguay, on the W by Bolivia and Peru, and on the NW by Colombia, with a total boundary length of 14,691 km (9,128 mi). Brazil is divided into 26 states and one federal district. The federal district, including the capital of Brasília, inaugurated on 21 April 1960, is surrounded on three sides by the state of Goiás and on the fourth by Minas Gerais.

Brazil’s capital city, Brasília, is located in the southeastern part of the country.

² TOPOGRAPHY

The northern part of Brazil is dominated by the basin of the Amazon River and its many tributaries, which occupies two-fifths of the country. The Amazon Basin itself occupies 7,049,975 sq km (2,722,000 sq mi), or about 40% of South America’s total area. The Amazon River (Río Amazonas) is, at 6,436 km (4,000 mi), the world’s second-longest river after the Nile, although the Amazon ranks first in volume of water carried; rising in the Peruvian Andes, the Amazon eventually empties into the Atlantic Ocean at an average rate of about 198,000 cu m (7 million cu ft) per second. The Amazon lowlands east of the Andes constitute the world’s

largest tropical rain forest. In the northernmost part of the Amazon Basin lies a series of mountain ranges, known as the Guiana Highlands, where Brazil’s highest mountain, Pico da Neblina (3,014 m/9,888 ft), is located. South of the Amazon Basin is a large plateau called the Brazilian Highlands, ranging in elevation from 300 to 910 m (1,000 to 3,000 ft) above sea level. From the city of Salvador (Bahia) southward to Pôrto Alegre, the highlands meet the Atlantic Ocean in a steep, wall-like slope, the Great Escarpment, which in southeastern Brazil is surmounted by mountain ranges with elevations from 2,100 to 2,400 m (7,000 to 8,000 ft) above sea level.

The Atlantic coast of Brazil has no real coastal plain, but there are stretches of lowlands along the northeast coast, and there are many bay-like indentations, where Brazil’s principal cities are located. Along the southwest border is a small portion of the upper Paraguay lowlands. The Paraná, Paraguay, and Uruguay rivers flow through southern Brazil; the São Francisco flows 3,199 km (1,988 mi) through northeastern and central Brazil; and the Tocantins (2,698 km/1,677 mi) empties into the Pará and from there into the Atlantic Ocean at an estuary south of the Amazon proper.

³ CLIMATE

Brazil is a tropical country but extends well into the temperate zone. The Amazon Basin has a typically hot, tropical climate, with annual rainfall exceeding 300 cm (117 in) in some areas; the Brazilian Highlands, which include roughly half of the total area, are subtropical. The narrow coastal lowland area ranges from tropical in the north to temperate in the south. The cool upland plains of the south have a temperate climate and an occasional snowfall. The coolest period is from May to September, and the hottest is from December to March. October to May is the rainy season. Rainfall is excessive in the lowlands and in the upper Amazon Ba-

sin, along the northern coast, at certain points on the east coast, and in the southern interior, while there are periodic droughts in the northeast. The average high temperature in Rio de Janeiro in February is 29°C (84°F); the average low in July is 17°C (63°F).

4 FLORA AND FAUNA

As of 2002, there were at least 394 species of mammals, 686 species of birds, and over 56,000 species of plants. About one-fourth of the world's known plant species are found in Brazil. The Amazon Basin, the world's largest tropical rain forest, includes tall Brazil nut trees, brazilwood, myriad palms, kapok-bearing ceiba trees enlaced with vines and creepers, rosewood, orchids, water lilies, and the wild rubber tree.

South of the vast Amazonian forest is a mixture of semideciduous forest (*mata*) and scrub forests. The characteristic flora of the northeast interior is the carnauba wax-yielding palm in the states of Ceará and Piauí. To the east there are big areas of thorn scrub, the result of generally poor soils and periodic devastating droughts. Along the humid coast are many mango, cajú, guava, coconut, and jack-fruit trees, as well as large sugar and cotton plantations, the latter indigenous. Within the savanna, sparse forests, and "campos cerrados" (enclosed fields of badly deforested, populous Minas Gerais), there are various woody shrubs, lianas, and epiphytes, the staghorn fern, and an abundance of herbs, especially grasses. Brazil has many fair to good pasturage grasses, on which millions of beef cattle, not always of high grade, and some dairy cattle in the favored southern states graze.

In the southern states are exotic flowers, such as papagaias; flowering trees, such as the quaresma, which blossoms during Lent; and the popular ipê tree with its yellow petals, planted on some São Paulo streets. In the southernmost part of the Brazilian plateau forests, where temperate climate prevails, is found a mixture of araucarias (umbrella pines) and broadleaf species. The pampas of Rio Grande do Sul are extensive grasslands. Maté, of economic importance as a beverage, is made from the roasted, powdered leaves of a tree harvested extensively in the southern states.

The Amazon rain forest is host to a great variety of tropical fauna, including hundreds of types of macaws, toucans, parrots, and other brightly colored birds; brilliant butterflies; many species of small monkeys; anacondas, boas, and other large tropical snakes; crocodiles and alligators; and such distinctive animals as the Brazilian "tiger" (onca), armadillo, sloth, and tapir. The rivers in that region abound with turtles and exotic tropical fish, and the infamous "cannibal fish" (piranha) is common; in all, more than 2,000 fish species have been identified.

5 ENVIRONMENT

A 20-year US-Brazilian project, initiated by the World Wildlife Fund, in Washington, D.C., and the National Institute for Research on Amazonia, in Manaus, studied the Amazon forest since 1978 in order to recommend appropriate measures for its protection. In 1986, it was estimated that the forests of the Amazon were being cleared for colonization, pasturage, timber development, and other commercial purposes at a rate of up to 20 million hectares (50 million acres) a year. From 1990 to 2000, the average annual rate of deforestation was 0.4% per year. A Brazilian law requiring

that developers leave 50% of each Amazon land parcel untouched is erratically enforced.

Other environmental problems in Brazil include water pollution and land damage. Rivers near urban industrial centers are polluted by mercury, toxic industrial wastes, and untreated waste. Brazil lacks fertile soil for agriculture, and the existing soils are threatened by erosion from the clearing of the forests.

Federal agencies with environmental responsibilities include the National Environment Council of the Ministry of the Interior, the Brazilian Institute of Forest Development, and the Ministry of Planning.

Only 6.7% of Brazil's natural areas were protected in 2003, including seven natural UNSECO World Heritage Sites and eight Ramsar wetland sites.

The damage to the rain forest environment is reflected in the number of endangered species which inhabit the region. Between 1900 and 1950, 60 species of birds and mammals became extinct. According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), the number of threatened species included 74 types of mammals, 120 species of birds, 22 types of reptiles, 24 species of amphibian, 42 species of fish, 21 types of mollusks, 13 other invertebrates, and 381 species of plants. The list of endangered species includes Lutz's coastal frog, the Lear's macaw, the guayaquil great green macaw, the American crocodile, two species of marmoset (buffy-headed and white-eared), three species of tamarin (golden lion, golden-headed lion, and golden-rumped lion), the black saki, the woolly spider monkey, and the maned sloth. At least 13 species have become extinct, including the Glaucous macaw.

6 POPULATION

The population of Brazil in 2005 was estimated by the United Nations (UN) at 184,184,000, which placed it at number 5 in population among the 193 nations of the world. In 2005, approximately 6% of the population were over 65 years of age, with another 29% of the population under 15 years of age. There were 97 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 1.4%, a rate the government viewed as satisfactory. The projected population for the year 2025 was 228,874,000. The population density was 22 per sq km (56 per sq mi).

The population is concentrated in the Atlantic coastal region, especially in the southeast, with the states of Rio de Janeiro, São Paulo, and Minas Gerais containing approximately 41% of the total; the states of Bahia, Rio Grande do Sul, Pernambuco, and Ceará have about 23%, and the remaining units about 36%.

The UN estimated that 81% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 1.63%. The capital city, Brasília, had a population of 3,099,000 in that year. Other major metropolitan areas and their estimated populations are: São Paulo, 18,333,000; Rio de Janeiro, 11,469,000; Belo Horizonte, 5,304,000; Porto Alegre, 3,795,000; Recife, 3,527,000; Salvador, 3,331,000; Fortaleza, 3,261,000; Curitiba, 2,871,000; Campinas, 2,640,000; Belém 2,097,000; Manaus, 1,673,000; Santos, 1,600,000; Goiânia, 1,878,000; São Luís, 978,824; and São José dos Campos, 949,000. The vast interior of the country is sparsely populated, with the indigenous population somewhat concentrated near the Amazon River Basin.



LOCATION: 5°16'19" N to 33°45'9" S; 34°45'54" to 73°59'32" W. BOUNDARY LENGTHS: Venezuela, 2,200 kilometers (1,367 miles); Guyana, 1,119 kilometers (695 miles); Suriname, 597 kilometers (370 miles); French Guiana, 673 kilometers (418 miles); Atlantic coastline, 7,491 kilometers (4,655 miles); Uruguay, 985 kilometers (612 miles); Argentina, 1,224 kilometers (761 miles); Paraguay, 1,290 kilometers (802 miles); Bolivia, 3,400 kilometers (2,113 miles); Peru, 1,560 kilometers (969 miles); Colombia, 1,643 kilometers (1,021 miles). TERRITORIAL SEA LIMIT: 12 miles.

7 MIGRATION

Between 1821 and 1945, approximately 5.2 million European immigrants entered Brazil, most of them settling in the south. Brazil has the largest expatriate Japanese colony in the world, numbering more than one million. In recent years, because of the increasing

prosperity of Europe and Japan, there has been less desire to migrate to underdeveloped rural Brazil or its inflation-harassed industrial cities. Moreover, immigration is controlled by laws limiting the annual entry of persons of any national group to 2% of the total number of that nationality that had entered in the preceding

50 years. The total number of migrants in 2000 was 546,000. As of 2004, Brazil was hosting some 3,833 refugees, 80% of whom came from Africa. In 2004, 1.5 to 3 million Brazilians were abroad, most in the United States. Remittances in 2004 were estimated at \$6 billion, equivalent to earnings from soybean exports. In 2005, the net migration rate was estimated as -0.03 per 1,000 population.

⁸ETHNIC GROUPS

The indigenous inhabitants were Amerindians, chiefly of Tupi-Guaraní stock, and other small groups in the Amazon Basin and the lowlands of the Paraguay and Paraná rivers. The Portuguese settlers had few taboos against race mixture, and centuries of large-scale intermarriage have produced a tolerant and distinctly Brazilian culture. Within the Brazilian nationality are blended the various aboriginal Indian cultures; the Portuguese heritage, with its diverse strains; the traditions of millions of persons of African descent; and European elements resulting from sizable immigration since 1888 from Italy, Spain, Germany, and Poland. The influx of Japanese and some Arabs during the 20th century has contributed to the complex Brazilian melting pot.

According to the 2000 census, 53.7% of Brazil's population are white; 38.5% are mixed white and black; and 6.2% are black. The remainder are comprised of Japanese, Arab, and Amerindian groups.

⁹LANGUAGES

The official language of Brazil is Portuguese, which is spoken by virtually all inhabitants except some isolated Indian groups. Substantial variations in pronunciation and word meaning, however, distinguish it from the language as it is spoken in Portugal. Spanish is also spoken. A large percentage of the educated have learned either French or English. German, Italian, and Japanese are used in immigrant communities.

¹⁰RELIGIONS

The 2000 census indicated that about 74% of the population were affiliated with the Roman Catholic church. Protestants constituted roughly 15% of the population, the majority of whom (about 85%) were Pentecostal/Evangelical; Lutherans and Baptists accounted for most of the remaining Protestants. Other denominations included the Assemblies of God, the Christian Congregation of Brazil, the Universal Church of the Kingdom of God, Lutheran, Presbyterian, and Baptist. About 374,000 respondents to the census were members of "oriental religions," which include several branches of Buddhism, Messianism, Seicho No-Ie, Perfect Liberty, Hare Krishna, Oshoo Disciples, Tenrykyo, Mahicari, Baha'i, Shintoism, and Taoism. There were about 27,239 Muslims, primarily of the Sunni and Shia branches. About 2,905 Brazilians were Hindus. About 7% of the population did not claim any religious affiliation. Muslim leaders estimated that about 3 million citizens were nominally Muslims; however, only about 700,000 were active participants in religious practices. About 100,000 Brazilians are Jewish.

Followers of traditional African and syncretic religions make up about 4% of the populace. Candomble, which focuses on traditional African deities, is a predominant religion among Afro-Brazilians. Xango and Macumba include practices of animism as well as the veneration of Catholic saints and African deities. About 1.3% of the population adhere to a spiritism doctrine known as

Kardecism, which was introduced in the 19th century by Allan Kardec of France.

The constitution provides for freedom of religion and the right is generally respected in practice. There is no official state religion; however, the government of Brazil maintains a Concordat with the Vatican. Several Roman Catholic holidays are celebrated as public holidays.

¹¹TRANSPORTATION

Roads are the primary carriers of freight and passenger traffic. Brazil's road system totaled 1.98 million km (1.23 million mi) in 2002. The total of paved roads increased from 35,496 km (22,056 mi) in 1967 to 184,140 km (114,425 mi) in 2002. Motor vehicles registered as of 2003 included 16,650,000 passenger cars, and 4,200,000 commercial vehicles. Although the bulk of highway traffic is concentrated in the southern and central regions, important roads have been constructed to link the northeastern and northern areas with the industrialized south. Roads of all types have been built with federal aid, the most important being the network of more than 14,000 km (8,700 mi) of paved roads south of Brasília; aid is also supplied for their maintenance. In September 1970, construction began on the 5,000-km (3,100-mi) Trans-Amazon Highway, possibly the most ambitious overland road project undertaken in this century, linking Brazil's Atlantic coast with the Peruvian border; when completed, a 4,138-km (2,571-mi) north-south section will link Santarém, on the Amazon River, with Cuiabá. The project has had a profound effect on the Amazon Basin, among the world's last great wildernesses. However, a World Bank study in the early 1990s showed that 28% of the country's existing highways were in bad condition, up from only 10% in 1979. Lack of proper road maintenance possibly adds 10–15% to total transportation costs in Brazil. As of 2002, the government had privatized or turned over to the states most of the federal highway system.

Brazil's railway system has been declining since 1945, when emphasis shifted to highway construction. The total extent of railway trackage was 29,412 km (18,294 mi) of broad, standard, and narrow gauge right of way in 2004, as compared with 31,848 km (19,789 mi) in 1970. Of that total, 1,000-m narrow gauge track accounts for the largest portion at 23,915 km (14,875 mi), followed by broad gauge track (1.6 m) at 4,907 km (3,052 mi). Standard gauge track (194 km/121 mi) and a dual broad/narrow gauge track system (396 km/246 mi) make up the remainder. Most of the railway system belongs to the Federal Railroad Corp., with a majority government interest. There are also seven lines that the government privatized in 1997.

Coastal shipping links widely separated parts of the country. Of the 36 deep-water ports, Santos and Rio de Janeiro are the most important, followed by Paranaguá, Recife, Vitória, Tubarao, Macaíó, and Ilhéus. Bolivia and Paraguay have been given free ports at Santos. Although there are 50,000 km (31,070 mi) of navigable inland waterways, most as of 2004, were remote from the country's population and industry. In 2005, the merchant shipping fleet, which included 150 vessels (1,000 GRT or over), had a total GRT of 2,961,431.

Air transportation is highly developed. In 2003, local and international airlines transported about 32.372 million passengers. In 2004 there were an estimated 4,136 airports, of which 709 had paved runways as of 2005. There were also 417 heliports (as of

2005). Of the 48 principal airports, 21 are international; of these, Rio de Janeiro's Galeao international airport and São Paulo's Guarulhos International Airport are by far the most active. The main international airline is Empresa de Viação Aérea Rio Grandense (VARIG). Other Brazilian airlines are Transbrasil Linhas Aéreas, Cruzeiro do Sul, (associated with VARIG since 1983), and Viação Aérea São Paulo (VASP), which handles only domestic traffic and is run by the state of São Paulo. All except VASP are privately owned.

12 HISTORY

The original inhabitants of Brazil were hunter-gatherers, except in the lower Amazon, where sedentary agriculture developed. There are no reliable population estimates from pre-European times, but probably there were no more than one million.

After the European discovery of the New World, Spain and Portugal became immediate rivals for the vast new lands. Portugal's claim was established by a papal bull of Pope Alexander VI (1493) and by the Treaty of Tordesillas (1494), which awarded to Portugal all territory 370 leagues west of the Cape Verde Islands. On Easter Sunday in 1500, the Portuguese admiral Pedro Álvares Cabral formally claimed the land for the Portuguese crown. Cabral's ship returned to Portugal with a cargo of red dyewood, which had been gathered along the shore, and from the name of the wood, pau-brasil, the new land acquired the name Brazil.

In 1532, the first Portuguese colonists arrived, bringing cattle, seed, and the first slaves from Africa. In 1549, the Portuguese governor-general, Tomé da Souza, founded the city of São Salvador, and established the first Portuguese government in the New World. The same year marked the arrival of the missionary Society of Jesus (the Jesuits) to begin their work among the Indians.

Other Europeans began to move in on the Portuguese colony. In 1555, the French established a settlement in the Bay of Rio de Janeiro. In 1624, the Dutch attacked Bahia and began to extend throughout northeastern Brazil. Under the Dutch, who remained until ousted in 1654, the area flourished economically. Colonists planted sugarcane, and during the 17th century, the large sugar plantations of northeastern Brazil were the world's major source of sugar.

In 1640, Portugal appointed a viceroy for Brazil, with his seat first in Bahia and after 1763 in Rio de Janeiro. The discovery of gold in 1693 and of diamonds about 1720 opened up new lands for colonization in what are now the states of São Paulo, Minas Gerais, Paraná, Goiás, and Mato Grosso. From their base in São Paulo, Brazilian pioneers (Bandeirantes) pushed inland, along with their herds of cattle and pigs, in search of Indian slaves and mineral riches. By the 1790s, when the primitive surface gold and diamond mines were largely exhausted, the Brazilian plateau became thinly populated.

Brazil's first attempt at independence came in 1789 in the mining state of Minas Gerais. A plot, known as the Miners' Conspiracy (Conjuração Mineira) was led by Joaquim José da Silva Xavier, a healer known as Tiradentes ("tooth-puller"). The plot was betrayed and crushed, and Tiradentes was captured and eventually executed, but Tiradentes remains a national hero. In 1807, the invading armies of Napoleon forced the Portuguese royal family and 15,000 Portuguese subjects to flee to Brazil. Rio de Janeiro became the seat of the Portuguese royal family until 1821, when

King John (João) VI returned home, leaving his son Pedro to rule Brazil as regent. Meanwhile, Portugal's monopolistic trade practices, the suppression of domestic industry, and oppressive taxation had brought about a strong movement for independence, which Pedro supported.

Pedro proclaimed Brazil's independence on 7 September 1822, and later that year was crowned Emperor Pedro I. In 1831, a military revolt forced him to abdicate. The throne passed to his five-year-old son, Pedro. In 1840, Pedro was crowned Emperor. Under Pedro II, Brazil enjoyed half a century of peaceful progress. New frontiers were opened, many immigrants arrived from Europe, railroads were built, and the gathering of rubber in the Amazon Basin stimulated the growth of cities, such as Belém and Manaus. The abolition of slavery in 1888 brought about an economic crisis that disrupted the Brazilian Empire. In 1889, a bloodless revolution deposed Pedro II and established the Republic of the United States of Brazil. A new constitution modeled after the US federal constitution, was promulgated by the Brazilian government in 1891. At first, the republic was ruled by military regimes, but by 1894 constitutional stability was achieved.

Meanwhile, empty areas of good soil were settled in the southern plateau by over 2.5 million Italian, Portuguese, German, Polish, and Levantine immigrants. The rapid spread of coffee cultivation in the state of São Paulo transformed Brazil into the world's largest coffee-producing country. By the end of the 19th century, coffee had become the nation's principal source of wealth. Brazil soon entered a period of economic and political turmoil. Malayan and Indonesian rubber plantations had overwhelmed the Brazilian rubber market, while coffee revenues were reduced by falling world prices of coffee. Regionalism and military rivalries contributed to instability, and by 1930, the nation was in a state of unrest. In that year, a military coup with widespread civilian support placed into power Getúlio Vargas, the governor of Rio Grande do Sul.

Vargas' ideology was a blend of populism and corporatism. He sought reforms for Brazil's middle and lower classes, but discouraged dissent and was often repressive. Between 1930 and 1937 Vargas brought a minimum wage and social security to Brazil, but also crushed a leftist uprising in 1935. Vargas formalized his system in 1937, calling it the New State (Estado Novo). For eight years, Vargas attempted to industrialize Brazil, while organizing both workers and their employers into state-run syndicates. Vargas was nationalist in foreign policy, although he encouraged foreign investment. He exploited the US-German rivalry over Latin America to get large amounts of aid until joining the allies in 1942.

Conservative elements of the military, convinced that Vargas was a dangerous force, removed him from office, and promulgated a new constitution in 1946. The "Second Republic" was initiated with the presidency of Eurico Dutra. Vargas was returned to the presidency in the election of 1950 and did not attempt to rejuvenate the New State. He did continue to press for industrialization under state control, establishing a National Development Bank and a state petroleum company. Eventually he ran afoul of the military, which demanded his resignation. He committed suicide in August 1954, a few months before his term of office was due to expire.

He was succeeded from 1955 to 1961 by Juscelino Kubitschek de Oliveira. Kubitschek embarked on an ambitious program of development, spending huge amounts of money and attracting large foreign investments in Brazil. Kubitschek's most ambitious program was the building of a new federal capital, Brasília, in the highlands of central Brazil. Inflation and a burdensome national debt proved to be his undoing, and in January 1961 Jânio da Silva Quadros was inaugurated after a campaign promising an end to corruption and economic stability. The situation proved too difficult for Quadros, and he resigned after only seven months. João Goulart, who had been vice president under both Kubitschek and Quadros, became president only after the conservative Congress combined with the military to reduce his powers and institute an unwieldy form of parliamentary government. In January 1963, in a national plebiscite, Brazil chose to restore presidential powers. But Goulart was caught between pressures from the left, demanding the acceleration of social programs, and the right, increasingly alarmed by trends toward populism.

On 1 April 1964 the military deposed Goulart and arrested 40,000 people, including 80 members of Congress. In the same month, Congress appointed Humberto de Alencar Castelo Branco to the presidency, and in July it approved a constitutional amendment extending Castelo Branco's term of office to March 1967. National elections were postponed, and Brazil entered an era of military supremacy.

In March 1967 Arthur da Costa e Silva, a former army marshal, took office under a new constitution. That constitution was suspended in December 1968, and military hard-liners took the upper hand. Costa e Silva suffered a stroke in September 1969 and died in December. Gen. Emilio Garrastazú Médici, former head of the secret police was chosen to replace him. In March 1974, Gen. Ernesto Geisel, a high official in the Castelo Branco government, became president.

The military governments of the previous 10 years had brought Brazil rapid economic expansion, but there was a dramatic reversal during the oil crisis of 1973–74. Opposition began to mount, encouraged by religious and trade union leaders. President Geisel gradually instituted some degree of political liberalization (*abertura*), but the military split on the wisdom of this policy.

During the late 1970s, continuing economic difficulties led to labor unrest and numerous strikes, including a strike of 300,000 metalworkers in metropolitan São Paulo in April and May of 1980 that ended only after troops in tanks and trucks occupied the region. Meanwhile, Gen. João Baptista de Oliveira Figueiredo became president in March 1979. That August, Figueiredo continued Geisel's policy of liberalization by signing a political amnesty law that allowed many political exiles to return home. Also in 1979, censorship of the press and the controlled two-party system were abolished. In November 1982, Brazil had its first democratic elections since 1964. Opposition parties won the governorships of 10 populous states and a majority in the lower house of Congress, but the ruling party remained in control of the upper house and the electoral college, which was to choose the next president. Moreover, the military retained broad powers to intervene in political affairs under national security laws.

The 1985 election was indirect, yet the opposition managed to turn the campaign in 1984 into a reflection of popular choice and capture the presidency. The ruling party chose São Paulo governor

Paulo Maluf, who proved unable to distance himself from the unpopularity of the military-controlled regime. The opposition capitalized on the groundswell of hostility and coalesced behind the paternal figure of Tancredo Neves, a senator from Minas Gerais who had held office under Vargas and who campaigned as if the ballot were direct. The election went against the government, and in January 1985, the electoral college duly chose Neves as Brazil's first civilian president in a generation. In March, however, just before his inauguration, Neves fell gravely ill, and he died in April without having been formally sworn in. Brazilians feared another military strike, but Vice President José Sarney was allowed to take office as president. Sarney, who represented a small center-right party allied with Neves's party, consolidated his position after an impressive showing in regional and legislative elections in November 1986.

A new constitution, passed in 1988, was followed by elections a year later. Brazil's first direct presidential elections in 29 years resulted in the victory of Fernando Collor de Mello. Collor received 53% of the vote in the runoff elections. Collor took office in March 1990 and launched an ambitious liberalization program that attempted to stabilize prices and deregulate the economy. Collor was in the process of renegotiating Brazil's huge debt with foreign creditors and the IMF when massive corruption was revealed inside the Collor administration. Allegations implicated Collor himself, who was forced to resign in December 1992. Itamar Franco took over, promising to continue Collor's programs, but long-standing structural problems continued. The nation's chronic inflation was finally brought under control through the Real Plan launched in 1994 by finance minister Fernando Henrique Cardoso (and named for the new currency, linked to the US dollar, which was introduced under the plan).

On the strength of the plan's success, Cardoso, a leading social scientist, was elected to the presidency in October 1994. His policies, which continued to keep inflation under control, reduced tariffs, and included major privatization measures, earned him sufficient support for the passage in January 1997 of a constitutional amendment by the lower house of Congress overturning the nation's ban on consecutive presidential terms and making it possible for Cardoso to seek reelection in 1998. He won reelection in October of 1998 with 53% of the vote in the first round. Worker's Party candidate Luiz Inácio "Lula" da Silva came second with 31.7%. Cardoso also commanded the support of a loose center-right coalition of parties. One of the major challenges tackled by the Cardoso administration was the privatization of the state-owned mining company, Vale de Río Doce, which drew strong opposition from nationalist, leftist, and religious forces. In May 1997 a \$3.2 billion controlling stake in the mining and transport conglomerate was sold to private investors. Cardoso's parties also won a majority of the state governor races. Shortly after the election, as a result of the economic crisis, Brazil was forced to devalue its currency, the *real*. Previously pegged to the US dollar, the *real* lost more than 60% of its value within days, sending the country into a deeper crisis. Some recovery was observed starting in 1999, but social discontent resulting from high unemployment and growing poverty also flourished. Cardoso was constitutionally prevented from seeking a third consecutive presidential term in 2002.

In the 2002 election, Lula da Silva, the runner-up in the previous two elections and the founder of the Worker's Party, final-

ly succeeded in winning the presidency. After placing first in the first-round election, Lula went on to win more than 61% of the vote to defeat José Serra, Cardoso's candidate, and become the first factory worker ever to be elected president of Brazil. Although many observers feared that Lula would adopt policies detrimental to sound fiscal management and would favor redistribution of wealth over fiscal discipline, during his first months in office Lula demonstrated his ability to be a clever, reliable, trustworthy leader who sought to balance sound macroeconomic policies with an active but responsible commitment to reduce poverty and use government resources to help those most in need. The economy recovered after the 1998 crisis, but poverty and inequality remained widespread and fighting them was Lula's first priority as president. Lula's Zero Hunger plan, aimed at devoting state resources to help the most impoverished Brazilians, received enthusiastic support from political actors and international observers.

In 2004, Brazil—along with Germany, India, and Japan—launched an application for a permanent seat on the United Nations Security Council. Those in favor of expanding the Security Council from its current five permanent members (the United States, Russia, the United Kingdom, France, and China) argued such expansion would remedy the democratic and representative deficit from which the Council suffers. African leaders also wanted permanent African representation in the Council.

During the summer of 2005, corruption allegations plagued the governing Workers' Party (PT). The PT was accused of paying monthly bribes of \$12,000 to lawmakers from other parties, and of manipulating the system of appointments to state-run companies. A wave of resignations ensued. President Lula da Silva made a televised apology and claimed he knew nothing about the corruption. His popularity, however, suffered a blow as a result of the corruption scandal.

13 GOVERNMENT

The Federative Republic of Brazil is a constitutional republic composed of 26 states and the Federal District. This district surrounds the federal capital, Brasília. The constitution of October 1988 established a strong presidential system.

The president and vice president are elected to four-year terms and can be reelected once. In 1985, the previous constitution was amended to allow for direct popular election as opposed to an electoral college system. Between 1964 and 1978, presidents were pre-selected by the military. The president is the head of the armed forces and is in charge of the executive branch, assisted in that task by a cabinet of ministers. He also appoints justices to the Supreme Federal Tribunal, the highest court in Brazil.

The Congress consists of the Senate and the Chamber of Deputies. The Senate has 81 members, 3 for each state plus the Federal District. Senators serve for eight-year terms, with half the members retiring every four years. The 513 deputies are elected for four-year terms by a system of proportional representation in the states, territories, and Federal District. The constitution stipulates that Congress meet every year from 15 March to 15 December. In practice, from 1964 to 1985, the military used the office of the president to dominate the Congress and the state legislatures, suspending them from time to time.

Voting is compulsory between the ages of 18 and 70 and optional for persons over 70, and those between 16 and 18 years of

age. Illiterates were permitted to vote in 1985. Military conscripts may not vote.

14 POLITICAL PARTIES

During the last days of the Brazilian Empire, a group of positivists advocating abolition of the monarchy organized the Republican Party (Partido Republicano—PR) along military lines. After the fall of the empire in 1889, the government was controlled by PR-supported military regimes and opposed locally by the established Conservative and Liberal parties. An opposition group, the Civilian Party (Partido Civilista), organized by Ruy Barbosa, overcame the military regime but was soon absorbed into the Conservative and Liberal groups from Minas Gerais and São Paulo, which instituted a system of alternating the presidency between the two states.

Getúlio Vargas was responsible for the success of three successive parties, one of which survives to this day. In 1930, Vargas formed the Liberal Alliance Movement (Aliança Nacional Liberal—ANL). After Vargas resigned the presidency in 1945 his supporters formed the Social Democratic Party (Partido Social Democrático—PSD). Eurico Dutra, who succeeded Vargas, ran under this party. In 1950, Vargas was elected under the banner of the Brazilian Labor Party (Partido Trabalhista Brasileiro—PTB). Finally, Vargas inspired the National Democratic Union (União Democrática Nacional—UDN) to put up candidates against him. The UDN won the presidency in 1961 for Quadros.

The PSD continued on without Vargas, but formed a coalition with the PTB in 1955. The PSD candidate, Kubitschek, became president, while the PTB's leader, Goulart, became vice president. In the 1958 congressional elections, however, the PTB broke with the PSD. The PTB survives as a small party, having lost many of its members to other laborite parties.

After the military takeover in 1964, parties disappeared. In 1966, the military allowed the formation of two official parties: the Alliance for National Renewal (Aliança Renovadora Nacional—ARENA) and the Brazilian Democratic Movement (Movimento Democrático Brasileiro—MDB). ARENA was created as the ruling party, with the MDB playing the role of "loyal opposition." ARENA began with two-thirds majorities in both houses of Congress and increased its majorities in the elections of 1970, while also maintaining control of nearly all state legislatures. ARENA scored further gains in the 1972 municipal elections. However, beginning in November 1974, the MDB began to score legislative gains. Moreover, in the 1974 election the MDB was able to raise issues of social justice and civil liberties.

In November 1979, in accordance with the government's liberalization policy, Congress passed a law abolishing ARENA and the MDB and permitting the formation of new parties. Over the next decade, a number of groups emerged. The government created the conservative Social Democratic Party (Partido Democrático Social—PDS) to replace ARENA. The Democratic Workers' Party (Partido Democrático Trabalhista—PDT) is headed by Leonel Brizola, a frequent critic of the military regime and leader of a similar party before 1964. The Party of the Brazilian Democratic Movement (Partido de Movimento Democrático Brasileiro—PMDB) is a moderate successor to the MDB. The Brazilian Social Democracy Party (PSDB) was founded in 1988 by former PMDB members, including future president Fernando Enrique Cardo-

so. The Workers' Party (Partido dos Trabalhadores—PT) is led by Luis Inácio da Silva, also known as “Lula,” the popular leader of the metalworkers' union. In 1989, Lula placed second in the presidential race, running under a coalition of laborite parties called the Popular Front. Lula lost the runoff election to Collor, receiving 47% of the vote. He ran again unsuccessfully in 1994 and 1998 before winning the 2002 presidential election. The Brazilian Workers' Party (Partido Trabalhista Brasileiro—PTB) is a populist party with working-class appeal, but is conservative on a variety of economic issues. The PT is currently the party with most legislators in congress and its ability to govern will be tested during Lula's presidential term (2003–07).

In 1985, the Liberal Front Party (PFL) was organized by dissident PDS members. It formed the National Alliance with the PMDB, an alliance that won the 1985 elections. Although the PFL lost the 1989 presidential elections, it soon allied with President Collor, although the scandal of 1992 did little to help its fortunes. In the 2002 election, the PFL placed second, behind the PT; and PFL had 84 deputies in the 513-member Chamber and 19 senators in the 81-member Senate.

The Communists had been banned since 1957, but were allowed to organize after 1985. The Brazilian Communist Party (Partido Comunista Brasileiro), founded in 1922, is now a Euro-Communist party firmly committed to conventional politics. The Communist Party of Brazil (Partido Comunista do Brasil) is a more radical faction, Maoist in its origins but now expressing solidarity with any socialists who resist reforms.

Fernando Henrique Cardoso of the PSDB was elected president in October 1994, in Brazil's second direct presidential election since 1960, winning 53% of the vote to 26% for the PT candidate, Inácio da Silva (known as Lula), his closest rival. In October 1998 Cardoso won reelection in a first-round election with 53.1% of the vote, defeating Lula who came second with 31.7%. In 2002, Lula won in a runoff election with 61% of the vote, but his PT only captured about one out of every five seats in Congress. Through alliances and coalitions with other parties, Lula secured majority control of both chambers, but Brazilian politics is characterized by the lack of discipline, and party allegiance responds more to provincial and local interests than strong central party discipline. Yet, under Lula's leadership, the PT has successfully become a national party and is currently the largest and most important party in the country. Party loyalty by legislators has remained weak as most members of the legislature show more loyalty to their state governors than national party leadership. But the success of the PT helped foster a higher degree of party discipline and cohesiveness. The corruption scandal that rocked the PT in 2005, however, caused the party to lose a significant amount of public trust.

15 LOCAL GOVERNMENT

Brazil is a highly centralized system, in which local units have very little authority. Each of Brazil's 26 states has its own constitution and popularly elected legislature and governor. The states are divided into about 5,500 municipalities, which are, in turn, divided into districts. Each municipality has its own elected council and mayor. The state and municipal legislative bodies are subordinate to the federal government. Municipal authorities are responsible for the construction and maintenance of roads, the creation and upkeep of public parks and museums, and for the program of pri-

mary education. As districts increase in population, they, in turn, become municipalities. The large municipalities are important political units and may rival the state in political power. The largest city in each municipality serves as the capital, and usually the largest city in the largest municipality serves as the state capital. The Federal District government in Brasília is appointed by the president with Senate approval.

In 1960, after Brasília became the new capital, the former Federal District, comprising Rio de Janeiro and the 1,165 sq km (450 sq mi) surrounding it, became the state of Guanabara. Eventually this state was amalgamated into the state of Rio de Janeiro. From 1979 on, a few previously unincorporated territories became states.

16 JUDICIAL SYSTEM

The legal system is based on continental European principles. Although the jury system has been used in criminal cases for more than 100 years, there is a general tendency away from the use of juries. The Supreme Federal Court is composed of 11 justices, chosen by the president with Senate approval, who serve until age 70. It has final jurisdiction, especially in cases involving constitutional precepts and the acts of state and local authorities. The Federal Appeals Court deals with cases involving the federal government. Immediately below it are federal courts located in the state capitals and in the Federal District, as well as military and labor courts. Codes of criminal, civil, and commercial law are enacted by Congress, but in order to preserve the jurisdiction of state courts, the federal courts will not accept original jurisdiction solely because a law of Congress is involved. Electoral tribunals deal with registration of political parties, supervision of voting, infractions of electoral laws, and related matters.

Each state and municipality has its own judicial system. Justices of the peace and magistrates deal with commercial and other civil cases of the first instance. Decisions from state or municipal courts may be appealed to the federal courts and on up to the Supreme Federal Court.

There is also a system of specialized courts dealing with police, juveniles, and family matters.

The judiciary is independent from the executive and legislative branches. Judges are appointed for life and may not accept other employment.

Criminal defendants have a right to counsel.

17 ARMED FORCES

The Brazilian armed forces had 302,909 active personnel, with reserves of 1,340,000 in 2005. The Army had 189,000 personnel, whose equipment included 178 main battle tanks, 286 light tanks, 409 reconnaissance vehicles, 803 armored personnel carriers, and over 1,554 artillery pieces. The Navy had 48,600 personnel, including 14,600 Marines and 1,150 naval aviation personnel. The Navy's major fleet units included 1 aircraft carrier, 14 frigates, 4 corvettes, 50 patrol/coastal vessels, and 6 mine warfare ships. The naval aviation arm had 26 combat capable aircraft that included 23 fighter ground attack aircraft in addition to 26 antisubmarine warfare helicopters. The Air Force had 69,309 active personnel, with 9 combat capable aircraft, consisting of P-3A Orion maritime patrol aircraft. Brazil's paramilitary force was under Army control and consisted of a public security force of more than 385,600

members. Brazil participated in five UN peacekeeping missions in 2005. The defense budget in 2005 totaled \$13.08 billion.

18 INTERNATIONAL COOPERATION

Brazil is a charter member of the UN, having joined on 24 October 1945; it belongs to the ECLAC and several specialized agencies, such as the FAO, IAEA, IFC, ILO, IMF, UNESCO, the World Bank, and WHO. Brazil joined the WTO on 1 January 1995. The country also participates in G-15, G-19, G-24, G-77, the Río Group, the Latin American Economic System, and the Latin American Integration Association. Brazil is also a member of the OAS. In 1991, Brazil together with Argentina, Uruguay, and Paraguay created the Mercosur trade and strategic alliance.

Brazil is an observer of the Nonaligned Movement and a member of the Nuclear Suppliers Group (London Group) and the Agency for the Prohibition of Nuclear Weapons in Latin American and the Caribbean (OPANAL). The nation contributed a battalion of troops to the UNEF in the Gaza area after the Suez crisis of 1956 and also sent troops to the Congo (now Zaire) in the early 1960s. It has also supported UN efforts in Kosovo (est. 1999), Liberia (est. 2003), East Timor (est. 2002), Côte d'Ivoire (est. 2004), and Haiti (est. 2004). Brazil serves on the United Nations Monitoring, Verification, and Inspection Commission, which was originally established in 1999 as the Special Commission for the Elimination of Iraq's Weapons of Mass Destruction. The country is a signatory of the 1947 Río Treaty, an inter-American security agreement.

In environmental cooperation, Brazil is part of the Antarctic Treaty, the Basel Convention, Conventions on Biological Diversity and Whaling, Ramsar, CITES, the London Convention, International Tropical Timber Agreements, the Kyoto Protocol, the Montréal Protocol, MARPOL, and the UN Conventions on the Law of the Sea, Climate Change, and Desertification.

19 ECONOMY

The history of the Brazilian economy before World War II was characterized by six principal cycles, each centered on one export particular commodity: brazilwood, livestock, sugar, gold, rubber, and coffee. At the height of each cycle, Brazil led the world in production of that commodity. Even during the postwar era, variations in price and market conditions for coffee largely determined the degree of national prosperity.

Attempts to diversify the economy through rapid industrialization made Brazil one of the two leading industrial nations of South America, but spiraling inflation thwarted many of the economic advances. The rising inflationary trend of the mid-1960s was due mainly to public budgetary deficits resulting from losses incurred by the government-owned railroads and shipping lines and by official subsidy expenses for imports, such as wheat and petroleum. At the same time, wages increased at a higher rate than productivity; expansion of credit to private enterprises also lagged. The pace of further industrial expansion was determined largely by the availability of foreign exchange, derived chiefly from the sale of coffee, to buy the necessary equipment and raw materials, especially wheat and crude oil.

After the period of what some called an economic miracle (1968–73), during which GDP growth averaged more than 11% annually; the economy cooled to an annual growth rate of 6% between 1974 and 1980, mainly because of increased costs of import-

ed oil. Throughout this period, industrial growth rates outstripped those for the economy as a whole, and industrial products claimed an increasingly large share of GDP.

Inflation was so chronic that in the late 1960s, the government instigated monetary correction, whereby fixed payments were indexed to past inflation. Thus, interest rates, pension payments, mortgage payments, and so forth, kept pace with rising prices, but inflation fed on itself. Even as economic growth surged in the mid-1980s, triple-digit inflation persisted. In February 1986, as the projected inflation rate for the year approached 500%, the government imposed a package of sweeping economic reforms, the Cruzado Plan, which created a new currency (the cruzado), eliminated monetary correction, and froze wages and prices. While inflation plunged to near-zero initially, by mid-1987, it had surged beyond 100%, fueled by increased customer spending due to the price freeze. The government then imposed an austerity program and began negotiations with the IMF for a rescheduling of the staggering foreign debt.

The Brazilian economy was hit by a deep recession and record inflation in 1990. The GDP fell by an unprecedented 4%, while inflation hit an all-time high of 2,938%. In March 1990, upon assuming office, President Collor announced sweeping economic reforms designed to stop inflation and integrate Brazil into the developed world economy. In addition, the Collor Plan imposed a price freeze, as well as a freeze on bank deposits, resulting in a precipitated capital flight. Trade barriers were significantly reduced but the attempt to reduce Brazil's large fiscal deficit resulted in the continual resurgence of inflation and a lack of confidence in the government's economic policies.

The Collor government introduced on 31 January 1991 another package, Collor II, attempting to reduce inflation. The package included wage and price controls and eliminated the overnight market. The economy experienced a lackluster recovery with GDP growth of 1.2%. However, the failure to reduce the structural fiscal deficit, inconsistent monetary policy, the unfreezing of prices and wages by the third quarter, and the unfreezing of remaining blocked accounts undermined the efforts to reduce inflation.

Under IMF guidance, monetary policy continued to tighten liquidity in 1992. The failure of the government's stabilization efforts produced a new inflationary spiral with monthly inflation rates in the mid-20% range. High real interest rates combined with the acceleration of inflation and the political uncertainty over the outcome of the impeachment proceedings produced another recession with GDP decline of 1.5% for 1992.

Inflation continued to rage in the early 1990s. In 1994 it peaked at 2,700%. That year, the finance minister, Fernando Henrique Cardoso (later president), introduced a new currency, the real, and a new economic plan called the Real Plan. The plan featured privatization of state-owned industries, lowering of tariffs, and the abolition of Brazil's unique and counterproductive wage-inflation indexing, which had sent prices on a seemingly endless upward spiral. By ending the hyperinflation of the past decades, the government greatly increased the standard of living of millions of Brazilians, allowed businesses to plan for the medium term in an environment of stability, and created a class of economically stable consumers. Inflation had dropped to only 6.9% by 1997, and has since remained in single digits.

From 1988 to 1998, GDP growth averaged 2.4%. The Real Plan had to be abandoned in early 1999, however, as the Brazilian economy became engulfed in the aftermath of the Asian financial crisis of 1997 and the Russian financial crisis of 1998. Brazil lost an estimated \$50 billion in foreign reserves in the resulting capital flight. Steps were taken by the Group of Seven and the international financial institutions to try to reassure foreign investors. On 2 December 1998, a two- and-three-quarter-year standby agreement with the IMF went into effect, buttressed by a credit line of about \$18.2 billion, as well as a one-year standby under the Supplementary Reserve Facility (SRF) with a \$12.6 billion credit line, both part of an international support package totaling \$41.5 billion. The support package had been designed as a precaution against Brazil catching the "Asian flu," as it were, but it did not prevent the Brazilian currency crisis of 1999. On 13 January 1999 the Central Bank devalued the real by 8%; on 15 January 1999, the Cardoso government announced that the real would no longer be pegged to the US dollar, ending the Real Plan. Immediately, the real lost more than 30% of its value, and subsequent devaluation made the real lose a total of 45% of its value. Despite the devaluation, the economy showed positive, if weak, growth in both 1998 (0.2%) and 1999 (0.8%), and inflation remained under control, at 3.2% in 1998 and 4.9% in 1999. However, Brazil's debt service ratio soared to an untenable 113.1% of export earnings in 1999, up from 62.7% in 1997 and 76.2% in 1998. To some extent, the problem was self-correcting, as the devalued real made Brazilian exports more competitive, which increased export earnings in 2000, and helped reduce the debt service ratio to 90.8% by 2000 and to 78.5% by 2001. GDP grew 4.5% in 2000, led by exports, while inflation picked up to 7%. Growth then fell to 1.4% in 2001 as the US recession and the global economic slowdown dampened export demand.

At the expiration of the 1998 IMF standby agreement in September 2001, two other one-year standbys were put in place with credit lines totaling about \$30 billion. In 2002, debt service payments were running at over 80% of exports (a debt service ratio of 80.3%) as export markets continued slow after the 11 September 2001 terrorist attacks on the United States, and as investors became increasingly anxious about the economic consequences of a victory by Luiz Inácio Lula da Silva in the October presidential election. There were also questions about whether the administration of US president George W. Bush would support another standby arrangement with the IMF for Brazil. On 6 September 2002 the expiring 2001 arrangements were replaced by two more one-year standby arrangements with a \$30 billion line of credit just as the currency exchange rate and the Brazilian stock market index—the Bovespa index—were reaching historic lows. Both the exchange rate and the Bovespa index improved after the election and into the first quarter 2003; the improvements were in part because the sell-off had preceded the election and in part because the Lula government was proving less radical than had been feared. Overall, real GDP is estimated to have grown 1.5% in 2002, while inflation increased to 8.4%, up from 6.8% in 2001.

Although hyperinflation in Brazil has ended, and the economy has to a great extent been liberalized, public-solvency indicators deteriorated in the midst of low growth and stalled fiscal reforms in the mid-2000s. President Lula da Silva by 2006 had won market confidence by showing commitment to stability and reform, and improved public-debt ratios, but the tightness of macroeconomic

management frustrated industrialists and alienated da Silva's traditional supporters. Brazil uses inflation-targeting as a framework for monetary policy in the context of a floating exchange rate. The central bank has set a target inflation rate of 5.1%, and by 2006, inflation was on the decline. After the trade balance swung back into surplus in 2001 for the first time since 1993, the export to GDP ratio rose further in 2003, to 17.2%, following consecutive years of record export earnings in 2002–03. Primary products performed strongly by 2005, prompted by robust Chinese demand for soya and iron ore, but exports of manufactures also increased, led by automobiles. Underinvestment, particularly in infrastructure, has led to high costs and inefficiencies in services such as transportation, energy provision, and communications. Construction, which accounts for two-thirds of investment, was weak in 2005, partly because of high interest rates. There is also a heavy corporate tax burden. In 2004, the economy grew by 4.9%. Growth was likely to slow to 3% in 2005 before picking up again in 2006. Real GDP growth averaged 2.6% from 2000–04. Inflation averaged 8.7% during that period. Brazil was the world's 14th largest economy in 2004, according to the World Bank.

20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 Brazil's gross domestic product (GDP) was estimated at \$1.6 trillion. 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 based on current dollars. The per capita GDP was estimated at \$8,500. The annual growth rate of GDP was estimated at 2.6%. The average inflation rate in 2005 was 6.8%. It was estimated that agriculture accounted for 10% of GDP, industry 39.4%, and services 50.6%.

According to the World Bank, in 2003 remittances from citizens working abroad totaled \$2.821 billion or about \$16 per capita and accounted for approximately 0.6% of GDP. Foreign aid receipts amounted to \$296 million or about \$2 per capita and accounted for approximately 0.1% of the gross national income (GNI).

The World Bank reports that in 2003 household consumption in Brazil totaled \$291.57 billion or about \$1,647 per capita based on a GDP of \$505.7 billion, measured in current dollars rather than PPP. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the period 1990 to 2003 household consumption grew at an average annual rate of 3.4%. In 2001 it was estimated that approximately 22% of household consumption was spent on food, 18% on fuel, 15% on health care, and 34% on education. It was estimated that in 1998 about 22.0% of the population had incomes below the poverty line.

21 LABOR

In 2005, Brazil had an estimated work force of 90.41 million. In 2003, it was estimated that 20% were engaged in agriculture, 66% in services, and 14% in industry. As of 2005, an estimated 9.9% of the workforce was unemployed.

The law provides for union representation of all workers except the military, uniformed police, and firemen. Union financing depends largely on a mandatory tax administered by the gov-

ernment, which applies to nearly all workers and employers. The number of strikes has decreased in recent years, with 1,250 strikes recorded in 1996 compared to 84 in the year 2000. Union organizers, especially in rural areas, continue to be violently harassed and even killed. About 16% of Brazil's workforce is unionized. However, most workers in the informal economy, including those not registered with the Ministry of Labor and Employment (MLE) and those who are self-employed, remain outside of the union structure. Around 50% of the country's labor force worked in the informal sector, while the percentage was even higher in the agricultural sector, where 70% were unregistered with the MLE.

Brazilian law limits the workweek to 44 hours, with a weekly rest period of 24 consecutive hours. Excessive compulsory overtime is prohibited with overtime hours at time-and-a-half rate of pay. The minimum wage is adjusted annually. In May 2005, the monthly minimum wage was set at us\$130. These laws generally apply to workers in the formal economy.

Children under 16 are generally forbidden to work by law except in certain apprentice programs. However, this law is not effectively enforced. Estimates in 2004 put the number of children laborers between the ages of 5 and 17 who were working at 5.1 million.

Although Brazilian law prohibits compulsory or forced labor, forced, even slave labor, continues to be a problem. According to estimates by the International Labor Organization, there were about 25,000 slave laborers in Brazil, most of whom were in the states of Mato Grosso and Para. In addition, unsafe working conditions are prevalent throughout the country.

2² AGRICULTURE

In 2003, 15% of Brazil's economically active population worked in agriculture, down from 23.3% in 1990. Total arable and permanent crop area comprises 66.5 million hectares (165 million acres). Although agriculture's share of exports has declined relative to industrial goods, the value has continued to increase, so that Brazil in 1977 became the world's second-largest exporter of agricultural products. Except for grain (particularly wheat), of which some 6.3 million tons had to be imported in 2004, Brazil is virtually self-sufficient in food. The growth rates for agriculture as a whole averaged 2.8% during 1980–90, and 3.2% for 1990–2000. By 2003, agricultural production was 13.7% higher than during 1999–2001. In 2003, agriculture accounted for 8% of the total GDP. Export crops are significant—in addition to the traditional exports of coffee and cocoa, Brazil is also a major exporter of soybeans and orange juice. In 2004, Brazil ranked sixth in the production of cocoa beans at 169,400 tons, or 4.7% of the world's cocoa bean production. In recent years production has been devastated by the effects of the witches-broom fungus.

The Land Statute Law of 1964 was designed to modify the agrarian structure and increase agricultural output in selected regions over a 20-year period. The law empowered the federal government to expropriate unused or underutilized land by offering indemnification in bonds in the case of large properties and cash payment for smallholdings. In redistributing expropriated lands, priority is given to those who work the land under tenancy, sharecropping, or ordinary labor agreements. Responsibility for implementing the law is divided between the Brazilian Agrarian Reform Institute and the National Institute of Agricultural Development.

In October 1984, a law was passed to facilitate the distribution of 43.1 million hectares (106.5 million acres) of state-owned land and nonproductive private estates to 1.4 million peasant families, primarily in the impoverished northeast, through 1989. The formation of cooperatives was encouraged.

Coffee, until 1974 preeminent among export earners, has been declining in importance since the early 1960s, while soybeans, sugarcane, cotton, wheat, and citrus fruits have shown dramatic increases. Brazil led the world in coffee production in 2004, at 2,475,000 tons. Sugarcane production, in which Brazil ranked first in the world in 2004, is grown not only for refined sugar but also as a source of alcohol for fuel, and totaled 410,983,000 tons that year. In 2004, production included 18,256,500 tons of oranges, 24,039,000 tons of cassava, and 211,800 tons of cashews. At 28,500 tons, Brazil was not the world's leading producer of Brazil nuts in 2004—it trails Bolivia. Tobacco production in 2004 totaled 928,338 tons, 14% of world production. Agricultural production in 2004 (in millions of tons) was corn, 41.9; soybeans, 42.9; rice, 13.3; wheat, 6.0; and cottonseed, 2.2. Further agricultural reforms have been carried out under the Carta de Brasília of 1967. The Carta included an incentive program for the construction of storage facilities, to permit farmers to hold products off the market in expectation of better prices. Agricultural research in Brazil is conducted by the Agriculture and Cattle Raising Institute of Research. The expansion of power, transportation, and communications systems during the 1970s further contributed to agricultural development.

2³ ANIMAL HUSBANDRY

Brazil is a leading livestock-producing country, and 197,000,000 hectares (487,000,000 acres—more than one-fifth of the total national area) are devoted to open pasture. Since World War I, cattle production has become one of the country's major sources of wealth. Hereford and polled angus are raised in the southern states of Rio Grande do Sul and Santa Catarina, and Dutch and Jersey cattle supply dairy products in the uplands of Minas Gerais, Rio de Janeiro, São Paulo, and Paraná. The humped zebu was first introduced in Minas Gerais, where intense crossbreeding produced the Hindu-Brazil breed that is now most common throughout Brazil because it resists tick fever and heat. There were an estimated 192 million head of cattle in 2004, as compared with an annual average of 147.8 million during 1989–91 and 116.6 million during 1979–81.

Hog raising, marked by an improvement in breeds, has doubled since 1935, making Brazil the world's third-largest producer. In 2004 there were an estimated 33 million hogs. Berkshires and Poland Chinas have been introduced in quantity, and, since vegetable oils are increasingly replacing lard, the emphasis is on production of pork, ham, and sausages. Brazil is not a major sheep country, since most of the area is too tropical. The bulk of Brazil's 14.2 million sheep are in Rio Grande do Sul. Of the other domestic animals raised commercially in 2004, there were some 9.1 million goats, 5.9 million horses, 1.4 million mules, and some 1.1 billion chickens. Brazil is the world's third-largest exporter of broiler meat.

The government encourages production and seeks more efficient methods of conservation and distribution of meat products. Meat production was 19.1 million tons in 2004, including 7.8 mil-

lion tons of beef and veal. The dairy industry is most highly developed in the vicinity of large cities. Estimated output of dairy products in 2004 included 23.3 million tons of fresh cow's milk and 1.6 million tons of eggs.

During the years of high inflation, ranchers and farmers looked at their herds and land as assets whose value increased in line with inflation and were less challenged to make investments and increase productivity. With inflation now under control, cattle prices have remained fairly stable, and some meat packers have started turning to the export market.

24 FISHING

Although Brazil has a seacoast of some 7,400 km (4,600 mi) and excellent fishing grounds off the South Atlantic coast, the nation has never fully utilized its commercial potential. Traditionally, fishing has been carried on by small groups of individual fishermen using primitive techniques and equipment and seldom venturing out of sight of land. Lack of storage facilities, canneries, and adequate methods of distribution have limited the supply and led to the importation of dried fish. Swordfish is caught in large quantities off the coast of Paraíba and Rio Grande do Norte, and shrimp is caught and dried along the coasts of Maranhão, Ceará, and Bahia. The fish resources of the Amazon River are not exploited, except for the commercial processing of the pirarucú and an aquatic mammal, the sea cow. The annual fish catch is so modest that there has traditionally been a scarcity during Holy Week, about the only time when Brazilians eat much fish. The total catch in 2003 was 1,086,504 tons, 36% from inland waters. Exports of fish products were valued at \$419.1 million in 2003. Small quantities of lobster are exported.

A fisheries development agency was established in the early 1970s to exploit Brazil's coastal potential. The discovery of large quantities of tuna off the coast of Rio Grande do Sul has interested foreign fishing companies, and Japanese and US concerns have obtained the right to fish in Brazilian waters and to establish storage and canning facilities. Normally, foreign fishing rights are reserved to the Portuguese. Aquacultural production consists primarily of carp and tilapia.

25 FORESTRY

Over 50% of South America's forests and woodlands are in Brazil, with an estimated 412 million hectares (1,018 million acres). Sylvan areas in Brazil are nearly three-quarters as large as the forests of all African nations combined. Brazil's forests cover 49% of the country's land area and are among the richest in the world, yielding timber, oil-bearing fruits, gums, resins, waxes, essential oils, cellulose, fibers, nuts, maté, and other products. The Amazon region contains almost 80% of the national forest resources. In the rain forest, as many as 3,000 different species per sq mi (2.6 sq km) may coexist. However, only a limited percentage of forestland is being exploited, in part because of a lack of adequate transportation. Commercial tropical hardwood forests covered 238,000 hectares (588,000 acres) in 2005, or about 58% of the forested area. Brazil accounts for 20% of the world's tropical hardwood resources and is one of the leading producers of tropical hardwood products. Brazilian timber is of fine quality, ranging from wood as light as cork to the wood of the Brazilian pepper tree, with a density one and one-half times that of water. By 1991, rapid deforestation dur-

ing the previous 30 years in the Amazon (from migration, road building, mining, and tax incentives) had caused the rain forest to shrink by an estimated 8.5% since colonial times. However, the annual rate of deforestation in the 1990s was 0.4%. Government incentives for reforestation projects ended in 1986. Most reforestation is carried out by private companies. The average annual reforested area in Brazil during 1999–2004 was 150,000 hectares (371,000 acres). The hardwood trees of the Amazon rain forest are of excellent quality, but because of a thriving domestic furniture industry, they are used mainly locally; furniture manufacturing is responsible for 40% of the wood consumption in Brazil. The Paraná pine (*Araucaria angustifolia*) is in greatest demand. It grows in the southern states in stands that comprise about 420 million trees. A Brazilian ban on log exports has focused exports on value-added products (mostly lumber, plywood, hardboard, and veneers). Policies to develop forest resources have changed recently, and the utilization of native species has become very restricted, mainly in the southern region. In July 2004 the government lifted the prohibition on exports of mahogany and other Amazon species such as virola and imbuia, but these exports are under rigid control.

Production of roundwood in 2003 was estimated at 238.5 million cu m (8.4 billion cu ft). Production of paper and woodpulp has expanded considerably since 1975; exports of paper intensified between 1981 and 2000, from 337,000 tons to 1,815,000 tons. Production amounts in 2004 included 31.8 million cu m (11.2 billion cu ft) of tropical hardwood logs and 8.4 million cu m (20.6 million cu ft) of softwood lumber. The total value of Brazilian forest product exports in 2003 reached \$2.7 billion, with the United States, Belgium, and China as the primary markets. The Amazon region accounted for 40% of the total Brazilian exports of wood products, while the rest of Brazil accounted for 60% (of which Paraná represented 20%). Exports of plywood in 2003 totaled 1.3 million cu m (3.2 million cu ft), with 47% going to the European Union, 39% for the United States, 4% for the Dominican Republic, and 10% going to other markets.

Brazil's production of rubber in 2004 was 55,000 tons; the natural rubber industry, once a world leader, was dealt a strong blow by the development of cheaper synthetics. Forest products like rubber, Brazil nuts, cashews, waxes, and fibers now come from plantations and no longer from wild forest trees as in earlier days. Maté, derived from a species of South American holly, is steeped to make a popular form of tea. Production totaled 560,000 tons in 2004.

26 MINING

Brazil was Latin America's leading producer of iron ore, manganese, aluminum, cement, ferroalloys (ranking third in the world), tin (fourth in the world), gold (sixth in the world), and steel (eighth in the world), and produced 92.4% of the world's columbium, whose deposits contained 90% of the world's pyrochlore reserves. Brazil continued to be one of the world's largest gemstones producers and exporters, and the only source of imperial topaz and Paraiacuteba tourmaline. Iron ore was Brazil's second-leading export commodity in 2002, and production of cement, iron ore, tin, and steel were among its top eight industries. Brazil's 19,500 million tons of iron ore reserves ranked it sixth in the world, and recent discoveries of platinum indicated that Brazil could have

half the world's reserves. Brazil produced 72 mineral commodities—22 metal, 46 industrial, and 4 fuel—including large deposits of the metals alumina, bauxite, beryllium, chromium, columbium (niobium), copper, lead, nickel, silver, tantalum, thorium, titanium, zinc, and zirconium; of the industrial minerals anhydrite, asbestos, bentonite, diamond, dolomite, fluorite, fluorspar, graphite, gypsum, kaolin (4,000 million tons of reserves, 28.2% of world total), limestone, magnesite (630 million tons of resources with 180 million tons of magnesium content identified), marble, mica, phosphate rock, potash, potassium, prophyllite, quartz (crude, common, crystal, and powder, reserves of 53 million tons), marine salt, rock salt, and talc; and of the fuel mineral coal. In 2000, Brazil also produced sizable quantities of cobalt, tungsten, barite, basalt, calcite, hydraulic cement, diatomite, feldspar, gneiss, granite, kyanite, lime, lithium, nitrogen, mineral pigments, quartzite, industrial sand, calcareous shells, silica, slate, caustic soda, soda ash, sulfur (Frasch and pyrites), and vermiculite.

Brazil's economy was the world's eighth-largest and the largest in Latin America, making up one-third of the region's economy. However, GDP fell in 2003 by 0.2% versus growth of 1.5% in 2002. The mineral-based industries accounted for \$38 billion or 8.4% of Brazil's GDP in 2003. Mineral production, including gas and crude oil, came to nearly \$13 billion, or around 2.8% of GDP. In 2003, Brazil's workforce was almost 80 million, of this total, about 5% or 960,000 were employed by the minerals sector, not including nearly 650,000 active *garimpeiros* (independent miners).

Gross iron ore and concentrate output for 2003 was 234,478,000 tons. Eight firms accounted for 96% of iron ore production, with CVRD accounting for 48%. The second-largest producer, *Mineracões de Ilhéus Brasileiras Reunidas S/A (MBR)*, opened three new mines, *Capatildeo Xavier*, *Tamanduacutê*, and *Capatildeo do Mato*, in Minas Gerais, to increase capacity to 32 million tons per year by 2004 and to offset depletion at the *Aguas Claras* and *Matuca* mines.

In 2003, an estimated 2.5 million metric tons in gross weight of marketable manganese ore and concentrate were mined. Brazil's output of mined tin in 2003 was estimated at 12,000 metric tons.

Major deposits of high-quality bauxite have been discovered in the Amazon region. As a result, output has risen rapidly, from 6.5 million metric tons in 1987, to 13,147,900 metric tons in 2003.

Brazil in 2003 produced 41,300 metric tons of pyrochlore in concentrates, 24,875 tons of columbium in alloys, and 5,064 tons of columbium in oxides from two open pits—*Araxá* (Minas Gerais) and *Catalão* and *Ouro Preto* (Goiás). The two columbium producers, *Mineração Catalão de Goiás Ltda. (MCGL)* and *Companhia Brasileira de Metalurgia e Mineração (CBMM)*, had capacities of 65,000 tons per year pyrochlore and 1.9 million tons per year columbium ore. Tantalum production totaled 249 tons in 2003, and increased world demand was expected to maintain an upward trend.

Diamonds, along with other precious and semiprecious stones, were mined primarily in Minas Gerais, Goiás, and Bahia. Other gemstones, found throughout the country, were emerald, aquamarine, amethyst, citrine, chrysoberyl, opal, topaz, agate, tourmaline, ruby, and sapphire. In 2003, total estimated yield was 500,000 carats of gem-quality diamond (up from 100,000 in 1998) and an estimated 600,000 carats of industrial diamond. Fewer *garimpeiros* and increased environmental restrictions have caused a de-

cline in production. Despite government closure of high-content gem placers and high taxes on domestic sales of jewelry, Brazil had great potential, with its 600 million cu m of sedimentary rocks containing diamond grading between 0.01 and 0.1 carat per cu m (15 million carats), which represented 1.2% of the world's diamond reserve base. Belgium received 95% of the uncut stones.

Gold production was estimated at 39,400 kg in 2003, including 5,000 *garimpeiros*. Deposits found at *Serra Pelada* in 1980 raised gold production to 103,000 kg by 1989; production averaged 90,380 kg in 1987–91, and output in 1996 was 60,011. Higher production costs, depletion of shallower deposits, lower world prices, and much higher environmental standards caused the drop-offs. Gold output could increase significantly with the growth of copper production and increased interest by domestic and foreign investors in largely unexplored areas; more than 2000 gold occurrences were known, mostly Precambrian vein deposits and alluvial placers.

The discovery of gold in Minas Gerais (general mines) in 1693 made Brazil the world's leading gold producer; rapid exploitation under the Portuguese colonial system exhausted the mines in less than a century. The dissipation of the nation's gold wealth for the benefit of a foreign power, instilled in Brazilians a protective attitude toward mineral reserves, resulting in government control. The 1988 constitution forbade foreign majority participation in direct mining operations. Lack of capital has long restricted development by domestic firms, and Brazilian mining laws and adverse geographic conditions have discouraged foreign capital. The major portion of the mineral industry was partially or wholly owned by private Brazilian investors, Brazilian corporations, and/or foreign companies, the exceptions being the natural gas and petroleum industries. The structure of the industry continued to change to a privately owned/government-regulated regime. Two 1995 constitutional amendments opened the way for participation of the private sector (domestic and foreign), through privatization, joint ventures, and deregulated investment, in the sectors of coastal and river shipping, mining, natural gas, petroleum, telecommunications, and transportation. By the mid-1990s, investment was on the rise, as a result of aggressive economic policies, the diversity of mineral resources, and the constitutional reform that eliminated restrictions on foreign investment in mining. In 2000, the import tax for minerals was reduced, with varying rates, and the export tax would no longer apply to exported mineral products, nor would the tax on industrialized products apply to mining activities.

27 ENERGY AND POWER

In 2001 drought created an energy crisis in Brazil, which is strongly dependent on hydroelectric power and also the third-largest consumer of electricity in the Western Hemisphere. As of 2002 the country's per capita energy consumption was equal to that of all other South and Central American countries combined. From June 2001 through March 2002, power was rationed allowing the country to avoid rolling blackouts. Brazil is one of the world's leading producers of hydropower.

Total installed electrical capacity increased from 4.8 million kW in 1960 to 8.5 million kW in 1968 and to 73.4 million kW in 2001. In 2003, installed capacity stood at 82.5 GW. Production for 2000 was 339.5 billion kWh, of which hydropower contributed 89%.

By 2003, production increased to 359.2 billion kWh. Consumption of electricity in 2000 was 360.6 billion kWh, which increased to 371.4 billion kWh in 2003. Hydroelectric power accounted for 84% of the nation's electric power in 2003, at 302.9 billion kWh. Construction of the Itaipu Dam on the Paraná River took place between 1975 and 1982; this joint Brazilian-Paraguayan project, the world's largest hydroelectric plant, attained its full capacity of 12.6 million kW in 1986, at a cost of \$15 billion. About 70% of Brazil's population is served by Itaipu, which generates about 75 billion kWh per year. Each of Brazil's nine turbines (Paraguay controls the other nine) at Itaipu has a capacity of 700,000 kW, which can be transmitted up to 1,000 km (620 mi) away. Brazil regularly purchases a large portion of Paraguay's half of its Itaipu electricity production. Conventional thermal generation in 2003 accounted for only 7.4% of Brazil's total supply of electricity. Nuclear power is provided by two plants: Angra-1 (630 MW) and Angra-2 (1,350 MW). A decision to complete an unfinished third facility, Angra-3, was promised to have been made before the end of 2005. Angra-3, began operations in May 1985. It was followed by Angra-2, which took 23 years and \$10 billion to complete and became operational in 2000. As of 2002, it was estimated that five more years would be needed to finish Angra-3 and bring it online. Nuclear generation of electricity accounted for 13.840 billion kWh in 2002, or 4% of production for that year. Estimates of uranium reserves were put at 163,000 tons in 1991, the fifth-largest in the world.

Brazil's proven oil reserves, according to the Oil and Gas Journal, are estimated to total 10.6 billion barrels, as of 1 January 2005, making the country second only in South America to Venezuela in the size of its proven reserves. The government-owned *Petróleo Brasileiros* (Petrobrás), established in 1953, formerly had a monopoly over the exploration and development of petroleum reserves. The 1988 constitution guaranteed the maintenance of state monopolies in the petroleum and electricity sectors, despite rampant privatization. In 1995, however, Brazil's Congress and Senate approved a constitutional amendment ending the government's oil monopoly, and allowing foreign companies to drill, prospect, import, export, refine, and transport oil. The government was to maintain at least 50% of Petrobrás' voting shares, plus one. In August 2000 the government sold a 29% stake in the company but remained the majority shareholder. Brazil's government hopes to raise large amounts of money and attract foreign investment through the privatization of the oil sector, in order to pay off the national debt.

Foreign participation and investment had been forbidden by Brazilian law. However, in the mid-1970s, exploration was opened to foreign companies through risk contracts, and the petrochemicals industry was opened to foreign participation. The National Petroleum Agency (ANP), created in 1997, is charged with opening up the oil industry to both foreign and domestic private interests. By 2004, estimated production totaled 1.8 million barrels per day. However, at 2.2 million barrels per day, consumption still outstripped production, and oil imports were necessary, mostly from Argentina and Venezuela. As of 2002 Brazil had 13 crude oil refineries.

Estimated production of natural gas in 2003 production was reported at 310 billion cu ft. As of 1 January 2005, proven reserves of natural gas were estimated at 8.8 trillion cu ft. In 1975, the government initiated a program to develop alcohol from sugarcane as

an energy source. In the 1980s, 80% of the country's cars and light vehicles were powered by alcohol, although slumping oil prices and persistent financial problems within the alcohol industry prompted the government to freeze production at the 1985 level of 11.1 billion liters (2.9 billion gallons). By 1995, the production of gasoline-powered vehicles had shifted to 95% from the almost entirely alcohol-powered production of 1989. Alcohol still has an important function to maintain diverse sources of fuel for the transportation sector. Most transportation fuel sold in Brazil is a mixture of 22% ethanol and 78% gasoline. As of 1999, Brazil produced 200,000 barrels per day of ethanol.

The absence of good coking coal is a handicap to industrial plans, and Brazil must import coal for its steel industry. As of 2002 it was estimated that coal imports could double within the following ten years. Coal consumption in 2002 was estimated at 22.09 million tons.

28 INDUSTRY

Major industries include iron and steel production, automobile assembly, petroleum processing, chemicals production, and cement making; technologically based industries have been the most dynamic in recent years, but have not outpaced traditional industries. Peak industrial growth was achieved in 1973, when the manufacturing sector grew by 15.8%; growth rates averaging about 7% were posted during 1978–80, rising to 8.3% in 1985 and 11.3% in 1986. Growth slowed significantly during the 1990s. According to the Brazilian Statistical Institute (IBGE), manufacturing rose an annual average of only 0.7% between 1988 and 1998. Growth in 2002 was particularly pronounced in the construction industry, but by 2005 high interest rates had put a drag on construction. The industrial production rate was estimated at 6% in 2004.

In 1969, 3.7 million metric tons of crude steel were produced; by 1985, this had reached 20.5 million metric tons. In 2004, crude steel production amounted to 32.9 million metric tons, making Brazil the eighth-largest steel producer in the world, just ahead of India. Vast reserves of accessible, high-grade ore, plus rapidly expanding domestic and foreign demand for these products, favor continued expansion of the steel industry. By 2006, China had become a key market for Brazilian steel. The major negative factor is lack of domestic soft coal. *Companhia Vale do Rio Doce* (CVRD) is the world's largest producer of iron ore and pellets and the largest Brazilian mining company, responsible for more than 30% of the iron ore transoceanic market share of Brazil. It is the country's largest investor, responsible for 14% of all Brazilian trade.

Motor vehicle production, Brazil's industrial backbone, experienced a drop of nearly 27% from 1998 to 1999 because of the country's financial difficulties. Production of automobiles went from about 2 million units in 1997, down to 1.6 million units in 1998. In 2001, Brazil produced 1.8 million automobiles, an increase of 7% over 2000. In 2000, the country produced more than 70,000 heavy trucks, an increase of 27% over 1999. In 2005, approximately 2.3 million vehicles were produced in Brazil. Thirty percent of all automobiles produced in Brazil are exported to Mexico. The automobile industry is expanding rapidly with major sources of foreign investment and the construction of new manufacturing plants.

Brazil mines and refines petroleum products. Because of increased domestic refining capacity during the 1970s, imports of

petroleum products were less needed, and by 1979, Brazil was a net exporter of petroleum derivatives. Brazil's petrochemical industry emphasizes the production of synthetic rubber. There are also over 500 pharmaceutical laboratories and plants in Brazil, the majority in São Paulo. Over 80% of the industry is foreign-owned. Increased construction demands boosted Brazil's cement production during the 1980s and 1990s. Brazil's electrical equipment industry manufactures computers, television sets, transistor radios, refrigerators, air conditioners, and many other appliances. Brazil has the largest textile industry in South America in terms of installed capacity and output, with nearly half of the spindles and looms in operation on the continent. The manufacture of footwear is an important industry. The Brazilian pulp and paper sector is also large, consisting of more than 220 companies, which together employ approximately 80,000 people in industrial operations, as well as another 57,000 in forestry work and operations. The pulp and paper sector is almost fully privately-owned. The government allowed foreign investment in vital industries since 1995, and supports the sale of any residual parastatal enterprises.

29 SCIENCE AND TECHNOLOGY

The National Council of Scientific and Technological Development, created in 1951 and headquartered in Brasília, formulates and coordinates Brazil's scientific and technological policies. The Brazilian Academy of Sciences was founded in 1916 and is headquartered in Rio de Janeiro. In 1996, there were 25 specialized learned societies and 52 research institutes covering virtually every area of scientific and technological endeavor. Among the most important scientific institutions are the Oswaldo Cruz Foundation for biological research in Rio de Janeiro and the Butantan Institute in São Paulo, which produces serums for the bites of venomous snakes, a field in which Brazil leads the world. Government expenditures on research and development (R&D) in 2000 amounted to \$13.078 billion or 1% of GDP. In that same year, Brazil had 352 researchers and 339 technicians actively engaged in R&D per million people. Government spending in 2002 accounted for 60.2% of R&D expenditures, while business accounted for 38.2% and higher education 1.6%. Brazilian high technology exports in 2002 totaled \$6.007 billion, or 19% of the country's manufactured exports.

Brazil entered the space age in 1973, with the launching of the SONDA II rocket as part of a program to determine electron density in the low ionosphere, a question of practical importance for aircraft navigation. Under the government's Amazon development program, Humboldt City, a scientific and technological center, has been established in Mato Grosso. Atomic research is conducted at the Energetics and Nuclear Research Institute of São Paulo; other research reactors are located at Belo Horizonte and Rio de Janeiro. The Nuclear Energy Center for Agriculture was established in 1966. A total of us\$550 million was allocated to the nuclear energy program under the 1975–79 development plan, but the program languished in the 1980s.

In 1996, Brazil had approximately 100 universities and colleges offering courses in basic and applied science. In 1987–97, science and engineering students accounted for 27% of college and university enrollments.

30 DOMESTIC TRADE

Rio de Janeiro and São Paulo are the principal distribution centers; the largest numbers of importers, sales agents, and distributors are located in these cities, having branch offices in other areas. Other major commercial centers are Recife and Porto Alegre, in the northeast and the south; Belém, which serves as a distribution center for the whole Amazon River Valley; and Salvador, which is the main distribution center for Bahia and the neighboring states.

The Brazilian commercial code permits the exercise of trade by all persons who make trade their habitual occupation and register with the appropriate government body. Goods are sold in department stores, in specialty shops, by street vendors, and in supermarkets in the larger cities, but most commercial establishments have fewer than six employees. There are a number of consumer cooperatives that are generally sponsored by ministries, trade unions, and social security institutes. Producer cooperatives are found mostly in agriculture and fishing. The franchising sector by 2006 was booming: franchising accounts for about 25% of the retail revenues. There are some 800 franchise chains and 56,000 franchise units in Brazil, which generate more than 350,000 jobs. Credit is extended to higher-income customers on open accounts and to lower-income groups on installment payment plans. Since 1994, the government has enacted constitutional reforms to remove obstacles for privatization and foreign investment.

Business hours are from 8 or 8:30 AM to 5 or 6 PM, Monday through Friday, with a two-hour lunch period from 12 to 2 PM. Banks transact business from 10 AM to 4:30 PM, Monday through Friday. Shopping hours are from 9 AM to 7 PM, Monday through Friday, and from 9 AM to 1 PM on Saturdays. Stores are usually closed on Sundays. Department stores are open from 10 AM to 10 PM, Monday through Saturday. In many smaller cities and towns, stores are closed for over an hour at lunchtime.

Since 1947, the advertising sector (in all the various media) has increased its expenditures many times over. Most advertising agencies maintain headquarters in São Paulo; some major agencies have branch offices in other large cities. Advertisements are presented on television and on all radio stations, with the exception of the special broadcasting system of the Ministry of Education. Newspapers, magazines, periodicals, motion pictures, billboards, posters, and electric signs are used for advertising. Mobile advertising units equipped with loudspeaker systems are common in the larger cities.

31 FOREIGN TRADE

Brazil's long-favorable foreign-trade balance deteriorated substantially between 1958 and 1974 as a result of industrial expansion, which necessitated increased imports of industrial capital goods and petroleum. During 1975/76 and again from 1978 to 1982, the foreign-trade balance was in deficit. Beginning in 1983, Brazil recorded trade surpluses: \$5.1 billion in 1983, \$11.8 billion in 1984, and \$11.3 billion in 1985. This achievement was the result of policies that restricted imports and offered substantial incentives to exporters.

Between 1963 and 1981, exports expanded at an average annual rate of 17%, but they grew by only 9.1% between 1982 and 1985. Coffee has long been Brazil's dominant export, but the propor-

Principal Trading Partners – Brazil (2003)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	73,084.1	50,824.3	22,259.8
United States	16,901.0	10,166.3	6,734.7
Argentina	4,561.1	4,949.5	-388.4
China	4,532.6	2,330.9	2,201.7
Netherlands	4,245.7	532.7	3,713.0
Germany	3,135.8	4,374.6	-1,238.8
Mexico	2,741.3	563.2	2,178.1
Japan	2,310.5	2,634.4	-323.9
Italy-San Marino-Holy See	2,207.5	1,828.3	379.2
United Kingdom	1,898.8	1,250.9	647.9
Chile	1,880.3	848.9	1,031.4

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

tion of its export earnings declined from 41.3% in 1968 to 3.2% in 2000. As a result of an ambitious energy development program, Brazil's reliance on imported oil dropped from 70% of its needs in 1980 to 45% in 1985.

The notable accomplishment of former President Fernando Collor de Mello to open the Brazilian market remains the cornerstone of Brazil's economic and trade policies. However, after almost 30 years of import substitution, which initially brought high growth and short-term industrialization in the 1960s–1970s, this policy was finally recognized in the late 1980s as the principal culprit of Brazil's economic woes, particularly high inflation and industrial decline.

By the early 2000s, most of Brazil's nontariff barriers to trade, which for many years were the hallmark of Brazil's restrictive trade regime, were eliminated or drastically reduced. Import duties were reduced from an average of about 50% in the late 1980s to 14.2% and a maximum of 35%. While the overall level and pervasiveness of nontariff barriers have been drastically reduced, some import duties remain high in comparison with other countries. While the depression/inflation problems of the late 1990s reduced purchasing power by about 50% among the working and lower middle classes and further skewed the already highly uneven distribution of income, the Brazilian market remains enormously attractive to US businesses.

Although trade barriers continued to recede with the government of former President Itamar Franco who assumed office in 1992, trade liberalization lost some of its momentum, and there were serious concerns regarding automobile, telecommunications, and information technology sectors. The reforms gained new momentum under the administration of the next president, Cardoso.

In 1995, Brazil joined with Argentina, Paraguay, and Uruguay to form the Mercosur common market, made up of 200 million people worth over \$1 trillion. The agreement covered tariffs for over 85% of some 9,000 items with the remaining 15% to be covered by 2003 and complete coverage to be achieved by 2006. Brazil has an almost symbiotic relationship with Argentina, in which the latter supplies natural gas, automobiles, and other products; while the former exports steel, shoes, and paper products.

In 1999, Argentina implemented trade restrictions on certain Brazilian products because prices were ridiculously low from the currency devaluation. Brazil replied by putting its own trade barriers in place. Such measures did not bode well for the Mercosur community. Argentina had been in recession for several years, and the global economic slowdown, which began in 2001 further, worsened Mercosur's situation. In addition, Brazil has had considerable problems with its electrical distribution system, forcing the rationing of electricity and complicating production.

By 2006, Brazil and other members of the G-20 group of developing nations had called the most recent trade concessions from the United States and the European Union insufficient. The group was pressing for deeper cuts in farm subsidies. At the same time, Brazil found itself in a separate trade dispute with the United States, after accusing it of failing to obey a WTO ruling outlawing some of its cotton policies. The United States threatened to remove trade preferences worth more than \$2 billion if Brazil insisted on asking the WTO for the right to impose \$1 billion in sanctions on American goods.

The most popular export commodities from Brazil are road vehicles, iron, and steel. Brazil also exports footwear and textiles. The country exports a substantial amount of iron ore, soybeans, meat, and coffee. Productivity gains, especially in agriculture, have contributed to a surge in exports. Brazil imports machinery, electrical and transportation equipment, chemical products, and oil.

Brazil's leading markets in 2004 were the United States (21.1% of all exports), Argentina (7.6%), the Netherlands (6.1%), and China (5.6%). Leading suppliers included the United States (18.3% of all imports), Argentina (8.9%), Germany (8.1%), and China (5.9%).

3.2 BALANCE OF PAYMENTS

After a decline in the mid-1960s, Brazil's reserve holdings grew spectacularly, reaching \$6.5 billion by 1974. The prime reason was a steadily rising inflow of long-term capital investment, coupled

Balance of Payments – Brazil (2003)

(In millions of US dollars)

Current Account		4,016.0
Balance on goods	24,801.0	
Imports	-48,283.0	
Exports	73,084.0	
Balance on services	-5,100.0	
Balance on income	-18,552.0	
Current transfers	2,867.0	
Capital Account		498.0
Financial Account		-164.0
Direct investment abroad	-249.0	
Direct investment in Brazil	10,144.0	
Portfolio investment assets	179.0	
Portfolio investment liabilities	5,129.0	
Financial derivatives	-151.0	
Other investment assets	-6,284.0	
Other investment liabilities	-5,731.0	
Net Errors and Omissions		-764.0
Reserves and Related Items		-3,586.0

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

with trade balances that were favorable or only minimally unfavorable. In 1974, however, a decline in the value of coffee exports and a doubling of import costs (partly attributable to increased oil prices) more than offset a further rise in capital investment, resulting in Brazil's first payments deficit in nearly a decade. Between 1976 and 1978, Brazil had a positive balance of payments, but large deficits were registered in 1979 and 1980. A surplus was achieved in 1981, in part because of Brazil's excellent trade showing. The surpluses in 1984 and 1985 were sufficient to pay all interest on the foreign debt.

During the 1970s and early 1980s, Brazil increasingly came to rely on international borrowing to meet its financing needs. The foreign debt grew rapidly after 1974 as the government pressed for continued economic growth without regard for balance of payments pressures generated by the oil shocks of the later 1970s and without increasing domestic savings or improving the tax base. The huge trade surpluses of 1984 and 1985 halted the upward trend. However, the 1986 surge in consumer spending drained reserves to such an extent that by early 1987, the government was forced to suspend payments on \$68 billion of the estimated \$108 billion debt, the highest of any developing nation. An agreement was reached in April 1991 on 1989–90 arrears. In 1992, Brazil and the advisory committee representing foreign commercial banks agreed to a debt and debt service reduction for \$44 billion. Under the Real Plan, the balance of payments dropped from a surplus of \$10.5 billion in 1994 to a deficit of \$3.1 billion in 1995, -\$5.5 billion in 1996, and -\$8.4 billion in 1997. This transformation in Brazil's trade position was due to an overvalued exchange rate, market opening, and suppressed demand for capital and consumer goods. A devaluation of the currency in 1999 led to a reduction of the trade deficit in 1999 and in 2000.

The period of high net capital inflows and currency strength came to an end in 2001. Import compression in 2002–03, and an increase in export earnings after 2003, brought about a large adjustment on the current accounts: the trade surplus ballooned from \$2.7 billion in 2001 to \$33.7 billion in 2004, which transformed the current account from a deficit of 4.6% of GDP in 2001 to a surplus of 1.9% of GDP in 2004. In the first half of 2005, the trade surplus continued to grow.

33 BANKING AND SECURITIES

A banking reform enacted in December 1964 provided for the establishment of the Central Bank of the Republic of Brazil (changed in 1967 to the Central Bank of Brazil), with powers to regulate the banking system and the stock market. The Central Bank serves as the financial agent of the federal government and functions as a depository for the reserves of private banks. The reform also created the National Monetary Council, which formulates monetary policies for the Central Bank.

The Bank of Brazil primarily finances projects in the agricultural sector. The National Economic and Bank (BNDES) provides long-term financing and administers the privatization program.

There once were about 340 commercial banks in Brazil, with hundreds of branch offices. However, banking reforms reduced that number to 233 in 1998. The largest banks are the federal banks Bank of Brazil, the Federal Savings Bank, and BNDS; private banks Bradesco, Itau, Unibanco, Safra, and Banespa; the Real Bank, and the state bank of Rio Grande do Sul, Banrisul. Since

January 1994, banks and other financial institutions must publish constant-currency financial statements. The major banks are considered to be sophisticated and competitive, many operating online, and offer a broad range of financial services.

The 1996 rise in international reserves and the fall of the dollar against the real falsely portrayed an improvement in the financial market. In an attempt to calm the financial markets' worries about exchange rate risk, the government began issuing bonds indexed to the exchange rate. The bonds were supposed to be a guarantee that exchange rate policy was not going to change. The Central Bank curbed the expansion of the monetary base, thus controlling inflation, while the volume of money controlled by banks increased with the initial relaxation of credit. This enlarged monetary base, which included the stock of federal bonds and deposits at the Central Bank, rose at a faster rate than nominal GDP. At the end of 1996, the enlarged monetary base was equivalent to 23% of GDP compared with 18% of GDP at the end of 1995. The expansion of monetary aggregates resulted from the rise in public debt through bond financing of the fiscal deficit. The relaxation of credit policy after the end of 1995 caused borrowers to overdraw, resulting in liquidity problems during 1996 and 1997. This presented a precarious situation for the Brazilian economy, especially when the 1998 financial crisis occurred. The Central Bank decided to let the real float in relation to the US dollar, severely depreciating the value of the real by about 45%; and the bonds that were supposed to have guaranteed a fixed exchange rate were also devalued. These issues led to a number of bank mergers and closures in 1999 and 2000. The 2001 collapse of the Argentine economy forced down the value of Brazil's currency, although it has since recovered somewhat. An energy crisis has also caused some trouble in the Brazilian economy, leading to and overall downturn in 2002. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$35.4 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$149.3 billion. The money market rate, the rate at which financial institutions lend to one another in the short term, was 17.47%. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 21.43%.

Brazil opened its market to foreign portfolio investment in 1991. Brazilian tax laws provide incentives for investment in stocks and bonds. Profit and dividend remittances are subject to a 15% income withholding tax. Up to 24% of individual tax liability may be invested annually in share certificates from authorized financial institutions. Furthermore, individuals may deduct from gross income up to 42% of capital subscription in companies or agencies involved in developing the northeastern or Amazon regions, up to 25% of amounts invested in open capital companies, up to 20% of investments in approved forestation or reforestation projects, up to 13.5% of investments in mutual funds, and up to 4% of savings under the National Housing System. Earnings from all the above investments are also excluded from gross income, up to certain limits. The stock market is a source of financing for all listed companies in Brazil, regardless of ownership. All public issues require the approval of the Securities Commission (CVM). There are nine regional stock exchanges, although over 90% of transactions are carried out in São Paulo and Rio de Janeiro. In 2004, there were

357 companies listed on the São Paulo exchange. As of December 2004, the total market capitalization of the São Paulo Stock Exchange was \$330.347 billion, up from \$234.560 billion in 2003. In 2004 the IBOVESPA Index rose 17.8% from the previous year, ending at 26,196.3.

3⁴ INSURANCE

Brazil has a low rate of insurance compared to developed countries. 2.3% of its GDP in 2001 was insurance compared to an average of 7% in most developed countries. The operations of insurance companies in Brazil are supervised by the Superintendency of Private Insurance (SUSEPO), the National Private Insurance Council (CNSP), and the Institute of Reinsurance of Brazil (IRB), a company which is 50% owned by the government and 50% by the insurance companies operating in Brazil. The IRB was privatized in the second half of 2000. Motor-vehicle third-party liability, workers' compensation, fire, cargo/truck, and inland marine insurance are compulsory.

With the lifting of restrictions on foreign insurance companies operating in Brazil, several companies made major investments in the market during 1997 and 1998. The United States is the top investor, with 40% of the market. Nearly half of the insurance policies are sold in the city of São Paulo.

The Brazilian insurance market is characterized by two large groups of insurance companies. The top five groups occupied approximately 50% of the insurance market, including Sul America, Bradesco, Itau Porto Seguro, and American International Group (AIG-Unibanco). The balance of the market is shared among approximately 80 additional groups. As of 2003, direct premiums written totaled \$14.565 billion, with nonlife premiums accounting for the largest portion at \$8.259 billion. Bradesco and Bradesco Vida were Brazil's top nonlife and life insurers with gross nonlife (including healthcare) and gross life premiums written in 2003 of \$663.2 million and 1,953.6 million, respectively.

3⁵ PUBLIC FINANCE

The Brazilian fiscal year coincides with the calendar year. The budget, prepared under the supervision of the Ministry of Planning and Economic Coordination, represents the government's plans for financing administrative operations and capital expenditures. Budgetary deficits increased considerably in the 1960s. The government's objective—to hold total expenditures fairly constant while raising the share of capital outlays—was achieved by an austerity policy. Although the federal budget deficit was reduced in real terms during the late 1960s, fiscal problems continued to be a major source of inflationary pressure, with revenues hovering between 14.5% and 16.5% of GNP and total government expenditures in the range of 17.5–19%. Government revenue increased considerably, and each year the real deficit was reduced below the previous year's level both absolutely and relatively. Public spending was stepped up, particularly transfer payments; transfers of capital to decentralized agencies increased, although direct investment by the central government fell off. Thus, more capital was invested in basic infrastructural projects. Increases in both revenues and expenditures were rapid during the 1970s, but the pattern of decreasing deficits continued. The budgets for 1973 and 1974 actually showed a surplus, although the realized surplus in 1974 fell far short of the budgeted surplus. There was a budget deficit

Public Finance – Brazil (1998)

(In millions of reals, central government figures)

Revenue and Grants	221,604	100.0%
Tax revenue	111,086	50.1%
Social contributions	77,492	35.0%
Grants	71	0.0%
Other revenue	38,614	17.4%
Expenditures	245,032	100.0%
General public services	69,692	28.4%
Defense	8,542	3.5%
Public order and safety	7,822	3.2%
Economic affairs	11,857	4.8%
Environmental protection	...	...
Housing and community amenities	1,561	0.6%
Health	15,226	6.2%
Recreational, culture, and religion	166	0.1%
Education	15,033	6.1%
Social protection	115,791	47.3%

(...) data not available or not significant.

SOURCE: *Government Finance Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

in 1975, but surpluses were recorded annually during 1976–80. One of the principal causes of Brazil's financial instability in the 1980s was the rate at which public spending exceeded revenues. Following another stabilization program in 1990, a budget surplus of 1.4% of GDP was recorded, but deteriorated to a deficit of 1.7% of GDP by 1992. During the 1990s, the budget remained in deficit by about 4.0% of GDP, but in 1999, the budget recorded a deficit equal to 9.5% of GDP due to the devaluation of the real. This figure had declined to about 4.2% by 2002. Public spending accounts for about one-third of GDP in Brazil.

The US Central Intelligence Agency (CIA) estimated that in 2004 Brazil's central government took in revenues of approximately \$140.6 billion and had expenditures of \$172.4 billion. Revenues minus expenditures totaled approximately -\$31.8 billion. Public debt in 2005 amounted to 50.2% of GDP. Total external debt was \$211.4 billion.

The International Monetary Fund (IMF) reported that in 1998, the most recent year for which it had data, central government revenues in millions of reals were 221,604 and expenditures were 245,032. The value of revenues in millions of US dollars was \$190,873 and expenditures \$211,619, based on a principal exchange rate for 1998 of 1.161 as reported by the IMF. Government outlays by function were as follows: general public services, 28.4%; defense, 3.5%; public order and safety, 3.2%; economic affairs, 4.8%; housing and community amenities, 0.6%; health, 6.2%; recreation, culture, and religion, 0.1%; education, 6.1%; and social protection, 47.3%.

3⁶ TAXATION

Brazil's tax structure has been modified repeatedly in recent years, and traditional tax evasion has come under strong attack. A series of income tax reforms, during the 1960s and 1970s closed many loopholes and expanded the roster of taxpayers, mainly through wider use of withholding taxes.

The basic income tax rate on corporations and other legal entities in 2005 was 15%, with an added 10% surtax if profits exceed a certain limit. In addition, there is a 9% social contribution tax. Firms may effectively reduce income tax liability by investing part of the tax due in government-approved incentive projects or by purchasing quotas in funds that invest in such projects. Resident companies are taxed on their worldwide income.

Brazil has a progressive personal income tax that rises to 27.5%. Numerous exclusions from ordinary taxable income include profits on sales of shares, profits from certain real estate sales, and interest on stocks and bonds up to certain limits.

A value-added tax is payable on sales and transfers of goods at varying rates in accordance with the nature of the production (generally 10–15%). All corporations are subject to a social contribution tax at rates ranging from 8% for corporations to 18% for financial institutions. Other taxes include a financial operations levy; taxes on the production and distribution of minerals, fuels, and electric power; a real estate transfer tax; and municipal service and urban real estate taxes. There is a social security tax of 2%, and from 10–20% of employee payroll.

37 CUSTOMS AND DUTIES

Since the late 1980s, the government has reduced import duties incrementally to encourage trade. Tariffs are based on the MERCOSUR common external tariff, known in Brazil as the TEC. The average applied tariff rate was 13.7% in 2000, down from 32% in 1990. There is an industrial products tax (IPI) that usually ranges from 0–15%, but goes up to 365% on cigarettes and alcoholic beverages. There is also an ICMS (merchandise and service circulation) tax on goods moved through Brazil, at 18% in São Paulo, and 12% in other Brazilian states. There is also a Social Security product tax that varies by product but is generally around 10%. All imports and exports are controlled by SECEX, the Foreign Trade Secretariat, with the help of the SISCOMEX computer system.

Certain sectors, including petroleum products and weapons, require departmental or ministerial approval for imports. Importers must pay state and federal value-added taxes at ports, but these may be recovered for goods to be manufactured or sold in Brazil. There are eight free trade zones, including the oldest one in Manaus, and others in Macapa/Santana, Tabatinga, Guajaramirim, Bonfim, Paracaima, Brasileia, and Ebitaciolandia. These zones and some energy development projects are exempted from import duties, as long as they export at least 90% of production.

Brazil and its MERCOSUR partners implemented a common external tariff in 1995, which increased by 3% in 1997 to 23%, to cover all tariff items by 2006. However, the 3% increase is being phased out.

38 FOREIGN INVESTMENT

Brazilian law gives the same protection and guarantees to foreign capital investments that it gives to investments made by Brazilian nationals. Special incentives are offered for investments in mining, fishing, tourism, shipbuilding, and reforestation and for projects undertaken in the northeast and Amazon regions. Brazil's Foreign Capital and Profit Remittance Law of 1962, as amended, regulates the registration of foreign capital and of reinvestment, profit remittance, interest, royalties, and payments for technical assistance, as well as repatriation of foreign capital. There is no limita-

tion on the repatriation of capital; reinvestment of profits is considered an increase of the original capital for the purposes of the law. Prohibitions on remittances for royalty and technical service payments between related parties were removed under the 1992 tax code. The base tax rate on profits and royalty remittances was reduced from 25% to 15%.

In 1995, Brazil amended its constitution to eliminate the distinction between foreign and national capital. Foreign investors have been allowed to trade on the Brazilian stock market since 1991. The petroleum, telecommunications, mining, power generation, and internal transportation sectors were opened up to foreign investment in 1995.

The growth in the attractiveness of Brazil as a recipient of foreign investment is directly attributed to the economic liberalization implemented under finance minister, and later president, Fernando Enrique Cardoso in 1994. He instituted a new currency, reined in the hyperinflation that had plagued the country for decades, and opened up previously closed industries to private ownership. However, although Brazil embarked on the world's largest privatization drive in 1991, by 2002 privatization had virtually stopped. With the exception of the power-generation sector, most of the largest state enterprises have been sold, and thus privatization has died down.

The Cardoso Administration's liberalization provisions saw foreign portfolio investment go from \$760 million the year it was enacted to \$30 billion in 1997. Foreign direct investment rose from \$19 billion in 1997 to \$28.9 billion in 1998 and \$28.5 billion in 1999, and then to a record \$32.8 billion in 2000. Brazil's surplus on its capital account was over \$19 billion in 2000, but not quite enough to prevent a balance of payments deficit of \$2.3 billion because of a \$10.4 billion debt servicing payment on official development assistance (ODA). A plunge in FDI to \$22.5 billion in 2001, in the context of the global economic slowdown and worldwide decline in foreign investment after the 11 September 2001 terrorist attacks on the United States, presented the Brazilian government with serious difficulties in making its debt servicing obligations. The gap would have to be filled through a combination of IMF loans, foreign borrowing, and sales in shares of state-owned enterprises (SOEs).

Investment comes mainly from the United States and EU countries. Investment from the Cayman Islands is thought to represent mainly repatriation of Brazilian capital through FDI, but it is also increasingly a conduit for US-based companies. Investment from Spain and Portugal increased in 1998 due to investment in the telecommunications and banking sectors. The stock of FDI in Brazil was \$130.7 billion as of December 1998, of which the US share was 30% (\$39 billion); Spain, 8.4% (\$10.9 billion); and Germany, 8.1% (\$10.5 billion). Four US companies—GM, Ford, Texaco, and Exxon—were among Brazil's top ten domestic enterprises. Four of its top ten exporting firms were foreign, all car manufacturers—Fiat, Ford, GM, and Volkswagen—while five of its top ten importers were foreign companies—Fiat, GM, Mercedes-Benz, Ford, and Ericsson Telecommunications.

Since 2001, the trade balance has improved significantly, helping to produce current-account surpluses in 2003 and 2004. This trend enabled Brazil to weather a steep continuing decline in FDI inflows from \$22.5 billion in 2001 to \$16.6 billion in 2002 and just \$10.1 billion in 2003. FDI inflows in 2004 increased to approxi-

mately \$17 billion. Brazil had undertaken a significant reduction in trade barriers in the early 2000s. In 2004, Brazil's average Normal Trade Relations (NTR) tariff was 10.8%, down from 32% in 1990. However, Brazil has a poorly-structured revenue system marked by heavy tax burdens. The corporate and indirect taxation systems are particularly complex, porous, and unwieldy, but they do not discriminate between foreign and domestic firms.

39 ECONOMIC DEVELOPMENT

Economic policy since the late 1960s has had three prime objectives: control of inflation, gradual improvement of the welfare of the poorest sector, and a high economic growth rate. Generally, under the stewardship of finance ministers Roberto de Oliveira Campos and, later, Antonio Delfim Netto (who became minister of planning in 1979), Brazilian policy sought to prevent inflation from eroding economic growth by a process of monetary correction—that is, by the legal revaluation of fixed assets, such as real estate, debts in arrears, and the face value of bonds, to reflect inflation. This technique, which requires extensive government control over the economy, was intended to prevent inflation from distorting the relative values of various types of holdings. It was also disastrously inflationary.

The central stress of the 1975–79 development plan was on economic growth. Economic infrastructure (energy, transportation, and communications) received top priority, with a 25% share of the total investment. A special development plan, known as Palomazonia (the Program for Agriculture, Cattle Raising, and Agrominerals for the Amazon), concentrated on expansion of agriculture, forestry, mineral exploitation, and hydroelectric power in the region. The third national plan (1980–85) placed the greatest emphasis on agricultural development, energy, and social policies. Its main aim was improvement of the public welfare through continued economic growth and more equitable income distribution.

The First National Plan of the New Republic (1986–89), sought to maintain high levels of economic growth, introduce a wide range of basic institutional and fiscal reform in the public sector, and reduce poverty significantly. When inflation continued to mount, however, the Cruzado Plan was introduced; it froze wages and prices for a year, and introduced a new unit of currency, the cruzado. While inflation did drop dramatically, the ensuing consumer spending boom, caused by the desire to take advantage of the price freeze, rekindled inflation. By 1987, Brazil had reverted to orthodox austerity and monetary correction in an attempt to bring the economy under control.

In 1994, finance minister (and later president) Fernando Henrique Cardoso implemented the Real Plan, an economic liberalization named for the newly launched currency, the real. The plan called for the abolition of state control of wages and all indexing to inflation, lowering of tariffs and barriers to international investment, and a massive selloff of state-owned enterprises in nearly every sector. The plan was almost immediately successful, and attracted huge amounts of international investment while raising the living standards of million of Brazilians. Unfortunately, the 1997–1998 international financial crisis caused the Central Bank to let the real float, devaluing the currency by 45%. Instead of immediately falling into a recession, the economy reported modest gains in 1999 and 2000. In 2001, however, economic growth slowed, in part due to the raising of interest rates by the Central

Bank to counteract inflationary pressures (Brazil's real interest rates remain among the highest in the world). Brazil was also adversely affected by a domestic energy crisis and the 2001 economic crisis in Argentina, and the real depreciated almost 20% that year. Brazil has been the recipient of successive Stand-By Arrangements with the International Monetary Fund (IMF). The controversial election of the left-wing Workers' Party candidate Luiz Inácio Lula da Silva as president in October 2002 brought jitters to international financial markets, but as of 2006, investors had been impressed with the president's tight fiscal and monetary policies.

Brazil is on the path toward a new development strategy, that of export substitution, which, it is hoped, will allow local government to address Brazil's severe problem of unequal income distribution. As of 2006, the government was committed to structural reforms and tight fiscal management to increase economic efficiency and reduce the fiscal debt. It was running a primary fiscal surplus (excluding interest payments) of more than 4% of GDP in 2005; however, government debt remains high, at 51% of GDP in 2004. Brazil uses inflation-targeting as a framework for monetary policy in the context of a floating exchange rate. Progress on reforms in 2006 was slowed by the government's need to negotiate support in a fragmented Congress.

Since the early 1960s, the government has offered special incentives to agricultural and industrial enterprises that further the development of the northeastern and northern regions of the country. The development of these areas is under the supervision of the Development Superintendency of the Northeast, whose activities cover the states of Maranhão, Piauí, Ceará, Rio Grande do Norte, Paraíba, Pernambuco, Alagoas, Sergipe, Bahia, the zone of Minas Gerais located within the Drought Polygon, and the territory of Fernando de Noronha. The Superintendency for the Development of Amazonia, the Superintendency for the Development of the West-Central Region, and the Superintendency for the Development of the Southern Region are the other regional development agencies.

40 SOCIAL DEVELOPMENT

The Organic Social Security Law of Brazil, passed during the Vargas reform years of the 1930s, covered only some four million urban workers by the 1960s, including metallurgical, textile, and other industrial workers and commercial, bank, and store clerks. In 1976, social security laws were consolidated, and in the following year, the National System of Social Security and Welfare was established. Benefits include modest insurance against accidents; old age, invalids', and survivors' pensions; funeral insurance; and medical, dental, and hospital coverage. The system is financed by contributions from the employer, the worker, and the government. In urban areas the retirement age is 65 for men and 60 for women. Assistance programs and unemployment insurance is funded solely by the government. Sickness and maternity benefits are available to almost all workers. A family allowance is provided for low-income workers with one or more children.

Perhaps the most significant social challenge facing Brazil is caring for the millions of children who lack sufficient education, housing, health care, and nutrition. It has been estimated that over one-third of all children live in poverty. Thousands of children live and work on the streets in deplorable conditions; some

are homeless, but a greater number have homes they return to at night. Many street children abuse drugs and they are often forced to resort to crime and prostitution to make a living. As a result, many shopkeepers have taken action against street children, and there is a widespread tendency to regard the problem as a security concern rather than a human rights issue.

Sexual and domestic violence is common and often goes unreported. According to a 2004 survey, 23% of women were subjected to domestic violence. The government has implemented women's stations to address crimes against women, with counseling, shelter, hospital treatment, and information on criminal redress. Although a criminal offense, sexual harassment in the workplace remains a problem.

Racial discrimination is pervasive in Brazil. Most Afro-Brazilians work in low paid jobs and live in poor housing. They have fewer opportunities for higher education and professional employment. Indigenous tribes of the Amazon are increasingly being threatened by mining, logging, and ranching, which encroach on their lands.

Serious human rights abuses by the police have been reported, including the beating, torture, and killing of detainees.

41 HEALTH

A health and welfare program, *Prevsáude*, introduced by the government in 1981, was intended to double health services by 1987. In 1993, however, Brazil's national health care system came to an end, chiefly due to extensive fraudulent activity by hospitals, physicians, and state and municipal health secretariats. The new Brazilian Minister of Health planned to implement a new system and supported legislation to increase funds for the public health sector. As of 1998, public health services, complemented by private services, covered 75% of the population. The Ministry of Health has made efforts to encourage the federal district and 26 states to participate in some quality of care projects. Initiatives include certification by the International Standards organizations, consulting services, total quality management, patient satisfaction, and development of new technologies to increase efficiency. Total health care expenditure was estimated at 6.5% of GDP.

Health and sanitary conditions vary widely from region to region. The large cities have competent physicians, generally with advanced training abroad, but there is a dearth of doctors, hospitals, and nurses in most towns in the interior. In 2004, there were approximately 237,000 physicians, 145,000 dentists, and 77,000 nurses in Brazil. As of that year, there were an estimated 1.3 physicians and 3.1 hospital beds per 1,000 people.

In 2000, 87% of the population had access to safe drinking water and 77% had adequate sanitation. As part of a pilot program, Brazil is fortifying sugar with vitamin A and is currently investigating the feasibility of fortifying foods with vitamin A or iron. As of 1999, children one year old and under were immunized as follows: diphtheria, pertussis, and tetanus, 90%; and measles, 99%. Cholera affected many Brazilians. The HIV/AIDS prevalence was 0.70 per 100 adults in 2003. As of 2004, there were approximately 660,000 people living with HIV/AIDS in the country. There were an estimated 15,000 deaths from AIDS in 2003.

The infant mortality rate is high, but it has declined over the last 20 years. In 2005, the infant mortality was 29.61 per 1,000

live births. Many Brazilian women die during childbirth. In 1998, 160 maternal deaths occurred for every 100,000 live births. An estimated 77% of married women between the ages of 15 and 49 years used contraception. The average life expectancy in 2005 was 72 years.

42 HOUSING

Despite major urban developments, both the housing supply and living conditions in Brazil remain inadequate. Large, sprawling slums are endemic in the large cities, while most rural dwellers live without amenities such as piped water and electricity. In 2000, there were 44,776,740 residences. Roughly 75% of all dwellings were owner occupied. Roughly half of the housing stock was considered to be in semi-adequate condition. Only about 44% of all housing was considered to be adequate. At last estimate, more than 80% of all housing units were detached houses of brick, stone, wood or concrete; less than 10% were apartments; less than 10% were rural dwellings of wood or clay; and less than 5% were semiprivate units called *quartes*. In 2000, the housing deficit was estimated at 6.6 million houses.

In 1964, the federal government enacted the National Housing Act and suspended rent controls, with the stipulation that rents could be brought in line with private market levels. The law provided for the establishment of the National Housing Bank (*Banco Nacional de Habitação*, or BNH), whose main purposes are to stimulate savings to finance home construction through lending institutions, to coordinate the activities of both the public and private sectors, and to introduce financial incentives. The BNH can raise funds through bond issues and may also receive deposits from governmental agencies, public cooperatives, and mixed companies.

43 EDUCATION

Education in colonial times was carried on first by the Jesuits and then by a few royal schools. Brazil's public school system, always weak, was under the Ministry of Justice and Interior until 1930, when the Ministry of Education and Health was created by Vargas. Responsibility for public education, as defined by the 1946 constitution and the 1961 directives and standards for national education, is divided between the federal, state, and municipal governments. Public elementary and secondary instruction is almost exclusively a function of the municipalities and states, while higher education is the responsibility of the federal Ministry of Education. Public education is free at all levels and nonprofit private schools also receive public funding. The federal government has been active, however, on all three levels through the Federal Council of Education, established in 1961 to coordinate the implementation of the 1961 directives and to advise the Ministry of Education.

The 1961 directives required the federal government to contribute at least 12% of its tax revenues to education, and state and municipal governments were required to contribute a minimum of 20% of their tax revenues for this purpose. The first National Plan of Education, formulated in 1962, called for the extension of compulsory elementary education to five and, eventually, six years, and by 1980 eight years of schooling was required. The 1988 Brazilian constitution allocates 25% of state and local tax revenues to educa-

tion. As of 2003, public expenditure on education was estimated at 4.2% of GDP, or 12% of total government expenditures.

Primary courses last for eight years. The general secondary lasts for three years; however, students may choose to participate in technical or vocational programs at the secondary level, with programs lasting from three to five years. In 2001, about 67% of all eligible children had been enrolled in some types of preschool program. Primary school enrollment in 2003 was estimated at about 97% of age-eligible students. The same year, secondary school enrollment was about 75% of age-eligible students. Most students complete their primary education. The student-to-teacher ratio for primary school was at about 24:1 in 2003. The ratio for secondary school was about 19:1.

There are more than 90 universities, including the Federal University of Rio de Janeiro (founded 1920) and the universities of Minas Gerais (1927), São Paulo (1934), Rio Grande do Sul (1934), Bahia (1946), Recife (1946), Paraná (1946), and Brasília (1961). The federal government maintains at least one federal university in each state. Entrance to a college or university is through an examination called the “vestibular”; students may either earn a “bacharel” degree or, with an additional year spent in teacher training, obtain a “licenciado” degree. There are at least 902 institutions at the postsecondary level. In 2003, about 21% of the tertiary age population were enrolled in some type of higher education program.

Adult education campaigns have functioned sporadically since 1933, backed by the federal government with some assistance from social, fraternal, Catholic, Protestant, professional, and commercial organizations. Although millions of Brazilians have received literacy training, the adult literacy rate for 2004 were estimated at 88.4%, with a fairly even rate for men and women.

44 LIBRARIES AND MUSEUMS

Of Brazil's many hundreds of public libraries, the largest municipal library system is that of São Paulo, with over one million volumes. The National Library in Rio de Janeiro (founded in 1810) houses 1.4 million bound volumes, more than eight million documents, and many rare manuscripts. Included in the collection are 60,000 volumes brought to Brazil by the Royal Family of Portugal in 1808. Various government ministries maintain separate libraries in Brasília. The largest academic library is the São Paulo University Integrated Library System with three million volumes in 39 libraries, while the Federal University in Rio de Janeiro houses one million volumes. The Brazilian Federation of Librarians Associations, Information Scientists and Institutions (FEBAB) was established in 1959.

Brazil has nearly 200 museums. The National Museum (founded in 1818), one of the most important scientific establishments in South America, is especially known for its Brazilian ethnographic collections. Other important museums in Rio de Janeiro include the National Museum of Fine Arts, the Museum of Modern Art, the Historical Museum, the Museum of Mineralogy, the Museum of the Bank of Brazil, the Getúlio Vargas Gallery, and the Indian Museum. The most important museums in São Paulo are the Paulista Museum and the São Paulo Museum of Art. Also in São Paulo is the Museum of Japanese Immigration, detailing Japan's impact on the country. The Goeldi Museum in Belém is famous for

exhibits covering every aspect of Amazonian life and history and there is a well-known museum of religious art in Vitória.

45 MEDIA

The principal telegraph network is operated by the Brazilian Postal and Telegraph Administration, in which the government holds part ownership. National trunk routes and international connections are also operated directly by another mixed corporation, the Brazilian Telecommunications Corp. (EMBRATEL), which inaugurated an earth satellite station in 1969 linking the Brazilian network with member countries of INTELSAT. EMBRATEL has rapidly modernized and extended the domestic telecommunications system with the introduction of microwave networks, including long-distance direct dialing, throughout much of the country. In the Amazon region, the company relies on a tropodiffusion system because of the area's large empty spaces. In 2003, there were an estimated 223 mainline telephones for every 1,000 people; about 200,000 people were on a waiting list for telephone service installation. The same year, there were approximately 264 mobile phones in use for every 1,000 people.

Brazil has one of the largest television broadcasting systems in the world. As of 1999, Brazil had 1,365 AM and 296 FM radio stations. There were also 138 television stations. The primary news agencies are Agencia Brasil (state-owned), Agencia Estado (private, in São Paulo), and Agencia Globo (private). In 2003, there were an estimated 433 radios and 369 television sets for every 1,000 people. About 13.4 of every 1,000 were cable subscribers. The same year, there were 74.8 personal computers for every 1,000 people and 82 of every 1,000 people had access to the Internet. There were 2,001 secure Internet servers in the country in 2004.

There are over 100 daily newspapers published in Brazil. The leading dailies in Rio de Janeiro, with their political affiliation and 2002 circulation, include *Globo* (conservative), 350,000; *Jornal o Dia* (labor), 250,000; and *Jornal do Brasil* (conservative), 196,000 (in 2004). The sports daily, *Jornal dos Sports*, had a circulation of 150,000 in 2004. In São Paulo, the leading dailies (with 2004 circulation figures) included *Folha de São Paulo* (independent) 1.2 million (up from 640,407 in 2002); *Estado de São Paulo* (conservative) 491,070 (in 2002); *Gazeta Mercantil*, 106,000; and *Noticias Populares*, 100,000. In Belo Horizonte, the independent *Estado de Minas* had a circulation of 170,000 in 2004, up from 65,000 in 2002. Porto Alegre's *Zero Hora* had a circulation of 270,000 in 2004, down from 528,000 in 2002. In Recife, the independent *Diário de Pernambuco* had a 2004 circulation of 90,000, up from 31,000 in 2002.

The largest Brazilian-owned magazine, which competes with the Portuguese-language edition of the *Reader's Digest*, called *Seleções*, is the popular illustrated *Manchete* of Rio de Janeiro (1995 circulation 100,000).

Freedom of the press is guaranteed under the constitution of 1967 and no license is required for the publication of books, newspapers, and periodicals. However, under the newspaper code of 19 September 1972, newspapers were forbidden to publish “speculative” articles on politics or unfavorable reports on the economy. The interests of Brazilian journalists are defended by the Inter-American Press Association and the influential Brazilian Press Association.

46 ORGANIZATIONS

Owners of large farms and plantations, particularly coffee plantation owners, usually belong to one or more agricultural associations. The largest of the national agricultural organizations is the National Confederation of Agriculture, but, in general, local member groups of the federation, such as the Paraná Coffee Producers' Association, the Association of Coffee Farmers, and the Brazilian Rural Society, are more powerful than the national organization. Agricultural societies are organized for the primary purpose of promoting favorable legislation toward agriculture in the Congress, and they have become important political units over the years. Other agricultural groups include cattlemen's associations, dairymen's associations, and rice growers' and grain producers' organizations, usually organized on a statewide basis. Professional organizations exist for a wide variety of trades, professions, and interests. These are strongest in São Paulo, Minas Gerais, Paraná, Goiás, and Rio Grande do Sul. Chambers of commerce function in every state.

The Brazilian Academy of Letters, the Brazilian Academy of Sciences, and the Brazilian Society for the Advancement of Science are among the many cultural and scholarly organizations. The *Associação Médica Brasileira* serves as a physicians network as well as a national forum for the promotion of high standards in healthcare and medical research. There are also several organizations involved in specialized medical research for a wide variety of conditions and diseases.

Most international service, social, and fraternal organizations are represented in Brazil. The Rotary International is well organized in the industrial cities of the south and there are Lions clubs and societies of Freemasons. The Catholic Church and the growing number of Protestants maintain various organizations. Catholic Action and the Catholic hierarchy have actively addressed themselves to combating misery and disease, especially in the big-city slums and in the northeast.

Youth organizations include the Boy Scouts of Brazil and the Federation of Girl Guides of Brazil, which are active nationwide. There is a Junior Chamber organization and active chapters of YWCA. There are numerous sports associations, including many that are affiliated with international organizations.

Brazil has chapters of the Red Cross, ActionAid, Habitat for Humanity, HOPE, World Vision, Defense for Children, Amnesty International, and Greenpeace.

47 TOURISM, TRAVEL, AND RECREATION

Rio de Janeiro is one of the leading tourist meccas in South America. Notable sights include Sugar Loaf Mountain, with its cable car; the Corcovado, with its statue of Christ the Redeemer; Copacabana Beach, with its mosaic sidewalks; and the Botanical Gardens. Large numbers of visitors are also drawn to the churches of Bahia; the historic city of Ouro Preto in Minas Gerais; and the colorful Amazon Valley cities of Belém and Manaus. Brazil is also famous for its vibrant celebrations of Carnival, especially in Rio de Janeiro; neighborhood samba groups rehearse all year for this occasion. Brazil's African heritage can best be savored at the Carnival in Salvador. Ecotourism attracts growing numbers of visitors to the world's largest rain forest in the North, the Iguacu Falls in the South, and the Mato Grosso wetlands in the Central West region.

Football (soccer) is by far the most popular sport. Brazil hosted the World Cup competition in 1950, and Brazilian teams won the championship in 1958, 1962, 1970, 1994, and 2002. The Maracanã soccer stadium in Rio de Janeiro seats more than 180,000 spectators. Other favorite recreations include water sports, basketball, tennis, and boxing.

A valid passport and visa are required of all tourists to enter Brazil. All visitors must secure a visa in advance. Yellow fever vaccination certificates are required if a visitor is from an infected area. Malaria prevention is also recommended.

In 2003, a total of 4,090,590 tourists visited Brazil. As of that year, tourism receipts totaled \$2.6 billion. There were 212,580 hotel rooms in 2000, with 425,160 beds.

In 2003, the US Department of State estimated the daily cost of staying in Rio de Janeiro at \$213. Costs in other cities were lower, with Belo Horizonte at \$96, Belém at \$173, and Campo Grande at \$105.

48 FAMOUS BRAZILIANS

Joaquim José da Silva Xavier, also known as Tiradentes (d.1792), led an unsuccessful uprising in 1789 against Portuguese colonial rule. The patriarch of Brazilian independence was José Bonifácio de Andrada e Silva (1763–1838), a geologist, writer, and statesman. Pedro I (Antonio Pedro de Alcântara Bourbon, 1798–1834), of the Portuguese royal house of Bragança, declared Brazil independent and had himself crowned emperor in 1822; he became King Pedro IV of Portugal in 1826 but gave up the throne to his daughter, Maria da Glória. His Brazilian-born son, Pedro II (Pedro de Alcântara, 1825–91), emperor from 1840 to 1889, consolidated national unity and won respect as a diplomat, statesman, and patron of the arts and sciences. Other famous Brazilians during the imperial period include the Brazilian national hero, Luís Alves de Lima e Silva, Duque de Caxias (1803–80), a patron of the Brazilian army; and Joaquim Marques Lisboa, Marques de Tamandaré (1807–97), a naval hero, soldier, and statesman. In the field of international politics, Joaquim Nabuco (1849–1910) won distinction as a diplomat, journalist, and champion of the abolition of slavery; José Maria de Silva Paranhos, Barão de Rio Branco (1847–1912), was a famous minister of foreign affairs, who represented Brazil at many international conferences; and Ruy Barbosa (1849–1923) was a lawyer, diplomat, statesman, and jurist. A leader of industrial and economic development was Irineu Evangelista de Souza, Barão de Mauá (1813–89). Brazilian aviation pioneer Alberto Santos Dumont (1873–1932) is called the father of flight for his invention of a gasoline-powered airship in 1901. Oswaldo Cruz (1872–1917) founded the Brazilian Public Health Service and helped eradicate yellow fever in Rio de Janeiro. Marshal Cândido Rondon (1865–1957), an explorer of Amazonia, organized the Brazilian Indian Bureau. Dr. Vital Brasil (1865–1950) developed São Paulo's snakebite serum institute at Butantã.

Joaquim Maria Machado de Assis (1839–1908), author of *Memórias Póstumas de Braz Cubas* and other novels and poems, is generally considered the greatest Brazilian literary figure. The poet Euclides da Cunha (1866–1909) wrote *Os Sertões* (1902), one of the foremost works by a Brazilian. Other literary figures include Antônio Gonçalves Dias (1824–64), a romantic poet who idealized the Brazilian Indian; Castro Alves (1847–71), who influenced the abolition of slavery; and contemporary writers such as Gilber-

to de Mello Freyre (1900–1987), José Lins do Rego (1900–1959), Erico Verissimo (1905–1975), and Jorge Amado (1912–2001).

Aleijadinho (Antônio Francisco Lisboa, 1739–1814) was an 18th-century church architect and carver of soapstone religious statues in Minas Gerais. Contemporary artists include the painter Emiliano di Cavalcanti (1897–1976); the painter and muralist Cândido Portinari (1903–62), considered the greatest artist Brazil has produced; and the sculptor Bruno Giorgi (b.1905). Lúcio Costa (b.France, 1902–85), regarded as the founder of modern Brazilian architecture, designed the new capital city of Brasília, and Oscar Niemeyer (b.1907) designed most of the government buildings. Robert Burle Marx (1909–94) originated an unusual form of landscaping to complement modern architectural form. Another Brazilian architect of note, Alfonso Eduardo Reidy (b.France, 1909–64), designed the Museum of Modern Art in Rio de Janeiro.

The greatest figure in Brazilian music is the composer and educator Heitor Villa-Lobos (1887–1959), who wrote prolifically in many styles and forms. Other musicians include the composers Carlos Gomes (1836–96), Oscar Lorenzo Fernandez (1897–1948), Francisco Mignone (1897–1987), and Camargo Guarnieri (1907–1993); the concert pianist Guiomar Novaes Pinto (1895–1979); the operatic soprano Bidu Sayao (Balduina de Oliveira Sayao, 1902–99); and the folklorist and soprano Elsie Houston (1900–1943). One of the best-known Brazilians is soccer star Edson Arantes do Nascimento (b.1940), better known as Pelé.

Other noted figures are Getúlio Vargas (1883–1954), president-dictator in the period 1930–45, who increased the power of the central government; Francisco de Assis Chateaubriand Bandeira de Melo (1891–1966), a publisher, diplomat, and art collector; Oswaldo Aranha (1894–1960), president of the UN General Assembly during 1947–49; and Marcelino Candau (1911–83), director-general of WHO during 1953–73. Gen. Ernesto Geisel (1907–96) and his presidential successor, Gen. João Baptista de Oliveira Figueiredo (1918–99), guided Brazil through a period of political liberalization. Luis Inácio Lula da Silva (b.1945) was elected president in 2002, the first socialist president to be elected since 1964.

49 DEPENDENCIES

Brazil has no colonies, but three national territories are contiguous with or incorporated within the national domain. The con-

stitution provides for the creation of a territory from part of an established state, the incorporation of a territory into an established state, or the organization of a territory into a new state if that territory can demonstrate its ability to meet the requirements of statehood.

The territories of Amapá, on the French Guiana border, and Roraima (formerly Rio Branco), on the Venezuelan border, became states on 5 October 1988. The Fernando de Noronha island, off the northeastern coast, was annexed to the state of Pernambuco in 1988. Territorial governors are appointed by the president of the republic, and each territory has one representation in the federal Chamber of Deputies. Territories have no representation in the federal Senate. Trindade, Atol das Rocas, Penedos de São Pedro e São Paulo, and the Ilhas Martin Vaz, small islands in the Atlantic, also belong to Brazil.

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CANADA



CAPITAL: Ottawa

FLAG: The national flag, adopted in 1964, consists of a red maple leaf on a white field, flanked by a red vertical field on each end.

ANTHEM: Since 1 July 1980, *O Canada* has been the official anthem.

MONETARY UNIT: The Canadian dollar (c\$) is a paper currency of 100 cents. There are coins of 1, 5, 10, 25, and 50 cents, 1 dollar and 2 dollars, and notes of 2, 5, 10, 20, 50, 100, and 1,000 Canadian dollars. Silver coins of 5 and 10 dollars, commemorating the Olympics, were issued during 1973–76. c\$1 = us\$0.82645 (or us\$1 = c\$1.21) as of 2005. US currency is usually accepted, especially in major cities and along the border.

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

HOLIDAYS: New Year's Day, 1 January; Good Friday; Easter Monday; Victoria Day, the Monday preceding 25 May; Canada Day, 1 July; Labor Day, 1st Monday in September; Thanksgiving Day, 2nd Monday in October; Remembrance Day, 11 November; Christmas Day, 25 December; Boxing Day, 26 December. Other holidays are observed in some provinces.

TIME: Newfoundland, 8:30 AM = noon GMT; New Brunswick, Nova Scotia, Prince Edward Island, and Québec, 8 AM = noon GMT; Ontario east of 90° and western Québec, 7 AM = noon GMT; western Ontario and Manitoba, 6 AM = noon GMT; Alberta and Saskatchewan, 5 AM = noon GMT; British Columbia and Yukon Territory, 4 AM = noon GMT.

¹LOCATION, SIZE, AND EXTENT

Canada consists of all of the North American continent north of the United States except Alaska and the small French islands of St. Pierre and Miquelon. Its total land area of 9,976,140 sq km (3,851,809 sq mi) makes it the second-largest country in the world (slightly larger than China and the United States), extending 5,187 km (3,223 mi) E–W from Cape Spear, Newfoundland, to Mt. St. Elias in the Yukon Territory and 4,627 km (2,875 mi) N–S from Cape Columbia on Ellesmere Island to Pelee Island in Lake Erie. Canada is bounded on the N by the Arctic Ocean, on the E by Kennedy Channel, Nares Strait, Baffin Bay, Davis Strait, and the Atlantic Ocean, on the S by the United States, and on the W by the Pacific Ocean and the US state of Alaska. The coastal waters of Canada also include the Hudson Strait and Hudson Bay. The country's total land boundary length is 8,893 km (5,526 mi). Its total coastline length is 202,080 km (125,566 miles). Canada's capital city, Ottawa, is located in the southeastern part of the country.

²TOPOGRAPHY

Canada's topography is dominated by the Canadian Shield, an ice-scoured area of Precambrian rocks surrounding Hudson Bay and covering half the country. This vast region, with its store of forests, waterpower, and mineral resources, is being increasingly developed. East of the Shield is the maritime area, separated from the rest of Canada by low mountain ranges pierced by plains and river valleys, and including the island of Newfoundland and Prince Edward Island. South and southeast of the Shield are the Great

Lakes–St. Lawrence lowlands, a fertile plain in the triangle bounded by the St. Lawrence River, Lake Ontario, and Georgian Bay.

West of the Shield are the farmlands and ranching areas of the great central plains, some 1,300 km (800 mi) wide along the US border and tapering to about 160 km (100 mi) at the mouth of the Mackenzie River. Toward the north of this section is a series of rich mining areas, and still farther north is the Mackenzie lowland, traversed by many lakes and rivers. The westernmost region of Canada, extending from western Alberta to the Pacific Ocean, includes the Rocky Mountains, a plateau region, the coastal mountain range, and an inner sea passage separating the outer island groups from the fjord-lined coast. Mt. Logan, the highest peak in Canada, in the St. Elias Range near the Alaska border, is 5,959 m (19,551 ft) high. The Arctic islands constitute a large group extending north of the Canadian mainland to within 885 km (550 mi) of the North Pole. They vary greatly in size and topography, with mountains, plateaus, fjords, and low coastal plains.

The central Canadian Shield area is drained by the Nelson-Saskatchewan, Churchill, Severn, and Albany rivers flowing into the Hudson Bay. The 4,241-km (2,635-mi) Mackenzie River—with its tributaries and three large lakes (Great Bear, Great Slave, and Athabasca)—drains an area of almost 2.6 million sq km (1 million sq mi) into the Arctic Ocean. The Columbia, Fraser, and Yukon rivers are the principal drainage systems of British Columbia and the Yukon Territory. The Great Lakes drain into the broad St. Lawrence River, which flows into the Gulf of St. Lawrence. Other rivers flow laterally from the interior into Hudson Bay or the Atlantic or Pacific ocean.

3 CLIMATE

Most of northern Canada has subarctic or arctic climates, with long cold winters lasting 8 to 11 months, short sunny summers, and little precipitation. In contrast, the populated south has a variety of climatological landscapes. The greatest temperature range is in the Northwest Territories, where the average temperature at Fort Good Hope ranges from -31°C (-24°F) in January to 16°C (61°F) in July.

Cool summers and mild winters prevail only along the Pacific coast of British Columbia. There the mean temperatures range from about 4°C (39°F) in January to 16°C (61°F) in July, the least range in the country. On the prairies there are extreme differences in temperature between day and night and summer and winter. In Ontario and Québec, especially near the Great Lakes and along the St. Lawrence River, the climate is less severe than in western Canada. This region has abundant precipitation that is highly uniform from season to season. The growing season is short, even in the south. Much of the interior plains area does not get enough rain for diversified crops.

East of the Rockies across the flat prairie lies the meeting ground for air from the Arctic, Pacific, and American interior. The mixing of air masses leads to a turbulent atmosphere and the emergence of cyclonic storms, producing most of the rain and snow in the country. The northwest and the prairies, having fewer or weaker storms, are the driest areas, although the prairies are the site of some heavy blizzards and dramatic thunderstorms. The windward mountain slopes are exceptionally wet; the protected slopes are very dry. Thus, the west coast gets about 150–300 cm (60–120 in) of rain annually; the central prairie area, less than 50 cm (20 in); the flat area east of Winnipeg, 50–100 cm (20–40 in); and the maritime provinces, 115–150 cm (45–60 in). The annual average number of days of precipitation ranges from 252 along coastal British Columbia to 100 in the interior of the province.

4 FLORA AND FAUNA

A great range of plant and animal life characterizes the vast area of Canada, with its varied geographic and climatic zones. The flora of the Great Lakes–St. Lawrence region resembles that of the adjacent US section, with white pine, hemlock, sugar and red maples, yellow birch, and beech trees. Coniferous trees—particularly red spruce—predominate in the Maritime region, black spruce in the eastern Laurentian zone, white spruce in the western. In the east are also found the balsam fir, white cedar, tamarack, white birch, and aspen, with jack pine in the drier areas. From the prairie grassland to the Arctic tundra there are aspen, bur oak, balm of Gilead, cottonwood, balsam poplar, white birch, and other deciduous trees. Conifers dominate the northern section. Many types of grasses grow on the interior plains. The wet area along the west coast is famous for its tall, hard conifers: western hemlock and red cedar, Douglas fir, Sitka spruce, and western white pine. Subalpine forests cover the Rocky Mountain area, where there are such conifers as alpine fir, Engelmann spruce, lodgepole pine and aspen, and mountain hemlock. The great Arctic region is covered with low-growing grasses, mosses, and bushes.

The fauna of the Great Lakes–St. Lawrence region includes deer, black bear, opossum, gray and red squirrels, otter, beaver, and skunk; birds include eastern bluebird, red-winged blackbird, rob-

in, wood thrush, woodpecker, oriole, bobolink, crow, hawk, bittern, heron, black duck, and loon. In the boreal forest area there are moose, caribou, black bear, lynx, timber wolf, marten, beaver, porcupine, snowshoe rabbit, red squirrel, and chipmunk. Typical mammals of the Rocky Mountain area are grizzly bear, mountain goat, moose, wapiti, cougar, and alpine flying squirrel. In the plains are rabbits, gophers, prairie birds, and waterfowl. Abundant on the west coast are deer, Cascade mountain goat, red squirrel, mountain beaver, various species of mice, and Puget striped skunk; common birds include northern Pigmy-owl, band-tailed pigeon, black swift, northern flicker, crow, rufous-sided towhee, and black brant. Over the stretches of the Arctic are the musk ox and reindeer, polar bear, caribou, white and blue fox, arctic hare, and lemming, as well as the snowy owl, ptarmigan, snow bunting, arctic tern, and other birds. Walrus, seals, and whales inhabit Canada's coastal waters.

5 ENVIRONMENT

Canada's principal environmental agency is the Department of the Environment, established in 1971 and reorganized in 1979. Responsibilities of this department, also known as Environment Canada, include air and water pollution control, land-use planning, and wildlife preservation. Responsibility for maritime resources was vested in the Department of Fisheries and Oceans under the 1979 reorganization. Air pollution and the resulting acid rain have posed a threat to lakes and forests in an area of eastern Canada about 2.6 million sq km (1 million sq mi). Canadian sources estimate that about 14,000 lakes in eastern Canada are acidified and another 300,000 lakes will remain in danger if adequate emission reductions are not implemented. As of the mid-1990s, acid rain had affected a total of 150,000 lakes throughout Canada. Waterfowl populations have already been depleted. About half the acid rain comes from emissions from Canadian smokestacks, but Canada has blamed US industry for 75% of the Ontario pollution.

Canada's rivers and ocean waters have been contaminated by toxic pollutants from agricultural, industrial, mining, and forestry activities. As of the mid-1990s, 50% of Canada's coastal shellfish areas were closed because of the dangerous levels of pollutants.

Canada has more than 90 bird sanctuaries and 44 National Wildlife Areas, including reserves in the western Arctic to protect waterfowl nesting grounds. In May 1986, Canada and the United States signed an agreement to restore the breeding habitat of mallard and pintail ducks in the midcontinental regions of both countries. The project, which spanned 15 years and cost c\$1.5 billion, was meant to protect and improve 1,200,000 hectares (3,000,000 acres) of duck habitat in order to reverse the decline in waterfowl populations and raise the average annual fall migration to 100 million birds—the level of the 1970s. The project also called for the protection of waterfowl habitats in the lower Mississippi River and Gulf Coast region, and the black duck habitat in eastern Canada and the East Coast of the United States.

The annual Newfoundland seal hunt, producing seals for pelts and meat, drew the ire of environmentalists chiefly because of the practice of clubbing baby seals to death (adult seals are shot). Approval by the European parliament of a voluntary boycott on seal-skin imports undercut the market, and the Newfoundland seal



LOCATION: 41°41' to 83°7' N; 52°37' to 141° W. BOUNDARY LENGTHS: Total coastline, 243,791 kilometers (151,492 miles); United States (excluding Alaska), 6,416 kilometers (3,987 miles); Alaska, 2,477 kilometers (1,539 miles). TERRITORIAL SEA LIMIT: 12 miles.

catch dropped from about 1,400 in 1981–82 to 360 in 1982–83. In 1987, Canada banned the offshore hunting of baby seals, as well as blueback hooded seals.

According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), the number of threatened species included 16 types of mammals, 19 species of birds, 2 types of reptiles, 1 species of amphibian, 24 species of fish, 1 type of mollusk, 10 other invertebrates, and 1 species of plant. Endangered species in Canada include the Vancouver Island marmot, eastern puma, wood bison, sea otter, right whale, St. Lawrence beluga, Acadian whitefish, mountain plover, piping plover, spotted owl, leatherback turtle, cucumber tree, Furbish's lousewort, Eskimo curlew, Kirtlands warbler, American peregrine falcon, whooping crane, and the southern bald eagle. The longjaw cisco, the Labrador duck, and the great auk have become extinct.

6 POPULATION

The population of Canada in 2005 was estimated by the United Nations (UN) at 32,225,000, which placed it at number 36 in population among the 193 nations of the world. In 2005, approximately 13% of the population was over 65 years of age, with another 18% of the population under 15 years of age. There were 98 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 0.3%, a rate the government viewed as satisfactory. The projected population for the year 2025 was 36,027,000. The population density was 3 per sq km (8 per sq mi).

Statistics Canada is the Canadian government bureau that conducts the census; every five years, forms are included with the annual income tax returns that are sent to every mailing address. The population doubled between 1945 and 1993, although the

growth rate has been declining since the 1970s, when it was 12.9% (1971–81).

The UN estimated that 79% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 1.05%. The capital city, Ottawa, had a population of 1,093,000 in that year. The Toronto metropolitan area had an estimated population of 5,060,000; Montréal, 3,511,000; Vancouver, 2,125,000; Edmonton, 1,005,000; and Calgary, 1,074,000. Other large cities and their estimated populations include Winnipeg, 706,900; Québec, 670,000; Hamilton, 662,401; Kitchener, 450,100; London, 432,451; St. Catherines-Niagara, 377,009; Halifax, 375,000; Victoria, 335,000; Windsor, 307,877; Oshawa, 296,298; and Saskatoon, 236,000. Ontario, with 81.8% of its population classed as urban, was the most urbanized province, followed by British Columbia (80.4%), Alberta (79.8%), and Québec (77.6%). Only New Brunswick (47.7%), Prince Edward Island (39.9%), and the Northwest Territories (36.7%) have less than half their population in urban areas.

The population is unevenly distributed, ranging from 0.045 per sq km (0.02 per sq mi) in the Northwest Territories to 59 per sq km (22.8 per sq mi) on Prince Edward Island. Nearly 85% of the people live within 150 km (93 mi) of the US boundary. All except the Maritime provinces have large areas virtually uninhabited.

7 MIGRATION

Canadians of French origin are descendants of about 10,000 settlers who arrived in the 17th century and in the first half of the 18th century. Black slaves were brought to Canada as early as 1608. Later in the 18th century, thousands of British settlers came to Canada from New England and other colonies to the south. By 1850, 500,000 persons had left the British Isles for Canada; between 1846–54, an additional 500,000 arrived, mainly from Ireland. The Underground Railway, a network of people and safe houses that helped runaway slaves reach freedom, operated from 1840–60, and enabled about 30,000 blacks to reach Canada. The peak year for immigration was 1913, when 400,870 people arrived. From 1921–30, there were 1,230,202 immigrants; in 1931–40, 158,562; in 1946–65, 2,504,120. Many re-emigrated, mainly to the United States; by 1950, Canadian-born persons formed the second-largest group of foreign-born US inhabitants. Between 1951–56, however, the excess of immigration over emigration was almost 600,000. After a lull in the early 1960s, immigration reached a peak of 222,876 in 1967. In 1974, immigration controls were tightened, and between 1975–85, the number of immigrants per year averaged 118,656, and between 1986–93, 193,881. In 1993, total immigration was 252,042. Of these, immigrants from Asia numbered 134,532; from Europe, 50,050; Africa, 19,033; the Caribbean, 19,028; the United States, 6,565; and South America, 11,327. Emigration is mainly to the United States.

The Immigration and Refugee Protection Act, which became law in 2001, determines admissibility, emphasizing education, language, and skills. As of May 2001, 18.4% of Canada's population was foreign born. Over half was made up of immigrants from Asia and the Middle East. In 2004 Canada led the G-8 nations (Canada, the United States, the Russia, the United Kingdom, Germany, France, Italy, and Japan) in gains in migratory exchanges, with the highest international migration rate of any G8 country.

In 2005, the net migration rate for Canada was estimated as 5.9 migrants per 1,000 population.

Interprovincial migration is generally from east to west. During 1990–91 British Columbia gained 37,620 more people from other provinces than it lost, and Alberta 7,502, while provinces experiencing net population loss were Ontario (lost 22,301), Saskatchewan (9,941), and Québec (7,690). However, from 1996–2001, the Northwest Territories, Yukon Territory, and Nunavut, respectively, had the greatest percentage population increases among the provinces, and Québec and Ontario had the lowest.

In 2004, Canada had 168,688 applications for asylum, primarily from Afghanistan, Sri Lanka, Pakistan, Colombia, China, Iran, and Sudan. There were 141,398 refugees in the country in 2004, and 27,290 asylum seekers.

8 ETHNIC GROUPS

More than 80% of the population is Canadian-born. In general, the percentage of the population born outside Canada increases as one goes westward from Newfoundland to British Columbia. Persons of whole or partial British (including Irish) origin make up about 28% of the total population; those of whole or partial French origin (centered mainly in Québec, where they constitute some 80% of the population) make up 23%. Other European groups account for 15% of the total populace. About 26% of the population are from mixed backgrounds. Others, mostly Asian, African, and Arab, make up about 6% of the population.

Amerindians constituted about 2%. These Amerindians were classified into ten major ethnolinguistic groups; the métis, of mixed European and Indian extraction, were recognized as an aboriginal people in the Constitution Act of 1982. Most of the Inuit (Eskimos) live in the Northwest Territories, with smaller numbers in northern Québec and northern Newfoundland (Labrador). Since 1959, Inuit cooperatives have been formed to finance fishing, fish processing, retail, housing, and tourist enterprises, and to promote the graphic arts.

9 LANGUAGES

English and French are the official languages of Canada and have equal status and equal rights and privileges as to their use in all governmental institutions. The federal constitution also gives the English and French minorities the right to publicly funded education in their own language at the primary and secondary levels, wherever the number of children warrants it.

The constitution provides for bilingualism in the legislature and courts of Québec, New Brunswick, and Manitoba. Although there are no similarly entrenched constitutional rights in Ontario and Saskatchewan, these provinces have made English and French the official languages of the courts. In 1984, the Northwest Territories Council adopted an ordinance providing for the use of aboriginal languages and establishing English and French as official languages.

English was proclaimed the sole official language of Manitoba in 1890, and French was made the official language of Québec in 1974. However, the 1890 Manitoba legislation was declared unconstitutional in 1979, as was a Québec law passed in 1977 declaring French to be the sole language of the legislature and the courts.

Although Canada is frequently referred to as a bilingual country, only a minority are able to speak both English and French. In Québec, more than 80% of the people speak French as a native language; in the other provinces, most of the people speak only English, although there are sizable proportions of people able to speak French in New Brunswick and parts of Ontario and Manitoba. Some 60% of Canadians report that their only mother tongue is English, and only about 24% say that is French. About 15% report a single mother tongue other than English or French. Italian, German, Chinese, Ukrainian, Portuguese, and Polish are spoken by small numbers of people. There are at least 58 different Indian languages and dialects, in 10 major language groups. Cree is the most common Indian language.

10 RELIGIONS

About 74.6% of the Canadian population belong to Christian denominations. Roman Catholics constitute the largest single group, with 43% of the population. Other Catholic groups include Eastern Orthodox and Ukrainian Catholics. Protestants make up 29% of the populace; the largest denominational groups include the United Church; Anglicans, Presbyterians, Lutherans, Baptists, and Pentecostals. Members of other religions include Jews (1.1% of the population), Muslims (2%), Buddhists, Hindus, and Sikhs. There are a number of parareligious faiths, including Scientology, Kabbalism, and Rastafarianism. Shintoism and Taoism are also represented within the country. Approximately 16% of the population has no religious affiliation.

Freedom of religion has been specifically protected by the constitution and the Charter of Rights and Freedoms. The right has generally been respected in practice. Certain Christian holidays are observed as public holidays. In 2003, a group of Muslims in Ontario established an Islamic Court of Civil Justice, designed to rule on civil disputes between Muslims using the tenets of Shariah law.

11 TRANSPORTATION

With such a vast land area, and with most production inland, all forms of transportation are vital. Since 1945, with the rapid growth of road, air, and pipeline services, the trend has been away from railways for carrying both freight and passengers. But because they can supply all-weather transportation in large volume over continental distances, railways are still important. The federal government, through the Canadian Transport Commission, has allowed a few rate rises and has insisted on a slow curtailment of services; nevertheless, the companies have traditionally operated at a deficit or very low margin of profit because of competition and rising costs. In 2004, the Canadian railway system consisted of 48,683 km (30,281 mi) of all standard gauge track. Two great continental systems operate about 90% of the railway facilities, the formerly government-owned Canadian National Railways (CNR), which was privatized in 1995, and the privately owned Canadian Pacific Ltd. (CP). They compete in some areas but cooperate where duplication of service is not profitable. In addition to their railway operations, CNR and CP maintain steamships and ferries, nationwide telegraph services, highway transport services, and hotel chains.

The populated sections are generally well supplied with roads and highways, but because of difficult winter weather conditions,

road maintenance is a recurring and expensive task and puts a tremendous strain on road-building facilities. As of 2002, there are about 1,408,800 km (876,273 mi) of roads, 493,080 km (306,696 mi) of which are paved, including 16,906 km (10,516 mi) of expressways. The 7,820-km (4,860-mi) paved Trans-Canada Highway, a c\$500-million project financed jointly by the federal and provincial governments, was completed in 1962. Canada ranks next to the United States in per capita use of motor transport, with one passenger car for every 2 persons. Motor vehicles in use in 2003 totaled 18,495,531, including 17,755,075 passenger cars and 740,456 commercial vehicles.

Bounded by water except for the Alaskan and southern land boundaries with the United States, Canada has many inland lakes and rivers that serve as traffic arteries. In addition, there is also the 3,769-km (2,355-mi) Saint Lawrence Seaway (which includes the 3,058 km/1,911 mi Saint Lawrence River) and Canada's portion of the Great Lakes, each of which are shared with the United States. Canada has access to three oceans, the Pacific, the Atlantic, and the Arctic. Canada's merchant fleet was comprised of 169 ships, totaling 1,784,229 GRT, in 2005. Most overseas commerce is carried by foreign ships. Montréal is Canada's largest port and the world's largest grain port. Others among the many well-equipped ports are Toronto, Hamilton, Port Arthur, and Fort William on the Great Lakes, and Vancouver on the Pacific Coast. The Montréal and lake ports are closed by ice from December to April, during which time Halifax on the Atlantic and Saint John on the Bay of Fundy are the only Atlantic Ocean traffic terminals.

The St. Lawrence Seaway and Power Project, constructed jointly by Canada and the United States, and its many canals provide an 8-m (27-ft) navigation channel from Montréal to Lake Superior. The Athabasca and Slave rivers and the Mackenzie, into which they flow, provide an inland, seasonal water transportation system from the end of the railway in Alberta to the Arctic Ocean. The Yukon River is usually open from mid-May to mid-October. All Canadian inland waterways are open on equal terms to the shipping of all nations.

Canada had an estimated 1,326 airports in 2004. As of 2005, a total of 508 had permanent runways and there were also 319 heliports. Principal airports include Calgary International at Calgary, Edmonton International at Edmonton, Halifax International at Halifax, Lester Pearson at Toronto, Vancouver International at Vancouver, Winnipeg International at Winnipeg, and Dorval International and Mirabel International at Montréal. International air service is provided by government-owned Air Canada and Canadian Airlines. Regional service is provided by some 570 smaller carriers. Air transport is the chief medium in the northern regions for passengers and freight. Canadian airlines transported 35.884 million passengers in 2003.

12 HISTORY

The first inhabitants of what is now Canada were the ancient ancestors of the Inuit. Exactly where they originated or when they arrived is uncertain, but they probably crossed from eastern Siberia to Alaska, Canada, and Greenland between 15,000 and 10,000 BC. Their descendants, the Dorset people, who inhabited the central Canadian Arctic region from about 700 BC to AD 1300, were primarily hunters of walrus and seal. The shorter-lived Thule culture, which may have assimilated the Dorset, lasted from about 1200 to

the first arrival of the Europeans. Although most Inuit lived near the coast, some followed the caribou herds to the interior and developed a culture based on hunting and inland fishing.

Although the Norse had occupied a settlement at L'Anse aux Meadows in Newfoundland by AD 1000, the first fully documented arrival by Europeans was in 1497 by the Italian-born John Cabot, who led an English expedition to the shore of a "new found land" (Newfoundland) and claimed the area in the name of Henry VII. In 1534, the French, under Jacques Cartier, planted a cross on the tip of the Gaspé Peninsula; the following year, his expedition discovered and ascended the St. Lawrence River. By 1604, Pierre du Guast, Sieur de Monts, along with Samuel de Champlain had founded the first permanent French colony, Port Royal (now Annapolis Royal, Nova Scotia). Four years later, Champlain established the town of Québec. The great St. Lawrence waterway led Étienne Brulé and others after him to the Great Lakes and the rivers flowing south through the center of the North American continent. Missionaries and fur traders soon arrived, and an enormous French territory was established. Between 1608 and 1756, about 10,000 French settlers arrived in Canada. In the hope of protecting French settlers and the fur trade, Champlain supported the Huron Indians against their enemies, the Iroquois. When the Iroquois demolished the Hurons, the French colony was almost destroyed.

In the 17th century, England pressed its claim (by virtue of Cabot's expedition) to the rich fur-trading colony, and during the frequent skirmishing between New France and New England the English conquered Québec (1629). Restored to France in 1632, Québec, together with the rest of New France, was placed under the absolute control of a chartered commercial organization, the Company of One Hundred Associates, with the twofold purpose of exploiting the fur trade and establishing settlements. In 1663, New France became a royal province of the French crown. Thereafter, three important officials—the royal governor, the intendant, and the bishop—competed in exercising control of the government. Under the seigneurial system, which had been founded in 1598, large land grants were made to seigneurs, who made other grants to settlers. The actual farmers owed some quasi-feudal dues and could sell the property only by paying a large duty to the seigneur.

The movement of exploration, discovery, commercial exploitation, and missionary enterprise, which had begun with the coming of Champlain, was extended by such men as Jacques Marquette, Louis Jolliet, and Robert Cavelier, Sieur de la Salle, reaching its climax in the last three decades of the 17th century. At that time, French trade and empire stretched north to the shores of Hudson Bay, west to the head of the Great Lakes, and south to the Gulf of Mexico. Meanwhile, a British enterprise, the Hudson's Bay Company, founded in 1670, began to compete for the fur trade.

The European wars between England and France were paralleled in North America by a series of French and Indian wars. The imperial contest ended after British troops commanded by James Wolfe defeated Marquis Louis Joseph de Montcalm on the Plains of Abraham, bringing about the fall of Québec in 1759. The French army surrendered at Montréal in 1760, and the Treaty of Paris in 1763 established British rule over what had been New France. The Québec Act of 1774 established English criminal law but secured seigneurial tenure, a modified oath of office allowing

Roman Catholics to serve in the conciliar governments, and the right of the Roman Catholic Church to collect tithes.

These concessions, which reflected the sympathy of the British ruling class for the French upper classes, instituted the separateness of French-speaking Canada that has become a distinctive feature of the country. It also secured the loyalty of the French clergy and aristocracy to the British crown during the American Revolution. Although the poorer French settlers (*habitants*) sympathized with the Revolutionists, efforts to take Canada by arms for the revolutionary cause failed in the Québec campaign. Some 40,000 Loyalists from the colonies in revolt fled northward to eastern Canada and did much to change the political character of their new country. The Constitutional Act of 1791 divided Lower Canada (now southern Québec) from Upper Canada (now southern Ontario) and provided for elected assemblies with limited powers, the first organs of self-government in the territory.

In the 1780s, the newly organized North West Company began to challenge the Hudson's Bay Company's fur-trade monopoly. The period was one of expansion, marked by Alexander Mackenzie's journey to the Arctic Ocean in 1789 and his overland voyage to the Pacific Ocean in 1793. British mariners secured for Britain a firm hold on what is now British Columbia.

The War of 1812, in which US forces attempting to invade Canada were repulsed by Canadian and British soldiers, did not change either the general situation or the US-Canadian boundary. After amalgamating the North West Company in 1821, the Hudson's Bay Company held undisputed sway over most of the north and west. Eastern border problems with the United States were resolved by the Webster-Ashburton Treaty in 1842; in the west, however, US expansionists sought to fix the border at 54°40'N. In 1846, the border was resolved at 49°N, and since then, except for minor disputes, the long border has been a line of peace.

The continuing influx of immigrants stimulated demands for political reforms. In Nova Scotia and New Brunswick the reformers had some early success, but in the two Canadas it was not until groups led by Louis Joseph Papineau in Lower Canada and William Lyon Mackenzie in Upper Canada had conducted separate futile rebellions in 1837–38 that the British government acted. John George Lambton, Earl of Durham, was sent to Canada as governor-general in 1838; he resigned later that year, but in 1839 submitted a report to the crown in which he recommended the granting of some forms of self-government. He also advised the immediate union of the two Canadas for the express purpose of Anglicizing the French Canadians. Union of the two provinces was approved in 1840, but responsible government was not achieved until 1849, after strenuous efforts by leaders in the various provinces. There was, however, no single unified nation—only a string of provinces in the east and the Hudson's Bay Company domain in the west and north.

The movement for Canadian confederation—political union of the colonies—was spurred in the 1860s by the need for common defense and the desire for a common government to sponsor railroads and other transportation. John Alexander Macdonald and George Brown, rival political leaders, agreed in 1864 to unite Upper Canada and Lower Canada under a common dominion government. Already the Maritime provinces were seeking union among themselves; their Charlottetown Conference in 1864 was broadened to admit delegates from the Canadas. After two more

conferences, in 1864 and 1866, the dominion government was established under the British North America Act of 1867. The dominion was a confederation of Nova Scotia, New Brunswick, and the two provinces of Canada. There had been much opposition, and Nova Scotia and New Brunswick were brought to accept the union only through the efforts of Sir Charles Tupper and Sir Samuel Leonard Tilley and by the fear and indignation roused by the invasion of Canada by Fenians (militant Irish nationalists) from the United States in 1866. Since the name Canada was chosen for the entire country, Lower Canada and Upper Canada became the provinces of Québec and Ontario, respectively.

In 1869, the Hudson's Bay Company relinquished its territorial rights to Rupert's Land and the Northwest Territories. In 1870, the province of Manitoba was established and admitted to the confederation, and the Northwest Territories were transferred to the federal government. In 1871, British Columbia, on the Pacific shore, joined the confederation, largely on the promise of a transcontinental railroad. Prince Edward Island did not join until 1873. Pushing through the Canadian Pacific (CP) Railway was a main achievement of Macdonald's Conservative administration. The CP was given large grants of land in return for its promise to aid in settling these lands, a policy that is still being carried on. Objection in the west to being taken over by the east led to two métis rebellions, headed by Louis Riel, in 1869–70 and 1885, but the west was opened to settlement nonetheless.

Under the long administration (1896–1911) of the Liberal Party under Sir Wilfrid Laurier, immigration to the prairie provinces was greatly accelerated. The prairie agricultural empire bloomed. Large-scale development of mines and of hydroelectric resources helped spur the growth of industry and urbanization. Alberta and Saskatchewan were made provinces in 1905. In 1921, Manitoba, Ontario, and Québec were greatly enlarged to take in all territory west of Hudson Bay and south of 60°N and all territory east of Ungava Bay. In February 1931, Norway formally recognized the Canadian title to the Sverdrup group of Arctic islands (now the Queen Elizabeth Islands); Canada thus held sovereignty in the whole Arctic sector north of the Canadian mainland. Newfoundland remained apart from the confederation until after World War II; it became Canada's tenth province in March 1949.

Canadian contributions of manpower and resources were immensely helpful to the Allies when Canada joined the British side in World War I; more than 600,000 Canadians served in Europe, and over 60,000 were killed. The war contributions of Canada and other dominions helped bring about the declaration of equality of the members of the British Commonwealth in the Statute of Westminster of 1931. The wartime struggle over military conscription, however, deepened the cleavage between French Canadians and other Canadians. After the war, the development of air transportation and roads helped weld Canada together, and the nation had sufficient strength to withstand the depression that began in 1929 and the droughts that brought ruin to wheat fields. The farmers developed huge cooperatives, especially in Nova Scotia and the prairie provinces, and also took up radical political doctrines, notably through the Social Credit and the Socialistic Cooperative Commonwealth Federation parties.

Canada was again vitally important in World War II, under the premiership of William Lyon Mackenzie King. More than one million Canadians took part in the Allied war effort, and over 32,000

were killed. The nation emerged from the war with enhanced prestige, actively concerned with world affairs and fully committed to the Atlantic alliance.

Domestically, a far-reaching postwar development was the resurgence in the 1960s of French Canadian separatism, symbolized by a series of cultural agreements between France and Québec. In 1970, terrorist acts by the Québec Liberation Front led to the banning of that organization and to the federal government's first invocation in peacetime of emergency powers under the War Measures Act. The emergency measures, imposed on 16 October, were not lifted until 30 April 1971. Although administrative reforms—including the establishment of French as Québec's official language in 1974—helped meet the demands of cultural nationalists, separatism continued to be an important force in Canadian politics. In the 1976 provincial elections, the separatist Parti Québécois came to power in Québec, and its leader, Premier René Lévesque, proposed that Québec become politically independent from Canada, in a relationship termed sovereignty-association. In a referendum on 20 May 1980, in which 82% of those eligible voted, the proposal was defeated, 59.5% to 40.5%. Meanwhile, other provinces had their own grievances, especially over oil revenues. Alberta objected to federal control over oil pricing and to reduction of the provincial share of oil revenues as a result of the new National Energy Program announced in late 1980; the failure of Newfoundland and the federal government to agree on development and revenue sharing hindered the exploitation of the vast Hibernia offshore oil and gas field in the early 1980s.

Since 1927, when discussions first began on the question of rescinding the British North America Act, disagreements between the provinces and the federal government over constitutional amendment procedures had stood in the way of Canada's reclaiming from the United Kingdom authority over its own constitution. In 1980, Liberal Prime Minister Pierre Elliott Trudeau made "patriation" of the constitution a principal priority of his administration. Initially he faced considerable opposition from 8 of the 10 provincial premiers, but a compromise on amending procedures and a charter of rights eventually proved acceptable to all but Québec. The Constitution Act, passed in December 1981 and proclaimed by Queen Elizabeth II on 17 April 1982, thus replaced the British North America Act as the basic document of Canadian government. In 1987, Québec was to sign the new constitution, after winning the inclusion of a clause acknowledging that Québec is a "distinct society." The Meech Lake Accord of 1987, however, failed to compel Québec into signing the constitution, and Québec's status has been in limbo ever since. New Brunswick and Manitoba failed to ratify the Accord because of the perceived preferential status Québec would have received. The Charlottetown Accord also proposed recognizing Québec as a "distinct society" in addition to acknowledging aboriginals' inherent right to self-government and converting the senate into an elected and more effective legislative body. On 26 October 1992, however, the majority of Canadians chose not to support the Charlottetown Accord in a national referendum.

Canada joined with the United States and Mexico to negotiate the North American Free Trade Agreement (NAFTA), which was built upon the US-Canada Free Trade Agreement (FTA). The three nations came to an agreement in August 1992 and signed the text on 17 December 1992. NAFTA created a single market of 370

million people with a combined GNP exceeding US\$6 trillion and was implemented in 1994.

Like the French Canadians of Québec, Canada's native peoples have also challenged the federal government on issues of identity and autonomy. In 1992 the Inuits approved an agreement by which the country's Northwest Territories would be divided in two, with the eastern part comprising the semiautonomous Nunavut territory, which would serve as an Inuit homeland. Other native groups also advanced land claims.

On 30 October 1995, the province of Québec held a referendum on secession from Canada; the measure was defeated by the narrowest of margins—a majority of less than 1%. As the 1990s ended, the province remained deeply divided over the secession issue, and the constitutional impasse over the status of Québec persisted. In 1998, Canada's Supreme Court ruled that in order for Québec to secede from the country, it had to reach agreement with the other provinces and the federal government on issues including a common currency and payment of the national debt. In 2003, the Liberal Party defeated the Bloc Québécois in provincial elections in Québec, ending nine years of rule by the pro-independence party.

After ousting the Progressive Conservatives in the 1993 national election, the Liberal party, led by Prime Minister Jean Chrétien, won a second consecutive parliamentary victory for the first time in 40 years in June 1997. However, the party's majority was significantly reduced from its previous size, and the right-wing Reform Party replaced the Bloc Québécois as the leading opposition group, a development that added to the regional fragmentation posing an increasing threat to the national unity of Canada. To overcome regional divisions within their own ranks, Canada's conservatives voted to create the new Canadian Alliance party early in 2000, in an attempt to unite the western-based Reform Party with the Progressive Conservatives. In 2003, the Canadian Alliance and the Progressive Conservatives voted to disband and form the new Conservative Party of Canada.

In the late 1990s, Canada's native peoples achieved two historic milestones in their quest for autonomy. In 1998 the Nisga'a Indians ratified a treaty according them 1930 sq km (745 sq mi) of land in British Columbia. The following year, the Nunavut territory—occupying an area larger than Western Europe—was officially founded as a homeland for the Inuit in the Northwest Territories.

In March and April 2003, Toronto was the site of the largest outbreak of the deadly severe acute respiratory syndrome (SARS) virus outside Asia. The World Health Organization (WHO) imposed a travel advisory to Toronto which lasted a week. Some 300 people were affected and 33 died. That August, Toronto, Ottawa, and other parts of Ontario as well as many cities in the United States were affected by the largest power outage in North American history.

On 12 December 2003, former finance minister and member of the Liberal Party Paul Martin was sworn in as prime minister, ending 10 years of leadership by Jean Chrétien. In February 2004, a financial scandal erupted over the misuse of government funds being used for advertising and sponsorship. The Liberal Party was accused of receiving kickbacks from advertising contracts awarded in Québec in the late 1990s. Paul Martin ordered an official inquiry. In June 2004, Martin was returned to power in parliamentary elections, but the Liberal Party was no longer in the ma-

majority. In February 2005, Martin and Chrétien appeared before a commission set up to investigate the financial scandal involving the misspent government funds. That May, the government won a confidence motion in parliament by only one vote.

In July 2005, Canada became the fourth nation in the world to legalize same-sex marriages. The other countries having such laws at that time were Belgium, the Netherlands, and Spain.

Canada has collaborated with the United States in its war against international terrorism. Securing the long border shared between the two countries in order to prevent possible terrorist infiltration has been a challenge, and has caused Canada and the United States to cooperate on sharing intelligence. However, Canada did not join the US-led coalition in the war in Iraq which began in 2003, prompting much domestic debate and US criticism of Jean Chrétien, who was prime minister at the time.

13 GOVERNMENT

Canada is a federation of 10 provinces and three northern territories (including the Nunavut territory formed in 1999). Under the British North America Act of 1867, which united the four original provinces of Québec, Ontario, Nova Scotia, and New Brunswick into one dominion under the name of Canada, the federation was provided with a powerful central government, which, besides its areas of exclusive authority, held residual authority in matters beyond the powers of local or private concern specifically assigned to the provincial legislatures. The British North America Act—which effectively served, together with a series of subsequent British statutes, as Canada's constitution—could be amended only by the British Parliament. In 1982, the British North America Act was superseded by the Constitution Act (or Canada Act), the principal innovations of which are the Charter of Rights and Freedoms and the provision for amendment. For passage, an amendment requires approval by the federal parliament and the legislative assemblies of at least two-thirds of the provinces, which must hold an aggregate of at least half the population of all the provinces. However, when an amendment derogates from provincial rights, it will not apply in any province in which the legislative assembly dissented by majority vote. When such an amendment deals with education or other cultural matters, the federal government must pay compensation to any dissenting province, to make up for the funds that would have been transferred had the province accepted the amendment.

Under the Constitution Act, the British sovereign remains sovereign of Canada and head of state; for the most part, the personal participation of Queen Elizabeth II in the function of the crown for Canada is reserved to such occasions as a royal visit. The queen's personal representative in the federal government is the governor-general, appointed by the crown on the advice of the prime minister of Canada; the governor-general is usually appointed for a term of five years. Active executive authority resides in the cabinet, or ministry, headed by the prime minister.

The federal parliament is made up of the House of Commons and the Senate. A new House of Commons, with 308 members as of 2005, is elected at least once every five years by all Canadian citizens 18 years of age or older. Representation by provinces and territories is based on population, ranging from one for the Yukon Territory to 106 for Ontario.

The leader of the party that wins the largest number of seats in a newly elected House of Commons is asked to form the government. The governor-in-council (cabinet), responsible for determining all important government policies and for securing the passage of legislation, financial measures, and administrative provisions, is chosen by the prime minister.

The 105 members of the Senate, or upper house, are appointed for life, or until age 75, by the governor-general on the nomination of the prime minister, with equality of representation for regional divisions. There are roughly equal proportions of senators from the Maritime provinces, Ontario, Québec, and the western provinces. In October 1992, Canadian voters declined a constitutional amendment that would have made the Senate an elected body.

14 POLITICAL PARTIES

Throughout most of the 20th century and into the 21st, national unity has been the primary aim of every Canadian government: leaders of both the English-speaking majority and the French-speaking minority have cooperated to develop a united Canada with a great destiny to which differences arising from national origin were subordinate. In the 1970s, this unity was challenged by a growing demand for French Canadian autonomy. Despite cultural division, national unity has remained a basic factor in Canadian foreign policy. Two elements have contributed to the growth of Canadian nationalism—deliberate government policy and reaction against overidentification with either the United Kingdom or the United States.

Continuity of policy characterizes party relationships. The Liberal Party (LP), which held office from 1935 to 1957, from 1968 to 1984 (except for part of 1979), and since 1993, is nationwide in its representation but has its main strength in Québec. It traditionally emphasizes trade and cultural relationships with the United States. Its principal rival, the Conservative Party (formerly the Progressive Conservative Party or PC), which held power from 1957 to 1968, from May to December 1979, and from 1984 to 1993, stresses Canada's relationships with the United Kingdom. In economic policy, the Liberals generally champion free trade, while the Conservatives favor a degree of protection; but practical political considerations have modified this distinction.

The Cooperative Commonwealth Federation (CCF) was a farmer-labor party with its main strength in Saskatchewan. Its foreign policy was much like that of the British Labour Party, but with an admixture of traditional Canadian prairie radicalism. It merged with the Canadian Labour Congress to form the New Democratic Party (NDP) in 1961. The Social Credit Party (SCP) has headed governments in Alberta and British Columbia but has not done well nationally. In June 1962, the group collapsed into independent factions, leaving only five representatives in the Commons. In September, the Québec wing of the party united to form the *Ralliement des Créditistes*, which after the 1965 elections became the new focal point of French Canadian interests.

After 22 years of uninterrupted rule, the Liberals were defeated by the PC in the 1957 elections. This was widely interpreted as a vote of protest against individual Liberal ministers and high taxes, as a reflection of concern over US economic penetration, and as a demonstration of widespread feeling that it was "time for a change." In the general election on 31 March 1958, the PC was returned to power with an unprecedented majority, taking 208 of

the 265 seats. The LP was reduced to 49 seats, the smallest number in its history. In the election of June 1962, the PC lost 92 seats. The following February, the PC government lost a vote of confidence, the major issue being defense policy and the refusal of the prime minister to accept nuclear weapons from the United States. In the election of April 1963, the resurgent Liberals gained an additional 29 seats for a total of 129 (four short of a parliamentary majority). With some support from the SCP, Liberal leader Lester B. Pearson formed a new government.

In April 1968, the new Liberal Party leader, Pierre Elliott Trudeau, was elected prime minister in a colorful campaign emphasizing personality more than specific issues. In the June general election, which he called for almost immediately, the LP took 155 seats and the PC 72; the SCP lost all five of its seats. In the general elections of 30 October 1972, the Liberals lost their parliamentary majority, winning only 109 seats to the PC's 107. The NDP increased its representation from 22 seats to 31, and the *Créditistes*, who had resumed calling themselves the SCP in 1971, won 15 seats. When the NDP decided to support the continuance of Liberal rule, Prime Minister Trudeau formed a new cabinet. The Liberal-NDP alliance collapsed on 8 May 1974 when, for the first time in Canadian history, the government received a vote of no confidence on a budget bill. Elections were called, and the campaign was fought largely on the issue of inflation, with the PC calling for a system of wage and price controls. In the elections of 8 July 1974, the Liberals regained their majority.

In the general elections of 22 May 1979, the Liberals lost to the PC, taking 114 seats of the now 282-seat parliament to the PC's 136, and were unable to form a government in any province. However, on 13 December 1979, the government of Prime Minister Joe Clark was defeated by a Liberal and NDP coalition on a vote of no confidence on a budget bill that called for an increase of 18 cents a gallon in the excise tax on gasoline. Trudeau, who in November had announced his planned retirement, decided to continue as Liberal leader, and again became prime minister after elections on 18 February 1980 gave the Liberals 147 seats. Four years later, on 29 February 1984, Trudeau again announced his impending retirement, and his party chose John Turner as successor. Brian Mulroney became prime minister following a landslide PC victory in the September 1984 elections, which gave the PC 211 seats, the Liberals 40 (their lowest number ever), the NDP 30, and an independent 1. However, the Liberals regained strength over the next year and in 1985 won the Québec general election and, in a coalition with the NDP, ended 42 years of PC government in Ontario.

In 1993, the PC fell from power, primarily due to one of the worst Canadian recessions in nearly 60 years and the failure of the PC government to implement constitutional reforms. Brian Mulroney resigned and was succeeded by Kim Campbell. Liberals soundly defeated the PC in the October 1993 election, with 177 of the 295 seats (up from only 80 in 1988). The PC retained only two of their 157 seats. The Liberal party named Jean Chrétien as the new prime minister.

The Liberal Party's majority in parliament was reduced to 155 in elections called by Chrétien in June 1997. The majority of opposition seats were won by the right-wing populist Reform Party, formed in Alberta in 1988 and led by Robert Manning, which increased its representation to 60 seats, winning broad support in the western provinces. Other party totals were Bloc Québécois,

44; New Democratic, 21; Progressive Conservative, 20; and Independent, 1. In 2000, members of the Reform Party voted to create a broader conservative grouping called the Canadian Alliance, uniting the western-based, populist Reform Party with the eastern-based Progressive Conservatives in an attempt to eventually unseat the dominant Liberals. In 2003, the Canadian Alliance and the Progressive Conservatives disbanded to create the Conservative Party of Canada.

On 12 December 2003, former finance minister and member of the Liberal Party Paul Martin was sworn in as prime minister, ending 10 years of leadership by Jean Chrétien. Parliamentary elections were held in June 2004. The distribution of the vote by percentage and seats was as follows: Liberal Party, 36.7%, (134 seats); Conservative Party, 29.6% (99 seats); New Democratic Party, 15.7% (19 seats); Bloc Québécois, 12.4% (54 seats); Greens, 4.3% (no seats); independents held 2 seats in the new House of Commons.

15 LOCAL GOVERNMENT

Canada is made up of 10 provinces and three territories. Each province has a premier and a legislature. They function like those of the central government. However, the provincial parliaments are unicameral. In each province, the sovereign is represented by a lieutenant-governor appointed by the governor-general. The provinces are empowered to regulate their own affairs and dispose of their own revenues. Civil and property rights, civil law, education, health, labor conditions, licenses, management and sale of public land, municipal government, and direct provincial taxation are within the jurisdiction of the provinces. Although the federal government still exercises considerable authority over the northern territories, they now have elected legislative bodies. In Yukon, the powers of the federal commissioner have been greatly reduced, and the newly formed Nunavut territory, an Inuit homeland, is semiautonomous.

Each province is divided into municipalities, the number and structure of which vary from province to province. In Prince Edward Island, Nova Scotia, New Brunswick, Ontario, and Québec the first order of municipalities consists of counties, which are further subdivided into cities, towns, villages, and townships, although there are minor variations. In Newfoundland and the four western provinces there are no counties; municipalities are either rural or urban, the latter being made up of cities, towns, and villages, but again with minor variations. Municipalities are usually administered by an elected council headed by a mayor, overseer, reeve, or warden. Local governments are incorporated by the provinces, and their powers and responsibilities are specifically set forth in provincial laws.

16 JUDICIAL SYSTEM

The civil law follows English common law everywhere except in Québec, where it follows the Napoleonic Code. The main body of criminal law is derived from English sources; most criminal statutes, being federal, are uniform throughout the country. Police magistrates and justices of the peace are appointed by the provincial governments. Civil and criminal courts exist on county, district, and superior levels; all judges of the superior, federal, tax, district, and county courts are appointed for life (but not beyond age 75) by the governor-in-council (the cabinet) and are paid by

the federal parliament. The Supreme Court in Ottawa has appellate, civil, and criminal jurisdiction throughout Canada; its chief justice and eight associate (“*puisne*”) justices (at least three of whom must come from Québec) are appointed by the governor-general. The Federal Court of Canada (formerly the Exchequer Court), organized into trial and appeal divisions, hears cases having to do with taxation, claims involving the federal government, copyrights, and admiralty law. Its appeal jurisdiction includes review of rulings by federal boards and commissions. The Tax Court, with seats in major cities throughout the country, rules on cases involving tax and revenue matters.

The death penalty in Canada was abolished in 1976; that decision was upheld in a vote by the House of Commons in June 1987.

The judiciary is independent of the legislative and executive branches. The Canadian Charter of Rights and Freedoms, part of the 1982 revised constitution, guarantees a number of individual fundamental rights.

Criminal defendants are afforded a wide range of procedural due process protections including a presumption of innocence, a right to counsel, public trial, and appeal.

Canada accepts compulsory jurisdiction of the International Court of Justice with reservations.

17 ARMED FORCES

In 2005 the armed forces numbered 62,000 active and 36,900 reserve personnel. The army (land forces) consisted of 33,000 active and 15,500 reserve personnel. Equipment included 114 main battle tanks, 303 reconnaissance vehicles and 1,278 armored personnel carriers. The air force (air command) had a strength of 14,500 active personnel, and 2,600 reservists with 140 combat aircraft. The navy (maritime command) had 12,000 active personnel and 4,00 reservists, with 4 guided missile destroyers, 12 frigates, and 2 submarines. Major deployments of Canadian troops include Bosnia and Afghanistan. Canadian personnel are also deployed in nine other overseas peacekeeping operations. Paramilitary organizations had 9,350 members and consisted of the Canadian Coast Guard and Department of Fisheries and Oceans. Defense spending in 2004 totaled c\$15 billion.

18 INTERNATIONAL COOPERATION

A Commonwealth nation, Canada became a charter member of the UN on 9 November 1945 and participates in ECE, ECLAC, and several nonregional specialized agencies. A Canadian, Lester B. Pearson, served as president of the General Assembly in 1952/53. Maj. Gen. E. L. M. Burns of Canada was chief of staff of the UN Truce Supervision Organization in the Middle East from August 1954 to November 1956, when UNEF was established, and he served as UNEF commander for the next three years. Canada has contributed to UN peacekeeping efforts in Cyprus (est. 1964), Sierra Leone (est. 1999), and the DROC (est. 1999).

The country is a member of NATO and other intergovernmental organizations, such as the Asian Development Bank, APEC, ASEAN (dialogue partner), OECD, the OSCE, the OAS, and the WTO (1995). Canada participates in G-7, G-8, the Paris Club (G-10), the European Bank for Reconstruction and Development, the Euro-Atlantic Partnership Council, and the Inter-American

Development Bank. The country is an observer in the Council of Europe.

Canada cooperates with the United States in North American defense through the North American Air Defense Command (NORAD). A free-trade agreement with the United States signed in 1988 was extended to include Mexico with the 1992 signing of the North American Free Trade Agreement (NAFTA), creating a free trade bloc among the three countries. The agreement was ratified by the governments of all the countries in 1993 and went into effect the following year. Canada supported joint military actions with the United States in Afghanistan throughout 2002–05, with plans for ongoing support as necessary. Canada is a member of the United Nations, Monitoring, Verification, and Inspection Commission, which was originally established in 1999 as the Special Commission for the Elimination of Iraq's Weapons of Mass Destruction. Though Canada did not participate in the 2003 military coalition in Iraq, it has offered financial support for reconstruction efforts.

Canada is part of Nuclear Energy Agency and the Nuclear Suppliers Group (London Group). In environmental cooperation, Canada is part of the Antarctic Treaty, the Basel Convention, Conventions on Biological Diversity and Air Pollution, Ramsar, CITES, International Tropical Timber Agreements, the Kyoto Protocol, the Montréal Protocol, MARPOL, the Nuclear Test Ban Treaty, and the UN Conventions on the Law of the Sea, Climate Change, and Desertification.

19 ECONOMY

The Canadian economy is the eighth-largest in the world (measured in US dollars at market exchange rates), behind the United States, Japan, Germany, the United Kingdom, France, China, and Italy. The postwar period saw a steady shift from the production of agricultural goods toward increased emphasis on manufacturing and services. The service sector employed three-fourths of the workforce in 2006, compared to only half of the workforce in 1960. Canada is a world leader in the production and export of asbestos, nickel, silver, zinc, uranium, cadmium, cobalt, magnesium, gypsum, molybdenum, potash, aluminum, gold, iron ore, copper, fluorspar, and lead. Although no longer the foremost sector of the economy, agriculture is of major importance to the economy as a whole and still is basic in many areas; Canada is the world's second-largest wheat exporter, after the United States. Canada is also the world's leading producer of newsprint and ranks among the leaders in other forestry products.

Canada in the postwar period changed from a country producing and exporting mainly primary products to one that increasingly produced and exported manufactured goods. In the 1980s, machinery and equipment joined automotive products among the country's leading exports; at the same time, the importance of natural resource products declined (partly reflecting the 1986 collapse of oil prices). However, by 2006, the engines of growth for the Canadian economy—automobiles and high-tech industries—slowed or had shrunk considerably. In their place, such perennial industries as mining had gained in importance. By that year, natural resources, construction, and business services (including work by architects and engineers) were the three fastest-growing sectors of the economy. Natural resources, and particularly energy,

account for more than 60% of Canada's exports. With oil prices high in the mid-2000s, Canada's wealth increased.

Canada was hard hit by the recession of the early 1980s, with interest rates, unemployment, and inflation all running higher than in the United States. The effects of the recession on minerals and manufacturing were especially severe. By the end of 1982, all mining operations in the Yukon were closed, and throughout the country more than 70,000 of 115,000 miners were unemployed. The economy recovered during the mid-1980s, and Canada's economic growth rate was among the highest of OECD countries during 1984–86. However, differences in prosperity among the provinces increased during the 1980s, with the central provinces relatively robust, the western provinces suffering declines in growth because of lower prices for oil and other natural resources, and the Atlantic provinces depressed. Although the 1990s were marked by continued high rates of unemployment and restrained domestic spending, the economy posted an average growth rate in GDP of about 3%. From 2001–05, real GDP growth averaged 2.5%. GDP growth was forecast at 2.7% in 2006 and 2.8% in 2007.

Unemployment was rated at a peak of about 12% in 1992 but had gone down to 8% in 1999. The unemployment rate stood at 7% in 2004, but was considerably lower in rural areas and in the western provinces, where employment in the natural resource sector had increased; blue-collar work grew more rapidly than white-collar employment in urban areas after 2000. As of 2006, the unemployment rate in Alberta was half the national average.

The Canadian economy is highly integrated with the US economy, which absorbed nearly 85% of Canada's exports and was the source of 64% of its imports in 2004. Most Canadians live in a narrow strip north of the US border, which makes them vulnerable to potential US economic and cultural domination.

20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 Canada's gross domestic product (GDP) was estimated at \$1.1 trillion. 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 based on current dollars. The per capita GDP was estimated at \$32,800. The annual growth rate of GDP was estimated at 2.8%. The average inflation rate in 2005 was 2.3%. It was estimated that agriculture accounted for 2.2% of GDP, industry 29.1%, and services 68.7%.

Foreign aid receipts amounted to \$50 million and accounted for approximately 4.2% of the gross national income (GNI).

The World Bank reports that in 2003 household consumption in Canada totaled \$407.97 billion or about \$12,910 per capita based on a GDP of \$856.5 billion, measured in current dollars rather than PPP. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the period 1990 to 2003 household consumption grew at an average annual rate of 2.8%. Approximately 14% of household consumption was spent on food, 10% on fuel, 4% on health care, and 21% on education. It was estimated that in 2003 about 15.9% of the population had incomes below the poverty line.

2¹ LABOR

In 2005, Canada's labor force numbered an estimated 17.35 million workers. In 2004, the service sector accounted for 75% of all workers, with 14% in manufacturing; 2% in agriculture, 5% in construction, and the remaining 3% in various other occupations. The rate of unemployment was estimated at 6.8% in 2005.

In 2005, about 30% of the civilian workforce was unionized. All workers have the right to strike except those in essential services.

Child labor legislation, standard work hours, and minimum wage rates vary from province to province. Most provinces prohibit employment for children under the age of 15 or 16 from working without parental consent, at night, or in hazardous conditions. However, Alberta allows minors between the ages of 12 and 14 to work for limited periods in certain sectors of the economy, without a permit from the director of employment standards. In British Columbia minors between 12 and 14 can be employed with the written consent of the parent or guardian. The province also allows children under 12 to be employed in "exceptional circumstances," such as in the entertainment industry, with the permission of the director of employment standards.

All provinces limit the regular workweek to 40 or 48 hours, with at least 24 hours of rest. Minimum wage rates in 2005 ranged from c\$5.90 to c\$8.00 per hour. A family with only one wage earner at the minimum level would fall below the poverty line. Federal and provincial laws effectively protect the health and safety of workers.

2² AGRICULTURE

Until the beginning of the 1900s, agriculture was the predominant occupation, and farmers and their families made up the majority of the population. Since then, however, the farm population has been shrinking both relatively and absolutely. Even in Saskatchewan, the province with the highest proportion of farm population, farm families account for no more than 25% of the total population. For Canada as a whole, agriculture engaged only 2.1% of the economically active population in 2000. Farm production continues to increase, as have the size of holdings, crop quantity, quality and variety, and cash income. Canada is still one of the major food-exporting countries of the world; agriculture engages about 362,000 people and generates about 2% of GDP. Farm cash receipts for crops totaled almost c\$14.5 billion in 2004, or 40% of total farm receipts.

Of Canada's total land area, about 5% is classified as arable land; another 3% is considered as permanent pasture land. More than 90% of the cultivated area is in the three prairie provinces. The trend is toward fewer and larger farms and increased mechanization and specialization. Ontario and Saskatchewan together account for about half of all farm cash receipts. Sale of field crops provide more than 50% of farm cash income in the prairie region, but less than 10% elsewhere in Canada.

The estimated harvest of principal field crops in 2004 (in thousands of tons produced per thousand hectares) was wheat, 25,860 produced on 9,862; barley, 13,186 on 4,050; corn, 8,388 on 1,072; oats, 3,680 on 1,320; and rapeseed (canola), 7,728 on 5,564.

Formerly, Canada imported only such items as could not be grown domestically—coffee, tea, cane sugar, spices, and citrus fruits—while exporting large surpluses of wheat, barley, and live-

stock. However, food imports have risen sharply in recent years. Nevertheless, Canada remains a significant food exporter; in 2004, Canadian grain exports totaled 18,984,000 tons, fifth after the United States, France, Australia, and Argentina.

Federal and provincial departments of agriculture provide guidance and aid to farmers in almost every field of operation. Activities include research and experimentation, protection of animals and crops, irrigation and reclamation, and price stability and farm credit measures. The government can stabilize the price of any agricultural product (except wheat, for which separate provision is made) by outright purchase or by supporting the market with guarantees or deficiency payments.

The departments of agriculture apply fundamental scientific research to soil management and crop and animal production, promote agricultural production, and enact financial measures to ensure greater stability of the farm economy. Long-term and short-term mortgages are made available; other loans are granted for equipping, improving, and developing farms. Various federal acts assist the marketing of produce. Governments, working with product organizations, also set limits on the production of milk, eggs, tobacco, chicken, and turkey meat. Price supports may be given to any designated natural or processed product but are mandatory for cattle, sheep, hogs, dairy products, wheat, oats, and barley. Farmers who have suffered severe crop losses through drought may obtain compensation, and prairie farmers who cannot deliver all their grain to market are given temporary financial assistance. The rail freight rates paid by western farmers to ship their grain to eastern markets, basically unchanged since 1897, increased five-fold between 1983 and 1991. The increase, partially subsidized by the federal government, would pay for improvements in the western rail system.

2³ ANIMAL HUSBANDRY

Canada traditionally exports livestock products, producing more than the domestic market can use. Animal production (livestock, dairy products, and eggs) now brings in about half of total farm cash income. Stock raising is the foundation of agricultural economy in the foothills of the Rockies, across northern Alberta and Saskatchewan and southern Manitoba, on the interior plateaus of British Columbia, in the Georgian Bay district of Ontario, in Prince Edward Island, and in western Nova Scotia. One of the great ranching sections is located in the Palliser Triangle of southern Saskatchewan and Alberta.

Livestock on farms in 2004 numbered 14,660,000 head of cattle; 14,623,000 pigs and hogs; 1,005,000 sheep; and 160 million chickens. In 2004, meat production included 1,460,000 tons of beef, 1,930,000 tons of pork, and 16,100 tons of mutton and lamb. Poultry production totaled 969,716 tons. Milk production in 2004 was 8 million tons; butter production amounted to about 88,400 tons, and cheese production to 366,355 tons. Most dairy products are consumed within Canada. In 2004, 376,560 tons of eggs were produced. Cash receipts in 2004 for cattle amounted to c\$5,069 million; for dairy products, c\$4,598 million; for hogs, c\$4,261 million; and for poultry, c\$1,845 million.

The wild fur catch, which was important in Canada's early history, is now limited to the northern parts of the provinces, Nunavut, the Northwest Territories, and the Yukon. In 2003, the value

of fur production totaled c\$103.6 million, with ranch-raised pelts accounting for 82% and wildlife pelts for 18%.

24 FISHING

With a coastline of nearly 29,000 km (18,000 mi) and a lake-and-river system containing more than half the world's fresh water, Canada ranked 20th among the world's major fish producers in 2003 and was the world's fifth-leading exporter of fresh, chilled, and frozen fish by value. That year, Canada exported \$3.3 billion in fishery commodities, accounting for 15.8% of agricultural exports.

Two of the world's great fishing grounds are located off Canada. One lies along the Atlantic coast of the Maritime provinces, and in this region the Grand Banks of Newfoundland constitute the largest area. More than one billion pounds of cod, haddock, halibut, pollock, and other fish are caught every year along the Atlantic in deep-sea and shore operations. Most of the cod and about a third of the total catch is dried and salted for export to Mediterranean and Latin American countries; another third is sold fresh; the rest is canned. Vast numbers of lobsters and herring are caught in the Gulf of St. Lawrence and the Bay of Fundy. The other great fishing region includes the bays, inlets, river mouths, and fjords of British Columbia. Salmon, the specialty of the Pacific fisheries, is canned for export and constitutes the most valuable item of Canadian fish production. Also exported are fresh halibut and canned and processed herring. Other important export items are whitefish, lake trout, pickerel, and other freshwater fish caught in the Great Lakes and some of the larger inland lakes. Feed and fertilizer are important by-products.

Canada's total fish and seafood landings were estimated at 1,229,925 tons in 2003, of which all but 45,876 tons were from marine fishing. Pelagic species and other finfish (primarily salmon and herring) accounted for 33% of the 2003 marine catch; shellfish (mostly shrimp, oysters, and crabs), 42%; and groundfish (mostly hake and redfish), 25%. The United States imported about 58% of Canada's fish product exports by volume in 2003. Japan is the second most important market for fish exports.

Canadian aquacultural production in 2003 consisted of 151,264 tons, primarily salmon. Canada's aquaculture industry faces many federal and provincial regulatory impediments that restrict its growth, such as regulations on the introduction and transfer policy of new species and salmon tagging. However, in 2002, the British Columbia government announced that new environmental standards would allow for a managed expansion of salmon aquaculture, ending a moratorium on fish farms in effect since 1995. In 2004, gross output of aquaculture amounted to c\$726.1 million, primarily from British Columbia and New Brunswick.

The government protects and develops the resources of both ocean and inland waters and helps expand the domestic market for fish. It extends loans to fishermen for the purchase of fishing craft. Canadian-US action has helped restore Pacific salmon runs and halibut stocks and the Great Lakes fisheries, but pollution represents a threat to freshwater sport fishing, especially in Ontario.

25 FORESTRY

Canada's National Forestry Database (CNFD) reports total forestland area at 417.6 million hectares (1,031.9 million acres), equivalent to 42% of the total land area. Only about 6% of Canada's

forests are privately owned. Of the 94% under crown (public) control, provincial governments manage 71% and the federal government manages 23%. Some 9.6 million hectares (23.7 million acres) of the public forest land are for uses other than timber production, including parks, game refuges, water conservation areas, and nature preserves. Most of the provincial crown forestland is in Québec, British Columbia, and Ontario. The crown forests are leased to private individuals or companies. Each province and territory regulates and controls the harvest rate on crown land through an allowable annual cut.

In 2003, an estimated 194.7 million cu m (6.9 billion cu ft) of roundwood was harvested. Canada ranks as the third-largest producer of coniferous wood products (after the United States and Russia), and is the leading supplier of softwood products to world markets. Chief forest products in eastern Canada are pulp and paper manufactures, especially newsprint. Canada leads the world in newsprint production, with 8,201,000 tons in 2004, accounting for 21% of the world's production. Exports of newsprint were valued at over c\$4 billion, with about three-fourths going to the United States. In the west, the chief product is sawn timber. The value of Canada's forestry exports in 2003 amounted to over \$24 billion, or 16% of the world's forestry exports that year. In 2003, production for leading export commodities included: sawnwood, 57.5 million cu m (2 billion cu ft); wood pulp, 26.2 million cu m (925 million cu ft); industrial roundwood, 191.7 million cu m (6.8 billion cu ft); wood-based panels, 16.7 million cu m (590 million cu ft); and paper and paperboard, 20.1 million tons. About 75% of forestry exports are sent to the United States. Exports of wood products contribute about 14% to the value of all Canadian exports.

Other well-known Canadian forestry sector products include Christmas trees and maple syrup. Québec accounts for about 35% of the annual Christmas tree production and 90% of maple syrup production.

With such a large annual forestry output, conservation and reforestation are stressed. Both government and industry promote improvements in management practices and in the use of forest products. New manufacturing methods permit the use of inferior classes of wood. The government estimated there were 5,400 forest fires in 2000, 57% due to human activities.

26 MINING

The world's largest exporter of minerals and metals, Canada's mining sector was considered a pillar of the economy and a way of life for Canadians. Canada was the leading producer and exporter of potash (world's largest and richest reserves), the leading supplier of uranium, the second-largest producer of asbestos (possibly the largest deposits) and sulfur (17% of world output and 38% of world trade), the third-largest in titanium, platinum-group metals (PGMs) and mine zinc, fourth in aluminum (from imported oxide), fifth in copper, lead, silver, and gold, and among the leading producers of nickel, salt, and nitrogen in ammonia. Yet, the country only recently began to fully develop many of its most important mineral resources, and resources developed earlier continued to display great growth potential. This was reaffirmed by discoveries such as the huge and rich nickel, copper, and cobalt deposit

at Voisey's Bay, and the Ekati diamond mines—diamond was expected to be the most sought-after mineral in the country.

The production, by value, of minerals, metals, and coal in 2003, totaled us\$14.4 billion, up 1.2% from 2002. In addition, Canada's minerals industry played an integral part in Canada's new-technology-driven and knowledge-based economy. The value of non-fuel minerals production increased to us\$13.4 billion in 2003, up 2.3% from 2002.

In terms of value, the top nonfuel mineral commodities in 2003 were: gold us\$1.6 billion; nickel, us\$1.4 billion; diamonds us\$1.2 billion; cement, coal, and potash, at us\$1.1 billion each; iron ore us\$1.0 billion; copper, us\$929 million; sand gravel, and stone us\$714 million each; and zinc, us\$643 million. Exports of minerals, and mineral products (excluding crude oil and natural gas), and metals (including smelted and refined), totaled us\$35.3 billion in 2003.

Mined nickel (metal content) output in 2003 was 162,756 metric tons. The world's biggest newsmaker in nickel continued to be Inco Ltd.'s nickel-copper-cobalt project at Voisey's Bay. Proved reserves at the site totaled 30 million tons (2.85% nickel and 1.68% copper); indicated resources were 54 million tons (1.53% nickel, 0.70% copper); inferred resources, 16 million tons (1.60% nickel, 0.80% copper).

Gold output in 2003 was 140,559 kg, down from 151,904 kg in 2002. Gold has lost some of its luster. Three mines opened, while 13 closed, a result of low gold prices and/or depletion. Operating mines accounted for 92.5% of Canada's output, with the remainder coming from 19 base-metal mines (gold as a by product) and a number of placers. Ontario produced 49% of Canada's gold, followed by Québec at 21%, British Columbia at 15% and Manitoba at 4%, with the remaining provinces and territories accounting for the remainder.

Mined zinc output (metal content) was 788,328 metric tons in 2003, down from 923,931 metric tons in 2002. Zinc prices remained depressed in 2003 as a result of continued poor demand in Japan, slow growth in Europe, and increased mine production worldwide. The country's proven and probable reserves totaled 10.2 million tons, 35% of which was in New Brunswick.

Mined copper output (metal content) was 534,287 metric tons in 2003, down from 584,195 metric tons in 2002. Proven and probable reserves for the country totaled 8.4 million tons, 50% of which was in Ontario, and 35% in British Columbia.

The output of iron ore and concentrate (metal content) was 32,957,000 tons in 2003, up from 30,902,000 tons in 2002. Exploration continued in Roche Bay (Northwest Territories), the Peach River area of Alberta, and Ungava Bay and Schefferville (Québec). Total proven and probable reserves in Canada were 1,261 million tons.

Mined silver output (metal content) was 1,309,274 kg, down from 1,407,558 kg in 2002. Silver, the value of whose output dropped by almost 7% in 2003 versus 2002, was mainly a by-product of base-metal and gold mining. Proven and probable reserves in Canada totaled 15,738 tons.

Lead output (metal content) was 81,268 metric tons, down from 101,330 metric tons in 2002. Proven and probable reserves amounted to 1.85 million tons; 76% were in New Brunswick. In addition, Canada mined the metals antimony, arsenic trioxide, bismuth, cadmium, magnesium, molybdenum (121,000 tons of

proven and probable reserves, all in British Columbia), pyrochlore, selenium, spodumene, tantalite (from Niobec, the world's third-largest producer, and the only operating columbium mine in North America), tellurium, and titanium. Calcium may have been produced as well.

Among industrial minerals, diamonds have been attracting much attention. Total output was 11.2 million carats in 2003, up 127% from 4.937 million carats in 2002. By value, diamond production in 2003 totaled us\$1.2 billion versus us\$552 million in 2002. Canada's first commercial production of diamonds—by BHP Diamonds Inc., in the Ekati Mine—began in 1998, when production totaled 300,006 carats; 2000 was Ekati's first full year of operation, and it has become a factor in world markets. BHP Diamonds reported that the quality of diamonds recovered from the five kimberlite pipes at its Lac de Gras property, northwest of Yellowknife, compared favorably with the best pipes in the world. De Beers, which bought 35% of Ekati's output, has discovered 220 kimberlites, several of which had the potential to become diamond mines; one, the Snap Lake project, is due to start production in 2008, and is De Beers's first mine outside of Africa. Diavik Diamond Mines Inc.'s Diavik Mine began production in January 2003. At least 90% of Diavik's output is estimated to be of gem quality. More than 500 companies have been exploring for diamonds, on an off and on basis. The First Canadian Diamond Cutting Works, in Montréal, became the country's first fully integrated cutting and polishing factory, with the aim of handling Canada's diamond production at lower cost than European competitors; artisans came from Belgium.

Potash output was 9,131,000 tons in 2003, up by 9.2% from 8,361,000 tons in 2002. However, potash output by value increased only slightly in 2003 from 2002, to around us\$1.65 billion versus us\$1.63 billion. The 63%-government-owned Potash Corp. of Saskatchewan Inc. was the largest publicly held potash producer in the world, with an annual capacity of 8.2 million tons, 61% of Canada's total capacity. An area extending from central Saskatchewan southeast into Manitoba was probably the largest and richest reserve of potash in the world, and could probably supply all the world's needs for 1,000 years. Known national reserves amounted to 14 billion tons.

Asbestos output in 2003 was 240,500 metric tons, down slightly from 242,241 metric tons in 2002. The world's largest deposits of asbestos (including chrysotile, crocidolite, and amosite) were believed to be in a region of eastern Québec that included the Black Lake open pit and the Bell underground mines and the town of Asbestos. The nation's proven and probable reserves of fiber asbestos totaled 35.8 million tons.

Output totals for other industrial minerals in 2003 were: salt, 12,390,000 tons, with 264 million tons of proven and probable reserves; sulfur, 8,509,000 tons, with 130 million tons of proven and probable reserves; nitrogen (content of ammonia), 3,440,000 metric tons; and sand and gravel, 235,574 tons. In addition, Canada produced amethyst, anhydrite, barite, brucite, hydraulic cement, clay and clay products, diatomite, dolomite, gypsum (482,000 tons of proven and probable reserves), jade, lime, mica (scrap and flake), nepheline syenite, pyrite, pyrophyllite, pyrrhotite, silica (quartz), soapstone, sodium carbonate (soda ash), natural sodium sulfate (81.3 million tons of proven and probable reserves),

and stone (including crushed, building, ornamental, and paving). Canada also had capacities to produce graphite and limestone.

Mining has been conducted in Canada since the seventeenth century, but the remarkably rapid development of mineral exploitation dates from the end of World War I. Petroleum has been found in the Midwest; iron ore deposits in Labrador, Québec, and Ontario; and uranium in Ontario and Saskatchewan. Ontario led the provinces, producing 30.8% of nonfuel mineral commodities, followed by Québec (19.5%), Saskatchewan (11.9%), and British Columbia (11.2%).

Land use, which had not been given much attention, has become an issue, with First Nation rights receiving consideration. Canada's provincial governments regulated most aspects of exploration and mining, and the exceptions, the Yukon Territory and the Northwest Territories, have been accumulating more independent powers. Federal agencies recently became able to review mining activity for environmental impact. Exploration for metals and petroleum has tended to move north in recent years, into the new territory Nunavut, which was created in 1999 out of the Northwest Territories; Nunavut included Baffin, Ellesmere, and the Queen Elizabeth islands, one-fifth of Canada's landmass. The Inuit have generally been receptive to mining proposals, including the new Nanisivik lead-zinc mine on Baffin Island, north of the Arctic Circle.

The Standards of Disclosure for Mineral Projects, which was to be enacted in 2001, covered all technical public disclosure on mineral projects and was intended to preserve Canada's preeminent position in world mining, exploration, development, and financing. The mineral industry consisted of 3,000 domestic and 150 foreign companies; 10% were actively engaged in mining; the rest were engaged in exploration, in advanced stages of development, or dormant, in search of financing. More than 200 mine sites, including coal sites, were active, and 3,000 mines and quarries produced sand, gravel, and other construction materials. Total employment in mining and mineral manufacturing in 2000, including coal, was 400,000, and 55,750 were employed in coal, metal, and nonmetal mining and quarrying. Most of the mineral industry was privately owned; an exception was government participation in potash and petroleum, which were transitioning to private ownership. Mining had the prospect of diversifying and strengthening Canada's economy. Canada was well positioned in terms of its mineral-resource base and its access to markets in the United States.

27 ENERGY AND POWER

Abundantly endowed with fossil fuels and hydroelectric resources, Canada was the world's seventh-leading energy producer, as of 2004. Energy production is exceeded only by manufacturing as a percent of Canada's gross domestic product (GDP).

In the late 1990s, Canada's oil industry made a strong recovery from low prices in the preceding years. Petroleum production in quantity began in 1947 with the discovery of oil 29 km (18 mi) south of Edmonton. Output of oil in 2004 was estimated at 3.1 million barrels per day (2.4 million barrels per day was crude oil). Canada's oil reserves were estimated in 2005 to total 178.8 billion barrels, of which 95% are oil sands. Petroleum is now the largest single contributor to mineral output. Heavy crude oil is produced entirely in western Canada, with 60% coming from Alberta

and 40% from Saskatchewan. It is transported to eastern Canada and the United States through two major oil pipeline systems, both originating at Edmonton; one extends east to Toronto, and the other southwest to Vancouver and the state of Washington. On the east coast of Canada, oil exploration has been focused on the Jeanne d'Arc Basin off Newfoundland. Terra Nova, the second major project in the region, began production at the beginning of 2002, with a capacity of 115,000 barrels per day over six years. The White Rose oil field, in the same basin, was expected to become operational in 2004. There are potentially up to 300 billion barrels of synthetic crude oil available from western Canada's oil sands. Reserves at Athabasca in northern Alberta are among the world's two largest oil sand deposits.

Canadian natural gas reserves were estimated at 56.6 trillion cu ft as of 1 January 2005. Natural gas production was estimated in 2002 to have totaled 6.6 trillion cubic feet, and according to British Petroleum (BP), to have totaled 182.8 billion cu m in 2004. Gas production is mostly centered in Alberta, which accounts for about 80%. The 3,017 km (1,875 mi) Alliance Pipeline, which carries natural gas from western Canada to the Chicago region, is the longest pipeline in North America.

Canada ranks among the top producers of electric power in the world and first in the production of hydroelectricity. In 2002, Canada's installed capacity was estimated to have reached 111.0 million kW. In that same year, Canada generated an estimated total of 548.9 billion kWh of electricity, of which: 57% came from hydropower sources; 28% from conventional thermal; and 13% from nuclear sources, with geothermal making up the remainder. The marked trend toward the development of thermal stations, which became apparent in the 1950s, is due in part to the fact that most of the hydroelectric sites within economic transmission distance of load centers have already been developed. When the Churchill Falls project reached completion in 1974, the capacity of the plant was 5,225 MW, making it, at the time, the largest single generating plant of any type in the world. It has since been surpassed by Hydro-Québec's 5,328 MW generator, the first completed station of the massive James Bay project. Electricity consumption was estimated in 2002 to have totaled 487.3 billion kWh.

Low-cost electricity generated from waterfalls and fast-flowing rivers has been a major factor in the industrialization of Québec, Ontario, and British Columbia, most significantly in the establishment of metal-smelting industries. In other areas, hydroelectric power is not as abundant, but all provinces have turbine installations. As of 2002, Canada's hydroelectric resources still included substantial untapped potential.

Atomic Energy of Canada Ltd. is responsible for research into reactor design and the application of nuclear power in the electric power field. In 1962, commercial electric power was first generated in Canada by a nuclear reaction when the Nuclear Power Demonstration Station at Rolphton, Ontario, became operative. Canada's first full-scale nuclear power station, completed in 1956 at Douglas Point on Lake Huron, produced its first power early in 1967. Nuclear power production declined from 102.4 billion kWh at its peak in 1994 to 69.8 billion kWh in 2000. However, in 2002, Canada's output of electrical power from nuclear sources rose to 71.750 billion kWh. In 1999, Canada had 14 nuclear reactors operating at five power facilities. Spurred by a desire to meet its obligations under the Kyoto Protocol, which Canada has signed, plans

were put forth in 2004 by the government to build a new nuclear power plant in Ontario. It would be the first such plant in two decades.

Coal production in 2002 is estimated to have reached 73.2 million short tons in 2002, with reserves estimated at 7.3 billion short tons, for that year. About 90% of coal consumption is for electricity generation, and most of the remainder is for steel production. The increase in total output since 1970, especially the increased output from Alberta and British Columbia, is almost entirely due to the growth of the Japanese and South Korean export markets. In eastern Canada, however, domestic coal must be augmented by US coal imports.

28 INDUSTRY

Industry accounted for 26.4% of GDP in 2004, with approximately 15% of the labor force employed in manufacturing and 5% in construction. The leading industrial sectors are foods and beverages, transport equipment, petroleum, natural gas, coal products, paper and paper products, primary metals, chemicals, fabricated metals, electrical products, and wood products.

Canada's automotive industry is the nation's largest manufacturing sector, accounting for 12% of manufacturing GDP and 25% of manufacturing trade. It employs more than 170,000 people in automotive assembly and component manufacturing, and nearly 335,000 people in distribution and aftermarket sales and service. Canada in 2005 manufactured approximately 2.5 million passenger and commercial vehicles. Canada currently ranks eighth in the world in motor vehicle production. Canada's automotive sector is closely integrated with that of the United States.

More than 150 communities in Canada depend on mining. Canada is one of the largest mining nations in the world, producing more than 70 minerals and metals. Exports of minerals and mineral-based products are close to \$50 billion a year, averaging 13% of Canada's total domestic exports. (These figures include all minerals and mineral products excluding oil and natural gas.) The production of fabricated metals is one of Canada's leading industries, with about 50 nonferrous smelters, refineries, and steel mills in operation.

Of the total manufacturing output, about half is concentrated in Ontario, which not only is the center of Canadian industry but also has the greatest industrial diversification. Some important industries operate there exclusively. Québec ranks second in manufacturing production, accounting for some 25% of the value of Canadian manufactured goods. British Columbia ranks third. Manufacturing is also the leading industry in Manitoba, New Brunswick, Nova Scotia, and Newfoundland.

29 SCIENCE AND TECHNOLOGY

In 2000, Canada had 3,487 researchers and 1,105 technicians per million people actively engaged in scientific research and development (R&D). In 2004, Canadian R&D expenditures were provisionally set at c\$24.487 billion. Of that amount, 46.2% came from business, with 35.4% from government sources. Higher education accounted for 17.8%, with foreign sources and private nonprofit organizations accounting for 7.9% and 3.2%, respectively, in that

same year. In 2002, high technology exports totaled \$22.662 billion, or 14% of manufactured exports.

The Ministry of State for Science and Technology, established in 1971, is the chief federal policymaking body. In 1986, the National Advisory Board for Science and Technology, chaired by the prime minister, was created, and merged with the ministry. In the following year, a National Science and Technology Policy (NSTP) was approved by ministers of the federal, provincial, and territorial governments. The NSTP has emphasized a strong push linking national research to national needs.

The Royal Society of Canada, founded in 1882 and headquartered in Ottawa, is the most prestigious learned society; there are 53 specialized societies in the fields of agriculture, medicine, science, and technology. The National Research Council of Canada, founded in 1916 and headquartered in Ottawa, coordinates research and development in the country; one of its major facilities is the Dominion Astrophysical Observatory, established in 1918 at Victoria, British Columbia. The Geological Survey of Canada (founded in 1842) is headquartered in Ottawa.

The National Museum of Science and Technology in Ottawa, founded in 1967, shows Canada's role in science and technology. The Ontario Science Centre, established in North York in 1965, has over 800 exhibits. In 1996, Canada had 49 universities offering courses in basic and applied science. In 1987–97, science and engineering students accounted for 16% of college and university enrollments. In 2000, of all bachelor's degrees awarded, 20% were in science (natural sciences, mathematics and computers, and engineering).

30 DOMESTIC TRADE

Wholesalers' and manufacturers' sales branches are the most prominent wholesale and distribution agencies. Wholesaling is particularly prominent in foodstuffs, lumber and building supplies, hardware, coal, clothing, dry goods, automotive equipment, and machinery. In producer goods, however, direct relations are often maintained by resident or traveling agents.

Large-volume outlets, including department stores, large mail-order houses, and chain stores, often buy direct from the manufacturer. A wide variety of local and imported goods is available in all major towns and cities. Vast indoor shopping complexes have been developed in the larger cities, including Eaton Centre in Toronto with over 300 stores and the West Edmonton Mall in Alberta. A 7% goods and service tax (GST) applies to most consumer products and services.

Due to Canada's size and its regional economic differences, distribution is essentially regional. Toronto and Montréal dominate merchandising, are the headquarters of much of Canada's trade and financial apparatus, and do by far the greatest share of import business. Winnipeg is the business center for grain and agricultural implements. Vancouver is the center of the growing British Columbia market. As of 2006, about three-quarters of the labor force was employed in the service industry, which accounted for some 70% of the GDP.

There is considerable advertising overflow from the United States. Business hours are 9 AM to 5 PM, Monday through Friday. Shopping hours are 9:30 AM to 6 PM, Monday through Saturday; many stores stay open to 9 PM on Thursday and Friday nights and have Sunday hours. Normal banking hours are from 10 AM to 4:30

Principal Trading Partners – Canada (2003)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	272,044.7	239,698.9	32,345.8
United States	233,425.4	145,403.3	88,022.1
Japan	5,823.1	9,891.0	-4,067.9
United Kingdom	4,345.2	6,481.6	-2,136.4
China	3,402.1	13,278.3	-9,876.2
Germany	2,052.0	6,176.2	-4,124.2
Mexico	1,584.1	8,710.5	-7,126.4
France-Monaco	1,561.0	3,567.6	-2,006.6
Korea, Republic of	1,383.3	3,651.7	-2,268.4
Belgium	1,314.5	831.3	483.2
Italy-San Marino-Holy See	1,234.9	3,299.8	-2,064.9

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

PM, Monday through Thursday, and from 10 AM to 5 or 6 PM on Fridays. Some banks are open on Saturday mornings.

31 FOREIGN TRADE

Canada's exports are highly diversified; the principal export groups are industrial goods, forestry products, mineral resources (with crude petroleum and natural gas highly important), and agricultural commodities. Imports are heavily concentrated in the industrial sector, including machinery, transport equipment, basic manufactures, and consumer goods. Trade balances are almost invariably favorable.

In 1989, the United States and Canada signed a free trade agreement; and in 1994 the United States, Canada, and Mexico signed the North American Free Trade Agreement (NAFTA). Currently, trade between the United States and Canada is essentially unhindered. In fact, the US-Canada trade relationship is the largest such economic association in history.

Cars, trucks, and automobile parts were the second-largest exports of Canada in 2004 (totaling 21.1%), behind machinery and equipment (21.3%). Wood, paper, and paper products follow Canada's vehicle exports closely. Canada's leading markets in 2004 were the United States (88.4% of all exports), Japan (2.1%), the United Kingdom (1.7%), and China (1.7%). Canada's leading suppliers in 2004 were the United States (64.5% of all imports), China (7.5%), Mexico (4.2%), and Japan (4.1%).

32 BALANCE OF PAYMENTS

Canada's merchandise balances, although fluctuating, showed consistent surpluses between 1961 and 2005, except for 1975. These, however, were offset by persistent deficits from other transactions. Sources of these deficits include Canada's indebtedness to other countries, travel of Canadians abroad, payments for freight and shipping, personal remittances, migrants' transfers, official contributions, and other Canadian government expenditures abroad.

In 2000, Canada recorded a current account surplus of US\$12.8 billion, the first such surplus since 1996. Merchandise trade was responsible for most of the improvement, in part due to the then-thriving US economy, which received 86% of Canada's total merchandise exports. Canada at that time received 22% of total US

Balance of Payments – Canada (2003)

(In millions of US dollars)

Current Account		17,268.0
Balance on goods		41,513.0
Imports	-244,281.0	
Exports	285,794.0	
Balance on services		-7,727.0
Balance on income		-16,738.0
Current transfers		221.0
Capital Account		2,386.0
Financial Account		-21,592.0
Direct investment abroad		-22,240.0
Direct investment in Canada		6,273.0
Portfolio investment assets		9,139.0
Portfolio investment liabilities		13,160.0
Financial derivatives		...
Other investment assets		-20,555.0
Other investment liabilities		10,910.0
Net Errors and Omissions		-1,767.0
Reserves and Related Items		3,255.0

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

merchandise exports, making it the largest single-country export market for the United States.

Merchandise exports on a balance-of-payments basis rose by 7.2% to c\$429 billion in 2004 as growth in the US economy remained strong and bilateral trade with China increased exponentially. Merchandise imports rose by 6% to c\$363 billion. The merchandise trade surplus rose to c\$66.1 billion in 2004 from c\$57.6 billion in 2003. In 2004, the current-account balance amounted to US\$28.2 billion. From 2001-05, the current-account balance averaged 1.9% of GDP.

33 BANKING AND SECURITIES

The Bank of Canada, which was established in 1934, is a government-owned institution that regulates the total volume of currency and credit through changes in the cash reserves of eight domestic chartered banks and 45 foreign bank subsidiaries. The Bank of Canada also acts as the government's fiscal agent, manages the public debt, and has the sole right to issue paper money for circulation in Canada. It is empowered to buy and sell securities on the open market, to fix minimum rates at which it will make advances, and to buy and sell bullion and foreign exchange.

The Federal Business Development Bank, established as the Industrial Development Bank in 1944 as a subsidiary of the Bank of Canada, has operated as a separate entity since 1974. It does not engage in the business of deposit banking but supplements the activities of the chartered banks and other agencies by supplying medium- and long-range capital for small enterprises.

The eight domestic chartered banks are commercial and savings banks combined, and they offer a complete range of banking services. Canada's banks were reorganized in 1992 under the Banking Act. Every 10 years the banks' charters are subject to renewal and the Banking Act is revised to keep abreast of changing trends, a practice unique to Canada. The banks were reorganized into Schedule I and II banks. The Schedule I banks are

banks whose ownership is public. No one shareholder in Schedule I banks controlled more than 10% of the shares until the law was revised in 2000. Schedule II banks are subsidiaries of foreign or domestic banks that are held privately or semiprivately. In 1999, foreign banks were given the right to operate branches in the full-service and lending sectors. Schedule I banks include the Bank of Montréal, Bank of Nova Scotia, Canadian Imperial Bank of Commerce, Canadian Western Bank, Laurentian Bank of Canada, National Bank of Canada, Royal Bank of Canada, and the Toronto-Dominion Bank of Canada.

Canada's four biggest banks—Royal Bank of Canada (RBC), Canadian Imperial Bank of Commerce (CIBC), Bank of Montréal, and Bank of Nova Scotia—were all among the top 10 in North America in the 1980s. In 1997, only RBC and CIBC qualified. The Canadian banks began in mid-1996 to speak out in favor of liberalized ownership rules if they were to maintain their competitive edge. In October 1996, the Bank of Montréal chairman, Matthew Barrett, said domestic banks should have the freedom to merge, and that serious thought should be given to dropping the 10% ownership limit. In 1999, banks with equity of over c\$5 billion were allowed to merge, and the ownership limit was raised to 20% on vote-taking shares, and 30% on nonvote taking shares. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to us\$163.9 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was us\$463.9 billion. The money market rate, the rate at which financial institutions lend to one another in the short term, was 4.11%. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 2.5%.

The Toronto Stock Exchange (TSE) was founded in 1852 and incorporated in 1878. The Standard Stock and Mining Exchange, incorporated in 1908, merged with it in 1934. Its members have branch offices in principal Canadian cities and in some US financial centers.

The Montréal Stock Exchange was incorporated in 1874. In 1974, it merged with the Canadian Stock Exchange, which was organized in 1926 as the Montréal Curb Market. Other securities exchanges were: the Winnipeg Stock Exchange, founded in 1903; the Vancouver Stock Exchange, founded in 1907; and the Alberta Stock Exchange (formerly Calgary Stock Exchange), founded in 1913.

In 1999, the TSE took over all senior equity exchanges from the Montréal market. Also in that year, the TSE and the Canadian Venture Exchange combined to create the TSX Group. The Vancouver and Alberta stock exchanges also merged to form the Canadian Equities Exchange, handling only junior exchanges. As of 2004, there were 3,597 companies listed by the TSX Group. Total market capitalization as of December 2004 stood at \$1,177.518 billion. The TSX in 2004 was up 12.5% from the previous year at 9,246.7.

34 INSURANCE

Of the billions of dollars worth of coverage that Canadians buy every year, most is either life and health insurance or property and casualty insurance. Canadians buy more life and health insurance on a per capita basis than any other group except the Japa-

nese (the United States is third). Compulsory insurance for Canadians includes automobile insurance and workers' compensation, on which the government holds a monopoly. Manitoba, British Columbia, Québec, and Saskatchewan also operate a monopoly on primary automobile policies.

Since 1978, the Canadian property and insurance market has continued to experience underwriting losses. The return on equity fell to 13.1% in 1997, to 6.8% in 1998, and to 5.4% in 1999. Since the industry continues to pay more in claims and expenses than it earns in premium revenue, overall profitability is ultimately determined by revenues generated from investment earnings. A high rate of natural disasters coupled with a low rate of crime in 1999 influenced industry intake. In 2000, government restructuring of the financial sector refused to allow bank branches to distribute insurance policies, supporting the insurance industry. In 2003, direct premiums written in Canada totaled us\$59.144 billion, of which us\$36.303 billion was nonlife insurance and us\$22.841 billion life insurance. In that same year, ING Canada was the country's top nonlife insurer, with gross written nonlife premiums of us\$2,119.0 million, while Sun Life of Canada was the nations top life insurer, with gross written life insurance premiums (excluding segregated funds) of us\$2,495.8 million.

35 PUBLIC FINANCE

By far the largest item of expenditure of the federal government is for social services, including universal pension plans, old age security, veterans benefits, unemployment insurance, family and youth allowances, and assistance to disabled, handicapped, unemployed, and other needy persons. Through the early 1970s, federal budgets remained relatively in balance, fluctuating between small surpluses and small deficits. Since then, however, the budget has been in continuous and growing deficit. The federal debt rose from 18% of GDP in 1974 to 70% of GDP in 1993, and about 65% in 1999. Government options to reduce the deficit are constrained by the high level of nondiscretionary spending in the federal budget. Sources

Public Finance – Canada (2003)

(In billions of Canadian dollars, central government figures)

Revenue and Grants	240.98	100.0%
Tax revenue	168.71	70.0%
Social contributions	57.98	24.1%
Grants	0.62	0.3%
Other revenue	13.67	5.7%
Expenditures	224.4	100.0%
General public services	67.91	30.3%
Defense	13.11	5.8%
Public order and safety	6.84	3.0%
Economic affairs	13.48	6.0%
Environmental protection	1.44	0.6%
Housing and community amenities	2.86	1.3%
Health	6.04	2.7%
Recreational, culture, and religion	3.44	1.5%
Education	4.77	2.1%
Social protection	104.5	46.6%

(...) data not available or not significant.

SOURCE: *Government Finance Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

of provincial revenue include various licenses, permits, fines, penalties, sales taxes, and royalties, augmented by federal subsidies, health grants, and other payments. Federal grants and surpluses and federal payments to the provinces under the federal-provincial tax-sharing arrangements constitute a major revenue source of the provinces. Corporation and personal income taxes provide a considerable portion of the revenue of Québec. The largest provincial expenditures are for highways, health and social welfare, education, natural resources, and primary industries. Real property taxes account for more than two-thirds of revenue for municipalities and other local authorities. Almost one-third of their expenditures go to supporting local schools.

The US Central Intelligence Agency (CIA) estimated that in 2004 Canada's central government took in revenues of approximately us\$159.6 billion and had expenditures of us\$152.6 billion. Revenues minus expenditures totaled approximately us\$7 billion. Public debt in 2005 amounted to 68.2% of GDP. Total external debt was us\$600.7 billion.

The International Monetary Fund (IMF) reported that in 2003, the most recent year for which it had data, central government revenues in billions of Canadian dollars were 240.98 and expenditures were 224.4. The value of revenues in millions of US dollars was \$172 and expenditures \$159, based on a market exchange rate for 2003 of 1.4011 as reported by the IMF. Government outlays by function were as follows: general public services, 30.3%; defense, 5.8%; public order and safety, 3.0%; economic affairs, 6.0%; environmental protection, 0.6%; housing and community amenities, 1.3%; health, 2.7%; recreation, culture, and religion, 1.5%; education, 2.1%; and social protection, 46.6%.

36 TAXATION

As with most industrialized democracies, Canada's tax system is complex, reflecting the impact of numerous social and economic policy goals. There are both federal and provincial taxes on corporate and individual income. Ontario, Québec, and Alberta administer their own corporate tax systems, but in the other provinces, the federal government levies both. As of 2005, Canada's federal corporate income tax rate is 21%, with a surtax adding another 1.12%. However, additional taxes by Canadian provinces/territories, can add 11.5% to 17%. Québec has a rate of 8.9% for active income. Canada is also slated to further reduce the corporate rate. Effective January 1, 2008, the corporate rate will be lowered to 20.5%, while the surtax (as of that date) will be abolished. As of January 1, 2009, the corporate rate will be cut further to 20%, and will be reduced on January 1, 2010 to 19%. Nonresidents of Canada are also subject to a 15% withholding tax for services performed in Canada. Individual income taxes are based on a progressive system, for which the top federal rate is 29%. Individual income tax rates imposed by the provinces/territories vary from 4–24%.

37 CUSTOMS AND DUTIES

Customs duties, once the chief source of revenue, have declined in importance as a revenue source as Canada's economy has grown and developed. The tariff, however, still is an important instrument of economic policy. There is a wide range of duties, progressing from free rates on raw materials to higher duties as goods become more highly processed. Producer goods, including ma-

chinery of a kind not made in Canada, are subject to lower rates or are admitted free. Imports from the United Kingdom, most Commonwealth countries, and some crown colonies receive a tariff preference on a basis of reciprocity. Imports from nonmembers of the World Trade Organization (WTO) that have not negotiated a trade agreement with Canada are subject to the general or highest duty category. A federal goods and services tax, excise tax, and provincial retail sales taxes add to the cost of importation.

In October 1987, Canada and the United States reached agreement to establish a free trade area between the two countries, which came into force in 1989 with all tariffs being eliminated within 10 years. Today, there are essentially no tariffs on US goods, although there remain a few nontariff barriers to trade. Canadian commercial policy is generally opposed to the use of quantitative restrictions except as permitted by the WTO, or for sanitary reasons, in emergencies, to allocate scarce supplies, or to meet balance-of-payments problems. Canada does not adhere to a general system of import licensing but does require permits for a limited number of products, such as electric power, petroleum, and natural gas and by-products. There are no free ports, but bonded facilities are operated at many ports. Except in grain, for which storage facilities are extremely large, customs warehousing is not extensive.

The United States, Canada, and Mexico signed the North American Free Trade Agreement (NAFTA) in December 1992. Approved by the legislatures of all three countries in 1993, NAFTA replaced the existing free trade agreement between Canada and the United States in 1994 but retained many of its major provisions and obligations. Canada and Chile signed a free trade agreement in 1997. NAFTA members are working towards a Free Trade Area of the Americas to incorporate Central and South America.

38 FOREIGN INVESTMENT

With few exceptions, Canada offers foreign investors full national treatment within the context of a developed open market economy operating with democratic principles and institutions. However, Canada is one of the few OECD countries that still have a formal investment review process, and foreign investment is prohibited or restricted in certain sectors of the economy.

The federal corporate tax is 21%. The federal capital tax will be eliminated for all businesses by 2008. Provincial governments charge corporate taxes at rates from 10% upwards; the federal government allows a tax credit of 10% against these provincial levies.

By the beginning of 2003, foreign direct investment (FDI) in Canada, which has increased steadily since the early 1950s, amounted to us\$349.4 billion. This was only 4.7% above the level in 2001, the lowest rate of increase since 1993. FDI inflow in 2002 was us\$33.6 billion, about 20% lower than 2001. The US share in annual FDI inflow declined from 91% in 2001 to 74.7% in 2002. The second-largest source of inward FDI was the European Union. Canada's relative share of global inward FDI remained unchanged in 2001 and 2002, at about 4% of the world total. The inflow of foreign portfolio investment (foreign purchases of Canadian stocks and bonds) declined from us\$30.1 billion to us\$17.9 billion.

Outward FDI by Canadians has grown at an even faster average rate than inward FDI over the last 10–15 years. FDI assets held by Canadians reached us\$432 billion in 2002. Outward FDI flow was us\$43.8 billion down about 20% from 2001. Direct investments in

the United States accounted for 47% of outward FDI, down from 60% in 2001. As in 2001, Canada accounted for about 6% of the world total outward FDI in 2002. Outward portfolio investment in 2002 was us\$24.7 billion, down from us\$37.7 billion in 2001 in 2002, up 10.8% from 2001.

By 2006, the soaring price of oil and other commodities had prompted a surge in investment. Some us\$39 billion of new investment was announced early in 2005 in Alberta's oil sector alone. Railway lines are being built, ports expanded, and oil and gas pipelines laid. From 2001–05, FDI inflows averaged 2% of GDP.

³⁹ECONOMIC DEVELOPMENT

Basically, Canada has a free-enterprise economy. However, the government has intervened in times of economic crisis and to accomplish specific social or economic goals. For example, in October 1963, the Canadian government announced a plan, involving tariff rebates, designed to induce US automobile companies to increase the export of vehicles and parts from their plants in Canada; subsequently, US companies markedly increased the scale of their Canadian operations. To dampen speculative buying of the Canadian dollar, the government permitted the dollar to float in the foreign exchange markets as of 31 May 1970; the government's intent was also to make imports cheaper in terms of Canadian dollars, and thereby to dampen domestic inflation. Another attempt at economic intervention, the Canada Anti-Inflation Act, became effective on 16 December 1975. This legislation established an Anti-Inflation Board and an Anti-Inflation Appeal Tribunal to monitor wage and price guidelines, which are mandatory for key sectors of the economy. The act was part of a government program to limit the growth of public expenditures and public service employment, to allow the money supply to increase at a rate consistent with moderate real growth, and to establish new agencies and policies to deal with energy, food, and housing.

A recurrent problem for Canada has been the dominant position of US corporations and investors. Attempts to limit US influence have included tightened tax policies, the Foreign Investment Review Act, and, in 1980, the National Energy Program (NEP), which aimed at reducing foreign ownership of Canada's oil and gas industry, principally through assisting Canadian companies to take over foreign holdings. One beneficiary of the NEP was the government-owned Petro-Canada, created in the mid-1970s; by the end of 1985, Petro-Canada had become the country's second-largest oil company, ranked by assets. However, much of the NEP was eliminated in the mid-1980s by the Conservative government, which sought to encourage foreign investment and to privatize government-owned enterprises. Between 1984 and 1991, the government sold or dissolved over 20 federal corporations, deregulated much of the energy, transportation, and financial sectors, and removed many controls on foreign investment.

In 2000, after more than 10 years of the bilateral trade agreement with the United States, and six years under the North American Free Trade Agreement (NAFTA), Canada's economy was growing at a comfortable pace, unemployment was falling, and inflation was low; but nationals were still dissatisfied with the size of the Canadian economy as compared to US affluence. The economic downturn that began in the United States in 2001 negatively impacted the Canadian economy. In addition, the 2003 out-

break of Severe Acute Respiratory Syndrome (SARS) worldwide harmed tourism and exports in Canada, as Toronto was struck by the worst outbreak of the disease outside Asia. In addition, a cow in Alberta was diagnosed with mad-cow disease (bovine spongiform encephalopathy) in May 2003, and the United States and four other countries placed a ban on the import of Canadian beef. (Canada is the world's third-largest exporter of beef, after Australia and the United States.) However, shipments of most Canadian beef to the United States were resumed in late 2003, and trade in live cattle under 30 months resumed in July 2005.

By 2006, federal finances were holding up well and federal debt as a share of GDP was forecast to continue on a downward trend. In the medium term, the government planned to cut taxes and increase expenditures. Immigration and internal security remain key policy issues. Canada's close bilateral relationship with the United States had been soured by a number of security and trade disputes, such as the United States' imposition of tariffs on shipments of Canadian softwood lumber and over the United States' approach to climate change.

⁴⁰SOCIAL DEVELOPMENT

Federal programs include family allowances, old age security, and earning-related disability and survivors' pensions. There is a universal pension for all residents, and an earnings related pension for most employed persons. The universal pension is funded by the government, while the employment based program is financed with employer and employee contributions. There is a family allowance for low-income families for each child under the age of eighteen. The amount of these child allowances declines as family net income increases. Benefits are provided for the disabled, and the benefit is adjusted for changes in the consumer price index.

Sickness and maternity benefits are available for all wage earners and salaried workers. Virtually the total population is covered for physician and hospital services. Workers' medical benefits include general medical and maternity care, as well as specialty and laboratory services. There are additional benefits available to residents of some provinces. There is a funeral grant that varies according to province.

The first work injury laws were enacted in 1908. Employees in industry and commerce are covered, and the employer funds the program. Unemployment is funded by both the employer and employee contributions. All wage earners and salaried workers are covered by the program. The government funds a social assistance system for all residents based on total family income.

Women participate fully in the Canadian labor force, including business and the professions, although government reports show that their average earnings are still less than those of men. There is equality in marriage and property rights. The law prohibits sexual harassment and criminal harassment. The government spends considerable funds to prevent domestic violence and to provide services to victims. Incidences of violence against women declined in 2004.

The government protects human rights, and the law and judiciary are effective in addressing incidence of abuse. There has been an increase in anti-Semitic harassment in recent years, as well as a rise in trafficking in women.

41 HEALTH

Canada adopted a national health insurance scheme in 1971. It is administered regionally; each province runs a public insurance plan with the government contributing about 40% of the cost (mostly from taxes). Government regulations ensure that private insurers can only offer particular types of health care provision. Drug prices are low. Most hospitals and doctors operate privately. Hospitals are paid by allocated budgets and doctors receive fees per treatment. The system offers considerable choice, but there is little competition and the government has used rationing measures to limit health care expenditures. Access to health care and cost containment are good, but there are strains on the budget, increased by an aging population. In 1997, the National Forum on Health, created by the government three years earlier, released a report on ways to improve Canada's health system. It recommended several initiatives, including formation of a Health Transition Fund to support provincial and territorial health programs.

Major health planning is carried on by provincial governments, most of which offer substantial free care for patients suffering from tuberculosis (7 cases reported per 100,000 people in 1999), poliomyelitis, venereal diseases, and certain types of cancer. They also assume responsibility for mental health treatment. Municipalities are responsible for sanitation; communicable disease control; child, maternal, and school health care; public health nursing; health education; and vital statistics. In some cases, they supply hospital care and medical service to the poor. The federal government provides consultant and specialist services to the provinces, assists in the financing of provincial programs, provides services to veterans and Indians, exercises control over the standard and distribution of food and drugs, maintains quarantine measures, and is responsible for carrying out certain international health obligations. The federal Department of National Health and Welfare provides financial assistance for provincial health and hospital services through the National Health Program and for provincial hospital insurance programs through the Hospital Insurance and Diagnostic Services Act of 1957, under which the federal government shares the provinces' costs (since 1977, by means of tax transfers and cash payments). By 1973, this program had been established in all provinces and territories, covering more than 99% of the total population of Canada. Federal and provincial governments contribute toward construction costs of new hospitals. Total health care expenditures for 1995 were us\$1,899 per capita. Public insurance pays about 80% of the Canadian population's health bills. The total expenditure on health is second only to the United States, with an estimated 9.3% of GDP going toward health as of 1999. As of 2004, there were an estimated 209 physicians, 1,010 nurses, 80 pharmacists, and 56 dentists per 100,000 people.

The Canadian death rate of 7.5 per 1,000 people in 1999, the maternal death rate (1998) of 6 per 100,000 live births, and the infant mortality rate (2005) of 5 per 1,000 live births are among the lowest in the world. In 1999, 6% of all births were low birth weight. Diseases of the heart and arteries account for nearly 40% of all deaths and cancer accounts for about 28%; the proportion of deaths from causes related to old age is rising. Tobacco consumption, which was 2.8 kg (6.2 lbs) a year per adult in 1984–86, was 2.3 kg (5.1 lbs) in 1995. Accidents are the leading cause of death in childhood and among young adult males and rank high for other population groups. In 2005, life expectancy at birth was

estimated at 80 years. Canada had a birth rate of 11.9 per 1,000. Approximately 73% of married women (ages 15 to 49) were using contraception. Children up to one year of age were immunized as follows: diphtheria, pertussis, and tetanus, 93%; polio, 89%; and measles, 98%.

The HIV/AIDS prevalence was 0.30 per 100 adults in 2003. As of 2004, there were approximately 56,000 people living with HIV/AIDS in the country. There were an estimated 1,500 deaths from AIDS in 2003.

42 HOUSING

According to the 2001 census, there were about 11,562,975 occupied private dwellings in Canada and 25,755 collective dwellings. The average number of persons per household is about 2.6. The most active period of housing construction of private homes was during the period 1971–80, when about 21% of the existing housing stock was built. In the period 1996–2001, there were 819,865 private dwellings built. The average value of a private home was about \$162,709 in 2001. In 2003, about 57% of all households were in single, detached homes, about 30% were in apartments, and 10% were in single, attached housing. About 65% of all dwellings are owner occupied.

43 EDUCATION

The age limits of compulsory school attendance are roughly from age 6 to age 16. Primary schools lasts for six to eight years and secondary or high school another six years. Each province is responsible for its own system of education. While the systems differ in some details, the general plan is the same for all provinces except Québec, which has two parallel systems: one mainly for Roman Catholics and speakers of French, the other primarily for non-Catholics and speakers of English. Québec, Newfoundland, Alberta, Saskatchewan, and, to a lesser extent, Ontario provide for public support of church-affiliated schools. Primary and secondary education is generally free, although nominal fees are charged for secondary education in some schools or provinces. Public elementary and secondary schools are administered by the provinces and Yukon Territory. As of 2003, public expenditure on education was estimated at 5.2% of GDP, or 12.5% of total government expenditures.

In 2001, about 64.7% of all children between the ages of four and five were enrolled in some type of preschool program. Primary school enrollment in 2000 was estimated at about 99.6% of age-eligible students. The same year, secondary school enrollment was about 94% of age-eligible students. The student-to-teacher ratio for primary school was at about 17:1 in 2003. The ratio for secondary school was about 17:1.

Canadian higher education began with the founding of the Collège des Jésuites in Québec City in 1635. The Séminaire de Québec, another Jesuit institution, established in 1663, became Laval University in 1852. Other early institutions on the French collegiate model were the Collège St. Boniface in Manitoba (1827), the University of Ottawa (1848), and St. Joseph's University in New Brunswick (1864). Although many French institutions survive—most notably the University of Montréal, which separated itself from Laval in 1920—most university-level instruction is conducted in English on the Scottish, British, or US model. The first

English-language college in Canada was King's College in Halifax, Nova Scotia (1789). Two private universities on the Scottish model are Dalhousie University in Halifax (1818) and McGill University in Montréal (1821). The first state-supported institution, founded in 1827 on the principles of Anglicanism and loyalty to the British crown, was King's College at York in Upper Canada, which became the University of Toronto, the largest and one of the most distinguished of Canadian institutions. Universities in each of the four western provinces—Manitoba, Saskatchewan, Alberta, and British Columbia—founded in the late 19th century, represent a Canadian adaptation of the US state land-grant universities.

Canada also has numerous community colleges, teachers' colleges, technical institutes, nursing schools, and art schools. Adult education is sponsored by universities, colleges, school boards, government departments, and voluntary associations, each of which has some other primary function. The Canadian Broadcasting Corp., the National Film Board, and many museums, art galleries, and libraries engage in adult education as part of their work. Instructors are represented by the Canadian Association of University Teachers, and students by the Canadian Federation of Students. In 2001, about 59% of the tertiary age population were enrolled in some type of higher education program. The adult literacy rate has been estimated at about 97%.

44 LIBRARIES AND MUSEUMS

Municipal public libraries serve the large cities and many small towns and rural areas; regional units supply library service to scattered population areas. Traveling libraries, operated by provincial governments or university extension departments, also provide mail services for more isolated individuals and communities. Although public libraries are organized and financed by municipalities, in most provinces the provincial government supervises library services and makes grants to the municipal units. Special libraries of various kinds and at various levels serve limited groups.

In 2004, Library and Archives Canada (LAC) was established through a government act which essentially merged the services of the National Library of Canada with the National Archives of Canada. The massive collection of the new LAC includes over 300,000 hours of film archives; over 2.5 million architectural drawings, plans, and maps; 21.3 million photographic images; 343,000 works of arts; 200,000 music recordings; the Canadian Postal Archives; and millions of books, among other materials.

Canada also has a number of major academic libraries, most notably at the University of Toronto, which itself has over 14 million volumes. In 2002, Canada had a total of 3,932 libraries, including 1,673 public libraries, 484 academic libraries, 380 government libraries, and a variety of special libraries.

There are about 2,000 museums, art galleries, and related institutions in Canada. Major museums located in Ottawa include the National Arts Center, the National Gallery of Canada (including the Canadian Museum of Contemporary Photography), the Canadian Museum of Nature, and the National Museum of Science and Technology (including the National Aviation Museum and the Agriculture Museum). Other notable Canadian museums include the Royal Ontario Museum in Toronto and the Fine Arts Museum in Montréal. The major museums and art galleries, located in the principal cities, provide valuable educational services

to adults and children; many supply traveling exhibitions for their surrounding areas or regions. The National Gallery conducts extension work throughout the country and sends many exhibitions on tour.

45 MEDIA

The 10 public and private companies in Telecom Canada provide a major share of the nation's telecommunications services, including all long-distance service, and link regional networks across Canada. In 2003, there were an estimated 629 mainline telephones for every 1,000 people. The same year, there were approximately 417 mobile phones in use for every 1,000 people. Telegraph services are operated by the two transcontinental railroads and by the federal government to outlying districts. All external telecommunication services are operated by the Canadian Overseas Telecommunication Corp., a crown agency. The Post Office became a crown corporation in 1981.

The Broadcasting Act of 1968 entrusted the Canadian Radio-Television Commission with the regulation and supervision of all aspects of the broadcasting system. The publicly owned Canadian Broadcasting Corp. (CBC) provides the national broadcasting service in Canada. Its radio and television facilities extend from the Atlantic Ocean to the Pacific and north to the Arctic Circle. The CBC has broadcasting stations in the principal cities and operates both English- and French-language national networks. Privately owned local stations form part of the networks and provide alternative programs. In 2005, there were nearly 2,000 licensed radio stations in the country. There are at least 80 television stations. Radio Canada International, the CBC's shortwave service, broadcasts in seven languages to Europe, Africa, Latin America, Asia, the Middle East, the South Pacific, and the United States.

The Canadian communication satellites play an increasingly significant role in efforts to bring radio and television services to the more remote parts of the country, particularly in the north. Beginning in late 1980, a new television network began broadcasting programs in the Inuit language via satellite, offering viewers the opportunity to "talk back" through their television sets to people in other communities. In 2003, there were an estimated 1,047 radios and 691 television sets for every 1,000 people. The same year, there were 487 personal computers for every 1,000 people and 513 of every 1,000 people had access to the Internet. There were over 15,000 secure Internet servers in the country in 2004.

In 2004 there were over 100 major daily newspapers across the country. Although some newspapers in Montréal, Québec, Toronto, Winnipeg, and Vancouver have more than local influence, most circulate only on a regional basis and have a limited number of readers. Rural areas are served by over 2,000 monthly and weekly publications. There are many consumer magazines, but only *Maclean's* is truly national. Three large news-gathering organizations are the Canadian Press, a cooperatively owned and operated venture, the British United Press, and United Press International of Canada.

Canada's leading English-language newspapers (with their 2004 daily circulations) include *Toronto Star* (464,838), *Globe and Mail* (317,954), *National Post* (243,966), *Toronto Sun* (194,011), *Vancouver Sun* (172,486), *The Province* (in Vancouver, 154,590), *The Gazette* (in Montréal, 135,471), *Ottawa Citizen* (129,175), *Edmonton Journal* (125,848), *Winnipeg Free Press* (117,608), *Calgary*

Herald (114,213), *The Chronicle-Herald* (in Halifax, 110,033), *The Hamilton Spectator* (102,574), and *The London Free Press* (90,043). The leading French-language dailies (with their 2002 daily circulations) include *Le Journal de Montréal* (265,168), *La Presse* (in Montréal, 188,216), *Le Journal de Québec* (97,805), and *Le Soleil* (in Québec, 76,307). The *Mail Star* of Halifax merged with the *Chronicle-Herald* on 2004. The *Times Colonist* in Victoria is a fairly substantial regional paper with a daily circulation of about 69,855.

In 2004, there about 765 community weekly newspapers in the country. A few of the largest include the *Brampton Guardian* (circulation 113,032 in 2004), *The Scarborough Mirror* (110,000), *Eto-bicoke Guardian* (69,500), and *The Cambridge Reporter* (52,000). *Le Soleil du St. Laurent* is a French weekly based out of Chateauguay, Québec with a circulation of 51,560. Some prominent alternative newspapers in Canada include *Le Journal Voir* (Montréal, 107,161 weekly in 2004), *Now* (Toronto, 106,296 weekly), *Mirror* (Montréal, 66,494 weekly), and *Monday Magazine* (Victoria, 40,000 weekly). Prominent ethnic weeklies with their language, city, and average circulation in 2004 were *Il Cittadino Canadese* (Italian, Montréal, 40,000), *Corriere Italiano* (Italian, Montréal, 40,000), *Deutsche Press* (German, Toronto, 27,500), *El Expreso* (Spanish, Toronto, 20,000), and *Kanada Kurier* (German, Winnipeg, 19,500). *The Canadian Daily News* of Don Mills, Ontario, has a weekly circulation of 48,700.

The law provides for freedom of expression, including speech and press, and the government supports these rights. The banning of journalists from reporting on some court cases until after a trial in concluded enjoys widespread public support, in favor of a defendant's right to a fair trial.

46 ORGANIZATIONS

Cooperatives are very important in Canadian agriculture and fishing, and also provide housing, medical insurance, transportation, and other services. Trade unions and professional organizations exist for a wide array of professions. The Confederation of National Trade Unions and the Canadian National Federation of Independent Unions serve as umbrella organizations for some unions. Almost every city has a chamber of commerce, affiliated with the national Canadian Chamber of Commerce. The Canadian Council of Better Business Bureaus and the Consumers' Association of Canada are based in Ottawa.

Among organizations active in general education are the Canadian Association for Adult Education, the Canadian Association of University Teachers, Project READ Literacy Network, and the Industrial Foundation on Education, a research organization aiming to promote aid to education by business. There are numerous associations for educators in various fields. The Canada Council is the official national agency for promotion of the arts, humanities, and the social sciences. The Royal Canadian Academy of Arts is the oldest arts organization with national prestige. The Canada Arts Council, a federation of professional cultural organizations, includes the Royal Architectural Institute of Canada, the Canadian Authors' Association, the Canadian Music Council, the Sculptors' Society of Canada, and similar societies. The Royal Canadian Geographical Society promotes the study of Canadian history and culture. There are also numerous associations for hobbyists.

Such organizations as the Canadian Medical Association, the Canadian Dental Association, the Canadian Nurses Association, and the Canadian Mental Health Association serve as both as networks for medical professionals and a resource for education and public action and awareness on health issues. There are hundreds of health and medical associations dedicated to education and research in specialized fields of medicine, such as the Canadian Lung Association and the Heart and Stroke Foundation of Canada. Many voluntary societies are active in the field of health.

There are numerous national, regional, and local organizations dedicated to concerns of social welfare and public affairs. These include the National Council of Women of Canada, National Action Committee on the Status of Women, Canadian Human Rights Foundation, and the Canadian Civil Liberties Association is based in Toronto. The Canadian Red Cross Society, affiliated with the International Red Cross Society, has branches in all 10 provinces. The country has chapters of UNICEF, Habitat for Humanity, CARE, Amnesty International, and Greenpeace.

Youth organizations exist for a variety of interests. The Canadian Federation of Students (CFS), founded in 1981, has over 400 000 individual members and 65 student association voting members. The Canadian Council on Children and Youth (CCCY), established in 1958, works to defend the rights of youth. Other youth organizations include Big Brothers/Big Sisters of Canada, the Boys and Girls Clubs of Canada, Canada World Youth, Canadian 4-H Council, YMCA/YWCA, Canadian Hostelling Association, Girl Guides of Canada, National Canadian Girls in Training Association, and the Progressive Conservative Youth Federation of Canada. Sports organizations exist for nearly every sport and leisure-time activity.

47 TOURISM, TRAVEL, AND RECREATION

One of Canada's principal attractions for tourists is its extraordinary geographic variety: from the polar ice cap to the mountains, fjords, and rain forests of the west coast, from the lakes, forests, and ranchlands of the interior to the rugged shores and fine beaches of the east, Canada offers a remarkable range of scenic wonders. The excavation of L'Anse aux Meadows in Newfoundland, with its Norse artifacts and reconstructed dwellings, has been designated a world heritage site by UNESCO, as have Nahanni National Park in the Northwest Territories and Dinosaur Park in Alberta's Red Deer Badlands. Among the most spectacular parks are the Kluane National Park in the Yukon and the Banff (with Lake Louise) and Jasper national parks in the mountains of Alberta. Other attractions include the Cabot Trail in Nova Scotia; the Bay of Fundy, between New Brunswick and Nova Scotia; and the Laurentians and the Gaspé Peninsula in Québec.

The arts and crafts of the Dene Indians and the Inuit may be seen in cooperative workshops in Inuvik in the Northwest Territories; and of the North West Coast Indians, at the reconstructed Indian village Ksan in British Columbia. Québec City is the only walled city in North America; picturesque old fishing villages are to be found in the Atlantic provinces. Fishing and hunting attract many sportsmen to Canada, and ice hockey attracts many sports fans, particularly to the Forum in Montréal. In 1992, the Toronto major league baseball team, the Blue Jays, became the first non-American team to both play in and win the World Series. In 2004, the Montréal Expos played their final major league baseball season

in Canada; the team relocated to Washington, D.C., where they opened the 2005 baseball season as the Washington Nationals.

One of the world's foremost summer theatrical events is the Shakespeare Festival at Stratford, Ontario. Toronto is known for its many theaters, the CN Tower, and a fine zoo; Montréal, the second-largest French-speaking city in the world (after Paris), is famous for its fine French cuisine, night life, vast underground shopping and entertainment network, and its excellent subway system.

Montréal in 1967 hosted a major world trade exhibition, EXPO 67; the Summer Olympics took place in that same city in 1976. A world's fair, EXPO 86, was held in Vancouver in 1986, and Calgary was the site of the 1988 Winter Olympics. The Winter Olympics were scheduled to be held in Vancouver in 2010.

In 2003, Canada was the third most popular tourist destination in the Americas after the United States and Mexico. In that year, 17,534,298 tourists arrived from abroad, 14,232,370 of them from the United States. In 2003, tourist receipts totaled us\$12.2 billion.

Citizens of the United States do not need passports but should carry documents attesting to their citizenship, such as birth certificates or voter registration cards. Alien residents should carry their green cards. Nationals of other countries must have valid passports and may require visitor visas; they should check with the nearest Canadian embassy, consulate, or high commission. In 1991, a 7% Goods and Services Tax went into effect; however, it is refundable to foreign tourists.

In 2005, the US Department of State estimated the daily cost of staying in Vancouver at us\$207 from the months of May through October. That same year, the daily cost of a visit to Toronto was estimated at us\$295.

48 FAMOUS CANADIANS

Political Figures

Because of their exploits in establishing and developing early Canada, then known as New France, a number of eminent Frenchmen are prominent in Canadian history, among them the explorers Jacques Cartier (1491–1557), Samuel de Champlain (1567?–1635), Étienne Brulé (1592?–1633), Jacques Marquette (1637–75), Robert Cavalier, Sieur de la Salle (1643–87), and Louis Jolliet (1645–1700); François Xavier de Laval de Montigny (1623–1708), first and greatest bishop of Québec; Jean Baptiste Talon (1625?–94), first and greatest intendant, who re-created the colony on a sound economic basis; and Louis de Buade, Comte de Palluau et de Frontenac (c.1622–98), greatest of the French royal governors. Great explorers of a later period include Pierre Gaultier de Varennes, Sieur de la Vérendrye (1695–1749), Sir Alexander Mackenzie (1764–1820), David Thompson (1770–1857), Simon Fraser (1776–1871), Joseph E. Bernier (1852–1934), and Joseph Burr Tyrrell (1858–1957). Louis Riel (1844–85), of Indian and French-Irish ancestry, led the métis in rebellion in 1869–70 and 1885, when he was captured and hanged for treason.

Fathers of confederation and other important 19th-century political figures include Louis Joseph Papineau (1786–1871) and William Lyon Mackenzie (1795–1861); Sir John Alexander Macdonald (1815–91), first prime minister of the confederation; George Brown (1818–80), Sir Samuel Leonard Tilley (1818–96), and Sir Charles Tupper (1821–1915). The greatest political leader at the

turn of the century was Sir Wilfrid Laurier (1841–1919), prime minister from 1896 to 1911. The outstanding national leader of the first half of the 20th century was William Lyon Mackenzie King (1874–1950), Liberal prime minister for over 21 years (1921–26, 1926–30, 1935–48), who retired with a record of the longest service as prime minister in Commonwealth history. Charles Vincent Massey (1887–1967), governor-general from 1952 to 1959, was the first Canadian to represent the British crown in Canada. Lester Bowles Pearson (1897–1972), prime minister and Canada's longtime UN representative, won the Nobel Prize for peace in 1957. Pierre Elliott Trudeau (1919–2000) served as prime minister from 1968 to 1979 and again from 1980 to 1984, when he was succeeded by Brian Mulroney (b.1939). The best-known French-Canadian separatist was René Lévesque (1922–87), leader of the Parti Québécois, who became premier of Québec in 1976.

Artists

Highly regarded Canadian painters include James Edward Hervey MacDonald (1873–1932), Thomas John ("Tom") Thomson (1877–1917), Frederick Horsman Varley (1881–1969), and Lawren Stewart Harris (1885–1970) of the Group of Seven; James Wilson Morrice (1864–1924); and Emily Carr (1871–1945). Paul-Emile Borduas (1905–60) and Jean-Paul Riopelle (1923–2002) both were part of the Montréal School; however, after settling abroad, they probably became better known in France and the United States than in their native country. Two other artists of distinction are James W. G. MacDonald (1897–1960) and Harold Barling Town (1924–90). The portrait photographer Yousuf Karsh (b.Armenia-in-Turkey, 1908–2002) was a longtime Canadian resident.

Musicians

Well-known Canadian musicians include the composer Healey Willan (1880–1968); the conductor Sir Ernest Campbell MacMillan (1893–1973); the pianist Glenn Gould (1932–82); the singers Edward Johnson (1878–1959), Jon Vickers (b.1926), and Maureen Forrester (b.1931); the bandleader Guy Lombardo (1902–77); and, among recent popular singers and songwriters, Gordon Lightfoot (b.1938), Paul Anka (b.1941), Joni Mitchell (b.1943), Neil Young (b.1945), Celine Dion (b.1968), and Shania Twain (b.1965).

Actors

Canadian-born actors who are known for their association with Hollywood include Marie Dressler (Leila Koerber, 1869–1934), Walter Huston (Houghston, 1884–1950), Mary Pickford (Gladys Mary Smith, 1893–1979), Raymond Hart Massey (1896–1983), Walter Pidgeon (1897–1984), Norma Shearer (1904–83), Lorne Greene (1915–87), Raymond Burr (1917–93), William Shatner (b.1931), and Donald Sutherland (b.1935). Stage personalities include Beatrice Lillie (1894–1989), Hume Cronyn (1911–96), and Christopher Plummer (b.1929). Atom Egoyan (b.1960 in Egypt) is a filmmaker of Armenian descent, known for his film *The Sweet Hereafter* (1997).

Sports

Notable in the world of sports are ice-hockey stars Maurice ("Rocket") Richard (1921–2000), Gordon ("Gordie") Howe (b.1928), Robert Marvin ("Bobby") Hull, Jr. (b.1939), Robert ("Bobby") Orr (b.1948), and Wayne Gretzky (b.1961).

Authors

Thomas Chandler Haliburton (1796–1865), author of *Sam Slick*, was the first Canadian writer to attain more than a local reputation. Sir Charles George Douglas Roberts (1860–1943) and Bliss Carman (1861–1929) were widely read poets and short-story writers. Archibald Lampman (1861–99) wrote sensitive poems about nature. Narrative poems about the northwest frontier by Robert William Service (1874–1958) achieved mass popularity, as did the backwoods novels of Ralph Connor (Charles William Gordon, 1860–1937). The animal stories and bird drawings of Ernest Evan Thompson Seton (b.UK, 1860–1946) are still highly regarded. Stephen Butler Leacock (1869–1944), economist and essayist, is regarded as Canada's leading humorist. The *Anne of Green Gables* novels of Lucy Maud Montgomery (1874–1942) have been popular with girls of several generations. Mazo de la Roche (1885–1961) achieved fame for her romantic *Jalna* novels about an Ontario family. Well-known contemporary novelists include Morley Edward Callaghan (1903–90), Hugh MacLennan (1907–90), Farley McGill Mowat (b.1921), Alice Munro (b.1931), Margaret Lawrence (1926–87), Mordecai Richler (1931–2001), and Marian Passmore Engel (1933–1985). The novels and plays of Robertson Davies (1913–95), newspaper editor, actor, music critic, and university administrator, crackle with wit. Lorne Albert Pierce (1890–1961) was a prominent editor and literary critic. Herbert Marshall McLuhan (1911–80) was a communications theorist and cultural critic. Herman Northrop Frye (1912–91) was a well-known literary critic, and Margaret Atwood (b.1939) is a noted novelist and poet. Jewish-American novelist Saul Bellow (1915–2005), was born in what is now Montréal; he won the Nobel Prize for Literature in 1976. The British newspaper publisher William Maxwell Aitken, 1st Baron Beaverbrook (1879–1964), was born in Canada.

The *Histoire du Canada* (1845) of François Xavier Garneau (1809–66) stimulated a great interest in French Canada's heritage. Joseph Octave Crémazie (1827–79) was the first notable French Canadian poet. The poems of Louis Honoré Fréchette (1839–1908) were crowned by the French Academy. Louis Hémon (1880–1913), a French journalist who came to Canada in 1910 and spent only 18 months there, wrote the classic French Canadian novel *Maria Chapdelaine* (1914). Authors of realistic novels dealing with social and economic problems of French Canada include Claude-Henri Grignon (1894–1976), author of *Un Homme et son péché* (1933); Jean-Charles Harvey (1892–1967), author of *Les Démi-civilisés* (1934); Ringuet (Dr. Philippe Panneton, 1895–1960), author of *Trente Arpentés* (1938); Germaine Grignon Guevremont (1900–1968); Roger Lemelin (1919–92), author of *Au pied de la pente douce* (1944); and Gabrielle Roy (Carbotte, 1909–93). Gratien Gélinas (1909–1999) is an actor, director, and dramatic satirist. Abbé Félix Antoine Savard (1896–1982) wrote a poetic novel of pioneer life, *Menaud, maître-draveur*.

Scientists and Inventors

Among the famous Canadian scientists and inventors are Sir Sanford Fleming (1827–1915), inventor of standard time; Sir William Osler (1849–1919), the father of psychosomatic medicine; and Sir Charles Saunders (1867–1937), who developed the Marquis wheat strain, which revolutionized wheat growing in northern latitudes. The codiscoverers of insulin, Sir Frederick Grant Banting (1891–1941) and John James Richard Macleod (1876–1935), were awarded the Nobel Prize for medicine in 1923. George Brock Chisholm

(1896–1971) was an eminent psychiatrist and former head of WHO. Gerhard Herzberg (b.Germany, 1904–1999) won the 1971 Nobel Prize for chemistry for his work on molecular spectroscopy. Marius Barbeau (1883–1969), anthropologist and folklorist, was an authority on totem poles and Canadian folk music. David Hubel (b.1926 in Windsor, Ontario) shared the Nobel Prize for physiology or medicine in 1981 for discoveries concerning information processing in the visual system. Henry Taube (1915–2005) was born in Saskatoon; he won the 1983 Nobel Prize in chemistry. Canadian John C. Polanyi (b.1929) shared the Nobel Prize in chemistry in 1986. Sidney Altman (b.1939), shared the 1989 Nobel Prize in chemistry. Richard E. Taylor (b.1929), shared the 1990 Nobel Prize in physics for discoveries regarding the development of the quark model in particle physics. Rudolph A. Marcus (b.1923), born in Montréal, won the 1992 Nobel Prize in chemistry for his contributions to the theory of electron transfer reactions in chemical systems. Michael Smith (1932–2000) shared the 1993 Nobel Prize in chemistry for contributions to the developments of methods within DNA-based chemistry. Bertram N. Brockhouse (1918–2003) shared the 1994 Nobel Prize in physics for contributions to the development of neutron scattering techniques. William Vickrey (1914–96) was born in Victoria, British Columbia; he shared the 1996 Nobel Prize in economics. Myron S. Scholes (b.1941) shared the 1997 Nobel Prize in economics. Robert Mundell (b.1932) won the 1999 Nobel Prize in economics for his analysis of monetary and fiscal policy under different exchange rate regimes.

49 DEPENDENCIES

Northwest Territories

Prior to its division with Nunavut in 1999, the Northwest Territories constituted all of Canada north of 60°N except the Yukon and the northernmost parts of Québec and Newfoundland. Total land area was 3,293,020 sq km (1,271,438 sq mi). After the 1999 division, the territory encompassed 1.17 million sq km. The division ran along the Saskatchewan-Manitoba border through the Arctic Archipelago to the North Pole. Most of the people who live in the territories are aboriginal. The population of the new Northwest Territories in 2000 was 42,083. Over half the population is spread out among 33 communities, and the other half is located in the capital of Yellowknife.

The Mackenzie River and its tributaries, the Athabasca and Slave, provide an inland transportation route of about 2,700 km (1,700 mi). There is some traffic on Lakes Athabasca, Great Bear, and Great Slave. Most of the settlements in Mackenzie are linked by scheduled air service.

The new territory is governed by a commissioner and by a 19-member elected territorial assembly. Six ministers and a premier are elected to serve as an executive council. Following the approval by voters in April 1982 of a proposal to divide the territory, the federal government scheduled the division in 1999. The Inuit of the east called their eastern jurisdiction Nunavut; Indians of the west—where opinion on the proposal was sharply split—called their proposed division Deneden. Land claims of Dene Indians and the Inuit overlapped. Nunavut was created in 1999, and the name “Northwest Territories” for the other half of the area was to be used until such time as residents would be asked to vote on

a new constitution, or the territorial assembly would be asked to vote on a new name.

Northwest Territories' mineral resources include rich deposits of gold, silver, lead, tungsten, and zinc. The Northwest Territories contain some of Canada's total mineral resources. It was the Yukon gold rush in 1897 that triggered a large migration of people northward. In one year 30,000 people from the lower parts of Canada were in the Northwest and Yukon Territories looking for gold.

Today, Canada leads in the production of oil, natural gas and coal. Canada's mining industry contributes US\$20 billion annually to the economy and employs 145,000 people. In 1989 Canada's oil and gas industry was valued at US\$19 billion with 55% of the revenue coming from oil production. Whitefish and trout are caught in Great Slave Lake; the 100,000 or more lakes of the territories provide an "angler's last frontier" in North America for sport fishermen. Fur production is a sizable industry in the Northwest Territories.

Nunavut

The territory of Nunavut, meaning "Our Land" in Inuktitut, was created on 1 April 1999, when the Northwest Territories divided in two. Nunavut encompasses 1,994,000 sq km in the eastern Arctic region of Canada. The islands in the Hudson and James Bays are included. The population in 1999 was approximately 27,500, of whom 20,500 were Inuit. Languages spoken are Inuktitut (many dialects), Inuinnaqtun, English, and French. Iqaluit is the capital and the largest community in Nunavut, with more than 4,200 residents in 1996. The territory is divided into three regions (Qikiqtaaluk, Kivalliq, and Kitikmeot) and 28 communities. Government departments and agencies are located in the various communities in a decentralized fashion. There are an elected legislative assembly, a cabinet, and a territorial court. As of 2003, the government of Nunavut was assuming the responsibilities formerly controlled by the government of the Northwest Territories for programs in culture, public housing, and health care to be completed by 2009. The territory has 21 km of roadways, none of them paved. A handicrafts industry supplies Inuit-made sculpture and prints to the Canadian Handicrafts Guild. Most of the richest and well-developed parts of the Northwest Territories were not included in Nunavut, which now relies largely on developing its mineral resources. Hunting, fishing, fur trapping, and sealing also contribute to the economy.

Yukon Territory

The Yukon Territory, located north of British Columbia and east of Alaska, has a land area of 478,970 sq km (184,931 sq mi) and had an estimated population in the mid-1990s of more than 30,000, of whom some one-fifth were of Indian origin. The principal town is Whitehorse, the capital. An all-weather roadway connects the territory with Alaska and British Columbia, and a railroad connects Whitehorse with ocean shipping at Skagway, Alaska. Air service is available to and from Edmonton, Vancouver, and Fairbanks, Alaska. There are local telephone services in the three chief towns. The territory was separately constituted in June 1898. Since 1978, the Yukon has had a legislative assembly, consisting of 16 elected

members. In late 1982, the federal government gave its consent for the Yukon cabinet to call itself the Executive Council and officially to take over some powers hitherto reserved by the federally appointed commissioner, as representative of the governor-general-in-council, or by the minister of Indian affairs and northern development. The Yukon government has recently pressed for provincial status.

Mineral resources include rich deposits of gold, silver, lead, tungsten, and zinc. Mining and tourism are Yukon's principal industries.

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CHILE

Republic of Chile
República de Chile



CAPITAL: Santiago

FLAG: The flag, adopted in 1817, consists of a lower half of red and an upper section of white, with a blue square in the upper left corner containing a five-pointed white star.

ANTHEM: *Canción Nacional (National Song)* beginning “Dulce Patria, recibe los votos.”

MONETARY UNIT: The peso (P) of 100 centavos replaced the escudo as the nation’s monetary unit in October 1975. There are coins of 1, 5, 10, 50, 100, and 500 pesos, and notes of 500, 1,000, 5,000 and 10,000 pesos. P1 = us\$0.00196 (or us\$1 = P511.45) as of 2005.

WEIGHTS AND MEASURES: The metric system is the legal standard, but local measures also are used.

HOLIDAYS: New Year’s Day, 1 January; Labor Day, 1 May; Navy Day (Battle of Iquique), 21 May; Assumption, 15 August; Independence Day, 18 September; Army Day, 19 September; Columbus Day, 12 October; All Saints’ Day, 1 November; Immaculate Conception, 8 December; Christmas, 25 December. Movable religious holidays include Good Friday and Holy Saturday.

TIME: 8 AM = noon GMT.

¹LOCATION, SIZE, AND EXTENT

Situated along the southwestern coast of South America, Chile has an area of 756,950 sq km (292,260 sq mi). Comparatively, the area occupied by Chile is slightly smaller than twice the size of the state of Montana. A long string of land pressed between the Pacific and the towering Andes, Chile is 4,270 km (2,653 mi) long N–S; it is 356 km (221 mi) wide at its broadest point (just north of Antofagasta) and 64 km (40 mi) wide at its narrowest point, with an average width of 175 km (109 mi) E–W. It is bordered on the N by Peru, on the NE by Bolivia, on the E by Argentina, on the S by the Drake Passage, and on the W by the Pacific Ocean. At the far SE, at the end of the Strait of Magellan (Estrecho de Magallanes), it has an opening to the Atlantic Ocean. Chile’s boundary length (including coastline) is 12,606 km (7,833 mi).

Included in the national territory are the Juan Fernández Islands, Easter Island, and other Pacific islands. A dispute with Argentina over three small islands in the Beagle Channel almost led to war between the two countries in 1978, but papal intervention prevented hostilities. The issue was resolved peacefully by a treaty signed in the Vatican on 29 November 1984 and ratified on 2 May 1985, granting Chile sovereignty over the three islands, giving Argentina rights to waters east of the Strait of Magellan, and dividing the territorial waters south of Cape Horn between the two countries. There is another outstanding boundary problem with Bolivia over its claim for an opening to the sea. Chile also claims the Antarctic Peninsula and other areas of Antarctica, comprising 1,250,000 sq km (482,500 sq mi).

Chile’s capital city, Santiago, is located in the center of the country.

²TOPOGRAPHY

Chile is divided into three general topographic regions: the lofty Andean cordillera on the east; the low coastal mountains of the west; and the fertile central valley between. The Andes, occupying from one-third to the entire width of the country, stretch from the Puna de Atacama in the north, a high plateau with peaks averaging 4,600 m (15,000 ft), to middle Chile, where, on the border with Argentina, rises the highest peak in the Western Hemisphere, Aconcagua (6,960 m/22,834 ft), and then, diminishing in height, run south into the Chilean lake country, with its snowcapped volcanoes and several passes.

The region of the Andes is a seismically active area with low magnitude earthquakes occurring on a regular basis, even to about a dozen a month. Situated on the South American Tectonic Plate, the country has recorded over 100 major earthquakes (magnitude 7 or higher) since such record keeping began in 1570. On 13 June 2005, a 7.8 magnitude earthquake occurred in Tarapaca that was felt as far away as Santiago and Brasília, Brazil. At least 11 people died.

The coastal range, verging from 300 to 2,100 m (1,000 to 7,000 ft) in height, rises from the sea along most of the coast. In the extreme north, the coastal mountains join with the Andean spurs to form a series of plateaus separated by deep gorge like valleys. In the south, the valleys and the coastal range plunge into the sea and form a western archipelago; fjords reach into the range at about 42°S.

The central valley, an irregular alluvial plain 965 km (600 mi) long, 73 km (45 mi) wide at its maximum, and up to 1,200 m (4,000 ft) high, begins below the arid Atacama Desert of the north and ends at Puerto Montt in the south. Fertile between the Aconcagua and Bío-Bío rivers, this valley is the center of agriculture

and of population. Although some 30 rivers rise in the Andes and descend to the Pacific, cascades and great waterfalls severely limit navigation; the ocean itself facilitates transportation between the different regions of this narrow country.

The northern side of the Strait of Magellan, part of Patagonia (a region shared by Chile and Argentina), and part of the island of western Tierra del Fuego (divided between Chile and Argentina) is low, glaciated, morainal country.

3 CLIMATE

Climatic zones range from the subtropical deserts in the north to the temperate rain forests of Aisén and the tundras of Magallanes in the extreme south. The cold Humboldt Current, traveling northward from the Antarctic, affects the climate of the coastal regions of central and northern Chile. Generally, however, Chile is divided into three climatic regions: (1) The north, which contains the Atacama Desert, one of the driest regions in the world, is characterized by hot and arid weather in the lowlands and occasional summer showers in the Andean highlands. (2) The middle, extending about 1,450 km (900 mi) from 30–43°s, has a Mediterranean climate, with mild, wet winters, averaging 11°C (52°F), and long, dry summers, averaging 18°C (64°F). (3) The south, a region of mountains and fjords, has high winds and heavy rains. Annual rainfall ranges from no recorded precipitation in some parts of the north to 50–100 cm (20–40 in) around Concepción, in south-central Chile, to more than 406 cm (160 in) in some southern regions. South of the Bío-Bío River, rains occur all year round. The Andean highlands, even in the tropical north, are cold and snowy.

4 FLORA AND FAUNA

Chile's botanical zones conform to the topographic and climatic regions. The northernmost coastal and central region is largely barren of vegetation, approaching most closely an absolute desert of any place in the world. On the slopes of the Andes, besides the scattered tola desert brush, grasses are found. The central valley is characterized by several species of cactus, the hard espinos, the Chilean pine, and the copihue, a red bell-shaped flower that is Chile's national flower. In southern Chile, south of the Bío-Bío River, heavy precipitation has produced dense forests of laurels, magnolias, and various species of conifers and beeches, which become smaller and more stunted to the south. The cold temperatures and winds of the extreme south preclude heavy forestation. Grassland is found in Atlantic Chile (in Patagonia). The Chilean flora is distinct from that of Argentina, indicating that the Andean barrier existed during its formation. Chilean species include the monkey-puzzle tree and the pine-like araucaria, also found in Australia. True pines have been introduced from the Northern Hemisphere.

Chile's geographical isolation also has restricted the immigration of faunal life, so that only a few of the many distinctive Latin American animals are found. Among the larger mammals are the puma or cougar, the llama-like guanaco, the Andean wolf, and the fox-like chilla. In the forest region, several types of marsupials and a small deer, known as the pudu, are found.

There are many species of small birds, but most of the larger common Latin American types are absent. Few freshwater fish are native, but North American trout have been successfully introduced into the Andean lakes. Owing to the vicinity of the Hum-

boldt Current, ocean waters abound with fish and other forms of marine life, which in turn support a rich variety of waterfowl, including different penguins. Whales are abundant and some six species of seals are found in the area.

5 ENVIRONMENT

The principal responsibility for environmental matters is vested in the environmental programs department in the Ministry of Health and in the National Planning Office, as well as in the ecological advisory office in the Ministry of National Welfare and the department of the environment in the Ministry of Foreign Affairs.

Chile's main environmental problems are deforestation and the resulting soil erosion, and the pollution of its air, water, and land. Air pollution from industry and transportation and water pollution are especially acute in urban centers, where the population has doubled in the last 30 years. In 1996, Chile's industrial carbon dioxide emissions totaled 48.7 million metric tons. In 2000, the total of carbon dioxide emissions was 59.5 million metric tons. Untreated sewage poses the major threat to the nation's water quality. While 99% of its urban dwellers have pure drinking water, only 59% of its rural dwellers have the same access.

About 18.9% of the total land area is protected. According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), the number of threatened species included 22 types of mammals, 32 species of birds, 20 species of amphibians, 9 species of fish, and 40 species of plants. Endangered species in Chile included the South Andean huemul, tundra peregrine falcon, puna rhea, Chilean woodstar, ruddy-headed goose, and the green sea turtle.

6 POPULATION

The population of Chile in 2005 was estimated by the United Nations (UN) at 16,136,000, which placed it at number 60 in population among the 193 nations of the world. In 2005, approximately 7% of the population was over 65 years of age, with another 24% of the population under 15 years of age. There were 98 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–2010 was expected to be 1.0%, a rate the government viewed as satisfactory. The projected population for the year 2025 was 19,078,000. The overall population density was 21 per sq km (55 per sq mi); over 80% of the people live in the central region between La Serena and Concepción, although this area covers little more than a quarter of the country's area.

The UN estimated that 87% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 1.43%. The capital city, Santiago, had a population of 5,478,000 in that year. Other large cities and their estimated populations include Concepción, 379,860; Antofagasta, 318,779; Viña del Mar, 318,489; Temuco, 300,000; Valparaíso 276,737; Talcahuano, 250,348; and Rancagua, 206,971.

7 MIGRATION

After the Spanish conquest, there were three main waves of immigration: Germans during 1800–50; Spaniards, Italians, Swiss, Yugoslavs, Syrians, Jordanians, and Lebanese around 1900; and

Spaniards and European Jews during the 1930s and 1940s. Since World War II, permanent immigration has been minimal.

In the years immediately preceding and after the Allende victory in 1970, about 10,000 political refugees (largely Brazilians, Bolivians, and Argentines) came to Chile. After the military coup of 1973, however, the bulk of them were expelled. The 1970s also witnessed two successive waves of Chilean emigration when, as a reaction to the Allende victory and, later, as a result of the military coup, several hundred thousand Chileans departed the country for political and economic reasons. Many of them later returned. In 1990 a National Office of Refugees was established to facilitate the reincorporation of returning exiles into Chilean society. In its first three years this office assisted more than 13,000 of the 26,000 exiles who returned in this period. In 1996, the United Nations High Commissioner for Refugees (UNHCR) office closed after 22 years of operation in Chile, as it was determined that the need for asylum for Chileans no longer existed. The net migration rate for Chile in 2005 was estimated as zero. The government viewed the migration levels as satisfactory.

In 1999, the Chilean Minister of Foreign Affairs signed a resettlement agreement for refugees from the former Yugoslavia. The project was being implemented by the Vicariate of Social (Catholic Church). As of 2004, the total refugee population in Chile numbered 654, asylum seekers numbered 85 (mainly from Colombia), and 569 were refugees. In that year there were 185,000 migrants living in Chile, 21% of whom were Peruvian.

There is a seasonal pattern of trans-Andean immigration to Argentina by Chilean agricultural workers; for many years the presence of several thousand Chilean settlers in the Argentine part of Patagonia created a minority problem.

8 ETHNIC GROUPS

Ethnically, the Chilean population is estimated at nearly 95% white and Mestizo (mixed white and Amerindian); 3% Amerindian; and 2% other. Mixtures between the conquering Spaniards, largely Andalusians and Basques, and the Mapuches (Araucadians) produced the principal Chilean racial type. An indigenous population of perhaps as many as 800,000 Mapuches live mainly in Temuco and in the forest region south of the Bío-Bío River. The Aymara and Diaguita groups can be found mainly in the northern desert valleys. Remnants of other small tribal groups are found on the archipelagos and islands of the extreme southern coast. A small minority of Germans and their descendants live in the Valdivia-Puerto Montt area.

9 LANGUAGES

Spanish is the national language. A sizable segment of Mapuche (Araucanian) Amerindians use Spanish in addition to their native tongue. The only other language of any importance is German, spoken mainly in the Valdivia region.

10 RELIGIONS

Roman Catholicism remains the principal religion. According to a 2002 census, about 70% of the population are at least nominally Roman Catholic. About 15% of the population describe themselves as Evangelical, a term which includes most non-Catholic churches, with the exception of Orthodox Churches, the Church of Jesus Christ of Latter-Day Saints, Seventh-Day Adventists, and



LOCATION: 17°31' to 56°33' s; 66°25' to 80°47' w. BOUNDARY LENGTHS: Peru, 169 kilometers (105 miles); Bolivia, 861 kilometers (535 miles); Argentina, 5,308 kilometers (3,298 miles); coastline, 5,338 kilometers (3,317 miles). TERRITORIAL SEA LIMIT: 12 miles.

Jehovah's Witnesses. Other traditional Protestant denominations included Lutheran, Wesleyan, Reformed Evangelical, Presbyterian, Methodist, and Anglican. The Jewish community had about 14,976 members. Islam, Buddhism, and the Baha'i Faith were also

represented. Amerindians still practice an indigenous religion involving shamanism. About 8.3% of the population claimed to be atheists or indifferent concerning religious affiliation.

Traditionally, the Roman Catholic Church has held a privileged status in the country. In 1999, however, a new law on religion, *ley de culto*, was adopted to allow non-Catholic churches certain rights and permissions. For instance, churches are allowed to set up affiliate organizations, such as schools and clubs, without establishing them as separate, independent corporations. Under the 1999 law, non-Catholic religious groups leaders are permitted to have chaplains in public hospitals, prisons, and military units. However, a 2004 report indicated that implementation of these laws had been somewhat lax and there were complaints of discrimination against non-Catholics in military and political employment.

11 TRANSPORTATION

In 2004, Chile had 6,585 km (4,096 mi) of broad and narrow gauge railways, of which narrow gauge right of way accounted for 3,754 km (2,335 mi). Rail lines in the desert area are used mainly for mineral transport. In the period 2000-03, cargo transportation by rail averaged 1.317 million ton km annually. There are five international railroads from Chile: a line to Tacna, Peru; two to La Paz, Bolivia; and two to Argentina. In 1975, the first section of a new subway was opened in Santiago; the second section was opened in 1980.

There were 79,800 km (49,588 mi) of roads in 2002, 11,012 km (6,843 mi) of which were paved. The Pan American Highway, extending 3,460 km (2,150 mi) from the Peruvian border to Puerto Montt, is Chile's principal road artery. In 2003 there were 1,373,121 passenger cars and 749,914 commercial trucks, buses, and taxis. The Carretera Austral Presidente Augusto Pinochet, a highway, is under construction in the south; when complete it will link Cochrane in Coyhaique with Puerto Montt.

Chile has some 20 ports, 10 of which are used principally for coastal shipping. Valparaíso, the principal port for Santiago, is by far the most important. Arica, Iquique, Tocopilla, Antofagasta, Coquimbo, San Antonio, Talcahuano, and Punta Arenas are other important ports. In 2005, the Chilean merchant marine had 47 vessels over 1,000 tons and a total GRT of 725,216.

Air transportation has become increasingly important. As of 2004 there were an estimated 364 airports in Chile, 72 of which had paved runways as of 2005. Santiago hosts the principal international airport, Arturo Merino. Chile's largest airline is the state-owned National Airlines of Chile (LAN-Chile), which provides both domestic and international service. LAN-Chile's only significant domestic competitor is Copper Airlines (LADECO), a privately owned company. In 2003, airlines carried 5.247 million passengers on domestic and international flights.

12 HISTORY

Before the Spanish conquest, several small groups of Amerindians lived in Chile. Araucanian Amerindians, who came under the influence of the Incas in the early 15th century, inhabited central and southern Chile. The conquistador Pedro de Valdivia founded Santiago in 1541, and brought Chile north of the Bío-Bío River under Spanish rule. The Araucanians resisted Spanish rule and killed Valdivia in battle. Amerindian resistance continued for 350 years, effectively barring Spanish settlement south of the Bío-Bío.

The Araucanians (also known as Mapuches today) were not subjugated until the early 1880s.

During Spanish rule, Chile was subject to the viceroyalty of Peru. Later, the territory was given the status of captaincy-general and was largely administered from Santiago.

Chile had one of Latin America's first independence movements. A *cabildo abierto* (town meeting) declared independence in 1810 in response to the French usurpation of the Spanish crown. Rival independence leaders Bernardo O'Higgins and José Miguel Carrera fought each other, then were overcome by Spanish troops. Eventually, Gen. José de San Martín, with O'Higgins as his chief ally, defeated the Spanish in 1817. In 1818 Chile formally proclaimed independence. O'Higgins ruled from 1818 to 1823, during which time he built a navy and consolidated the Chilean government under his dictatorial regime. However, his anticlerical and anti-nobility policies proved to be his undoing.

The next few years saw the growth of two political parties, the Conservative and the Liberal. While both were narrow elite factions, they differed in that Liberals favored a parliamentary, secular, federal system, while Conservatives wanted a traditional, religious, centralized system. The two groups fought bitterly, plunging Chile into civil strife until 1830 when Conservative Diego Portales assumed control of the political system.

Portales ruled as behind-the-scenes dictator from 1830 until his assassination in 1837. He launched a successful three-year war with Peru (1836-39), which destroyed a threatening Bolivian-Peruvian confederation. He also initiated a Conservative rule, which was to last until 1861. During that period, Chile's territory expanded with new claims to Patagonia and the island of Tierra del Fuego, and in 1847, the founding of Punta Arenas on the Strait of Magellan.

Between 1861 and 1891, the Conservatives were forced to share power with the Liberals, who had won several legislative victories. A wave of liberal reforms curtailed the power of the Roman Catholic Church and the presidential office. At the same time, both parties suffered a series of splits and realignments. But most notable during this period was Chile's greatest military achievement. In the War of the Pacific (1879-83), Chile again fought Peru and Bolivia, this time over possession of the Atacama Desert and its nitrate deposits. After victories on land and sea, Chilean forces entered Lima in 1881. By a treaty signed in 1883, Peru yielded Tarapacá, while Bolivia surrendered Antofagasta. The disposition of the other contested areas, Tacna and Arica, was not finally settled until 1929, when, with US mediation, Tacna went to Peru and Arica to Chile.

In 1891, Jorge Montt, a naval officer, led a revolt that resulted in eight months of civil war. The triumph of Montt marked the beginning of a 30-year period of stable parliamentary rule. Bolstered by nitrate revenues, Chile's national treasury grew, especially during World War I. At the same time the seeds of revolt were sown. Miners, farm workers and factory workers, sharing none of this prosperity, began to agitate for change. After the war ended, there was a recession and the country was on the verge of civil war. In 1920, a coalition of middle and working class groups elected Arturo Alessandri Palma as president. Alessandri, the son of an Italian immigrant, found himself in between the left's demands for change and the right's intransigence. He was deposed in a coup in 1924 but recalled in a countercoup in the following year. His sec-

ond administration lasted only six months, but he left the legacy of a new constitution passed on 18 October 1925. The new system created a strong, directly elected executive to replace the previous parliamentary system. The military strongman Gen. Carlos Ibáñez del Campo ruled Chile from behind the scenes until 1927, then served formally as president until 1931. US banks loaned large sums to Chilean industry, and efforts were made to salvage the foundering nitrate trade and boost the copper sector. World depression struck, however, bringing an end to foreign loans and a catastrophic drop in world copper prices. A general strike caused Ibáñez to flee in 1931. After two years marked by short-lived juntas and presidencies and a 100-day “socialist republic,” Alessandri was again elected.

Chile pulled out of the depression by 1938, but popular demand for social legislation remained unsatisfied. The 1938 election was narrowly won by Radical Party member Pedro Aguirre Cerda, running under the banner of a catchall coalition called the “Popular Front.” His ambitious “new deal” program was never enacted, as Aguirre found himself in the crossfire of Chilean politics. His coalition dissolved formally in January 1941, and Aguirre died in November. In 1942, the Radicals won election easily over former dictator Ibáñez.

Juan Antonio Ríos governed moderately amid political conflict aroused by World War II. Ríos at first cooperated with Argentina in toning down the US-sponsored anti-Axis program but later led his country into a pro-Allied position, entering the war on the side of the United States in 1944. After World War II, Chile went into an inflationary cycle and riots and strikes broke out throughout the country. Ríos died in 1946, and a special election brought to power a coalition of Communists and former Popular Front supporters under Gabriel González Videla. González’s coalition soon broke down, as the Communists organized demonstrations and strikes. Within months, González fired the three Communists he had appointed to cabinet positions. He then broke off relations with the Soviet Union, and outlawed the Communist party. Strikes and violence grew, and Chile, an example of stability by Latin American standards for so long, seethed with tensions. Chile’s pursuit of industrialization, which had started with the Aguirre and Ríos administrations, had led to increasing social problems as the cities bulged with unemployable rural workers. As the cost of living soared, the radicalism of the workers intensified.

The 1952 election brought the 75-year-old Carlos Ibáñez del Campo back to power. The ex-dictator, who had been plotting to return to power for years, defeated González Videla by exploiting a split among the Radicals and the disaffected Communists. Despite his reputation as an authoritarian and his connection with Argentina’s Perón, Ibáñez ruled democratically until 1958.

By 1958, the cost of living had soared and Chile’s trade balance had moved from a large surplus to a deficit. Evidence of a general discontent could be seen in the 1958 presidential election. A narrow victory was won by Jorge Alessandri Rodríguez (a son of President Arturo Alessandri Palma), who received support from both Liberals and Conservatives. The Socialist Salvador Allende Gossens, supported by his own party and the newly legalized Communist Party, won 29% of the vote (compared with only 5% in 1952), and Eduardo Frei Montalva, candidate of the new Christian Democratic Party (Partido Demócrata Cristiano—PDC), ran third with 20% of the vote.

Aware of popular pressure for reform, Alessandri drew up a 10-year development plan, initiated in 1959 with construction projects, tax reforms, and a token start at agrarian reform. A devastating earthquake and tidal wave in 1960 cut drastically into Alessandri’s programs, and his government was unable to regain momentum. In 1964, the traditional parties of the right and center lost strength to a wave of reform sentiment that shifted public attention to a choice between the socialist Allende and the moderate reformer Frei. In September 1964, Frei was elected by an absolute majority, and congressional elections in March 1965 gave the PDC a majority in the Chamber of Deputies and a plurality in the Senate.

The Frei government implemented numerous social and structural reforms. These included educational reform, land reform, and a scheme to create a majority Chilean interest in Chile’s copper mines. Frei became a cornerstone of the Alliance for Progress, a harsh critic of communism, and a leading exponent of Christian democracy. However, the reforms did not deliver as hoped and overall economic growth was sporadic. The Frei administration was not able to control the endemic inflation that had plagued Chile for more than 80 years.

In the 1970 presidential election there were three contenders: Jorge Alessandri, PDC candidate Radomiro Tomic, and the Socialist Senator Salvador Allende. Allende, who was supported by Popular Unity, a leftist coalition that included the Communist Party, received 36.5% of the total vote. Alessandri followed with 35.2%, and Tomic with 28%, with 0.3% of the ballots left blank as a protest. Since no candidate received a majority of the popular vote, congress was required by the constitution to select the president from the two leading candidates. The PDC supported Allende in exchange for a promise of full constitutional guarantees. The victory was unique in that for the first time in the Western Hemisphere, a Marxist candidate took office by means of a free election. Allende, inaugurated on 3 November 1970, called for a socialist economy, a new leftist constitution, and full diplomatic and trade relations with Cuba, China, and other Communist countries. It was later revealed through US congressional investigations and independent journalistic inquiries that the United States, with the help of the International Telephone and Telegraph Corp. (ITT), had secretly worked to thwart the election and confirmation of Allende.

The first full year of rule by Allende witnessed a rise in economic prosperity and employment, as well as an improvement in the standard of living of the poorer elements of the population. Allende expropriated US copper interests and turned large rural landholdings into peasant communes. By 1972, however, the economy began to lag, and the situation was aggravated by middle- and upper-class resentment over the government’s seizures of industrial and agricultural property. In June 1973, against a backdrop of strikes and street brawls beginning in the previous year, an abortive coup attempt was staged by a rightist army contingent. Throughout this period, the US Central Intelligence Agency had secretly supported the 1972 and 1973 strikes and disturbances, especially the truckers’ strike, which had caused nationwide shortages of food and consumer goods.

On 11 September 1973, the Allende government was violently overthrown. Allende himself died—officially reported as a suicide. A four-man junta headed by Gen. Augusto Pinochet Ugarte

seized power, dissolved congress, banned all political activities, and declared that Marxism would be eradicated in Chile. At least 3,000—and possibly as many as 10,000—people were killed or “disappeared” without a trace during and immediately after the coup. The military declared a state of siege and assumed dictatorial powers.

During its 16 years in power, the military attempted to eradicate not only Marxism, but all vestiges of leftism, trade unionism, reformism, and, for that matter, any other deviation from the official military line. High on their list of priorities was the privatization of the Chilean economy, which had gradually become more dependent on the state over three decades, a movement that had accelerated dramatically under Allende. This included the attracting of foreign investment, virtually untouched by government regulations or requirements. With unions under siege, workers’ rights rapidly eroded under the regime.

This powerful dose of economic liberalization was administered within a continuously authoritarian political system. After the original state of siege was lifted in 1978, Chile continued under a “state of emergency” until another state of siege was declared from November 1984 to June 1985. A third state of siege was in effect from September 1986 to January 1987, after a failed assassination attempt against Pinochet. At each denial of democracy, the Pinochet government insisted that it was not yet done with the task of “redeeming” Chile, and that full political rights could not be restored until then. A constitution that outlawed the advocacy of Marxism and gave Pinochet eight more years of rule was passed in a controversial plebiscite by 67% of voters in 1980.

Although forced to operate clandestinely, an opposition nevertheless emerged. A collection of political factions found common cause with the Roman Catholic Church, forming a group called the Civic Union. The Church had become increasingly critical of the Pinochet regime, despite the latter’s insistence that Catholicism was the cornerstone of the new Chile. When Pope John Paul II visited Chile in 1987, he brought accusations of torture and other human rights abuses. Finally, in 1988, Pinochet was pressured to call for a plebiscite to determine whether he should become president for another eight years. In February 1988, 16 political parties came together to form the “Coalition for the ‘No.’” In October 1988, Pinochet was soundly defeated, and in 1989 new elections were held. Christian Democrat Patricio Aylwin, running as the candidate of a 17-party Concert of Parties for Democracy (Concertación de Partidos por la Democracia) received 55.2% of the vote and assumed office in 1990. The election was hailed as a victory for democracy, but Chile remained under the watchful eye of the military. Pinochet, who remained head of the armed forces, retained enormous power.

The general resisted Aylwin’s efforts to place the military firmly under civilian control, and threatened a return to military rule if any of his officers were prosecuted for human rights violations. The Truth and Reconciliation Commission, established during the Aylwin administration, recorded 1,102 disappearances and 2,095 executions and death from torture during the dictatorship years. Those figures did not include thousands of others who were detained, tortured, and exiled.

Little could be done to prosecute military abuses. Aylwin’s administration was hampered by the constitution approved during the military regime. Pinochet had engineered the constitution to

his favor, allowing the regime to appoint eight senators for life in the new government. With eight pro-military senators, the Senate’s democratic coalition was unable to reach a majority and make constitutional changes. Military leaders also pushed through an amnesty law, which covered human rights abuses between 1973 and 1978. The Supreme Court remained under the control of judges sympathetic to the former military regime.

In the December 1993 presidential elections, the Concertación backed Christian Democratic Party candidate Eduardo Frei Ruiz-Tagle, the son of former President Eduardo Frei Montalva. With more than 58% of the vote, Frei continued the economic policies of his predecessor, with an even greater emphasis on social spending. By the end of the decade, poverty had declined to less than 20% from a high of 38% when democracy was restored. The Frei regime also emphasized privatization of state-owned enterprises, protection of foreign investment, and trade liberalization. Chile remained the world’s leading producer and exporter of copper, but with a greatly diversified export base. By 1998 the nation had achieved 15 consecutive years of economic growth. After a short recession in 1999, growth resumed in 2000 but at lower rates.

While the country’s commitment to democratic, representative government appeared secure and stable, Pinochet remained an impediment to real democratic reforms. In 1998, Pinochet retired as head of the military and became a senator for life. Despite eight years of democratic government, relations between the government and the military, which continued to assert its independence, remained tense. In October 1998, Pinochet traveled to London for back surgery. At the request of Spanish authorities, British police arrested Pinochet, who was recovering at a private hospital. Baltazar Garzón, a Spanish judge wanted Pinochet extradited to Spain to face charges of crimes against humanity. The arrest became a major international incident and shocked Chileans, most of whom thought Pinochet was untouchable. Following a lengthy legal battle that stretched across two continents and three nations, a London court in October 1999 ruled Pinochet could be extradited to Spain to stand trial. Back in Chile, the armed forces remained loyal to Pinochet and his arrest raised tensions between the military and the government. Yet, in his absence, Chilean politics were changing dramatically. While he languished in detention in England, the cause in favor of prosecuting human rights violators and finding out the whereabouts of individuals killed during the dictatorship moved forward in Chile. Several judges felt strengthened by the events in London and dared to indict active and retired military officers for human rights violations, contravening a amnesty passed by the military dictatorship in 1978. Some military leaders acknowledged that victims’ families had a right to know what happened to the “disappeared.” In March 2000, after 16 months in detention, the 84-year-old Pinochet was released. British authorities cited humanitarian reasons, saying Pinochet was medically unfit to stand trial. Pinochet returned to Chile, where he faced more than 70 criminal charges and efforts to remove him as senator for life. Chilean courts eventually ruled that he was unfit to stand trial in Chile for health reasons. He was forced to resign from the Senate and retired from public life. He currently lives in Santiago but does not appear in public or make public statements.

During his absence, the Concertación had backed the Socialist Ricardo Lagos for president. Joaquín Lavín, the conservative can-

didate, distanced himself from the hard politics of Pinochet and appealed for votes among Chile's poorest. Strains were beginning to show in the center-left coalition, which had ruled the country since 1990. Early in the campaign, Lavín, a former member of Pinochet's government, was not considered a strong candidate against Lagos. But both men finished tied in the December 1999 election, forcing a runoff election a month later. In the second round, Lagos captured 51.3% to narrowly defeat Lavín, who obtained 48.69% of the vote. With the victory, Lagos became the first Socialist to hold office since Allende. Lagos is a reformed Socialist who distanced himself from Allende's Marxist ideas. More of a social democrat similar in political style to England's Tony Blair, Lagos promised moderate policies and no changes to the nation's free-market economy. During the 1999 presidential campaign, the Chilean economy faced its worse recession in 20 years, with unemployment reaching 11%. But Lagos had ambitious programs of new infrastructure, health reform, judicial reform and educational reform. Yet, in 2002 the government was hurt when accusations of corruption surfaced that resulted in the indictments of several government coalition legislators and former cabinet ministers. The signing of a free trade agreement with the European Union and a much-awaited free trade pact with the United States helped boost Lagos's popularity in 2003. During his presidency, Chile was the most open economy in the region. Lagos's opposition in the United Nation's Security Council, where Chile had a two-year period, to US president George W. Bush's intention to attack Iraq in early 2003 positioned him as strong regional leader committed to strengthening the UN and the international rule of law. Lagos finished his six-term with the highest approval ratings of any president since democracy was restored. A constitutional reform approved in 2005 stripped all pending authoritarian enclaves from the Pinochet-imposed Constitution. It also reduced the presidential term to four years with no immediate reelection.

Michelle Bachelet, a socialist and the candidate of the ruling Concertación center-left coalition won the 2005 presidential elections. In addition to electing its first woman president, Chileans ratified the same ruling coalition for the fourth consecutive presidential election and fifth consecutive parliamentary election. The conservative camp divided its support among two candidates, Joaquín Lavín and Sebastián Piñera. Lavín, who narrowly lost in 2000, failed to catch on with the electorate and ended up third. Piñera, a more moderate rightwing politician and wealthy businessman, went on to lose the runoff against Bachelet. Yet, he successfully positioned himself as the new leader of the conservative camp. The fact that former dictator Pinochet was involved in a secret bank accounts corruption scandal uncovered in the United States hurt the conservative parties, still associated with the Pinochet legacy in the 2005 elections.

Bachelet inherited a stable economy, but her challenges included renewing her coalition and projecting a platform for future growth. Because she is the daughter of a victim of the military dictatorship and suffered herself arrest and exile during the Pinochet era, Bachelet—who served as Lagos's defense minister—has also symbolized reconciliation for many Chileans. She started her four-year term with unprecedented opportunities to help Chile move forward as the most developed country in Latin America by 2010, Chile's bicentennial.

13 GOVERNMENT

After the restoration of democracy in 1990, Chile continued to feel the legacy of the Pinochet regime. The Constitution of 1980 is still in effect, even though it was created with a different Chile in mind. In 1989, a series of amendments went into effect, reducing the influence and power of the military and consolidating the power of elected authorities. The 1980 constitution, as amended, is the third Chilean constitution. The first two were the original 1833 constitution, and the 1925 chart. The 1980 constitution was custom-made for the Pinochet military dictatorship, but it did not come fully into effect until after Pinochet left office in March of 1990. In 2005, new reforms stripped most of the remaining authoritarian provisions from the constitution.

The constitution provides for a strong executive serving a four year term (although Lagos and Frei served for six years, before the 2005 constitutional reform). The president has the authority to proclaim a state of emergency for up to 20 days and the power to introduce legislation and control the legislative agenda. There is a bicameral National Congress, consisting of a 120-member Chamber of Deputies and a 38-member Senate. Until 2005, the Senate included nine appointed members, as well as all ex-presidents, who had life membership. But starting in 2006, all senators were democratically elected. The constitution also provides for an independent judiciary, headed by a 21-member Supreme Court.

The 2005 constitutional reforms eliminated the active participation of the armed forces in government, although there remained some limitations on the right to strike and on freedom of information and expression. The Constitution institutionalizes a free-market economy. Although the Constitution was adopted under the Pinochet military dictatorship, several reforms starting in 1990 and, ending in a comprehensive package in 2005, made it more compatible with democratic standards.

14 POLITICAL PARTIES

Except for an initial period of political disorder, independent Chile's first century of political life was dominated by the aristocratic Liberal and Conservative parties. Segments of the two parties split, shifted, entered into new alliances, regrouped, and took on new names. Since electoral law permitted the registration of parties with relatively small popular bases, coalitions were usually formed to elect presidents and control the congress. Many cabinets had a fleeting existence. After 1860, the Radicals emerged from the Liberal party, and over the next six decades, they increased their following with the rise of the middle class. In the meantime, the Liberals became conservative, and moved close to that party. Although the Conservatives and Liberals disagreed over the status of the Roman Catholic Church and over the matter of relative congressional and presidential powers, they were united in opposing the Radicals.

Designation of Chilean parties as being of the right, center, or left has been a function of shifting national political climates. Parties and party alliances have tended to appear and disappear over time. During the 1950s and 1960s, there were fewer, but much larger parties. Before the 1973 military coup there were five major parties in Chile: the Christian Democratic Party, founded in 1957, the Socialist Party, founded in 1931, the Communist Party, founded in 1921 (and outlawed during 1948–58), the National Party,

formed in 1966 by members of the Liberal and Conservative parties, and the old Radical Party, which saw its strength greatly diminished after 1964. The ruling Allende coalition of Popular Unity consisted of Socialists, Communists, and several smaller leftist parties. The most radical political group, the Revolutionary Movement of the Left, was not a coalition member.

In September 1973, all the Allende coalition parties were abolished. The other parties were initially suspended and then banned in March 1977.

The reemergence of political parties in the aftermath of Pinochet's ouster was dramatic. In 1990, to ensure that Pinochet's preferred presidential candidate would not take office, several center-left parties came together as the Coalition of Parties for Democracy (Concertación) and backed a single candidate. Today, the coalition includes four major parties: the Christian Democrats (PDC), the Party for Democracy (PPD), the Radical Party (PR), and the Socialist Party (PS). The Concertación has won four consecutive presidential elections, five consecutive parliamentary elections, and four consecutive municipal elections, becoming the most successful and lasting political coalition in Chile's history. The opposition from the right comes from the Independent Democratic Union (UDI), and the National Renewal (RN), which, bolstered by the influence of most Senate appointees held sway in the Senate since the restoration of democracy in 1990 until 2005. In the left, a coalition of the Humanist Party and Communist Party has attracted as much as 10% of the vote but has failed to gain parliamentary representation because of the electoral system—known as binominal—that favors the two largest coalitions.

15 LOCAL GOVERNMENT

After the military government came to power in September 1973, local authorities yielded power to the armed forces, and the nation was divided into military districts. The traditional 25 provinces, as well as all municipalities, were placed under military control.

Today, the country is divided into 13 regions, including the metropolitan area of Santiago, which is not numbered like the other 12 regions, beginning with Region I at the northern border with Peru and continuing in sequence to Region XII at the southern end. The regions each have a capital and are subdivided into provinces. Regions and provinces are administered by regional intendants and provincial governors. The nation's 345 municipalities, headed by mayors, form the smallest units of local government. Mayors and local councilors are elected every four years in concurrent elections.

In 1991, a constitutional amendment was passed granting some autonomy to local areas, but compared to other countries in the region; local governments in Chile remained weak. Legislation was introduced to create two new regions and to allow for the direct election of regional legislatures.

16 JUDICIAL SYSTEM

The Chilean civil code of 1857, although modified and amended, remained in use until 1973. Although not eliminated by the military in the wake of the 1973 coup, the judicial system had almost all of its major powers removed, with the military code of justice in force as the effective law of the land. In 1975, the junta began to

restore some of the traditional powers exercised by the 13-member Supreme Court.

The 1980 constitution, which came into full effect in 1989, provides for an independent judiciary. The Supreme Court, whose 21 members are appointed by the president with Senate approval, has authority over appellate and lower courts but does not exercise jurisdiction over the ten-member Constitutional Court and the five-member Electoral Court, which supervises all elections.

Although independent in theory, the judiciary remains subject to criticism for inefficiency and lack of independence. The Court's unwillingness to prosecute human rights violations during the military dictatorship cost the judicial system dearly and hindered its reputation. Appointees of the former military regime dominated the courts for most of the 1990s. By 2000, turnover had diminished the number of pro-Pinochet judges, and some judges were asserting their independence. In addition, a comprehensive reform adopted in 1997 effectively strengthened the judiciary and made it more autonomous of the military and civilian authorities. A criminal legal reform initiated in 1997 was completed in 2004 with the separation of the role of judge and prosecutor. A similar reform was likely to occur for civil cases, where the judge currently also serves as the prosecutor.

Military tribunals have jurisdiction over the military officers. Military courts have also authority to charge and try civilians for defamation of military personnel for sedition. In such cases, appeals can be made to the civilian Supreme Court. Reforms passed in 1991 (the "Cumplido" laws) transferred some of the jurisdiction of the military tribunals to the civilian courts.

There is no jury trial. The legal system is mainly based on Napoleonic Code. The constitution provides for the right to counsel.

17 ARMED FORCES

The Chilean armed forces in 2004 had 78,098 active and 50,000 reserve personnel. Military service became voluntary beginning in 2005. The Army numbered 47,700 active personnel (20,700 conscripts). Equipment included 260 main battle tanks, 157 reconnaissance vehicles, 20 armored infantry fighting vehicles, 1,066 armored personnel carriers, and over 615 artillery pieces. The Navy had 19,398 personnel (1,660 conscripts; 600 naval aviation personnel and 3,500 Marines). Major naval units included 4 tactical submarines, 2 destroyers, 4 frigates and 25 patrol/coastal vessels. The naval aviation arm's six combat capable aircraft consisted of the PC-7 Turbo Trainer. The Air Force had 11,000 personnel (700 conscripts). The service had 87 combat capable aircraft including 18 fighters and 69 fighter ground attack aircraft. In addition, there is a 38,000 member paramilitary national police force, the Carabineros. Chile participated in UN peacekeeping missions in the Middle East, Haiti, and India/Pakistan. The defense budget in 2005 totaled \$1.66 billion.

18 INTERNATIONAL COOPERATION

Chile is a charter member of the UN, having joined on 24 October 1945, and participates in several nonregional specialized agencies. The headquarters of ECLAC and the Latin American office of the FAO are located in Santiago. In 2002, Chile signed a free trade agreement with the European Union, becoming the first Latin American nation to do so; in 2003, Chile signed a free trade agreement with the United States, becoming the second Latin Ameri-

can nation, after Mexico, to do so. Chile is a member of APEC, G-15, G-77, the Latin American Economic System (LAES), the Latin American Integration Association (LAIA), the OAS, and the Río Group. The country is an associate member of Mercosur.

Chile is part of the Nonaligned Movement, the Agency for the Prohibition of Nuclear Weapons in Latin America and the Caribbean (OPANAL), and the Organization for the Prohibition of Chemical Weapons. Chile has offered support to UN peacekeeping and administrative efforts in Kosovo (est. 1999), India and Pakistan (est. 1949), and Haiti (est. 2004). The country is a signatory of the 1947 Río Treaty, an inter-American security agreement.

In environmental cooperation Chile is part of the Antarctic Treaty; the Basel Convention; Conventions on Biological Diversity, Whaling, and Antarctic Marine Living Resources; Ramsar; CITES; the London Convention; the Kyoto Protocol; the Montréal Protocol; MARPOL; and the UN Conventions on the Law of the Sea, Climate Change, and Desertification.

19 ECONOMY

The Chilean economy is strongly oriented toward commerce and industry, although minerals, chiefly copper and iron ore, provide most of the country's foreign exchange earnings. Chile's leading industries are engaged in the processing of local raw materials; they include mineral refining, metal manufacturing, food processing, paper processing, and textiles. Chilean agriculture, dwarfed in value by mining and manufacturing, supports less than one-seventh of the population. Arable land is limited and livestock raising is the dominant rural enterprise.

The economy suffered profound economic disruptions during the Allende period (1970–73). Legal nationalization of industries and expropriation of large agricultural holdings by the military government were accompanied by illegal seizures of property. The chaotic situation was exacerbated by acts of economic sabotage perpetrated by the opposition, by covert destabilization by agents of the United States, and by denial of commercial credit by foreign banks and corporations. By the time of the military coup in late 1973, the nation's manufacturing and farm production had fallen by about 10% from 1972 levels, and inflation had soared to 350%.

After the Pinochet coup, the military government attempted to revitalize the economy by adopting the principles of a free marketplace, although without reversing Allende's nationalization of the copper industry. Subsidies were removed and tariffs were lowered to increase competition. A policy of privatization of industries and utilities was instituted, including the return of companies nationalized under Allende to their previous owners (again, excepting the copper industry, which remained nationalized), the sale of government-owned companies to individuals and conglomerates, and the sale of percentages of companies to employees and the public on the stock exchange. The GDP fell by 12% in 1975, but Chile's economic performance began to improve thereafter. The average annual rate of increase in GDP between 1977 and 1981 was 7.8%, and the inflation rate dropped from 174% in 1976 to 9.7% in 1981. In 1982, however, a severe economic slump (caused by the worldwide recession, low copper prices, and an overvalued peso) led to an inflation rate of 20.7%, a drop in the GDP of 15% in real terms, and jump in unemployment to 30%. Chile had been caught in the Third World debt crisis that followed the second oil shock of 1978–79.

Beginning in 1984, growth returned, averaging 7% for the next five year (1984–88), constrained somewhat by persistently depressed world copper prices. An economic adjustment program introduced in 1985 aimed at strengthening exports other than copper, increasing domestic savings and investments, and strengthening the financial and corporate sectors. Inflation remained high, averaging almost 21% (1985–88), but unemployment dropped from 12% to 6%. In 1989, GDP growth rose to 10% and unemployment fell to 5%, although inflation remained in double digits (17%). Civilian rule, starting in 1990, implemented positive monetary policies that continued to lower inflation and attract investment. Inflation was down to 6% by 1997, and growth of GDP averaged over 8% between 1988 and 1997. By 1995, unemployment had fallen to 4.7%. In 1998, however, growth was slowed to 3.2% and then turned negative (-1.0%) in 1999 in the first contraction since 1983, as the effects of the Asian financial crisis of 1997, the Russian financial crisis of 1998, and the Brazilian financial crisis of 1999 were felt. Unemployment increased to 6.2% in 1998, and then to 9.7% in 1999. Inflation, however, remained low at 4.7% (1998) and 2.3% (1999), the lowest yearly rate yet achieved since the 1960s. Growth returned in 2000 at 4.4% and unemployment eased to 9.2% while inflation edged up to 4.5%. However, a more robust recovery was short-circuited by the global slowdown that began in 2001, aggravated by the aftermath of the 11 September 2001 terrorist attacks on the United States. The GDP growth rate fell to 2.8% in 2001 and was estimated at 3% for 2002. Inflation remained under control at 2.6% in 2001 and 3% in 2002. Chile's official unemployment rate remained above 9%.

On 6 June 2003 Chile signed a free trade agreement with the United States, making it the second Latin American country to do so (after Mexico). The United States had delayed the signing because of Chile's opposition as temporary member of the Security Council to the US-led invasion of Iraq in March 2003.

The GDP growth rate was 6.1% in 2004, up from 3.7% in 2003, and 2.2% in 2002; in 2005, the economy was estimated to have expanded by 5.8%. The inflation rate dropped to 1.1% in 2004 and it did not pose any problems to the economy. The unemployment rate was fairly stable, but it registered a long term downward trend—in 2005, it was estimated at 7.4%. The engines of growth in 2004–05 were high copper prices, booming exports (especially for mining, forestry, and fishing), and increased foreign investments. In November 2005, Chile signed a free trade agreement with China.

20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 Chile's gross domestic product (GDP) was estimated at \$180.6 billion. 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 based on current dollars. The per capita GDP was estimated at \$11,300. The annual growth rate of GDP was estimated at 5.9%. The average inflation rate in 2005 was 4%. It was estimated that agriculture accounted for 6.2% of GDP, industry 46.5%, and services 47.3%.

According to the World Bank, in 2003 remittances from citizens working abroad totaled \$13 million or about \$1 per capita. Foreign aid receipts amounted to \$76 million or about \$5 per capita

and accounted for approximately 0.1% of the gross national income (GNI).

The World Bank reports that in 2003 household consumption in Chile totaled \$43.94 billion or about \$2,781 per capita based on a GDP of \$72.4 billion, measured in current dollars rather than PPP. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the period 1990 to 2003 household consumption grew at an average annual rate of 5.8%. In 2001 it was estimated that approximately 17% of household consumption was spent on food, 24% on fuel, 20% on health care, and 15% on education. It was estimated that in 2000 about 20.6% of the population had incomes below the poverty line.

2¹ LABOR

In 2005, Chile's labor force was estimated at 6.3 million workers. Of the employed workforce in 2003, service occupations accounted for 63%, while 13.6% were in agriculture, and 23.4% in the industrial sector. Unemployment and underemployment have plagued successive governments during recent decades, reaching nearly 22% (unofficially) by the end of 1990. As of 2005, Chile's unemployment rate was 7.4%, down from 10.1% in 2001.

Workers have the right to form and join unions without the need to obtain prior approval. Although private sector employees have the right to strike, it is regulated by the government. Public employees are denied the right to strike. Although it is allowed to replace striking workers, employers must pay a cash penalty that is divided among the strikers. Employers must also pay severance benefits to dismissed striking workers and show cause for dismissal. Union membership dropped from about 30% of the labor force in 1975 to about 10% in 2005.

Although child labor is restricted by law, in Chile's informal economy it is a problem. Minors between the ages of 15 and 18 can work but must have parent or guardian approval. In addition, they must also attend school. There are also other requirements regarding the type of labor opened to them and how long they may work. Work in underground mines is limited to those 21 and over, although 18 to 21 year olds can work at other types of mining sites.

The law sets the minimum wage and it is adjusted annually. As of end 2005, it was set at \$245 per month. The minimum wage is designed as a starting wage for an unskilled single worker and does not provide a decent standard of living for a family. The legal workweek is 45 hours and 10 hours per day (which includes overtime pay) with limited exceptions. There are also occupational safety and health standards. The government is putting expanded resources into enforcement of these measures and compliance is increasing.

2² AGRICULTURE

Of the total land area of 74.8 million hectares (184 million acres), 2.3 million hectares (5.7 million acres) is arable land. Until 1940, Chile was substantially self-sufficient in most basic foodstuffs. Since World War II (1939–45), serious food deficits have developed, adding to the nation's external payments burden.

Agricultural production of major crops in 2004 (in tons) was as follows: sugar beets, 2,370,483; wheat, 1,921,652; corn, 1,320,606;

oats, 538,600; barley, 81,000; rapeseed (canola) 18,500; and rice, 119,265.

Agriculture was one of the sectors most adversely affected by the recession of 1982, but it quickly recovered by the mid-1980s. Poor results in the traditional agricultural sector inhibit a more rapid expansion in agriculture. One of the areas of most rapid growth is in fresh fruit, with the production of grapes rising by 235% between 1981 and 1985. The fruit harvest in 2004 (in tons) included grapes, 1,900,000; apples, 1,250,000; peaches and nectarines, 304,000; pears, 205,000; oranges, 125,000; and lemons and limes, 160,000. Avocado production for 2004 was estimated at 160,000 tons, up from 39,000 tons during 1989–91. Most of the avocado orchards are in central Chile.

The traditional land system, inherited from colonial times, has retarded maximum use. Chile's first agrarian reform law, passed in 1962 and supplemented by a constitutional reform in 1963, enabled the government to expropriate and subdivide abandoned or poorly cultivated land and compensate the landowner in installments. Another agrarian reform law was passed in 1967 to clarify expropriation and settlement procedures and to permit an increased turnover rate. By the end of the Frei administration in November 1970, some 1,400 agricultural estates, representing 3.4 million hectares (8.4 million acres), had been confiscated and converted to *asentamientos* (agricultural communities).

The pace of expropriation was accelerated by the Allende government, which by 1972 had doubled the previous administration's figure for land acquisitions. By taking over virtually all of the land subject to redistribution under the 1967 reform act, the Allende government effectively transformed the Chilean land tenure system. In addition, agricultural laborers, often led by militants to the left of the Allende government, illegally seized some 2,000 farms. Following the 1973 coup, the military regime returned almost all farms in the last category to their original owners; the expropriated land was redistributed to 45,000 smallholders. In 1978, the land reform law was replaced by new legislation that removed restrictions on the size of holdings.

2³ ANIMAL HUSBANDRY

Stock raising is the principal agricultural activity in most rural areas. In 2004 there were an estimated 3.7 million sheep, 4 million head of cattle, 3.2 million hogs, 725,000 goats, and 790,000 horses, mules, llamas, and alpacas. The extreme south of Chile is noted for sheep production, while cattle are raised in the central regions. Meat products must be imported from Argentina to fulfill domestic demand. In 2004, 208,258 tons of beef and veal, 363,305 tons of pork, and 19,539 tons of mutton and lamb were produced. In north-central Chile, the hills afford pasturage during the rainy season, and fodder or irrigated pasture provides feed during the dry months. In the south-central regions, natural pasturage is available throughout the year.

The dairy industry is small; milk production totaled 2,309,750 tons in 2004. Production of raw wool in 2004 was an estimated 15,100 tons.

2⁴ FISHING

With 1,016 species of fish within Chilean waters, its commercial fisheries have long been important. The low temperatures and Antarctic current supply the purest and most oxygenated ma-

rine waters in the world. Since 1959, their growth has been rapid, largely owing to the development of a fish-meal industry, centered around Iquique. Anchovies are predominant along the northern coast, whiting and mackerel in the central waters, and shellfish in the south.

Leading fish and seafood caught commercially are Spanish sardines and yellow jacks, as well as anchovies, whiting, eels, sea snails, mackerel, and mussels. Tuna fishing has increased, as have catches of clams and lobsters. The total fish catch soared from 340,000 tons in 1960 to 1,237,000 tons in 1976 and 4,185,188 tons in 2003, but down from 7,720,578 tons in 1994. Chile is ranked seventh in the world in total landings of fish. In 2003, Chile contributed 3.4% to the world's exports of fish products, valued at \$2.13 billion. Exports of fish and fish-meal account for about 9% Chile's total exports.

Increasingly, salmon production is playing an important role in Chile's fishing industry. The Chilean salmon and trout industry consists of more than 70 companies employing directly and indirectly over 40,000 workers. Aquaculture is conducted in 234 coastal operations for which the companies pay user fees to the government. In 2004, exports of salmon and trout products were valued at \$996.2 million and were projected to top \$2 billion by 2010.

25 FORESTRY

Chile has extensive forests, estimated at some 15.5 million hectares (38.3 million acres), or about 20.7% of the total land area. In 2004, the total area of commercial forests increased by 32,000 hectares (79,000 acres). The average annual deforestation rate during 1990–2000 was 0.1%. Logging operations are concentrated in the areas near the Bío-Bío River. Softwoods include alerce, araucaria, and manio; hardwoods include alamo, laural, lenga, and olivillo. The establishment of radiata pine and eucalyptus plantations, largely as a result of government assistance, has helped Chile to become an important supplier of paper and wood products to overseas markets. Chile is a major source of hardwood in the temperate zone. Native forests—in addition to the radiata pine and eucalyptus—are as yet under-utilized and could become an important factor in Chile's growing competitiveness. Most wood products from Chile are exported as logs, chips, and lumber.

The total roundwood harvest in 2004 was 44.3 million cu m (1.56 billion cu ft). About 65% of the roundwood output is used by the forestry industry, and the rest is used as firewood. Commercial uses for roundwood include pulp, wood chips, sawnwood, and lumber production. At least half of Chile's population uses firewood for heating and cooking.

Government incentives also resulted in an increase of forestry product exports from \$36.4 million in 1973 to \$468 million in 1980; by 1991, forestry exports rose to \$836 million. In 2004, the forestry sector generated exports of \$3.4 billion, or 11% of Chilean exports. Export demand has especially strengthened for sawnwood and wood pulp. Production from 1987 to 1991 increased by nearly 60% as a result of maturation of trees planted in the 1970s. Chile's forest products sector has expanded through commercial planting, especially radiata pine and eucalyptus. The major markets for Chilean wood are the United States, China, Japan, Mexico, Netherlands, and Italy. The Chilean-German Technology Transfer

Center in Concepción assists in contributing to the technological development of forestry in the Bío-Bío region.

26 MINING

In 2003, Chile produced around 36% of the world's mined copper, was home to the largest copper mine in terms of production, and continued to be a top producer and exporter of copper by volume and value. Copper Refined copper accounted for 35.4% of the country's exports in 2003. Chile's copper mines accounted for 36% of the world's production in that year. Chilean mining activities were also concentrated in coal, iron, precious metals, and industrial minerals. Traditionally dependent on copper exports, Chile also produced iodine and lithium, molybdenum, potassium nitrate, sodium nitrate, gold, silver, rhenium, and selenium. Iron ore was another primary export mineral. Chile also exported ferromolybdenum, potash, and zinc. In addition, Chile produced arsenic trioxide, lead, manganese, barite, natural borates (ulexite), bentonite, kaolin, other clays, diatomite, dolomite, feldspar, crude and calcined gypsum, lapis lazuli, hydraulic lime, phosphate rock (apatite), pigments (mineral, natural, and iron oxide), pyrite, potassium chloride, pozzolan, pumice, common quartz, salt, sodium compounds (including natural sodium sulfate and anhydrous sodium sulfate), sand and gravel (silica), limestone (calcium carbonate), marble, sulfur, and talc.

The mineral industry employed 95,222 people in 2003, including office personnel, administrators, staff, and mining personnel.

Copper output totaled 4.9 million tons in 2003, up from 4.58 million tons in 2002.

Gold production increased to 38,954 kg, in 2003, up slightly from 38,688 kg in 2002. Silver production—derived from the gold and copper mining—totaled 1,313 metric tons, up from 1,210 metric tons in 2002.

Chile is a world leader in natural nitrate production. The Salar (salty marsh) de Atacama, which held significant nitrate reserves, also contained 58% of the world reserves of lithium. In 2003, lithium carbonate output was 41,667 metric tons, up from 35,242 metric tons in 2002. In 2003, Chile produced 15,580 metric tons of elemental iodine, up from 11,648 metric tons in the previous year. Chile also produced 215,000 tons of potassium nitrate and 919,000 tons of sodium nitrate in 2003.

Production totals for other minerals in 2003 were: manganese, 19,461 metric tons; molybdenum, 33,375 metric tons, up from 29,467 metric tons in 2002; zinc, 33,051 metric tons; and iron ore and concentrate (gross weight), 8,011,000 tons, up from 7,269 tons in 2002.

A cross-border mine treaty between Chile and Argentina, ratified by the countries' presidents in 2000, lifted restrictions on property ownership and access rights for mining and exploration along most of the border and simplified customs and taxation procedures. It was reported that the agreement should result in \$6 billion worth of new mining investment over five years. Legislation passed in 1966 initiated a "Chileanization" policy for the copper industry, which provided for government ownership of a controlling share of the sector; US management of the large mines was permitted to continue. Agreements signed in 1967 with the three US-owned companies that produced most of Chile's copper provided for an increase of Chilean participation, expanded investment, and a stable tax and exchange rate; the government was

to acquire an equity position in the mines. A law passed unanimously by the Chilean congress in 1971 provided for the nationalization of the copper holdings of the Kennecott and Anaconda corporations. Copper production grew significantly in the following years, despite the emigration of a large number of trained specialists. The military government of 1973–1990 subsequently compensated US interests for their expropriated holdings and sold many state-owned companies; the three democratic governments since 1990 have continued privatization at a slower pace. Foreign investment in copper has since resumed. The largest recent investment projects were the \$2.342 billion La Escondida expansion copper oxides project, which started in 1998; the \$2.185 billion Collahuasi copper cathode project, begun in 1998; the \$1.8 billion Al Abra copper project, which started in 1997; the \$1.307 billion Los Pelambres copper expansion project, which started in 1999; and the \$1.33 billion Cerro Casale copper/gold project, whose start-up date had not been determined.

27 ENERGY AND POWER

Chile's limited domestic energy sources means that the country will have to rely upon imports to meet its rapidly expanding demand for energy. Electric power generation reached 39.8 billion kWh in 2000, up from 6.9 billion kWh in 1968. Output was estimated for 2003 at 45.3 billion kWh. Hydroelectric power accounted for 53% in 2003, with conventional thermal sources at 43%. Electricity consumption was 37.9 billion kWh in 2000, which increased to an estimated 44.1 billion kWh in 2003. Installed capacity in 2001 was 9.7 million kW. By 2003, it was estimated that installed capacity had risen to 10.5 GW. Within South America, Chile is exceeded only by Brazil in its hydroelectric power potential, much of it located in the heavily populated central part of the country between La Serena and Puerto Montt. The quick descent of Andes-born rivers, together with the narrowness of the country, makes production and transportation of electricity comparatively inexpensive. A severe drought in 1997–1999 created serious power shortages, including rolling blackouts in Santiago, and spurred Chile to try diversifying its power supply. As of 2002, the 570 MW Ralco hydropower project on the Bío-Bío River was slated for possible completion in 2003.

The state lays claim to all petroleum deposits, and a government agency, the National Petroleum Co. (Empresa Nacional del Petróleo—ENAP), manages oil fields in Region XII. ENAP's oil production only meets around 8% of Chile's needs and reserves are decreasing. Production, which began in 1945, is concentrated around the Strait of Magellan, both onshore and offshore. The crude petroleum is transported by sea to the refinery at Concón, north of Valparaíso. A second refinery was completed near Concepción in 1965 and, later, a third at Gregorio-Magallanes. In 2002, production totaled 14,000 barrels per day. By 2004, output had risen to an estimated 18,400 barrels per day. However, consumption in 2004 was estimated at 225,000 barrels per day. As of 1 January 2005, proven reserves were estimated at 150 million barrels. Chile's primary sources for imported oil are Argentina, Brazil, Angola, and Nigeria, respectively.

ENAP also controls all of Chile's production of natural gas. Since 1997, when Chile began to import natural gas on a large scale, consumption has increased an average of 21.7% annually. In 2003, the consumption of natural gas in Chile totaled an estimated

249.3 billion cu ft. According to the Oil and Gas Journal, Chile's proven reserves of natural gas in 2005 stood at 3.5 trillion cu ft. Argentina is Chile's main source for imported natural gas.

Chile's recoverable coal reserves have been boosted by recent discoveries in the Bío-Bío area. Recoverable reserves were estimated in 2003 at 1,301.8 million short tons and are now believed adequate to supply Chile's needs for 100 years. A number of petroleum-fired electric generators have recently been converted to coal.

28 INDUSTRY

Chile ranks among the most highly industrialized Latin American countries. Since the 1940s, manufacturing has contributed a larger share of GDP than has agriculture. About one-third of the value added by manufacturing comes from the production of food, beverages, and tobacco products. During the last decade of the 19th century, food product exports soared, with growth of 85% up to 1,000%.

The basic industrial pattern, established in 1914, included food processing, beverage production, sugar refining, cotton and woolen mills, a hosiery mill, a match factory, an iron foundry, and a cement factory. During the next decade, industrial production rose about 85%, but from 1949 to 1958 the level of output was virtually stationary. With the establishment of the Huachipato steel mill in 1950, the groundwork was laid for the development of heavy industry. Chile's first copper refinery was inaugurated in November 1966. The major industrial region is the Santiago-Valparaíso area. Concepción is in the center of an industrial complex. The state-owned firm CODELCO is the world's second-largest copper mining company, but the private sector generally produces more copper than the state (two-thirds of the total).

During 1970–73, 464 domestic and foreign-owned plants and facilities were nationalized by the Allende government. These included the copper installations of the Anaconda and Kennecott corporations and other companies owned by US interests. By 1982, the military government had returned most expropriated installations to their original owners. The free-market policies of the junta, together with a worldwide recession, resulted in a 25.5% drop in manufacturing output in 1975. After the mid-1970s, Chilean industry moved away from concentration on import substitution to become more export-oriented. Over 20% of the 1985 value of industrial production came from exports, and in 1998, the value of exports exceeded the value of imports for the first time. Key sectors include textiles, automobiles, chemicals, rubber products, steel, cement, and consumer goods.

The industrial sector grew at an average rate of 7% between 1976 and 1982. Industrial output grew by an average of 3.7% per year between 1980 and 1990, and by 6.6% annually during 1988–98. Manufacturing output grew on average by 3.4% annually during the 1980s, and by 5.8% per year between 1988 and 1998. Chile has three oil refineries, with a production capacity of 205,000 barrels per day. It has a fledgling automobile industry: in 2001, Chile produced 10,519 units, up from 5,245 in 2000. It also produces some heavy trucks.

In 2005, industry accounted for 46.5% of the GDP (about the same figure as in the previous year), and was bested by services, with 47.3% (which was also the largest employer in the country); agriculture made up only 6.2% of the economy. The industrial

production growth rate was 6%, overperforming the GDP growth rate in the same year.

29 SCIENCE AND TECHNOLOGY

The Academy of Sciences, which promotes research in the pure and applied sciences, and the Chilean Academy of Medicine, which promotes research and disseminates information in the health sciences, were both founded in 1964 in Santiago and are part of the Institute of Chile. In addition, there were, as of 1996, 64 specialized learned societies in the fields of medicine; the natural, biological, and physical sciences; mathematics and statistics; and technology. The government agency responsible for planning science and technology policy is the National Commission for Scientific and Technological Research. Total expenditures on research and development (R&D) totaled \$799.218 million in 2001 or 0.54% of GDP. Government spending accounted for 68.9% of R&D expenditures in 2001, with business accounting for 24.9%, foreign sources 4.1% and nonprofit institutions at 2.1%. In that same year, Chile had 419 researchers and 307 technicians actively engaged in R&D. High technology exports in 2002 totaled \$107 million in 2002, or 3% of manufactured exports.

Chile has 22 institutes conducting research in agriculture, medicine, natural sciences, and technology, as well as the European Southern Observatory. At least 27 colleges and universities offer degrees in basic and applied sciences. In 1987–97, science and engineering students accounted for 42% of college and university enrollments.

30 DOMESTIC TRADE

The best market for manufactured and imported goods is heavily concentrated in central Chile, particularly in Santiago, Valparaíso, and Viña del Mar. Valparaíso, which serves as the shipping outlet for Santiago, is Chile's chief port. Concepción provides direct access to the markets of southern Chile and Antofagasta to those in northern Chile.

The predominant elements in the pattern of retail merchandising are the independent merchants. They sell their wares in small specialized stores, in municipally owned markets, or in free markets (*ferias libres*). There is a growing number of chain groceries and supermarkets. As of 2002, there were about 80 franchises supporting about 300 stores throughout the country. Shopping malls are showing up in major cities. Stores are owned primarily by Chileans, although foreign interests are represented in retail merchandising.

Some large segments of the economy are still controlled by business groups, but the number of small and medium-sized private companies is growing. An 18% value-added tax applies to most goods. Government policies toward privatization have been in effect since the 1970s and both foreign and domestic investments have been encouraged.

The usual retail business hours are from 10:30 AM to 7:30 PM, with half a day on Saturday. Business hours run from 9 AM to 6 or 7 PM, Monday through Friday, with a one hour lunch break at one. Normal banking hours are from 9 AM to 2 PM, Monday through Friday. It is common practice for stores and factories to close for about 15 days sometime between 1 December and 1 April for summer vacation. The business language is Spanish, but most business people also know English.

Principal Trading Partners – Chile (2003)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	20,076.7	17,375.9	2,700.8
United States	3,569.9	2,531.2	1,038.7
Japan	2,242.9	642.9	1,600.0
China	1,817.1	1,289.3	527.8
Korea, Republic of	1,006.3	540.5	465.8
Italy-San Marino-Holy See	923.8	386.5	537.3
Mexico	910.0	479.8	430.2
Brazil	854.5	2,025.1	-1,170.6
Netherlands	799.5	111.6	687.9
France-Monaco	743.3	593.1	150.2
United Kingdom	694.0	180.2	513.8

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

31 FOREIGN TRADE

Copper remains Chile's largest commodity export (28%) and the country has the highest percentage of the world export market of that mineral (16%). Other significant exports include wood pulp and waste paper (6.1%), fruit and nuts (6.5%), and fish (6.5%). Chile claims 7.2% of the world's wood chip exports.

In 2005, exports reached \$38 billion (FOB—Free on Board), while imports grew to \$30 billion (FOB). In 2004, the bulk of exports went to the United States (14%), Japan (11.4%), China (9.9%), South Korea (5.5%), the Netherlands (5.1%), Brazil (4.3%), Italy (4.1%), Mexico (4%). Imports included intermediate goods, capital goods, and consumer goods, and mainly came from Argentina (16.8%), the United States (13.7%), Brazil (11.2%), and China (7.5%).

32 BALANCE OF PAYMENTS

Between 1982 and 1984, the combination of world recession, slumping copper prices, rising foreign interest rates, and an unexpected rise in imports prompted the Pinochet regime to impose domestic austerity measures in order to meet IMF fiscal and monetary targets. The unrest that followed forced the government to request a 90-day moratorium on some debt repayments and seek rescheduling of \$3.4 billion due in 1983–84. The current account balance averaged -\$2 billion from 1980 to 1995, but fell again to -\$4.5 billion in 1998. Following the 1998 recession, Chile applied tight monetary policies to push the current account into a small surplus in 1999. By 2000, however, the current account posted a \$1 billion deficit.

The International Monetary Fund (IMF) reported that in 2001 Chile had exports of goods totaling \$18.5 billion and imports totaling \$16.4 billion. The services credit totaled \$3.81 billion and debit \$4.81 billion. The US Central Intelligence Agency (CIA) reported that in 2001 the purchasing power parity of Chile's exports was \$18.5 billion while imports totaled \$18 billion resulting in a trade surplus of \$500 million.

Exports of goods and services reached \$34 billion in 2004, up from \$25 billion in 2003. Imports increased from \$24 billion in 2003, to \$28 billion in 2004. The resource balance was conse-

Balance of Payments – Chile (2003)

(In millions of US dollars)

Current Account		-594.0
Balance on goods	3,015.0	
Imports	-18,031.0	
Exports	21,046.0	
Balance on services	-766.0	
Balance on income	-3,280.0	
Current transfers	438.0	
Capital Account		...
Financial Account		-630.0
Direct investment abroad	-1,395.0	
Direct investment in Chile	2,982.0	
Portfolio investment assets	-5,327.0	
Portfolio investment liabilities	1,701.0	
Financial derivatives	118.0	
Other investment assets	-387.0	
Other investment liabilities	1,678.0	
Net Errors and Omissions		866.0
Reserves and Related Items		357.0

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

quently positive in both years, improving from \$2 billion in 2003, to \$6 billion in 2004. The current account balance however was negative, deteriorating from -\$594 million in 2003, to -\$1.7 billion in 2004. Foreign exchange reserves (including gold) reached \$15 billion in 2004, covering more than five months of imports.

3³ BANKING AND SECURITIES

During the Allende period, almost all private banks were taken over by the government, mainly through the purchase of stock. The military government reversed its predecessor's policy, making the financial market essentially private. In 1999, Chile had, in addition to the Central Bank, 29 banks and 3 finance societies (which have less capital than banks and cannot perform foreign trade operations). There was one state-owned bank; the Banco del Estado is the country's second-largest bank, with 13% of loans and 14% of deposits in 1998. Six US banks, twelve Chilean banks, and eleven foreign banks operated in Chile. The Central Bank and the Superintendent of Banks and Financial Institutions (that reports to the Finance Minister) both regulate the financial industry.

Following government intervention in a number of financial institutions in 1983, the Central Bank introduced three major measures: the issue of \$1.5 billion in emergency loans; a provision by which banks could sell their risky portfolios to the Central Bank for 10 years with an obligation to use their profits to buy them back; and the "popular capitalism" program, announced in April 1985, which allowed, among other things, a new share issue for banks in which there had been intervention.

A working group was formed in December 1996 to iron out the remaining technical obstacles to a new banking law so that it might be approved by both houses of congress before February 1997. Several deadlines were missed regarding bank liberalization, which has been under discussion since 1991. The Central Bank kept its main monetary policy instruments unchanged in

1995, but it lifted its target range for interbank rates from 7–7.5%. In 1997, a new banking law relaxed some of the restrictions by allowing banks to provide factoring and leasing services.

Securities trading has been traditionally inhibited by the Chilean investors' preference for real estate investment. There is free sale of securities, the largest groups of which are in mining, banking, textile, agricultural, metallurgical, and insurance stocks. All corporations with more than 100 shareholders must register with a stock exchange. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$6.5 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$30.9 billion. The money market rate, the rate at which financial institutions lend to one another in the short term, was 6.81%. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 6.5%.

In 2004, there were 239 companies were listed on the Bolsa de Comercio de Santiago, (BCS), which was founded on 27 November 1893. It is a private company comprised of 48 shares held by single shareholders. Chile's first stock exchange dates from 1892 and was established in the Port of Valparaíso. It closed in 1982. Stock operations on the Santiago exchange are regulated by the Insurance and Value Superintendency. Total market capitalization in 2004 stood at \$1.200 billion. As of end 2004, the IGPA index stood at 8,962.6, up 22.2% from the previous year.

In November 1996 the foreign ministry and the Central Bank, together with the superintendence for banks (SBIF) and for securities and insurance (SVV) completed a draft bill for the launch of an offshore stock market in Santiago. It would operate in foreign currency, not convertible into pesos, and would give access to the local capital and credit markets to all Latin American and other foreign borrowers. The offshore stock market began operations in 2000.

3⁴ INSURANCE

The insurance market is regulated through the Superintendent of Security Markets and Insurance Companies. Accounting practices reflect generally accepted accounting principles, and, in addition, the requirements as established by the Superintendent. These differ from generally accepted accounting principles in the United States in respect to accounting for monetary correction which takes into consideration the changing price levels in Chile.

The Chilean insurance market is characterized by a relatively large number of insurers for its size and a very competitive environment. The market was opened to foreign organizations, the government insurers were privatized, and the market liberalized under the military government. An increasing number of foreign insurers operate in Chile either in association with domestic organizations or independently. Workers' compensation and automobile personal accident insurance for drivers, passengers, and third parties are compulsory.

In 2003, direct insurance premiums written in Chile totaled \$3.396 billion, with \$2.117 billion comprised of life insurance and \$1.225 billion comprised of nonlife insurance. The country's top nonlife insurer in 2003 was Ceuz del Sur, with \$158.5 million

in gross nonlife premiums written. ING was Chile's top life insurer that same year, with \$387.7 million of gross life premiums written.

35 PUBLIC FINANCE

Chile experienced budget deficits from the early 1960s through the mid-1970s. Expenditures grew steadily with the expansion of public-sector participation in social welfare and economic activities and with increasing government investment in development projects; the resulting deficits were covered by Central Bank loans and foreign borrowing. Budgetary surpluses were recorded from 1975 through 1981, after which the pattern reverted to deficits. From 1985 to 1993, Chile reduced its external debt by \$11.3 billion through debt-equity conversions.

The US Central Intelligence Agency (CIA) estimated that in 2005 Chile's central government took in revenues of approximately \$29.2 billion and had expenditures of \$24.7 billion. Revenues minus expenditures totaled approximately \$4.4 billion. Public debt in 2005 amounted to 8.1% of GDP. Total external debt was \$44.8 billion.

The International Monetary Fund (IMF) reported that in 2003, the most recent year for which it had data, central government revenues in billions of pesos were P10,604.4 billion and expenditures were P10,884.1 billion. The value of revenues in US dollars was us\$15 million and expenditures us\$16 million, based on a market exchange rate for 2003 of us\$1 = P691.43 as reported by the IMF. Government outlays by function were as follows: general public services, 10.2%; defense, 6.3%; public order and safety, 6.2%; economic affairs, 12.4%; environmental protection, 0.3%; housing and community amenities, 0.9%; health, 13.9%; recreation, culture, and religion, 0.8%; education, 17.6%; and social protection, 31.4%.

36 TAXATION

Prior to 1920, government revenue was derived largely from export and import taxes, but since then, a more varied tax base has been achieved.

During the Allende period, the congress, which was strongly influenced by opposition parties, resisted government efforts to introduce redistributive income tax policies. At the end of 1974, the military government eliminated the capital gains tax and established a 15% taxation rate for income from real estate, investments, and commercial activities, which has since been reduced to 10%. In 2002 corporate income was paid in two stages: first on declared profits, called the first category income tax (FCIT); and then on distributed profits. The rate for the FCIT was increased from 15% to 16.5% in 2003, and was raised in 2004 to 17%. The rate on distributed profits is 35% minus the FCIT credit. Dividends and interest payments to nonresidents are taxed at 21.69% and 35%, respectively. Royalties and fees paid to nonresidents are subject to withholding taxes of 30%, though this may be modified through tax treaties.

Personal income is progressively taxed up to 40%. Other direct taxes include a housing tax, assessments on real estate, and inheritance and gift taxes.

Public Finance – Chile (2003)

(In billions of pesos, central government figures)

	10,604.4	100.0%
Revenue and Grants		
Tax revenue	8,121.7	76.6%
Social contributions	728	6.9%
Grants	3.5	0.0%
Other revenue	1,751.1	16.5%
Expenditures	10,884.1	100.0%
General public services	1,112	10.2%
Defense	685.4	6.3%
Public order and safety	670.2	6.2%
Economic affairs	1,350.3	12.4%
Environmental protection	35.9	0.3%
Housing and community amenities	93.8	0.9%
Health	1,515.3	13.9%
Recreational, culture, and religion	82.6	0.8%
Education	1,915.8	17.6%
Social protection	3,422.9	31.4%

(...) data not available or not significant.

SOURCE: *Government Finance Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

Consumption taxes include a value-added tax (VAT) with a standard rate of 19%, various stamp taxes, entertainment taxes, and excise on gasoline, alcoholic beverages, and tobacco.

37 CUSTOMS AND DUTIES

As of 1 October 2003, most imported goods are subject to an 19% value-added tax. Automobiles were subject to a luxury tax of 85% on any value above \$15,834.65. Other luxury items, such as jewelry, furs, and yachts were taxed at 50%. Import and export licenses are mandatory, but easily obtainable. In 1977, free trade zones were established in Iquique and Punta Arenas. Chile has free trade agreements with Canada, Mexico, Colombia, Venezuela, Ecuador, Costa Rica, MERCOSUR, and as of 1 January 2004, with the United States. Under the agreement, items originating in the United States would have a tariff between 0% and 6%, although the Chilean tariff rate on nearly all products from most countries is 6%. Chile also places a 50% tax surcharge on used goods/products in addition the current tariff rate. However, the surcharge does not apply to those items originating in the United States, as well as exempting armored cars, prison vans, ambulances, public road cleaning vehicles, cement-making vehicles, and mobile homes. Cigars, cigarettes and processed tobacco are subject to taxes of 51%, 60.4%, and 57.9%, respectively.

38 FOREIGN INVESTMENT

Through the Decree Law 600 of 1974 (and its subsequent modifications) and the Chilean Foreign Investment Committee, Chile seeks to encourage foreign direct investment. However, broadcasting, fishing, shipping, and hydrocarbon production usually require majority national control. Foreign investors have purchased many of the assets privatized by the Chilean government over the last decade. Chile has the highest credit rating of all Latin American countries. From 1997 to 2001, \$28.2 billion of foreign direct

investment (FDI) went into Chile. FDI flow peaked in 1999 at \$9.2 billion but dipped to \$3.67 billion in 2000. In 2001, FDI inflow was at a near average level of \$5.5 billion. The principal source of FDI has been the United States, but in 2002, FDI from the United States amounted to a negative flow of \$1 billion. Other principal sources of FDI have been Canada, Spain, the United Kingdom, South Africa, Australia, and Japan. In 2002, the lead areas for FDI were transportation, telecommunications, and mining.

In terms of portfolio investment, by 2001 the number of companies listed on the Chile Stock Exchange and their market valuation had dropped from their peak in 1997 (before the Brazilian currency crisis) of 295 listed companies valued at \$72 billion to 249 listed companies valued at \$56.3 billion. As of 31 December 2001, US investors held \$5.4 billion in Chilean securities, \$1.92 billion in equity shares, \$3.5 billion in long-term debt, and only \$1 million in short-term debt.

With \$64.4 billion invested between 1974 and 2003, had the highest FDI per capita and the highest FDI to GDP ratio of the major economies in Latin America. Capital inflows as a percentage of GDP reached a yearly average of 6.4%. In the first three quarters of 2004, FDI totaled \$6.5 billion—a 219% increase over the same period in 2003. This was however an exceptional year and the result of two large investments made by Spanish companies.

39 ECONOMIC DEVELOPMENT

Chile established two free trade zones: the Free Zone of Iquique (ZOFRI) in the northern tip (Region I), and the Free Zone of Punta Arenas (PARANEZON) in the southern tip (Region XII) during the 1970s to encourage trade. Chile has been negotiating for admission into the North American Free Trade Agreement (NAFTA) since 1994, but the process has been stalled by the US Congress. Chile is a member of the South American Mercosur free-trade bloc. Through its concentration on value-added exports and increased foreign direct investment, Chile has become one of Latin America's most-developed nations. Economic growth had averaged over 5% annually since 1985, and was 7.9% during 1988–98. Under the Aylwin administration, the population living in poverty dropped by 800,000 to 4.5 million and real incomes of the poorest workers increased by 20%.

Chile's debt management has been very effective. The government negotiated a favorable rescheduling with its creditor banks of its 1991–94 debt maturities. The government's economic policies also kept consumer price inflation limited to an average of 13.6% during 1990–95, down from the annual average of 20.6% during the 1980s, lowering the rate to 4.7% by 1998. Social expenditures, especially those aimed at improving human capital, rose since 1991 to 15% of gross national product (GNP), and were funded through increased surtaxes. For example, the Program for Youth Labor Training focuses on the high levels of poverty and unemployment among youth. President Lagos, inaugurated in 2000, aimed to bring public accounts into balance by 2001 (after the 1998 financial crisis).

The Lagos government increased consumption taxes (VAT and duties on alcohol, diesel, and tobacco) to finance its healthcare plan and a program aimed at supporting the 225,000 families living in extreme poverty. In late 2003, a gradual tightening of monetary policy was expected, as was a narrowing of fiscal deficits. Corruption scandals adversely affected the business climate, yet

investment in Chile has been strong. The government's role in the economy is limited, and Chile's economy is open and market-oriented. The finance sector has grown faster than other areas of the economy in recent years. The country's large service sector is thriving, with services being modern and competitive (especially telecommunications). Economic activity remains concentrated in the central region of the country, around Santiago and the Valparaíso region.

Economic growth was slower in 2005 as compared to the previous year—a decrease in copper exports (due to a switch by mining companies to ores rich in molybdenum) was the main cause of this decrease. Imports of good and services, on the other hand, have risen by more than 14%. Growth rates were expected to continue a downward trend in 2006 (as a result of slow investment growth), but were likely pick-up again in 2007 (owing to an increase in exports).

40 SOCIAL DEVELOPMENT

Prior to the 1973 coup, Chile had built one of the most comprehensive social welfare systems in the world, with over 50 separate agencies participating in programs. Following the military's accession to power in 1973, many of the welfare benefits were suspended, and regulations lapsed. From 1974 to 1981, the junta remodeled the welfare system along the lines of private enterprise.

A mandatory private insurance system was introduced in 1981. Pensions are financed exclusively by workers, whose contributions can amount to over 20% of earnings; employers are not required to contribute, and the government provides subsidies for a guaranteed minimum pension. Retirement is set at age 65 for men and at age 60 for women. Medical benefits are available to wage earners and salaried employees. Workers medical benefits include necessary medical, dental, and pharmaceutical, hospitalization, and rehabilitation. The government funds the Unified Family Allowance system, which provides family allowances.

Sexual abuse and domestic violence are becoming increasingly addressed by the government. It was estimated that over half of Chilean women experience some form of domestic abuse. Legislation implemented in 2004 specifically targeted child pornography. There were no laws regarding sexual harassment in the workplace, although it is recognized as a problem. The average earnings of women with university training were only 60% of those of men with equivalent backgrounds. The labor code provides benefits for pregnant workers.

Excessive use of force by police has been reported, as well as failure to observe due process of law and other human rights abuses toward detainees. The indigenous population continued to suffer discrimination.

41 HEALTH

As of 1999, total health care expenditure was estimated at 5.9% of GDP. In 1995, the public health system included 187 hospitals, 230 urban outpatient clinics, 146 rural outpatient clinics, and over 1,000 rural health posts.

Chile made considerable progress in raising health standards. The infant mortality rate declined from 147 per 1,000 live births in 1948 to 8.80 in 2005. The maternal mortality rate was 20 per 1,000 live births in 1998. The birth rate was an estimated 16 per 1,000 people as of 2002. Approximately 43% of married women (ages

15 to 49) used contraception. Average life expectancy in 2005 was 76.58 years. In 1995, the leading causes of death per 100,000 were diseases of the circulatory system (150), cancer (116), injuries or accidents (64), and respiratory diseases (61).

In 2004, Chile had an estimated 109 physicians, 63 nurses and 43 dentists per 100,000 people. In the same year, there were 196 general hospitals in the public sector, as well as 526 primary care clinics and 1,840 rural outpatient clinics. There were 223 private-sector hospitals with 11,000 beds.

An estimated 15% of Chileans, including 10% of children under the age of five, fell below the minimum nutritional requirements established by the UN Food and Agriculture Organization. Protein deficiency among the general population has induced an abnormally high rate of congenital mental handicap. In 2000, 94% of the population had access to safe drinking water and 97% had adequate sanitation.

The HIV/AIDS prevalence was 0.30 per 100 adults in 2003. As of 2004, there were approximately 26,000 people living with HIV/AIDS in the country. There were an estimated 1,400 deaths from AIDS in 2003. Altogether, 90% of the country's AIDS victims have been men and 10% have been women; the incidence among women is increasing.

4² HOUSING

The Allende government expanded the housing program following the 1970 housing census, which enumerated 1,860,111 housing units in the country. In 1971, 6.5% of the national budget was expended on public housing, mainly for the poor, and the state built 76,079 new housing units. The military government, on the other hand, stressed the role of the private sector in the housing market. In 1974, the number of new units built by the public sector was 3,297, compared to 17,084 units built privately; the corresponding figures for 1984 were 276 and 46,493. From 1981 through 1985, the number of new units built was 201,244. The number of new dwellings completed jumped from 88,000 in 1991 to 106,000 in 1992.

In 2001, the government had pledged to build at least 25,000 basic homes per year for low-income and poverty stricken residents. The government also set up a subsidy program for those who could not obtain a mortgage. With such assistance, the government estimates that about 130,000 families currently living in squatter villages or slums can be relocated to permanent dwellings by 2007.

As of 2002, there were about 4,399,952 dwellings across the country; about 90% of all housing units were occupied. The majority of all housing (81.6%) were detached homes. About 84.9% of all dwellings were located in urban areas. About 98% of all housing was privately owned; about 73% were owner occupied. Of the privately owned housing stock, about 96% were permanent structures. As of 2003, the housing deficit was estimated at 1,164,629 homes.

4³ EDUCATION

Chile's present educational system stems from a 1965 reform program that called for curriculum modernization (with new texts for all grade levels), teacher training, and professional educational planning and management. There are both state-run and private schools; all state schools provide free education. As of 2004, gener-

al education was compulsory for 12 years (for students between the ages of 6 and 18). This includes eight years of primary school and four years of secondary school. At the secondary level, students choose to follow a humanistic-scientific course of study or a technical-professional program. The academic year runs from March to December. The primary language of instruction is Spanish.

In 2001, about 77% of all children between the ages of three and five were enrolled in some type of preschool program. Primary school enrollment in 2003 was estimated at about 86% of age-eligible students. The same year, secondary school enrollment was about 79% of age-eligible students. Nearly all students complete their primary education. The student-to-teacher ratio for primary school was at about 34:1 in 2003. The ratio for secondary school was about 33:1. In 2003, private schools accounted for about 46.5% of primary school enrollment and 48.2% of secondary enrollment.

The University of Chile (founded as Universidad Real de San Felipe in 1738) and the University of Santiago de Chile (founded as Universidad Técnica del Estado in 1949) are national universities with branches in other cities. There are numerous institutions which provide vocational and technical education. There are also several Roman Catholic universities. In 2003, about 42% of the tertiary age population were enrolled in some type of higher education program. The adult literacy rate for 2004 was estimated at about 95.6%, with a fairly even rate between men and women.

As of 2003, public expenditure on education was estimated at 4.2% of GDP, or 18.7% of total government expenditures.

4⁴ LIBRARIES AND MUSEUMS

Chile's principal libraries and museums are in Santiago. The three most notable libraries are the National Library (3,700,000 volumes in 2002), the central library of the University of Chile (41 libraries with an aggregate of over 1,000,000 volumes), and the Library of Congress (750,000). Other significant collections include the Severín Library in Valparaíso (101,000) and the library of the University at Concepción (420,000). The Catholic University of Chile in Santiago has more than a dozen branches holding 500,000 volumes. Public libraries are coordinated through the Directorate of Libraries, Archives and Museums. In 2003, there were about 319 municipal libraries and smaller 45 branch libraries nationwide. The Directorate also sponsored 19 prison libraries and 17 hospital libraries.

Chile's most outstanding museums are the National Museum of Fine Arts, the National Museum of Natural History, and the National Museum of History, all in Santiago, and the Natural History Museum in Valparaíso. The Chilean Museum of Pre-Columbian Art in Santiago has one of the hemisphere's finest collections of indigenous artifacts, including textiles, ceramics, metals, and stonework from the Mapuche, Aymara, Tiahuanaco, Atacoma, and Araucanian cultures. There are dozens of historical, public affairs, and ethnographic museums throughout the country.

4⁵ MEDIA

An extensive telegraph service, about three-fourths of which is state-owned, links all the principal cities and towns. International links are supplied by worldwide radiotelephone service and by international telegraph companies. In 2003, there were an estimated 221 mainline telephones for every 1,000 people; about 32,300

people were on a waiting list for telephone service installation. The same year, there were approximately 511 mobile phones in use for every 1,000 people.

Radio Nacional de Chile is a publicly owned station, but numerous private stations exist. As of 1999 there were 180 AM and 64 FM radio stations and 63 television stations. The National Television Council is in charge of monitoring the content of broadcasting for violence and sexually explicit materials. In 2003, there were an estimated 759 radios and 523 television sets for every 1,000 people. About 57 of every 1,000 people were cable subscribers. In 2003, there were 119.3 personal computers for every 1,000 people and 272 of every 1,000 people had access to the Internet. There were 274 secure Internet servers in the country in 2004.

There are over 30 major daily newspapers, the largest of which are in the Santiago-Valparaíso area, where the most important magazines are also published, including the state funded *La Nación*. Among the best-known magazines are *Caras*, (1995 circulation 18,000) and *Qué Pasa?* (20,000). The newspaper *El Mercurio* (founded in 1827) claims to be the oldest newspaper in the Spanish-speaking world. The *El Mercurio* chain includes *La Segunda* and *Las Últimas Noticias* of Santiago, *El Mercurio* of Valparaíso, and *El Mercurio* of Antofagasta.

In Santiago, the leading daily newspapers (with 2004 circulation) are *La Tercera* (180,000), *La Cuarta* (NA), *Las Últimas Noticias* (120,000), *El Mercurio* (112,000), *La Nación* (NA), *La Segunda* (25,000), and *Diario Oficial* (NA). In Valparaíso the leading daily is *El Mercurio de Valparaíso*, with a 2004 circulation of about 65,000. The leading daily in Concepción is *El Sur*, which had a 2004 circulation of 20,000.

Many of Chile's newspapers and periodicals were closed for political reasons in the aftermath of the 1973 military coup. The lifting of the second state of siege in mid-1985 brought a significant improvement in the area of the freedom of the press. Opposition magazines resumed publication, and editors were no longer required to submit copy to government censors prior to publication; radio and television programs featuring political debates reappeared in the last half of 1985. The print and broadcast media, as of 1999, is largely independent, and the government is said to fully support a free press and free speech.

46 ORGANIZATIONS

The members of many workers' organizations have formed consumer cooperatives. Producer cooperatives also are common, particularly in the dairy industry. The National Society of Agriculture has been politically very influential, and the minister of agriculture has been frequently drawn from its ranks. Representative of the many industrial, commercial, and professional organizations are the National Mining Society, Society of Industrial Development, Commercial Union Society, National Press Association, Medical Society, Chilean Medical Association, Agronomers' Society, Geographical Society of Chile, the Computer Science Society and Scientific Society.

The Consumers International Regional Office for Latin America and the Caribbean is located in Santiago. The Confederation for Production and Commerce is an official organization representing the country's industrialists and traders. The Chilean Chamber of Commerce, with its headquarters in Santiago, is the central organ for all chambers of commerce and most trade associations.

The National Academy of Fine Arts was established in 1964. Other educational organizations include the Academy of History and the Center for Investigation and Development of Education. There are several organizations for medical research and education in specialized fields.

Among fraternal organizations, the Masonic Order is prominent. Among the more politically potent organizations are the professional middle-class guilds (*gremios*), which were instrumental in bringing down the Allende government. Social development corporations, comprising mainly business people, have been organized regionally to deal with various welfare problems. Rotary and Lions clubs are also active among the business community.

The National Council of Sports is the overall confederation of athletic associations. Many of the national sports associations are affiliated with international organizations as well. There are youth organizations affiliated with major political parties. The Council of Student Federations of Chile (CONFECH) is a coordinating body for student unions. Scouting programs are active through the Guide and Scout Association of Chile. There are also chapters of the YMCA and YWCA. National women's organizations include the Association of University Women and the Centro de Estudios para el Desarrollo de la Mujer.

There are chapters of Greenpeace, Amnesty International, Defense for Children, Habitat for Humanity, and the Red Cross.

47 TOURISM, TRAVEL, AND RECREATION

Tourist attractions include the Andean lakes of south-central Chile and the famed seaside resort of Viña del Mar, with casinos rivaling those of Monaco. Also popular is Robinson Crusoe Island in the Pacific. Another Pacific dependency, Easter Island (Isla de Pascua), with its fascinating monolithic sculptures, is a major attraction. The giant Christ of the Andes statue, which commemorates the peaceful settlement of the Chilean-Argentine border dispute in 1902, is located on the crest of the Andes overlooking the trans-Andean railway tunnel. Santiago is noted for its colonial architecture, as well as the largest library in South America. Popular national parks include Parque Nacional Lanca in the north, the Nahuelbuta Park near Temuco, and Terres del Paine in the far south. Chilean ski resorts, notably Portillo near Santiago, have become increasingly popular.

The most popular sport in Chile is football (soccer). Other pastimes include skiing, horse racing, tennis, fishing in the Pacific for marlin and swordfish, and some of the world's best trout fishing in the Lake District.

Tourists need a valid passport to enter Chile. A visa is not required for a stay of 90 days or less. There were about 1.6 million tourist visits reported in 2003; around 63% were by visitors from South America. Tourism receipts totaled \$1.3 billion. That year there were 52,362 total hotel rooms with 117,905 beds and an occupancy rate of 32%. The average length of stay per visit was two nights.

In 2004, the US Department of State estimated the daily cost of staying in Chile at \$198.

48 FAMOUS CHILEANS

Chile's first national hero was the conquistador Pedro de Valdivia (1500?-53), who founded Santiago in 1541. The Indian leader Lautaro (1525-57), another national hero, served Valdivia as sta-

ble boy and then escaped to lead his people to victory against the Spanish. His exploits are celebrated in the great epic poem *La Araucana* by Alonso de Ercilla y Zúñiga (1533?–96), a Spanish soldier. Bernardo O'Higgins (1778–1842), a leader of the fight for independence, was the son of the Irish soldier of fortune Ambrosio O'Higgins (1720?–1801), who had been viceroy of Peru. Diego Portales (1793–1837) helped build a strong central government. Admiral Arturo Prat (1848–79) is Chile's most revered naval hero because of his exploits during the War of the Pacific. Arturo Alessandri Palma (1868–1950), who became president in 1921, initiated modern sociopolitical reform. Salvador Allende Gossens (1908–73), the Western Hemisphere's first freely elected Marxist head of state, served three years as Chile's president (1970–73), initiating a broad range of socialist reforms and dying in the throes of a violent military coup in September 1973. The coup's leader was Gen. Augusto Pinochet Ugarte (b.1915), a former commander-in-chief of the army. Outstanding church figures have been Crescente Errázuriz (1839–1931), archbishop of Santiago, and his successor, José Cardinal Caro (1866–1958). Benjamin A. Cohen (1896–1960) was an undersecretary of the United Nations.

Three distinguished historians, Miguel Luis Amunátegui (1828–88), Diego Barros Arana (1830–1907), and Benjamin Vicuña Mackenna (1831–86), brightened the intellectual life of the second half of the 19th century. José Toribio Medina (1852–1930) gained an international reputation with works ranging from history and literary criticism to archaeology and etymology. Important modern historians include Francisco Antonio Encina (1874–1965), Ricardo Donoso (1896–1985), and Arturo Torres Riosco (1897–1971), who was also a literary critic. Benjamín Subercaseaux (1902–73) was a popular historian as well as a novelist.

The first indigenous literary movement was that of the "generation of 1842." One of its leaders was the positivist writer José Victorino Lastarria (1817–88). The novelist and diplomat Alberto Blest Gana (1830–1920) wrote panoramic novels about Chilean society in the tradition of Balzac. Twentieth-century writers include novelist Eduardo Barrios (1884–1963), an explorer of the abnormal psyche; Joaquín Edwards Bello (1887–1968), an author of realistic novels of urban life; the symbolic novelist, poet, and essayist Pedro Prado (1886–1952); and novelist José Donoso (1925–96). Isabel Allende (b.1942) is a world-famous novelist and niece of Salvador Allende; her novel *The House of Spirits* (1982) was made into a film. Ariel Dorfman (b.1942) is a Jewish Argentine-Chilean novelist, playwright, essayist, and human rights activist: *Death and the Maiden* is his most famous play. He teaches at Duke University but divides his time between the United States and Santiago.

Poets of note include Gabriela Mistral (Lucila Godoy Alcayaga, 1889–1957), who won the Nobel Prize in 1945; Pablo Neruda (Neftalí Ricardo Reyes, 1904–73), the nation's greatest poet, who was awarded a Stalin Prize as well as the Nobel Prize (1971); and the poet-diplomat Armando Uribe Arce (b.1933).

The nation's first native-born composer was Manuel Robles (1780–1837); Silvia Soubllette de Valdes (b.1923) is a leading composer, singer, and conductor; and Gustavo Becerra (b.1925) is a composer and teacher. Claudio Arrau (1903–91) was one of the world's leading concert pianists. Well-known painters are Roberto Matta (1911–2002) and Nemesio Antúnez (1918–1993),

while sculptors include Lily Garafulic (b.1914) and Marta Colvin (1917–1995).

49 DEPENDENCIES

Easter Island

About 3,700 km (2,300 mi) w of Chile is Easter Island (Isla de Pascua or Rapa Nui), a volcanic island roughly 24 km (15 mi) long by 16 km (10 mi) wide. Easter Island is inhabited by a mostly Polynesian-speaking population and a few hundred people from the mainland. Easter Island's population exceeded 2,000 in the mid-1990s. The people raise bananas, potatoes, sugarcane, taro roots, and yams. The island is famous for its *moai*, the massive monolithic stone heads of unknown origin, carved from tufa (a soft volcanic stone). The cryptic sculptures have attracted increasing numbers of visitors to the island from both mainland Chile and around the world. In 1975, the government engaged Spanish consultants to undertake major tourist development on the island. The number of tourist arrivals has been increasing since the 1980s. In 1986, about one-third of the island was a national park.

Easter Island was discovered by Edward Davis, an English buccaneer, in the late 1680s and was named on Easter Day 1722 by Roggeveen, a Dutch navigator. Claimed by Spain in 1770, the island was taken over by Chile in 1888 and is now administered as part of Valparaíso Province.

Diego Ramírez Islands

About 100 km (60 mi) sw of Cape Horn, at 56°30' s and 68°43' w, lies the small, uninhabited Diego Ramírez archipelago.

Juan Fernández Islands

Some 580 km (360 mi) w of Valparaíso, at 33°36' to 48' s and 78°45' to 80°47' w, is a group of rugged volcanic, wooded islands belonging to Chile. The two principal islands, about 160 km (100 mi) apart e–w, are Robinson Crusoe, formerly Más a Tierra (93 sq km/36 sq mi), and Alejandro Selkirk, previously Más Afuera (85 sq km/33 sq mi); the smaller island of Santa Clara (or Goat Island) is off the southwest coast of Robinson Crusoe. The chief occupation is lobster fishing. Discovered by Juan Fernández around 1563, the islands achieved fame in 1719, when Daniel Defoe wrote *Robinson Crusoe*, generally acknowledged to have been inspired by the experiences of Alexander Selkirk, a Scottish sailor who quarreled with his captain and was set ashore at his own request on Más a Tierra, where he lived alone until he was rescued (1704–09). The islands are administered by Valparaíso Province.

Sala-y-Gómez Island

About 3,380 km (2,100 mi) w of Chile and some 400 km (250 mi) ENE of Easter Island, at 26°28' s and 105°28' w, lies arid, volcanic Sala-y-Gómez Island. Almost 1,200 m (4,000 ft) long and about 150 m (500 ft) wide, this uninhabited island belongs to and is administered by Valparaíso Province.

San Ambrosio Island

Volcanic San Ambrosio Island, uninhabited, lies 965 km (600 mi) w of Chile, at 26°21' s and 79°54' w, rising to 479 m (1,570 ft).

San Félix Island

Situated 19 km (12 mi) ESE of San Ambrosio Island, at 26°17' s and 80°7' w, is small, uninhabited San Félix Island (about 8 sq km/3

sq mi). Of volcanic origin, the island rises to about 180 m (600 ft). The islet of González is at its southeastern tip. San Félix, along with San Ambrosio, was discovered in 1574.

Chilean Antarctic Territory

Chile claims the section of Antarctica lying between 53° w and 90° w, the Antarctic (or O'Higgins) Peninsula, parts of which are also claimed by Argentina and the United Kingdom.

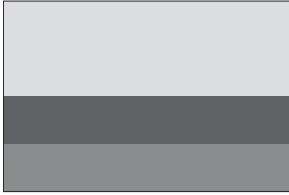
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COLOMBIA

Republic of Colombia
República de Colombia



CAPITAL: Bogotá

FLAG: The national flag consists of three horizontal stripes; the yellow upper stripe is twice as wide as each of the other two, which are blue and red.

ANTHEM: *Himno Nacional*, beginning “O gloria inmarcesible, júbilo inmortal” (“O unwithering glory, immortal joy”).

MONETARY UNIT: The Colombian peso (c\$) of 100 centavos is a paper currency. There are coins of 10, 20, and 50 centavos and of 1, 2, 5, 10, 20, and 50 pesos, and notes of 100, 200, 500, 1,000, 2,000, 5,000 and 10,000 pesos. Commemorative gold coins of various denominations also have been minted. c\$1 = us\$0.00043 (or us\$1 = c\$2,324.08) as of 2005.

WEIGHTS AND MEASURES: The metric system is the official standard, but Spanish units such as the botella, vara, fonegada, arroba, and quintal also are used.

HOLIDAYS: New Year’s Day, 1 January; Epiphany, 6 January; St. Joseph’s Day, 19 March; Labor Day, 1 May; Day of St. Peter and St. Paul, 29 June; Independence Day, 20 July; Battle of Boyacá, 7 August; Assumption, 15 August; Columbus Day, 12 October; All Saints’ Day, 1 November; Independence of Cartagena, 11 November; Immaculate Conception, 8 December; Christmas, 25 December. Movable religious holidays include Holy Thursday, Good Friday, Holy Saturday, Ascension, Sacred Heart, and Corpus Christi. In addition there are six official commemorative days.

TIME: 7 AM = noon GMT.

¹LOCATION, SIZE, AND EXTENT

Colombia is the only South American country with both Caribbean and Pacific coastlines. The fourth-largest country in South America, it has a total area of 1,138,910 sq km (439,736 sq mi), including insular possessions, and extends 1,700 km (1,060 mi) NNW–SSE and 1,210 km (750 mi) NNE–SSW. Comparatively, the area occupied by Colombia is slightly less than three times the size of the state of Montana. Bordered on the N by the Caribbean Sea, on the NE by Venezuela, on the SE by Brazil, on the SW by Peru and Ecuador, on the W by the Pacific Ocean, and on the NW by Panama, the Colombian mainland is located entirely within the tropics. Its total boundary length is 6,004 km (3,731 mi). Its coastlines extend 3,208 km (1,993 mi).

Also held by the Republic of Colombia (though claimed by Nicaragua) are the archipelago of San Andrés and Providencia in the Caribbean Sea, about 190 km (120 mi) off the coast of Nicaragua, and the islands of Malpelo, Gorgona, and Gorgonilla in the Pacific Ocean. (In 2001 Nicaragua filed a claim in the International Court of Justice regarding these islands.) Colombia also holds the uninhabited Caribbean islands of Quita Sueño Bank, Roncador Cay, and Serrana Bank, to which the United States renounced all rights under the Treaty of Quita Sueño, ratified by the US Senate in July 1981; Nicaragua also disputes this claim. Colombia has a dispute with Venezuela over maritime rights in the Gulf of Venezuela. Negotiations have been going on unsuccessfully since 1970, and in August 1987, a Colombian naval vessel entered the disputed region in an apparent attempt to make Venezuela more responsive.

Colombia’s capital city, Bogotá, is located in the center of the country.

²TOPOGRAPHY

The Andes Mountains divide just north of Colombia’s southern border with Ecuador into three separate chains, or cordilleras, known as the Cordillera Occidental (western), the Cordillera Central, and the Cordillera Oriental (eastern). The western and central cordilleras run roughly parallel with the Pacific coast, extending northward as far as the Caribbean coastal lowlands. They are alike in geological structure, both being composed of massive crystalline rocks. The Cordillera Central is the highest range of the Colombian Andes, with several volcanic cones whose snow-covered peaks rise to about 5,500 m (18,000 ft), notably Huila (5,750 m/18,865 ft). The third chain, the Cordillera Oriental, runs north-eastward, bifurcating into an eastern branch, the Sierra de los Andes, which slopes down to Venezuela, and a second branch, the Sierra de Perijá, which continues northward to terminate on the border between Venezuela and Colombia just south of the Guajira Peninsula. This range is composed of folded stratified rocks over a crystalline core.

On the margin of the Caribbean stands the Sierra Nevada de Santa Marta, an isolated block of mountains composed of a triangular massif of granite, whose highest elevation is Pico Cristóbal Colón (5,775 m/18,947 ft), the tallest peak in Colombia. In the town of Arboletes in the Sierra Nevada de Santa Marta, there are a number of active mud volcanoes, one of the largest of which fills

a volcanic crater and attracts many locals and tourists who swim and bathe in the mud lake. West of the Cordillera Occidental but not geologically a part of the Andean chain is the low Serranía de Baudó, which skirts the Pacific and extends into the Isthmus of Panama.

Separating the three principal Andean ranges are Colombia's two major rivers, the Cauca (1,014 km/630 mi), which flows northward between the western and central cordilleras, and the Magdalena (1,553 km/965 mi), which divides the central and eastern cordilleras. After emerging from the mountains, the two rivers become one and descend through marshy lowlands to the Caribbean. The area south and east of the Andean ranges is largely composed of river plains divided among the effluents of the Orinoco and Amazon rivers. Open plains immediately adjoin the mountains, but as the distance from the cordillera increases, the plains give way to largely uninhabited and unexplored jungle. The Pacific coastal area is also characterized by jungle vegetation. Principal rivers on the Pacific coast include the Baudó, San Juan, and Patía.

3 CLIMATE

Colombia's climatic variations are determined by altitude, and seasons are periods of lesser or greater rainfall, with little or no temperature change. The country may be divided vertically into four regions. The hot country, or *tierra caliente*, is the tropical zone, reaching from sea level to roughly 1,100 m (3,500 ft), where the mean annual temperature is 24°C to 27°C (75–81°F); at sea level, temperatures have a mean maximum of 38°C (100°F) and a minimum of 18°C (64°F). Between 1,100 m (3,500 ft) and 2,000 m (6,500 ft) is the temperate zone, or *tierra templada*, where the average year-round temperature is about 18°C (64°F). Between 2,000 m (6,500 ft) and 3,000 m (10,000 ft) is the cold country, or *tierra fría*, with temperatures averaging a little over 13°C (55°F). Above the 3,000-m (10,000-ft) level the temperature varies from 13°C to -17°C (55°F to 1°F), according to altitude. The annual mean temperature at the capital, Bogotá (altitude 2,598 m/8,525 ft), is 14°C (57°F).

Rainfall is heaviest on the west coast and in the Andean area; rainy and dry seasons, or "winter" and "summer," generally alternate in three-month cycles, as in Bogotá, where precipitation occurs most heavily and consistently during the periods of April to June and October to December. Northern areas have only one long rainy season, from May through October. The annual average rainfall is 107 cm (42 in).

4 FLORA AND FAUNA

More than 45,000 species of plants have been identified in Colombia, but it is predicted that when the region is thoroughly explored that number may be doubled. At the highest (3,000–4,600 m/10,000–15,000 ft) and coldest level of mountain meadows, called páramos, the soil supports grasses, small herbaceous plants, and dense masses of low bushes. In the intermontane basins some vegetables, European-introduced grains, and corn are found, along with the bushes, trees, and meadow grasses indigenous to the region. The temperate areas support extensive and luxuriant forests, ferns, mosses, trees of the laurel family, Spanish cedars, vegetables, and grain crops. The tropical zone may be divided into four main groups according to the amount of rainfall received: desertlike areas supporting arid plants, deciduous forests, rain for-

ests, and grass plains. Palm trees of various species abound in the tropics and there are many edible fruits and vegetables.

Animal life is abundant, especially in the tropical area. Among carnivorous species are puma, a variety of smaller cats, raccoons, and mustelids. Herbivores include the tapir, peccary, deer, and large tropical rodents. Sloths, anteaters, opossums, and several types of monkeys are also found, as well as some 1,665 species and subspecies of South American and migratory birds. As of 2002, there were at least 359 species of mammals, 708 species of birds, and over 51,200 species of plants throughout the country.

5 ENVIRONMENT

Colombia's main environmental problems are soil erosion, deforestation, and the preservation of its wildlife. Soil erosion has resulted from the loss of vegetation and heavy rainfall, and the soil has also been damaged by overuse of pesticides. Deforestation has resulted from the commercial exploitation of the country's forests, which cover approximately 47.8% of the country. Between 1981 and 1985, 820,000 hectares (2,260,000 acres) were lost each year, and 8,000 hectares (20,000 acres) were reforested. Between 1983 and 1993, Colombia lost another 5.8% of its forest and woodland. From 1990–2000, the rate of deforestation was estimated at 0.4% per year. Air pollution from vehicle emissions is also a problem, especially in Bogotá. Safe drinking water is available to 99% of urban dwellers and 70% of the rural population.

The Colombian government has initiated several programs to protect the environment. By 1959, the Amazon forests, the Andean area, and the Pacific coast were protected. In 1973, the government created the National Resources and Environment Code. The main environmental agency is the Institute for Development of Renewable Natural Resources and the Environment (INDERENA), established in 1969. Among other activities, it has undertaken extensive projects in the training of personnel in conservation, fishing, and forestry. The Colombian Sanitary Code, in force since January 1982, establishes pollution control standards. The National Environmental Education Plan for 1991–94 introduces environmental issues in the elementary schools. In 2003, about 10.2% of the total land area was nationally protected. Los Katios National Park is a natural UNESCO World Heritage Site. There are three Ramsar wetland sites.

According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 39 types of mammals, 86 species of birds, 15 types of reptiles, 208 species of amphibians, 23 species of fish, and 222 species of plants. Endangered species in Colombia include the tundra peregrine falcon, Cauca guan, gorgeted wood-quail, red siskin, pinche, five species of turtle (green sea, hawksbill, olive ridley, leatherback, and arrau), two species of alligator (spectacled caiman and black caiman), and two of crocodile (American and Orinoco). The Colombian grebe and the Caribbean monk seal have become extinct.

6 POPULATION

The population of Colombia in 2005 was estimated by the United Nations (UN) at 46,039,000, which placed it at number 28 in population among the 193 nations of the world. In 2005, approximately 5% of the population was over 65 years of age, with another 32% of the population under 15 years of age. There were 98 males



LOCATION: 12°27'46" N to 4°13'30" S; 66°50'54" E to 79°1'23" W. BOUNDARY LENGTHS: Caribbean Sea, 1,760 kilometers (1,094 miles); Venezuela, 2,050 kilometers (1,274 miles); Brazil, 1,643 kilometers (1,021 miles); Peru, 2,900 kilometers (1,802 miles); Ecuador, 590 kilometers (367 miles); Pacific Ocean, 1,448 kilometers (900 miles); Panama, 266 kilometers (140 miles). TERRITORIAL SEA LIMIT: 12 miles.

for every 100 females in the country. According to the UN, the annual population rate of change for 2005–2010 was expected to be 1.7%; the government sought to reduce adolescent fertility, which it viewed as too high. The projected population for the year 2025 was 58,294,000. The population density was 41 per sq km (105 per sq mi), with about 95% of the population residing in the mountainous western half of the country.

A rapid transfer of population to urban centers has taken place since the 1950s, and during the 1990s, over a million people were internally displaced. The UN estimated that 75% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 1.96%. The capital city, Bogotá, had a population of 7,290,000 in that year. The populations of other major metropolitan areas were as follows: Medellín, 3,236,000; Cali, 2,583,000; and Barranquilla, 1,918,000. Other metropolitan areas include Cartagena, Bucaramanga, and Cúcuta.

7 MIGRATION

Despite government inducements, such as the granting of agricultural land in the eastern plains, immigration has been insignificant, partly because of guerrilla activity and violence. Emigration is small but significant, since many of those who leave the country are scientists, technicians, and doctors. Between 1951 and 1985, some 218,724 Colombians settled in the United States. In 1990 there were more persons in the United States of Colombian birth—304,000—than of any other South American nationality.

As of May 1997, more than 900,000 people had been internally displaced by the violence between the leftist guerrillas and government forces. Though estimates varied, studies agree that displacement is pan-national and on the rise. Twenty-seven provinces within Colombia have been affected by the internal displacement in as far as most of the displaced people have moved to the cities of Colombia. According to SISDESC (System of Information on the Families Displaced by Violence in Colombia), in 1997, every two hours two families were displaced by violence in the country. Between 1985 and 2004, Colombia's internally displaced population numbered 3,100,000.

While the level of external displacement does not match the level of internal displacement, there is a steady outflow of people fleeing the country. The three neighboring countries most affected by cross-border movements are Panama, Ecuador, and Venezuela. In 1999, about 3,000 Colombians from the north of Santander Department fled to Venezuela in response to the armed conflict in the region. In 2004, there were 141 refugees in Colombia, 85 asylum seekers, and 2,000,000 internally displaced persons. As of 2005, the net migration rate of Colombia was estimated as 0.31 migrants per 1,000 population. The government views the migrant levels as satisfactory.

8 ETHNIC GROUPS

The predominant racial strain in Colombia is the mestizo (mixed white and Amerindian), constituting about 58% of the total population. An estimated 20% of the inhabitants are of unmixed white ancestry; 14% are mulatto (black-white); 4% are black; 3% are *zambo* (black-Amerindian); and 1% are pure Amerindian. Blacks and mulattoes are concentrated in the coastal regions and tropical valleys. Pure Amerindians are rapidly disappearing; the remaining few live mainly in inaccessible and barren regions. The

principal Amerindian culture of Colombia during the pre-Columbian period was that of the Chibcha, whose descendants are today chiefly concentrated in the departments of Cundinamarca, Boyacá, Santander, and Norte de Santander. The Mutilones, one of the few surviving Amerindian groups untouched by civilization in South America, inhabit the region west of Lake Maracaibo and the Venezuelan border; they are famous for their lethal weapon, the black palm bow and arrow. Small, diverse Amerindian groups also inhabit the eastern extremities of the Colombian plains region, the south, and the western coastal jungles.

9 LANGUAGES

The official language, Spanish, is spoken by all but a few Amerindian tribes. Spanish as spoken and written by educated Colombians is generally considered the closest to Castilian in Latin America.

10 RELIGIONS

Roman Catholicism was the country's official religion until the adoption of the 1991 constitution. The current law states that there is no official or state religion but adds that the state is "not atheist or agnostic, nor indifferent to Colombians' religious sentiment." Some have interpreted this as meaning that the Roman Catholic Church retains a privileged position; however, a 1994 constitutional court decision declared unconstitutional any official government reference to religious characterizations of the country.

According to a national poll commissioned by the nation's leading newspaper, *El Tiempo*, 81% of the people are Roman Catholic and about 14% belong to other Christian denominations. Officials from the Roman Catholic Church, however, estimate that 90% of the population is Roman Catholic. Protestant groups such as the Seventh-Day Adventists, Jehovah's Witnesses, and the Church of Jesus Christ of Latter-Day Saints make up less than 1% of the population. Other religious faiths or movements include Judaism, Islam, animism, various syncretic beliefs, agnosticism, and atheism. A number of Afro-Colombians, particularly those residing in the department of Choco, practice a syncretic religion which combines elements of Catholicism with African animism. About 1.9% of the population claimed no religious beliefs.

According to a 1997 public law agreement, non-Catholic religious organizations must receive special permission from the state in order to provide chaplains to public institutions such as hospitals or prisons or to perform marriages recognized by the state. Total membership, social popularity, and the content of an organization's statutes and required behavioral norms are considered before permission is granted. As of 2004, only 13 non-Catholic churches had received the necessary status to perform legal marriages.

A 2004 report indicated that religious leaders and followers were regular targets of killings, kidnappings, and extortion by the Revolutionary Armed Forces of Colombia (FARC) and the National Liberation Army (ELN). However, many of the incidents in question seemed to be motivated primarily by political and economic issues.

11 TRANSPORTATION

Transportation lacks integration, owing to the mountainous terrain. For this reason, air transportation has become the most important means of travel for most passengers. Despite the develop-

ment of roads and railways, river travel has remained the chief mode of transportation for cargo since the trip up the Magdalena River in 1536 by the Spanish conqueror Gonzalo Jiménez de Quesada. Inland waterways navigable by riverboats totaled 9,187 km (5,742 mi) in 2004. The Magdalena, the fourth-largest river in South America, is navigable for 950 km (590 mi) and carries almost all of Colombia's river traffic.

The railroads, which were nationalized in 1954 and deregulated in 1989, had a combined 3,304 km (2,053 mi) of standard and narrow gauge track in 2004. Of that total, narrow gauge accounted for 3,154 km (1,962 mi).

Also in 2002 there were about 110,000 km (68,354 mi) of roads, of which only about 26,000 km (16,156 mi) were paved. Many roads are plagued by landslides and washouts. The 2,800-km (1,700-mi) Caribbean Trunk Highway, completed in 1974, links the Atlantic ports of Cartagena, Barranquilla, and Santa Marta with the Pan-American Highway (south of Panama) and the Venezuelan highway system. In 2003 there were 850,000 passenger cars and 534,500 commercial motor vehicles.

Owing to inadequate land transport, air service is essential and well developed. A flight from Bogotá to Medellín takes only half an hour, while a truck requires 24 hours over a winding mountain road. In 2004 there were an estimated 980 airports. As of 2005, only 100 had paved runways, and there were also 2 heliports. Colombia's airline, Avianca, is the second-oldest commercial airline in the world and one of the largest in Latin America. Avianca handles about two-thirds of the domestic and international movement of passengers. Most of the country's air transportation is handled by the six principal airports at Bogotá, Barranquilla (E. Cortissoz), Medellín, Cali, Cartagena (Rafael Núñez), and San Andreas. In 2003, these airports serviced about 9.143 million passengers.

Colombia's merchant marine is dominated by the Grand Colombian Merchant Fleet (Flota), a stock corporation owned by the Colombian Coffee Federation. In 2005, merchant marine companies had an aggregate of 15 vessels with 1,000 GRT or over, totaling 35,427 GRT. The nation's chief ports on the Caribbean are Barranquilla, Cartagena, and Santa Marta. Buenaventura is the only important Pacific port.

12 HISTORY

Archaeological studies indicate that Colombia was inhabited by various Amerindian groups as early as 11,000 BC. Prominent among the pre-Columbian cultures were the highland Chibchas, a sedentary agricultural people located in the eastern chain of the Andes.

The first Spanish settlement, Santa Marta on the Caribbean coast, dates from 1525. In 1536, Gonzalo Jiménez de Quesada and a company of 900 men traveled up the Magdalena River in search of the legendary land of El Dorado. They entered the heart of Chibcha territory in 1538, conquered the inhabitants, and established Bogotá. As a colony, Colombia, then called New Granada, was ruled from Lima, Peru, until it was made a viceroyalty. The viceroyalty of New Granada, consolidated in 1740, incorporated modern Colombia, Panama, Venezuela, and Ecuador. The area became Spain's chief source of gold and was exploited for emeralds and tobacco.

In the late 1700s, a separatist movement developed, stemming from arbitrary taxation and the political and commercial restric-

tions placed on American-born colonists. Among the Bogotá revolutionaries was Antonio Nariño, who had been jailed for printing a translation of the French Assembly's Declaration of the Rights of Man. Independence, declared on 20 July 1810, was not assured until 7 August 1819, when the Battle of Boyacá was won by Simón Bolívar's troops. After this decisive victory, Bolívar was tumultuously acclaimed "Liberator" and given money and men to overthrow the viceroyalty completely.

After 1819, Bolívar's Republic of Gran Colombia included Colombia, Venezuela, Ecuador, and Panama. Venezuela and Ecuador seceded, but Panama remained part of Colombia. In 1831 the country became the State of New Granada. Political and financial order was attained under Francisco de Paula Santander, Bolívar's vice president, who took office in 1832. During Santander's four-year term and in the subsequent decade there was intense disagreement over the relative amount of power to be granted to the central and state governments and over the amount of power and freedom to be given to the Roman Catholic Church. Characterized by Bolívar as Colombia's "man of laws," Santander directed the course of the nation toward democracy and sound, orderly government.

By 1845, the supporters of strong central government had organized and become known as the Conservatives, while the federalists had assumed the Liberal label. The respective doctrines of the two parties throughout their history have differed on two basic points: the importance of the central governing body and the relationship that should exist between church and state. Conservatism has characteristically stood for highly centralized government and the perpetuation of traditional class and clerical privileges, and it long opposed the extension of voting rights. The Liberals have stressed states' rights, universal suffrage, and the complete separation of church and state. The periods during which the Liberals were in power (1849–57, 1861–80) were characterized by frequent insurrections and civil wars and by a policy of government decentralization and strong anticlericalism.

As effective ruler of the nation for nearly 15 years (1880–94), the Conservative Rafael Núñez, a poet and intellectual, restored centralized government and the power of the church. During his tenure as president, the republican constitution of 1886 was adopted, under which the State of New Granada formally became the Republic of Colombia. A civil war known as the War of a Thousand Days (1899–1902) resulted in more than 100,000 deaths, and the national feeling of demoralization and humiliation was intensified by the loss of Panama in 1903. After refusing to ratify without amendments a treaty leasing a zone across the Isthmus of Panama to the United States, Colombia lost the territory by virtue of a US-supported revolt that created the Republic of Panama. Colombia did not recognize Panama's independence until 1914, in exchange for rights in the Canal Zone and an indemnity from the United States.

Conservative presidents held power between 1909 and 1930, and Liberals from 1930 to 1942. During World War II, which Colombia entered on the side of the Allies, social and political divisions within the country intensified.

The postwar period was marked by growing social unrest in the capital and in the countryside. Politics became much more violent, especially after the assassination of Jorge Eliécer Gaitán, the leftist Liberal mayor of Bogotá. This sparked protests that devel-

oped into riots, the “Bogotazo,” in Bogotá, the end of which only led Liberals and Conservatives into sporadic guerrilla fighting. This extended and bloody period is commonly known as La Violencia, it claimed 150,000 to 200,000 lives. The political system in the 1950s had become irrelevant in the midst of the violence. Three years of Conservative government were followed by a populist military government under Gen. Gustavo Rojas Pinilla, who managed a slightly successful recovery of arms from guerrillas. Rojas ruled as an absolute dictator, but could not quell the violence still raging in the field. Overthrown largely by a coalition of Conservatives and Liberals who used newsprint as their weapon, Rojas gave up power in May 1957 to a military junta, which promised and provided free elections.

When the fall of Rojas was imminent, Liberal and Conservative leaders met to discuss Colombia's future. The period of La Violencia had convinced Colombia's elite that there was a need to bring the rivalry between Liberals and Conservatives under control. Determined to end the violence and initiate a democratic system, the parties entered into a pact establishing a coalition government between the two parties for 16 years. This arrangement, called the Sitges Agreement, created the National Front and was ratified by a plebiscite in December 1957. Under the terms of this agreement, a free election would be held in 1958. The parties would then alternate in power for four-year terms until 1974. Thus, Liberals and Conservatives would take turns in the presidency. Parties were also guaranteed equal numbers of posts in the cabinet and in the national and departmental legislatures.

In 1958, the first election under the National Front, was won by Liberal Alberto Lleras Camargo. As provided in the agreement, he was succeeded in 1962 by a Conservative, National Front candidate Guillermo León Valencia.

During this time another civil war period began. A group of leftist liberals who had established small independent agrarian republics during La Violencia and who were cut out of the power-sharing Sitges Agreement, were attacked by the government in 1964. Two years later the survivors formed the FARC (Fuerzas Armadas Revolucionarias de Colombia) with the stated goal of overthrowing the government. A year earlier in 1965, another group with roots in La Violencia, the ELN (Ejército de la Liberación Nacional), formed the second major revolutionary group after receiving training in revolutionary war tactics in Cuba.

In May 1966, Colombia held another peaceful election, won by Carlos Lleras Restrepo, a Liberal economist. Although lacking the necessary two-thirds majority required under the Colombian constitution to pass legislation, Lleras came to power with the firm support of the press and other important public sectors. His regime occupied itself with increasing public revenues, improving public administration, securing external financial assistance to supplement domestic savings, and preparing new overall development plans. In April 1970, Conservative Party leader Misael Pastrana Borrero, a former cabinet minister, was elected president, narrowly defeating former President Rojas. The election results were disputed but later upheld. A third major revolutionary group, the urban guerrilla M-19 (Movimiento 19) formed a few years later, taking their name from the 19 April 1970 elections dispute.

In August 1974, with the inauguration of the Liberal Alfonso López Michelsen as president, Colombia returned to a two-party

system for presidential and congressional elections. As provided by a constitutional amendment of 1968, President López shared cabinet posts and other positions with the Conservative Party. In 1978, another Liberal candidate, Julio César Turbay Ayala, won the presidency, but because his margin of victory was slim (49.5% against the Conservatives' 46.6%), he continued the tradition of giving a number of cabinet posts to the opposition. In June 1982, just before leaving office, Turbay lifted the state of siege that had been in force intermittently since 1948.

Because of a split in the Liberal Party, the Conservatives won the 1982 elections, and a former senator and ambassador to Spain, Belisario Betancur Cuartas, was sworn in as president in August. He continued the tradition of including opposition party members in his cabinet, however, Betancur's most immediate problem was political violence. Since the late 1970s kidnappings and political murders by both left- and right-wing organizations had become common. In 1983, it was estimated that some 6,000 leftist guerrillas were active in Colombia in at least four guerrilla groups. The Betancur government pursued a policy of negotiation with the guerrillas. He offered amnesty and political recognition in exchange for the cessation of activity and for joining in the electoral process. Betancur's last year in office was marred when M-19 seized the Palace of Justice. Troops stormed the building; it was completely destroyed by fire and over 90 people were killed.

The 1986 election went resoundingly to the Liberals under the longtime politician Virgilio Barco Vargas, who campaigned on a platform of extensive economic and social reform that focused on poverty and unemployment. Barco won with a significant majority and the Conservative Party broke from the tradition started by the National Front by refusing cabinet and other government posts to the Liberals. President Barco did not match the rhetoric of his campaign with policies of any substance, and the economy continued to stagnate. Barco made no progress with drug traffickers, who arranged for the murder of his attorney-general. However, he was able to initiate a plan aimed at bringing guerrilla groups into the political system.

Also, in the 1980s a new military force came into being in Colombia, the paramilitary organizations. These were started by narcotics traffickers, wealthy civilians, businesses, political parties, and the military. This myriad of founders hired their paramilitaries for an equally variable number of violent ends: to assassinate, terrorize, protect from kidnappers, cleanse the country of socially unwanted peoples (such as drug addicts, thieves, prostitutes, beggars, street children, and others), and to fight against the rebels (such as the FARC, the ELN, and the M-19). By 1989 all paramilitary organizations were outlawed, but continued to operate with impunity. The complicated balance of military power in Colombia was then exercised through the government, the rebels, the narcotics traffickers, and the paramilitary organizations. It was estimated that during the 1980s Colombian drug traffickers controlled 80% of the world's cocaine trade.

The election of 1990 brought another Liberal, César Gaviria Trujillo, to the presidency. In that election, three candidates were assassinated. Gaviria continued Barco's outreach to the various leftist guerrilla groups, and in 1991 the notorious M-19 group demobilized and became a political party. The other groups chose to remain active. Gaviria responded to their intransigence in November 1992 by announcing new counterinsurgency measures

and a hard-line policy against both guerrillas and drug traffickers. A constitutional assembly was also held to create a new constitution, which was promulgated on 5 July 1991. It included a number of reforms aimed at increasing the democratization of Colombia's elite-controlled political system.

The powerful Medellín cartel stepped up its terrorist attacks, including car bombings and political assassinations, but the new constitution strengthened government control and the leaders of the cartel surrendered to the Gaviria government in 1991. However, head boss Pablo Escobar escaped from government custody the following year, and was eventually hunted down and killed in 1993. Most top leaders of the Cali cartel, which had taken over much of the Medellín market, were arrested in 1995 and subsequently imprisoned. Even with the arrests, Colombia's lucrative drug trade continued to flourish.

In the 1994 elections, Colombians continued their preference for Liberal candidates, with Ernesto Samper Pizano winning a runoff election against Conservative TV newscaster Andrés Pastrana. In the general election, only 18,499 votes separated the two candidates. The campaign was again marked by widespread political violence. Samper's government was weakened by charges that he and other senior government officials had accepted money from drug traffickers during the 1994 election campaign. (Congress formally exonerated the president of these charges in 1996.)

As of 1996, there was a guerrilla presence in over half the country's villages and towns, and it was estimated that about one million Colombians had fled their homes between 1987 and 1997 as a result of rural violence. With forces estimated at 10,000, there was no apparent prospect that guerrilla groups would succeed in taking over the country, but they continued to thrive, relying heavily on funds from the drug cartels following the collapse of the Soviet Union.

In 1998, the Conservative Party came back to power when Andrés Pastrana won the presidential election with 50.5% of the vote, defeating Liberal Horacio Serpa. Pastrana was committed to negotiations, but the absence of peace kept interrupting any progress. In November 1998, Pastrana ceded a large area in south-central Colombia to FARC's control as a goodwill gesture, but the rebels continued to mount attacks, until finally Pastrana ordered the military to attack rebel positions and reassert control over the rebel zone. The FARC felt betrayed and withdrew into the jungle. Similarly, Pastrana sought more collaboration from the United States to fight the war, but his efforts proved fruitless. What would have been an aid package turned into the adoption of Plan Colombia in 2000, a multibillion dollar initiative funded by the US government aimed at combating drug production. This generated criticism for its heavy focus on military action rather than economic incentives that could lead peasants to abandon coca leaf production.

In the 2002 presidential election, former Liberal Party leader turned independent Álvaro Uribe won with 53.1% of the vote. Campaigning on a tough platform against guerrilla leaders and drug traffickers, Uribe promised a relentless fight against organized crime if elected. In the first term Uribe's government increased the military and police presence throughout the country, increased social spending and health care, nationalized or reorganized many state-owned companies, and increased the number of indicted and extradited narcotics traffickers.

The two major developments in Uribe's first term were the demobilization of the paramilitary groups and the constitutional amendment to allow a president to run for a second term in office. The demobilization of the paramilitaries was controversial internationally because the leaders were penalized very lightly for their involvement in the drug trade, for the violent acts which they perpetrated, and because there appeared to be few guarantees that they would completely disarm or completely demobilize. Plan Colombia was pushed forward but the drug trade was not subdued. During his first term in office, Uribe enjoyed popular support and was able to build a coalition of Liberal and Conservative legislators to push through his tough plans against the guerrillas, as well as to amend the constitution to allow for a second term in office. As of December 2005, initial peace talks were ongoing with the ELN.

13 GOVERNMENT

Colombia is a unitary republic, organized democratically under the constitution of August 1886, substantially amended in 1910, 1936, 1945, 1957, 1959, 1968, and 1979, and superseded by the constitution of 1991, which included provisions guaranteeing health care, social security, and human rights protection.

The Congress consists of a 161-member Chamber of Representatives and a 102-member Senate. Members of both houses are elected directly for four-year terms. Colombian congressional representation is determined by the size of the population. Some seats are reserved for blacks, Indians, and other minorities. The chief executive is granted the initiative in fiscal policies and the power to declare a state of emergency during times of economic and social stress. Under such a declaration, the president may rule by decree for a period of not longer than 90 days in any one year. There is universal suffrage for those 18 years of age and over.

Historically, Colombia had an officer called the *designado* (designate), elected by Congress every two years, who served as a sort of vice president and was responsible for exercising the executive function in the president's absence. The 1991 constitution introduced a formal vice presidency. The Constitution was amended in 2005 to increase the number of terms a president is allowed to serve, from one to two consecutive four-year terms.

14 POLITICAL PARTIES

For many years, the Colombian constitution allowed only two political parties, the Liberal and the Conservative, to participate in the national government. These two parties consistently dominated Colombian politics. Recent changes allow for more parties, and several have emerged, but the Conservative and Liberal parties control the majority of elected offices.

The Liberal Party (Partido Liberal—PL) continues to support religious toleration and a positive response to the social and economic demands of the masses. The Liberals theoretically support separation of church and state, though in practice a strong church is accepted. Federalism, while important in theory, has been abandoned in practice by Liberal leaders. In general, Liberals have been more successful in elections since the end of the National Front than the Conservatives and have controlled the majority of seats in both houses.

The policy of the Conservative Party (Partido Conservador Social—PCS) has been characterized by close cooperation with the

Roman Catholic Church, a lack of tolerance for non-Roman Catholic religious beliefs, maintenance of class privileges, and highly centralized government with local authority strictly subservient to national rule. Before universal suffrage, the Conservatives sought to allow only heads of families to vote. Under the leadership of Andrés Pastrana, the son of former Conservative president Misael Pastrana, the PCS regained the presidency in 1998.

Despite the spread of suffrage and the rise of industrialization and a middle class, both parties continue to be dominated by a wealthy oligarchy. Both are controlled at the national level by a convention and a directorate, and congressional discipline is strong. Since the National Front agreement of 1958, the two parties have become increasingly similar ideologically.

Congressional and presidential elections from 1958 through 1982 primarily constituted votes of confidence in the National Front. Perhaps as a means of protest, 60% of eligible voters abstained from the presidential election in 1978, and 80% of the electorate abstained from the municipal and local elections of March 1980. In 1982 and 1986, however, Colombian voters turned out in record numbers, with 55% of the electorate participating in the presidential ballot in 1982 and 57% in 1988.

The Colombian Communist Party (Partido Comunista de Colombia—PCC), a traditional, Marxist-oriented party, combined with the nation's largest guerrilla group, the Colombian Revolutionary Armed Forces (Fuerzas Armadas Revolucionarias de Colombia—FARC), to form the Patriotic Union (UP); the group has not become a major force in electoral politics.

There is considerable independent party activity in Colombia, and it has been increasing. Traditionally, the third force in Colombian politics was provided by former dictator Rojas Pinilla, whose National Popular Alliance (Alianza Nacional Popular—ANAPO), now defunct, was a strong party movement. The election dispute of 19 April 1970 gave rise to the extremist rebel group M-19, which stood for the April 19th Movement. After over two decades of military action against the government, M-19 demobilized in 1991. M-19 is part of a coalition of leftist parties and other dissident groups, called Democratic Alliance M-19, which no longer had a presence in Congress as of 2006. Several militant leftist groups remain outside the political system, including the National Liberation Army (Ejército de Liberación Nacional—ELN) and the Revolutionary Armed Forces of Colombia. Although officially a member of the Patriotic Union political party, the FARC also refuses to demobilize. The People's Liberation Army (EPL) began to demobilize in 1993, but a dissident faction refused orders to lay down arms, and returned to the field.

The traditional parties have lost so much power that President Uribe was elected as an independent. It was the first time since 1957 that the president was not elected under the Liberal or Conservative party tickets.

15 LOCAL GOVERNMENT

Colombia is divided into 32 departments (states) and the Bogotá federal district, and subdivided into 1,011 municipalities. Departments control their own finances, as well as administration, within the limits set by the constitution. Governors of departments, once appointed by the president, are now elected. Each departmental assembly meets yearly for a session of two months. As-

sembly members are elected by universal suffrage, one for each 40,000 inhabitants.

The departments have the power to establish municipal districts and to review the acts of the municipal governments to determine their constitutionality. Each municipality has a popularly elected municipal council. Another reform from the 1991 constitution is the direct election of mayors; previously mayors were chosen by the president and were directly under the control of their respective governors. Mayors are elected for a two-year term by direct vote.

16 JUDICIAL SYSTEM

The judicial system is comprised of a Constitutional Court, Supreme Court of Justice, Council of State, the Higher Judiciary Council, and superior and municipal courts. The Supreme Court in Bogotá is composed of 24 magistrates selected for lifetime terms by justices already in office. The Supreme Court reviews state and municipal laws, frames bills to be submitted to Congress, and proposes reforms. It acts as an advisory board to the government and can veto decrees. It has original jurisdiction in impeachment trials and constitutional interpretation and appellate jurisdiction in ordinary judicial matters. The court is divided into four chambers—civil cassation, criminal cassation, labor cassation, and constitutional procedure.

The 1991 constitution extensively revised the judicial system. It established an independent prosecution system and a national people's defender office to investigate human rights cases. Traditional courts on Indian reservations were validated. A Constitutional Court reviews the constitutionality of proposed legislation.

There is a superior court of three or more judges in each of the judicial districts and a number of municipal courts. A judge of minors in the capital of each department has jurisdiction throughout the department. There are also special labor courts. In criminal cases, the judge chooses a five-member jury; jury duty is obligatory. There is no capital punishment and the maximum penalty for crimes is 20 years in prison. Although the right of habeas corpus is guaranteed by the constitution, suspects in security cases have been detained incommunicado for 10 days or longer.

The judiciary is independent, both in theory and in practice, from the executive and legislative branches. In 1991, the government set up five regional jurisdictions to handle narcotics, terrorism, and police corruption cases in which anonymous judges and prosecutors handle the major trials of narcotics and terrorists. However a 1996 law dictated that the regional justice system would cease to exist by 30 June 1999.

The jurisdiction of the regional justice system included drug-related crimes, crimes against the state and constitutional order, arms manufacturing and trafficking, terrorism, and membership in illegal armed groups, but in practice, a wide array of cases were processed by the regional justice system. The inadequate description of the crimes which fell within its competence and the imprecise jurisdiction of the regional justice system elongated processing and led to situations in which either influential individuals avoided this jurisdiction or less fortunate individuals were unable to do so, and often served the applicable sentence for the crime charged before the case even went to trial.

17 ARMED FORCES

Colombia's armed forces in 2005 had 207,000 active personnel, with 60,700 reservists. The Army had 178,000 active members. Equipment included 12 light tanks (all in storage) 135 reconnaissance vehicles, over 192 armored personnel carriers and 639 artillery pieces. The Air Force had 7,000 active personnel. Equipment included 22 combat capable aircraft under the service's Air Combat Command and another 30 under the Tactical Air Support Command. The Navy had 22,000 personnel, including 14,000 Marines and 100 naval aviation personnel. Major naval units included four tactical submarines, four corvettes and 179 patrol/coastal vessels. The naval air arm had seven transport and two utility fixed wing aircraft and one antisubmarine warfare and two utility helicopters. The country's paramilitary forces consisted of an 8,000 member rural militia and a 121,000-member national police force.

Colombia's defense forces are frequently occupied in opposing rural violence, often stemming from militant guerrilla groups and drug lords' armies. Opposition forces include the *Coordinadora Nacional Guerrillera Simón Bolívar* (CNGSB) which is in collaboration with guerrilla groups numbering around 18,000. The right-wing paramilitary group *Autodefensas Unidas de Colombia* (AUC) has approximately 10,600 members. The defense budget in 2005 totaled us\$3.5 billion.

18 INTERNATIONAL COOPERATION

Colombia is a charter member of the UN, having joined on 5 November 1945, and participates in ECLAC and many specialized agencies, such as FAO, ILO, IMF, IAEA, UNESCO, UNHCR, the World Bank, and WHO. Colombia became a member of the WTO on 30 April 1995. The nation is a member of the Andean Community of Nations and a nonregional member of the Central American Bank for Economic Integration (BCIE). It also participates in the Caribbean Development Bank, G-3, G-24, G-77, the Latin American Economic System (LAES), the Latin American Integration Association (LAIA), the Association of Caribbean States (ACS), OAS, and the Río Group. Colombia is an observer in CARICOM and an associate member of Mercosur.

The nation is part of the Nonaligned Movement, the Agency for the Prohibition of Nuclear Weapons in Latin America and the Caribbean (OPANAL), and the Organization for the Prohibition of Chemical Weapons. It is a member of the Permanent Court of Arbitration. The country is a signatory of the 1947 Río Treaty, an inter-American security agreement. In environmental cooperation, Colombia is part of the Antarctic Treaty, the Basel Convention, the Convention on Biological Diversity, Ramsar, CITES, International Tropical Timber Agreements, the Kyoto Protocol, the Montréal Protocol, MARPOL, the Nuclear Test Ban Treaty, and the UN Conventions on Climate Change and Desertification.

19 ECONOMY

With the expansion of the manufacturing sector, Colombia has become more dependent upon industry (34.3% of GDP in 2005) than agriculture (12.5% of GDP). Historically, coffee was by far the most important crop: its share of total exports ranged from about 40–65% of the annual total between 1964 and 1986, depending on crop yields and international commodity prices. In 1997, this share had dropped to only 21%, and by 2000, to 8%. A

fall in coffee prices in 2001 reduced coffee's share further, to 6.2%. Nontraditional exports, however, increased 5% in 2001. Colombia's policy has been to reduce its dependence on coffee exports because of widely fluctuating world market conditions, and to encourage other agricultural exports, especially sugar, bananas, rice, potatoes, and cotton. The government has also attempted to attract investment in manufacturing and mining projects. Colombia became a net exporter of petroleum in 1986, and coal has become a major export as well. New oil output from the Cusiana field and other fields helped Colombia reach a record production level in 1999—830,000 barrels per day. By 2002, production had been reduced to 591,250 barrels per day. The share of oil exports to total exports dropped from 34.8% in 2000 to 24.9% in 2001. There is concern that without substantial new crude oil discoveries, Colombia will revert to being a net importer of crude oil again within a few years. Exploration of vast areas of likely territory is inhibited by the occupation of about 40% of the country by groups (mainly the FARC and the ENL) that are not only trying to overthrow the government, but which have made the oil industry infrastructure the prime target of their guerrilla attacks. The Trade Development Bureau's PROEXPO Fund (since renamed the Foreign Trade Bank) was established in 1967 to increase the volume of nontraditional exports and to provide a flexible exchange rate and special tax incentives. Foreign direct investment (FDI), which reached a yearly rate of us\$5.56 billion in 1997, fell to a little over us\$2 billion a year in 2001 and 2002, as the guerrilla attacks continued unabated (an estimated 3,500 persons were killed in attacks in 2002, with another 2000 kidnapped), reaching into urban areas and targeting prominent politicians. In February 2002, the government broke off negotiations that had been going on for three years with no progress towards a resolution.

During the 1970s, Colombia's economy struggled with an inflationary spiral that rose from a rate of 15.4% in 1972 to 25% during the following decade. Inflation remained close to 20% annually through the 1980s and much of the 1990s. After 1983, however, the economy improved significantly, and growth rates rose above the world and hemispheric averages—an average of 4% between 1988 and 1998. In 1990, President Cesar Gaviria instituted an economic restructuring plan known as *apertura* (opening). The program emphasized trade expansion through tariff reduction, free trade agreements, and privatization of state-owned enterprises, including banks, power plants, airports, seaports, roads and telecommunications networks. After the initial burst, the pace of privatization was slowed.

In 1995, domestic political considerations constricted Colombia's economic liberalization. In 1996 and 1997 the administration of US president Bill Clinton decertified Colombia as a country fully cooperative with US narcotics policy. The move was taken in response to continued narco-guerrilla activity in the countryside and to allegations that President Samper had solicited and received campaign contributions from drug cartels. The decertification made it difficult for US companies to further invest in the country, and halted the growth of trade; though the United States remained the biggest foreign investor in the country. The decertification was lifted in 1998, but by then the economy was being impacted by intensified guerrilla activity, fiscal shortfalls, and external shocks—the Asian financial crisis in 1997, the Russian financial crisis in 1998, and the Brazilian financial crisis in 1999. In

1998, GDP growth fell to 0.6% and then in 1999, Colombia experienced its first contraction (-4.2%) since 1983. Growth returned in 2000, but only at the anemic level of 2.7%. Domestic instability and the external economic slowdown combined to reduce growth to 1.4% in 2001 and 1.6% in 2002. In December 1999, the government entered into a three-year arrangement with the IMF under its Extended Fund Facility (EFF), and there was a marked decline in the inflation rate across this period: inflation fell from 18.7% in 1998 to 5.7% in 2002. Unemployment in 2002 was estimated at 17.7%, with subemployment at 35%.

In 1999, due to economic instability in 1998, Colombia signed its first agreement with the IMF for a us\$3 billion approved standby line of credit. The government also unveiled plans to renew the privatization many state-owned enterprises to revitalize the economy. Nevertheless, guerrilla warfare put off potential investors.

In late 2002, the government offered reform legislation in five areas: taxes, pensions, labor, public administration, and banking. In January 2003, the government entered into a us\$2.5-billion standby arrangement with the IMF to support these reforms.

From 2000, the annual average GDP growth was 2.9%; in 2004, it was 4.1%, the highest level since 1995 (as reported by the Economist Intelligence Unit). Figures show that GDP growth continued at this pace in 2005, as well. This growth could be tied to the increases in private investment and household consumption during Alvaro Uribe's term, in which he sought to boost investor confidence in the country. The increase in growth rates was also aided by good international economic conditions.

As of May 2004, Colombia had begun to negotiate a free-trade agreement with the United States (as did Peru and Ecuador). The talks were expected to culminate in a deal in 2006–07 that would increase liberalization by reducing tariffs and restrictions on trade and capital flows, and strengthening property rights protection (including intellectual property rights).

20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 Colombia's gross domestic product (GDP) was estimated at us\$303.1 billion. 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 based on current dollars. The per capita GDP was estimated at us\$7,100. The annual growth rate of GDP was estimated at 4.3%. The average inflation rate in 2005 was 5%. It was estimated that agriculture accounted for 12.5% of GDP, industry 34.3%, and services 53.3%.

According to the World Bank, in 2003 remittances from citizens working abroad totaled us\$3.076 billion or about us\$69 per capita and accounted for approximately 3.8% of GDP. Foreign aid receipts amounted to us\$802 million or about us\$18 per capita and accounted for approximately 1.1% of the gross national income (GNI).

The World Bank reports that in 2003 household consumption in Colombia totaled us\$50.79 billion or about us\$1,139 per capita based on a GDP of us\$80.0 billion, measured in current dollars rather than PPP. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the period 1990 to 2003 household consump-

tion grew at an average annual rate of 1.8%. It was estimated that in 2001 about 59% of the population had incomes below the poverty line.

21 LABOR

In 2005, Colombia's labor force was estimated at 20.52 million. As of 2000, the service industry employed an estimated 58.5% of the workforce, with 22.7% in agriculture and 18.7% in industry. The unemployment rate in 2005 was estimated at 11.8%.

The right to organize unions is provided by the constitution, although violence and discrimination against union members are major obstacles to engaging in union activities. Less than 5% of the workforce was unionized in 2005, with the vast majority of these workers in the public sector. The right to strike is guaranteed by the constitution with the exception of essential workers, such as those in the armed forces or the police.

The basic source of Colombian labor legislation is the Substantive Labor Code. The standard workday is eight hours with a 48-hour workweek. A minimum eight-hour rest period is also required per week. The minimum wage is reviewed each January to set the standard for wage negotiations. As of 2005, the minimum wage was us\$167 per month. This amount does not provide a decent standard of living for a family.

The law prohibits children under the age of 12 from working. Those in the age 12 to 13 category are severely limited as to the kind of work they can perform. Minors between the ages of 14 and 17 are limited in the number of occupations they can enter. In spite of these regulations, child labor remains a significant problem especially in the informal sector and in agriculture. Only 38% of children that worked also attended school.

22 AGRICULTURE

Agriculture, despite an endemic problem of poor productivity, remains the most important segment of the Colombian economy. In 2005, agriculture accounted for 12.5% of the GDP.

Only about 3.7% of Colombia's land area is cultivated, most of it in elevated regions of the temperate zone. The small area of cultivation is due in part to the rugged Andean terrain and in part to lack of irrigation. In 2000–02, 21.5% of cropland was irrigated, up from 13.1% during 1989–91. The flat, fertile valleys are generally devoted to livestock, limiting cultivation to the slopes, an unecological practice that is gradually being changed. Hand cultivation, especially by machete and hoe, predominates, but mechanization is making headway on the larger farms. Fertilizer is expensive and not sufficiently used. The small size of farms is another constraint on agricultural growth: in the mid-1980s, farms of less than 20 hectares (50 acres) accounted for 80% of all agricultural land.

Coffee, by far the most important crop, is grown mainly on the Andean slopes at altitudes of 1,300–1,800 m (4,200–6,000 ft). Colombia, the world's second-largest coffee grower, contributes 13–16% of the total world production each year. In 2004, coffee-growing farms, many under 6 hectares (15 acres), accounted for about 800,000 hectares (2 million acres), about 40% of the land under permanent crops. In 1992, despite a severe drought, the amount of coffee exported increased by over 30% as a result of a successful strategy for expanding the external markets. In 1993, coffee production increased to 1,080,000 tons, but dwindled to only 678,000

tons in 1994. Production in 2004 was 663,660 tons. In 2004, coffee accounted for 28% of agricultural exports.

Sugar, also important, is grown chiefly in the Cauca Valley, with its center at Cali. Many varieties of bananas are grown; bananas for export are produced in the Uraba and Santa Maria regions. Colombia is the world's third-largest banana exporter (after Ecuador and Costa Rica) and supplies about one-sixth of the world export market. Corn, yucca, plantains, and, in high altitudes, potatoes have been traditional food staples since before the Spanish conquest. Beans, rice, and wheat, introduced in the 19th century, are also important in the diet. Other export crops include fresh-cut flowers, cotton, and tobacco. Cocoa is produced in limited amounts for domestic consumption. Colombia produces much of its domestic food requirements, but it has to import wheat, barley, fats, oils, and cocoa.

Since 1940, the government has taken an increasing part in the control, organization, and encouragement of agriculture. Through the Colombian Institute of Agrarian Reform (Instituto Colombiano de la Reforma Agraria—INCORA), farmers are given financial support, technical aid, and social assistance for better housing, education, and health facilities. INCORA acquires land for equitable distribution to farmers and helps to develop potentially valuable but uncultivated land and to increase agricultural productivity. The production-oriented Rural Development Program, begun in 1976, gave technical assistance and credit to about 30,000 small landholders. Farmers have also benefited from the US\$150-million rural electrification program, introduced in 1981, and from a program to extend irrigation and drainage systems, initiated in the early 1980s.

Agricultural production (in thousands of tons) for major crops in 2004 was: sugarcane, 37,100; plantains, 2,950; potatoes, 2,959; rice, 2,663; cassava, 2,218; bananas, 1,450; corn, 1,458; sorghum, 285; cotton, 52; palm kernels, 144; cocoa, 49; and dry beans, 135. Marijuana, coca leaf, and opium are also grown for the production of illicit drugs. In 2003, there were an estimated 144,000 hectares (356,000 acres) producing coca leaf, generating 680 tons of cocaine base, 80% of the world estimate.

23 ANIMAL HUSBANDRY

Occupying about 42 million hectares (104 million acres) of pasture, livestock farming (especially cattle breeding) has long been an important Colombian industry. Of this total area, about 19 million hectares (46.9 million acres) are actually used for livestock production. The Ministry of Agriculture maintains experimental stations in Antioquia and Bolívar departments to improve breeds, but the quality of livestock is still low. Cattle are driven to market by truck. This practice often entails crossing high mountains, with much wastage; accordingly, there has been a movement to construct slaughterhouses and meat-packing plants near the ranges. Dairy farming, not important in the past, expanded in the 1970s, especially near the big cities. Colombian sheep produce about one-third of the wool used by the country's textile industry. The government maintains an experimental station for sheep in Cundinamarca and for goats in Norte de Santander. In 2004 there were 25 million cattle, 2.2 million sheep, and 2.3 million pigs. The production of beef and veal was 690,000 tons in 2004.

24 FISHING

Colombia has an abundance of fish in its Caribbean and Pacific coastal waters and in its innumerable rivers. Lake Tota in Boyacá and Lake La Cocha in Nariño abound in trout, as do the artificial reservoirs of Neusa and Sigsa in Cundinamarca. About half of the annual catch consists of freshwater fish. Tarpon are caught in the delta waters of the Magdalena, and sailfish, broadbills, and tuna in the Caribbean. The 2003 fish catch was 157,794 tons. The development of crustacean aquaculture has expanded since the mid-1980s, especially for Penaeid shrimps. Aquaculture production totaled 60,895 tons in 2003 and consisted primarily of tilapia and rainbow trout.

25 FORESTRY

Colombia's forested area is some 50 million hectares (123.6 million acres), or nearly 50% of the total area. Although much timberland is inaccessible or of limited value, the nation is self-sufficient in lumber. Roundwood production was 9.9 million cu m (350 million cu ft) in 2003; exports of roundwood were valued at US\$3 million that year. The soft tropical woods that predominate are also suitable for plywood production, for paper pulp, and for furniture manufacture; total export of forest products amounted to US\$142.8 million in 2003.

26 MINING

Historically, Colombia has been the world's leading exporter of emeralds, although the fuel sector now dominates the country's mineral production. It also produced a significant amount of gold (ranking second in the region), was Latin America's only producer of platinum, was the third-largest producer of cement, and was a leading producer of nickel. In terms of value, the main minerals produced in Colombia (after petroleum) were coal, emeralds, gold, and platinum, respectively, in 2003. Colombia also produced sizable amounts of common clay, kaolin, dolomite, gypsum, limestone, hydrated lime and quicklime, magnesite, nitrogen (content of ammonia), rock and marine salt, sand, gravel, marble, feldspar, phosphate rock, and sodium compounds (sodium carbonate), as well as small quantities of sulfur (native, from ore), asbestos, bauxite, bentonite, calcite, diatomite, fluorite, mercury, mica, talc, soapstone, prophyllite, dolomite, and zinc.

Production figures for principal nonfuel minerals in 2003 were: gold, 46,515 kg, up from 20,823 kg in 2002; emeralds, 8.963 million carats, up from 5.390 million carats in 2002; nickel, 70,844 metric tons, compared with 58,196 in 2002; iron ore and concentrate, 625,002 metric tons, down from 688,106 metric tons in 2002; silver, 9,511 kg, up from 6,986 kg in 2002; and feldspar, estimated at 55,000 tons. Production of nickel content of ferronickel increased to 47,868 metric tons in 2003, up from 43,987 metric tons in 2002.

According to estimates by the Colombian government, 90% of emerald production is destined for exports. Emerald deposits are located in the sedimentary basin of the Cordillera Oriental, in Boyacá in the Cinturón Esmeraldífero Oriental and Cinturón Esmeraldífero Occidental; more than 60 production licenses were active. Most gold production came from small- and medium-sized alluvial operations, which employed artisanal methods of extraction. All platinum was mined by small mining cooperatives or in-

dividual prospectors, at Río San Juan, Choco. Silver was produced in Segovia and Río Nechi, Antioquia.

The country's substantial copper, iron, nickel, and lead reserves were of major importance to the future development of the economy. The El Roble copper mine produced output for Japan. A copper deposit with reserves estimated at 625 million tons was discovered at Pantanos, Antioquia, in 1973. Cerro Matoso S.A., a subsidiary of BHP Billiton PLC, was the country's sole producer of nickel and ferronickel, near Monetlibano, Córdoba. Reserves of the lateritic nickel mine were estimated to be 39.9 million tons with a nickel content of 2.3%. A second production plant, completed in 2001, ahead of schedule, doubled Cerro Matoso's ferronickel production capacity to 55,000 tons per year of nickel.

Under Article 332 of the 1990 constitution, the state retained the rights to all surface and subsurface nonrenewable and natural resources; the government granted concessions for exploration and production. In 1989, a new mining code sought to encourage mineral exploration and development by expediting the processing of claims, improving the security of mineral occupancy and tenure, and providing financial aid to small- and medium-scale miners. The mining code of 2001 sought to encourage exploration and production of mineral resources and limit the role of the government to one of a regulatory and administrative entity, with more production transferring to the private sector. The law also clarified the provisions for establishing mining contracts.

27 ENERGY AND POWER

Colombia's mountainous terrain and network of rivers offer one of the highest potentials in the world for the generation of hydroelectric power. These resources remain largely undeveloped, despite intensive government efforts. In addition, the nation's energy sector, particularly oil, has had to deal with an ongoing civil war involving a pair of leftist insurgent groups: the Fuerzas Armadas Revolucionarias de Colombia (FARC) and the Ejército de Liberación Nacional (ELN); and the Autodefensas Unidas de Colombia (AUC), a right-wing paramilitary group. Further complicating the security situation has been the problem of narcotics trafficking.

Electric generating capacity was estimated for 2002 to stand at 13.1 GW, of which hydropower accounted for 63.3% and thermal 36.7%. The output of electricity has been estimated for 2002 at 44.9 billion kWh (77% hydroelectricity; 21% thermal), up from 2000, in which output stood at 42.9 billion kWh. Colombia's heavy reliance upon hydroelectric power makes the country vulnerable to drought, such what happened in 1992, when a severe drought led to power blackouts and rationing. Although the government has attempted to encourage the construction of natural gas and coal-fired plants to diversify the nation's electric power supply, since the early 1990s, hydropower has continued to increase its share as a source of power generation. Estimated consumption of electricity rose in 2002, from 2000, to 41.1 billion kWh. In the latter year, consumption of electricity totaled 40.3 billion kWh. Colombia in 2003 had an estimated 7.3 billion short tons in recoverable coal reserves. For the same year, coal production totaled 52.5 million short tons.

According to the Oil and Gas Journal, Colombia has estimated proven petroleum reserves of 1.54 billion barrels and an estimated oil refining capacity of 285,850 barrels per day, as of 1 January 2005. Production of oil rose rapidly from 7.4 million tons in

1982 to 30.1 million tons in 1995. In 1999 it hit an all-time high of 826,000 barrels per day, before declining to 616,000 barrels per day in 2001. In 2004, oil output was estimated at 530,000 barrels per day, of which crude oil accounted of 508,000 barrels per day. Domestic oil consumption was estimated for 2004 at 261,000 barrels per day. The Colombian government since 1999 implemented new measures to encourage increased exploration and production, and to attract foreign investment. While these moves have spurred an increase in the upstream sector, a major contributing factor in the revival of interest, has been an improvement in the nation's security situation. In 2004, the number of kidnappings fell by 60% and attacks against Colombia's oil infrastructure fell significantly in 2003. For example, attacks against the Cano-Limón oil pipeline dropped from 170 in 2001 to 34 in 2003.

The production and consumption of natural gas have grown since the mid-1970s. According to the Oil and Gas Journal, as of 1 January 2005 Colombia had estimated proven natural gas reserves of 4.0 trillion cu ft, down from 4.5 trillion cu ft in 2004. In 2003, production and consumption of natural gas were each estimated at 215 billion cu ft. As with the oil sector, the nation's gas sector has been targeted by saboteurs and guerrillas. However attacks against the natural gas infrastructure and the costs associated with lost production and repairs have been cut, due to increased security measures.

28 INDUSTRY

The National Association of Manufacturers (Asociación Nacional de Industriales—ANDI) represents firms engaged in some 40 different branches of manufacturing. ANDI was founded in 1944 to assist both large and small businesses. Since 1940, the Industrial Development Institute (Instituto de Fomento Industrial—IFI), a government-operated finance corporation, has been investing in enterprises that otherwise might not be undertaken because of high risk or lack of capital. It provides direct financing for construction, acquisition of essential machinery and equipment installation services, and working capital. Most of the industrial activity is concentrated in and around Bogotá, Medellín, Barranquilla, and Cali. Industries in Medellín produce textiles, clothing, chemicals, plastic, and printed materials.

Manufacturing accounted for 15% of GDP in 1950, 24% at its peak in 1977, and 14% in 1998. Colombia is almost self-sufficient in consumer products, which represent about half of total industrial production. The 1970s witnessed a shift in industrial development policies from import substitution to expansion of exports. While the pace of industrial growth declined slightly in the mid-1970s, it increased by 2.5% between 1977 and 1987. This growth continued into the early 1990s, but slowed by mid-decade. Industry declined by 2.3% in 1998. Manufacturing growth began to pick up after the 1997–99 recession, registering a 9.7% growth rate in 2000.

Export-oriented industries include coal and oil derivatives, chemicals, porcelain, and glass. In 1995, mining and hydrocarbons grew by 17%, the highest growth sector in the Colombian economy. That the rest of the industrial economy has been sluggish in recent years is due to a cluster of factors, including the lack of infrastructure, labor difficulties, and most significantly, the civil unrest in the countryside caused by bands of paramilitaries loyal to drug traffickers and political extremists. The decline in indus-

try also reflects an ebb in the country's construction boom. The construction sector grew by nearly 10% a year through the early part of the 1990s, but fell to just 5.3% in 1995. Due to the effects of the recession, construction saw negative growth rates of 14.4% and 19.9% in 1998 and 1999, respectively. The construction sector began to stabilize in 2000, contracting by only 1.5%.

Colombia has five oil refineries. Hydrocarbon production decreased by 15.5% in 2000, but due to the rise in international oil prices, revenues were maintained. Though industrial growth was fairly widespread from 2000–2005, the construction industry appeared to have benefited the most.

2⁹ SCIENCE AND TECHNOLOGY

The government of President Turbay Ayala (1978–82) emphasized research in farming in order to help raise agricultural production. The Academy of Exact, Physical, and Natural Sciences (founded in 1933) and the National Academy of Medicine (founded in 1890), are both located in Bogotá. As of 1996, there were 24 specialized agricultural, medical, scientific, and technical learned societies, and 13 scientific research institutes in Colombia, and the country had 43 universities offering degrees in basic and applied sciences. In 1987–97, science and engineering students accounted for 28% of college and university enrollments.

In 2002, Colombia had 81 researchers and 46 technicians per million people engaged in research and development (R&D). For 2001 (the latest year for which data is available), Colombia's R&D expenditures totaled us\$450.758 million, accounting for 0.17% of GDP. Of that amount, business accounted for 46.9%, followed by higher education at 38.3%, the government at 13.2%, and non-profit institutions at 1.7%. High technology exports in 2002 totaled us\$319 million, or 7% of manufactured exports.

3⁰ DOMESTIC TRADE

There are four primary marketing areas: the Caribbean coast region, the Antioquia region, the Cauca Valley region, and the Bogotá region. Firms desiring distribution of their products to all important national markets generally appoint agents in the leading city of each of the four regions (Barranquilla, Medellín, Cali, and Bogotá, respectively). Most small purchases are made for cash, but many stores offer installment credit facilities. A 16% value-added tax applies to most goods and services. As of 2002, there were about 80 franchise companies operating stores through the country. These are primarily foreign-based fast-food establishments.

Small, individually owned retail establishments predominate, although chain stores are increasing. Variety stores and department stores on the pattern of those in the United States are becoming popular, and food supermarkets are increasing in larger cities. Local farmers' markets, however, are still more generally patronized even in the cities, and in rural areas they are often the only trading centers. Direct marketing is gaining in popularity.

Business hours vary largely with climatic conditions; however, the usual workday is from 7:30 or 8 AM to noon and from 1 to 4:30 or 5 PM. Most businesses close on Saturday afternoons, Sundays, and on state or religious holidays. Banking hours are generally from 9 AM to 3:30 PM. Retail establishments are generally open from 9 AM to 7 or 8 PM on weekdays and from 9 AM to 9 PM on Saturdays. Restaurants and other food stores may be open on

Sundays and some holidays. Major credit cards are now generally accepted in most cities and ATM machines are prevalent.

The principal advertising media are newspapers, magazines, radio, and television; in motion picture theaters, it is also customary to display advertisements on the screen between features. There are a number of advertising and public relations firms.

3¹ FOREIGN TRADE

Beginning in 1990, Colombia opened up its economy to greater international trade and investment. The program of liberalization resulted in mass privatizations and lifting of restrictions on foreign investment; and substantially reduced import tariffs while eliminating most import licensing requirements. The government also signed the Andean Free Trade Agreement (ANCOM) with Venezuela, Peru, Ecuador, and Bolivia; the Latin American Integration Association (LAIA) with Argentina, Bolivia, Brazil, Chile, Ecuador, Mexico, Paraguay, Peru, Uruguay, Venezuela, El Salvador, Costa Rica, Guatemala, Nicaragua, and Honduras; a Bilateral Free Trade Agreement with Chile; and an agreement with Mexico and Venezuela called the Group of Three (G-3).

Colombia also has several free-trade zones, the largest of which is Barranquilla, on the Caribbean. Other free-trade zones providing benefits for importers and exporters, as well as for manufacturers located within the zone boundaries, are the Buenaventura Harbor, Cúcuta, Palmaseca (near Cali's international airport), and the Caribbean port of Santa Marta. The illicit trade in marijuana and cocaine, especially to the United States, is known to be substantial, but there are no reliable estimates of its volume or its value. The Colombian government estimated in 1999 that drug traffickers smuggled us\$5 billion annually in contraband into the country.

Colombia exports 10–20% of the world's coffee, which is the country's second-largest commodity export. Fuels contribute largely to the export market, including crude and refined petroleum; and coal, lignite, and peat. Agricultural exports like fruit, nuts, vegetables, sugar, and honey account for a smaller percentage of Colombia's exports.

Principal Trading Partners – Colombia (2003)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	13,092.2	13,880.6	-788.4
United States	6,160.2	4,112.7	2,047.5
Ecuador	779.0	409.7	369.3
Venezuela	694.3	727.4	-33.1
Peru	395.4	193.4	202.0
Mexico	358.2	744.4	-386.2
Dominican Republic	342.4	...	342.4
Netherlands	301.1	103.5	197.6
Italy-San Marino-Holy See	285.2	289.9	-4.7
Germany	264.4	611.7	-347.3
Belgium	227.8	86.7	141.1

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

In 2004, Colombia exported 42.1% of its products to the United States, 9.7% to Venezuela, and 6% to Ecuador, totalling over us\$23 billion. On the other hand, 29.1% of its imports came from the United States, 6.5% from Venezuela, 6.4% from China, 6.2% from Mexico, and 5.8% from Brazil.

3² BALANCE OF PAYMENTS

When President Carlos Lleras Restrepo took office in August 1966, the economy of Colombia was unstable; inflation was spiraling, and there was a lack of centralized economic planning. Lleras embarked on an austerity program that included trade and exchange controls, tight credit policies, tax reforms, a balanced budget, and the determination of priorities in the field of public investment. The cutback in imports had repercussions in the industrial sector, but controls were then loosened and business activity stepped up rapidly.

Colombia succeeded in building up a national account surplus during the 1970s, 1980s, and early 1990s. Emphasis on export expansion, import substitution, and continuation of foreign assistance led to further progress. The second half of the 1990s, though, brought a consistently negative balance of payments of about 5% of GDP. The Pastrana government implemented austerity measures through an IMF us\$2.7-billion loan in the hopes of cutting the fiscal deficit to 3.6% by 2000 and 1.5% by 2003. In 2000, Colombia had a trade surplus of us\$1.5 billion, in contrast with a us\$3.8 billion deficit in 1988. Recent rises in exports have focused on nontraditional exports such as bananas, flowers, gold, emeralds, chemical products, machinery, textiles and apparel, and plastic products. In 2000, due to lower international commodity prices for coffee and coal, those exports decreased.

The CIA estimated that in 2005, the current account balance was in deficit at -us\$917 million.

3³ BANKING AND SECURITIES

The Bank of Bogotá, founded in 1879, was the first Colombian credit establishment. The Bank of the Republic was established in 1923 as the semiofficial central bank. This bank is the sole note-issuing authority. The notes must be covered by a reserve in gold or foreign exchange of 25% of their value. The Bank of the Republic also operates the mint for the government. It rediscounts and makes loans to official and semiofficial institutions. In 1963, the Monetary Board was set up to assume from the bank the responsibility for setting required reserve rates for managing general monetary policy; this board, which formulates monetary, credit, and exchange policy, is thus the most influential financial agency in Colombia. The government supervises the banking system by means of a special governmental body, called the Superintendency of Banks.

In 2000, the Colombian financial system included 29 commercial banks (four of them state-owned), the Colombian Export Promotion Bank (BANCOLDEX), 107 foreign bank offices, six savings and loans corporations (CAVs), 10 development banks, 32 commercial finance companies, 37 trust companies, 33 insurance companies, and a state-owned mortgage bank. The Bank of the Republic and the commercial banks supply mainly short-term loans, and investment corporations make long-term loans.

In 1982, in the wake of a scandal that led to the liquidation of a commercial bank and a finance company, the government moved to reform the banking sector by placing limits on the equity any individual (or his family) could hold in a financial institution and on the credit any lending institution could extend to any individual or entity. Several more crises in the ensuing years shook public confidence in the financial system, but tight government control over the sector has brought it back to a state of partial recovery.

Beginning in 1989, the government began to privatize the banks. Several bank liquidations took place in 1999, including Pacifico, Andino, and Selfin. Two government owned banks merged (Estado and Uconal), while the largest government bank, Caja Agraria, was liquidated and replaced by the new Banco Agrario. The goal was to reduce the number of banking institutions to about 17. The Central Bank devalued the peso by 9% in 1998 and by 10% in 1999 in an effort to stimulate economic growth. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to us\$8.0 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was us\$22.6 billion. The money market rate, the rate at which financial institutions lend to one another in the short term, was 10.4%. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 16.4%.

The Bogotá Stock Exchange, organized in 1928, is the largest official stock exchange in the country. The Medellín Exchange was established in 1961, and the Occidente Stock Exchange in Cali was established in 1983 and began operations in 1993. The Bogotá exchange accounts for about 57%, the Medellín 28%, and the Cali exchange 15%. In 2004, a total of 114 companies were listed by the combined Bogotá, Medellín and Cali stock exchanges (Colombia Stock Exchange), which had a market capitalization of us\$25.223

Balance of Payments – Colombia (2003)

(In millions of US dollars)

Current Account			-1,456.0
Balance on goods		326.0	
Imports	-13,258.0		
Exports	13,584.0		
Balance on services		-1,551.0	
Balance on income		-3,447.0	
Current transfers		3,216.0	
Capital Account			...
Financial Account			877.0
Direct investment abroad		-923.0	
Direct investment in Colombia		1,746.0	
Portfolio investment assets		-1,741.0	
Portfolio investment liabilities		130.0	
Financial derivatives		-45.0	
Other investment assets		1,651.0	
Other investment liabilities		59.0	
Net Errors and Omissions			391.0
Reserves and Related Items			188.0

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

billion. The IGBC rose 86.2% from the previous year in 2004 to 4,345.8.

34 INSURANCE

The government regulates the insurance industry through the Insurance Section of the Superintendency of Banks. A social insurance system, the Institute for Social Insurance (Instituto para Seguros Sociales-ISS) established by law in 1946, was organized by the Ministry of Labor to provide life and disability insurance, a pension plan, and a health program for employees in the modern private subsector. In 1999, there were 27 insurance companies in operation, two of which were governmental. In Colombia, third-party automobile liability, workers' compensation, personal accident, professional liability, earthquake, and aviation third-party insurance are compulsory.

During 1995, regulations were issued that require insurance companies to adjust investments to market or equity values and to account for such changes through the income statements. Prior to 1995, any such unrealized adjustments were adjusted directly to policy holders' surplus funds. A relatively modest number of insurers, a competitive environment, and a few dominant companies in terms of market share characterize the Colombian market. A number of foreign insurers operate in Colombia, but foreign insurance companies may not establish local branch offices in lieu of opening major offices. Foreign investment in domestic insurance companies is now up to 100%, although a few restrictions may apply. In 2003, direct premiums written totaled us\$1.998 billion, with nonlife premiums accounting for us\$1.449 billion. Colombia's top life insurer that year was Previsora, with us\$144.5 million in gross nonlife premiums written. The country's top life insurer that same year was Suramericana, with us\$224.7 million in gross life premiums written.

35 PUBLIC FINANCE

Much of Colombia's foreign debt has been accumulated by financing infrastructural rather than industrial projects, the latter being more common among Latin American nations during the 1970s and 1980s. Considerable sums were spent in the 1990s to stimulate the development of industry, and higher than normal military expenditures were necessitated by the continuing and disruptive guerrilla activity. The inflationary conditions that prevailed from 1961 into 2000 also stimulated government expenditures. For political reasons, the national government was unable to raise tax revenues sufficient to cover sharply expanding investment outlays. Loans from external financial agencies (including the IMF, IDB, and IBRD) were substantial, but insufficient to permit a buildup in the level of public investment operations. The recession of the early 1980s brought another round of deficits as spending increased far more rapidly than revenues. By the 1990s, reforms in the public sector had greatly improved the efficiency of public expenditures.

The US Central Intelligence Agency (CIA) estimated that in 2005 Colombia's central government took in revenues of approximately us\$46.8 billion and had expenditures of us\$48.7 billion. Revenues minus expenditures totaled approximately - us\$1.9 billion. Public debt in 2005 amounted to 44.2% of GDP. Total external debt was us\$37.06 billion.

Public Finance – Colombia (2003)

(In billions of pesos, budgetary central government figures)

	42,446	74.4%
Revenue and Grants		
Tax revenue	31,472	74.1%
Social contributions	124	0.3%
Grants
Other revenue
Expenditures
General public services
Defense
Public order and safety
Economic affairs
Environmental protection
Housing and community amenities
Health
Recreational, culture, and religion
Education
Social protection

(...) data not available or not significant.

SOURCE: *Government Finance Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

The International Monetary Fund (IMF) reported that in 2003, the most recent year for which it had data, budgetary central government revenues in pesos were c\$42,446 billion. The value of revenues in US dollars was us\$15 million, based on a principal exchange rate for 2003 of us\$1 = c\$2,877.65 as reported by the IMF.

36 TAXATION

In addition to income taxes, Colombia levies a value-added tax (VAT), as well as municipal and property taxes. Many stamp taxes are imposed on legal documents. Personal income tax rates are based on income and there is a flat tax on corporate income. Indirect taxes include a tax on exported goods and services, surcharges on imports, a gasoline tax, and local taxes on vehicles and property.

Colombia's corporate income tax, as of 2005, stood at 35%. However, a 10% surcharge also applies. Branches of foreign companies resident in Colombia are taxed at the same rate as domestic companies, but there is a remittance tax of 7% for foreign companies. A 0.3% tax is charged on debit transactions in the financial system. In 2002, a one-time 1.2% tax on companies and individuals with assets over c\$170 million (about us\$65,000) was assessed to fund increased military spending.

Individual income is taxed according to a progressive schedule with 35% as the highest marginal rate. The main indirect tax in Colombia is its value-added tax (VAT), with a standard rate of 16%. The VAT applies to most transactions, although items such as utilities, insurance, financial and property leasing, and health-care are exempt. The VAT also varies, with higher rates of 20–40% applied to certain items, such as vehicles, alcoholic beverages (including wine) and pleasure boats. The VAT for automobiles ranges from 22% for nonluxury vehicles and 40% for luxury automobiles. A lower VAT rate of 10% is applied to nuts and almonds, while games of chance (excluding lotteries) have a 5% VAT.

37 CUSTOMS AND DUTIES

Colombian import tariffs have been significantly reduced and simplified. There are four tariff levels: 5% for raw materials, and intermediate and capital goods not produced in Colombia; 10% and 15% for goods in the first category but with domestic production in Colombia; 20% for finished consumer goods; and 35% and 40% for automobiles and some agricultural products. The average tariff lies between 11% and 13.5%. The four-tariff system also acts as the common external tariff for the Andean Community, which became effective for Colombia in 1995.

Nontariff barriers to trade include restrictions on poultry parts, powdered milk, wheat, and other agricultural products. Tariff rates for some of these selected basic commodities ranged up to 119% in 1999. Import and export licenses are required for most items.

Colombia maintains free trade agreements with Venezuela, Ecuador, Bolivia, and Mexico. There are also international agreements for preferential duty rates with the Caribbean Common Market and the Central American Common Market, and Colombia has requested consideration for NAFTA accession and entry into the future Free Trade Area of the Americas (FTAA). Several free trade zones are in operation.

38 FOREIGN INVESTMENT

After the serious crisis in Colombia's capital markets in the 1980s, the Gaviria administration implemented an aggressive economic liberalization program known as *apertura*, or opening, in the early 1990s, including increased promotion of foreign investment. Under Law 9 of 1991, together with administrative resolutions from the Council on Economic and Social Policy (CONPES) and Resolution 21 of the Board of Directors of the Central Bank, foreign companies were put on an equal legal footing with local ones and most sectors were opened to foreign investment, barring only investments touching on security and the disposal of hazardous wastes.

In order to continue boosting the economy, the government has negotiated free trade agreements with several countries. A free trade pact among Colombia, Venezuela, and Central America (except Costa Rica) came into operation on 1 July 1993. In addition, an agreement was signed between Colombia, Venezuela, and Mexico (G-3) on establishing a free trade zone in 1994. In 1993, Colombia, Venezuela, Ecuador, and Bolivia achieved a customs union, with free trade between the four countries under the auspices of the Andean Pact. Effective 1 January 1994, pact members implemented a common external tariff (CET) based on a four-tier tariff range. In June 1999, the clause in the Colombian constitution permitting expropriation without indemnification was repealed opening the way for ratification by Colombia of bilateral investment agreements (BITS) with Peru, the United Kingdom, Spain, Cuba, and France. Colombia ended its monopoly over telecommunications in 1998, limiting foreign ownership to 70%. In 2003, the US Trade Representative (USTR) was raising objections that restrictions on foreign entry into Colombia's telecommunications sector violated its obligations under the World Trade Organization.

The petroleum industry is one industry that has enjoyed significant foreign investment; international investment grew from

us\$458 million in 1993 to us\$890 million in 1997. In 1996, CONPES eliminated the requirement of government authorization for investment in public services, mining, and hydrocarbons. Despite this allowance, investment in the hydrocarbons sector requires an association contract with the state-owned oil company ECOPETROL. Due to the *apertura* program, the sectors that have seen the largest growth in international investment have been infrastructural. Investment in the utilities sector (electricity, gas, and water) leapt from us\$145 million in 1996 to us\$2.3 billion in 1998. The transportation and communications sectors, which have been mostly privatized in recent years, grew from us\$5.7 million in 1993 to us\$360 million in 1997. The increased foreign investment coincided with increased borrowing in foreign financial markets (enabled by the opening of the financial sector in 1991) and a large inflow of capital from increased petroleum exports. The excess liquidity led to a credit boom and a sharp increase in interest rates, which rose further as the Central Bank tried to support the peso's exchange rate. Aggravated by political uncertainty, the economy was in another financial crisis by 1998.

Annual direct foreign investment (DFI) inflow reached a peak of us\$5.56 billion in 1997 and then fell to us\$2.83 billion in 1998 and to us\$1.47 billion in 1999. For 2000 to 2002, average annual FDI inflow was about us\$2.2 billion. FDI inflow from the United States in 2002 was us\$317 million.

Security concerns remained a major deterrent to foreign investment in 2003 as the government continued its 40-year fight against two major leftist guerrilla groups that had come to control about half of the country. In 2003, hostage taking and hostage execution involving increasingly prominent individuals and a bombing in a Bogotá nightclub indicated the penetration of guerrilla activity into major urban centers. In June 2003, as part of a us\$98 million military aid package, the United States sent about 60 Special Forces members to train local soldiers to guard the Occidental Petroleum pipeline; the Cano Limón pipeline, which had been bombed 40 times in 2002 and 170 times in prior years.

In terms of portfolio investment, the total market valuation of companies listed on the Colombia Stock Exchange peaked in 1997 at us\$19.5 billion (189 listed companies) and had fallen to us\$9.56 billion in 2000 (126 listed companies). In 2001, total market valuation had risen to us\$13.2 billion with 123 listed companies, but turnover was at a record low of 3.2%.

39 ECONOMIC DEVELOPMENT

In 1974, President Alfonso López outlined to Congress a long-range development plan with a major objective of achieving maximum growth while raising the living standards of the poorer half of the population. Efforts were to be concentrated in four main areas: exports, agriculture, regional development, and industry. An economic program published in 1980 during the administration of President Julio César Turbay, listed investment in energy, economic decentralization, regional autonomy, improvements in communications and transportation, mining development, and social improvement as its principal aims. A national development plan for the years 1981–84 provided for acceleration of public works. In 1982, during the Belisario Betancur presidency, economic emergencies were declared so that decrees to revise banking and fiscal policies could be issued without the need of congressional approval. The Virgilio Barco administration formu-

lated an economic program similar to that proposed in 1974 by López, whose objectives were to attack unemployment and poverty while encouraging growth.

In 1990, President Cesar Gaviria instituted a national system of economic liberalization known as *apertura*, or opening. The system called for greatly increased international investment, a lowering of trade barriers, and massive state sell-offs. These began in earnest in the early 1990s as the government sold off seaports, airports, power plants, telecommunications networks, banks—even roads. In addition to these measures, the government aggressively pursued the creation of regional trading blocs and became a major voice in support of a hemispheric free trade area. Colombia became a member of Latin American Integration Association (LAIA), a bilateral free-trade pact with Chile and the G-3.

Liberalizations secured Colombia as a reliable regional market. The country saw positive growth every year for over two decades and was one of the only Latin American countries not to default on its international loans during the 1980s. Impeding further development are domestic political scandals, poor infrastructure, and narco-terrorism. In 1998, growth slowed, and even turned negative in 1999.

A us\$2.7 billion International Monetary Fund (IMF) loan in 1999 was needed in order to save the shrinking economy, which improved from the inflow and austerity measures during the next year. In 2000, the US government gave us\$1.3 billion in aid to Colombia's government and army, chiefly to help the war against drugs, but guerrilla armies continued to operate in at least two-fifths of the country.

President Uribe, elected in 2002, pledged to restore order to the country and to increase security measures. He planned to raise defense spending from 3.5% of gross domestic product (GDP) to 5.8% by the end of his term in 2006, and the government in 2003 was training 10,000 new police and 16,000 part-time “peasant soldiers” to secure close to 200 towns previously lacking police. US troops were also enlisted to guard Colombia's main oil pipeline. Uribe employed crop-dusting aircraft supplied by the United States, which in 2002 resulted in a 30% fall in coca cultivation. The government in 2003 also pledged to raise social spending, and depended on lending from international bodies such as the Inter-American Development Bank, World Bank, and Andean Development Corporation to augment the lack of sufficient revenue. In exchange for the assistance, the government was planning to implement structural reforms, such as pension and labor reforms to cut costs, and other spending cuts to reduce the deficit. In January 2003, Colombia negotiated a two-year, us\$2.1-billion Stand-By Arrangement with the IMF.

Though Colombia has been embroiled in armed conflict, the economy has managed to take a turn for the better, possibly due to export promotion and government budgets designed to decrease public debt. Business confidence in Colombia has increased due to Uribe's economic and democratic strengthening. Also, Colombian coffee has been earning greater market shares in developed countries, raising the price of the prized export. Furthermore, from 2002 to 2005, unemployment dropped slightly—from 15.7% in 2002 to 15.2% in July 2005, as reported by the Economist Intelligence Unit. The CIA had slightly more optimistic predictions for Colombia's 2005 unemployment, at 11.8%. However, unemployment, along with pension reform and the need to increase oil

production, continued to be challenges to be faced by President Uribe. Yet, as of 2005, Uribe was praised by various international financial institutions for the benefits that had come of the administration's economic policies. In addition to unemployment, the inflation rate was also on the decline—a rate that previously had persisted at a near 20% throughout the 1990s (with the exception of the recessionary years of 1998–99, when inflation was less than 10%). In 2002, inflation dropped further due to weak domestic demand. Throughout the increase in economic growth in 2003–05, inflation still remained consistently low—near 5%—due to the strengthening currency.

40 SOCIAL DEVELOPMENT

Social security coverage extends to all employees with the exception of some agricultural workers. Coverage is voluntary for the self-employed. Both employers and employees contribute to the program, while the government guarantees a minimum pension. All private-sector employees are covered by unemployment, and there is voluntary coverage for public workers. A worker's compensation program is funded fully by employers and provides benefits in proportion to the degree of incapacity. Employers also fund the family allowance benefits available to low income families.

The law provides women with extensive civil rights and prohibits any form of discrimination against women. However, there is still discrimination against women, especially in rural areas. They earn less than men for doing similar work, and occupy few of the top positions in government. Sexual harassment is pervasive. Rape and other acts of violence against women are widespread, and traditionally the law has not provided strict penalties for offenders. Trafficking in women for sexual exploitation continues to be a major problem.

Urban Colombia, and especially Bogotá, has acquired a reputation for street crime: pickpockets and thieves are a common problem. Drug trafficking flourishes on a large scale, despite government efforts to suppress cocaine smuggling and to eradicate the coca and marijuana crops. Kidnapping, both for political reasons and for profit, is widespread.

Human rights excesses by security forces continue with reports of extrajudicial killings and disappearances. Human rights abuses are committed by many groups, including guerrillas, narcotics traffickers, paramilitary groups and the military. Prison conditions are harsh, but international monitoring of conditions is allowed by the government. The constitution provides for special rights and protection for Colombia's many indigenous minorities, but these are not always respected in practice.

41 HEALTH

Health standards have improved greatly since the 1950s, but malaria is still prevalent in areas up to 1,100 m (3,500 ft) in altitude. In the mid-1990s, malaria was at epidemic numbers with nearly 130,000 cases reported. Many Colombians suffered from intestinal parasites. Malnutrition, formerly a very serious problem, with nutritional goiter, anemia, scurvy, and pellagra frequent, had become less severe by the early 1980s, when the per capita calorie supply was estimated at 102% of requirements. As of 2000, an estimated 15% of children under five years old were considered to be malnourished. In 2000, 91% of the population had access to safe drinking water and 85% had adequate sanitation. In 1990, the gov-

ernment began an initiative to improve the national health system at every level. Health care provisions (doctors and beds) do not compare favorably with other countries of the region. As of 1999, total health care expenditure was estimated at 9.4% of GDP.

In 1993, Colombia departed from its older health care system to one of payment by capitation and structured competition among integrated health care service delivery systems; 5 million people in the poorest groups, previously excluded from the medical system, were given access to health services. Approximately 87% of the population had access to health care services. As of 2004, Colombia had an estimated 135 physicians, 237 nurses and 78 dentists per 100,000 people.

Average life expectancy in 2005 was 71.72 years. The infant mortality rate decreased from 99.8 per 1,000 live births in 1960 to 20.97 in 2005. As of 2002, there were an estimated 22 births per 1,000, with 77% of married women (ages 15 to 49) using contraception in 2000. In 1999, children up to one year of age were immunized against the following: diphtheria, pertussis, and tetanus, 74%, and measles, 74%. Colombia's estimated death rate as of 2002 was 5.66 per 1,000 inhabitants. Between 1986 and 1992, there were approximately 22,000 civil war-related deaths.

The HIV/AIDS prevalence was 0.70 per 100 adults in 2003. As of 2004, there were approximately 190,000 people living with HIV/AIDS in the country. There were an estimated 3,600 deaths from AIDS in 2003.

The disease is mostly spread by sexual activity. The first case of perinatal transmission occurred in 1987 and there have been 195 cases reported since then.

42 HOUSING

Colombia's housing shortage is largely a result of the rapid growth of the urban population. With the annual urban population growth rate at over 5%, the housing deficit was estimated to be around 800,000 units in the early 1980s and is expanding annually. Total housing units numbered approximately seven million in the mid-1990s. About 6,923,945 units were privately owned. About 81% of privately owned units were detached homes; about 13% were apartments, and the remainder were mobile units, natural shelters, and nonresidential housing. Roughly 70% were owner-occupied, and 25% were rented. Three-fourths of all dwellings were made of bricks, adobe, mud or stone; nearly 15% had external walls of wattle or daub; 7% were wood; and 3% were mostly cane.

In 2005, Habitat for Humanity reported that about 11.5 million homes are still without basic necessities. About 40% of these homes are overcrowded and of inadequate structures. The housing deficit is at about 900,000 and growing. In rural areas, poverty-stricken residents often construct their own tin huts called *cambuches*. Rural housing problems in Colombia are dealt with primarily by the Credit Bank for Agriculture, Industry, and Mining, and by the Colombian Institute of Agrarian Reform.

Public resources are channeled into urban housing through the Central Mortgage Bank, whose mortgages, because of interest rates, down-payment requirements, and repayment terms, have usually been accessible only to upper-middle-income groups; and the savings and loan corporations, whose interest rates are pegged to inflation through daily monetary correction factors known as

units of constant purchasing power value (UPACs). In addition, through AID, substantial private funds from US investors have been used for various housing programs.

43 EDUCATION

The constitution provides that public education shall not conflict with the doctrines of the Roman Catholic Church; courses in the Roman Catholic religion are compulsory, and the Church is in virtual control of the public schools. Private schools have freedom of instruction, and there are a number of Protestant schools, principally in Bogotá. The national government supports secondary as well as university education and maintains a number of primary schools throughout the country.

Education is free and compulsory for nine years, beginning with one year of preschool starting at age five or six. Primary school covers five years of study and is followed by four years of basic secondary school. For their remaining two years of secondary school, students may choose a general course of studies or a technical school program. The government has established two basic programs for improving secondary education—the integration of practical training into high-school academic curricula and the training of agricultural experts at the secondary level—so that students who do not go on to college are prepared to receive further technical training or to earn a living. The National Apprenticeship Service offers technical and vocational training in fields that contribute to national development; the program is financed by compulsory contributions from private enterprises and employees.

In 2001, about 36% of children between the ages of three and five were enrolled in some type of preschool program. Primary school enrollment in 2003 was estimated at about 87% of age-eligible students. The same year, secondary school enrollment was about 55% of age-eligible students. Dropout rates are high at the primary level, particularly in rural areas, where the students frequently live at considerable distances from their schools. Almost all secondary schools are in the larger cities; thus, little educational opportunity is open to rural children, except those reached by educational radio and television broadcasting. The student-to-teacher ratio for primary school was at about 27:1 in 2003. The ratio for secondary school was about 21:1.

By law, Colombia must spend at least 10% of its annual budget on education. Financing and supervision of public education is the joint responsibility of the Ministry of Education, the departments, and the municipalities. Secondary and technical education and universities are administered by the Ministry of Education. The central government also pays teachers' salaries. As of 2003, public expenditure on education was estimated at 5.2% of GDP, or 15.6% of total government expenditures.

The National University in Bogotá, founded in 1572, is one of the oldest in the Western Hemisphere. Other important universities include the Universidad Javeriana (founded 1622), which is operated by the Jesuits; the Universidad de los Andes, a private institution based on a US model; and the Universidad Libre, a private university with active liberal leanings. In 1964, the Colombian Overseas Technical Specialization Institute (ICETEX) was formed to coordinate scholarship and fellowship funds for Colombians wishing to study abroad. Graduates of foreign schools who return to Colombia reimburse ICETEX from their subsequent earnings.

In 2003, about 24% of the tertiary age population were enrolled in some type of higher education program. The adult literacy rate for 2004 was estimated at about 94.2%.

44 LIBRARIES AND MUSEUMS

The National Library, founded in 1777 in Bogotá, has over 800,000 volumes. It also acts as a public library, maintaining a small circulating collection and a children's room, and serves as a depository library of the United Nations. The cities have municipal libraries and the towns have village libraries, which are under the control of the Colombian Institute of Culture. There are two valuable private libraries in Bogotá, established by Dr. Luis Augusto Cervo and Dr. Antonio Gómez Restrepo, respectively; each contains about 50,000 volumes. The Bank of the Republic maintains the Luis Angel Arango Library, an important cultural center holding some 400,000 volumes. The library of the National University in Bogotá has approximately 230,000 volumes. The University of the Andes in Bogotá has 210,000 volumes. The Library of Congress holds 140,000 volumes. There are over 1,000 local branches of the public library.

The most notable of Bogotá's museums are the National Museum, which concentrates on history and art since the Spanish conquest, the founding of Bogotá, and the colonial period; the National Archaeological Museum, which exhibits indigenous ceramics, stone carvings, gold objects, and textiles; the Museum of Colonial Art, formerly part of the National University, which specializes in art of the 16th, 17th, and 18th centuries; and the Gold Museum, located in the Bank of the Republic. There are more than 50 provincial museums, including many archeological and anthropological sites.

45 MEDIA

Telephone and telegraph networks link all provincial capitals and connect these centers with surrounding rural areas. Each local system is independent; most are municipally owned, but a few are in private hands. Long-distance service is provided by the national government and is based on an agreement among local and departmental systems. In the early 1980s, the National Telecommunications Enterprise (TELECOM) had one of the largest automatic telephone service networks in Latin America. Its high-capacity microwave system connected the 40 largest cities in the country. Colombia launched its own communications satellite in 1985. In 2003, there were an estimated 179 mainline telephones for every 1,000 people; nearly one million people were on a waiting list for telephone service installation. The same year, there were approximately 141 mobile phones in use for every 1,000 people.

Most of the nation's 498 (463 AM, 35 FM) radio stations are privately owned. In 1997 there were 60 television stations. Color television was introduced in 1979. Radiodifusora Nacional de Colombia is the government owned radio station. Intravision is a government-owned television station that operates two commercial and one educational station. Caracol is a prominent private commercial station for both television and radio. In 2003, there were an estimated 548 radios and 319 television sets for every 1,000 people. The same year, there were 49.3 personal computers for every 1,000 people and 53 of every 1,000 people had access to the Internet. There were 159 secure Internet servers in the country in 2004.

Almost every town publishes at least one daily newspaper. The press varies from the irregular, hand-printed newspapers of the small towns of the interior to such national dailies as *El Tiempo*, one of the most influential newspapers of the Spanish-speaking world. The leading newspapers in Bogotá, with their political orientation are *El Tiempo*, liberal; *El Espacio*, liberal; and *El Nuevo Siglo*, conservative. *La Republica* in Bogotá reported a 2004 circulation of 55,000. In Cali, the leading newspapers are *El País*, conservative, 60,000 circulation in 2004 and *Occidente*, conservative, 25,000. In Medellín, the conservative *El Colombiano* had a 2004 circulation of 90,000. The same year, the Barranquilla *El Heraldito* (liberal) had a circulation of 70,000, and the Bucaramanga *El Vanguardia liberal* had a circulation of 48,000.

In general, the authorities are said to respect free speech and free press; most media are able to resist pressure from the government concerning sensitive issues, though censorship has been exercised occasionally in times of national emergency, and journalists exercise some self-censorship.

46 ORGANIZATIONS

The National Federation of Coffee Growers, organized in 1927, is a semiofficial organization partly supported by tax revenue. The organization carries great weight as the representative of Colombia's leading industry, and its influence is felt in many spheres. Other trade associations include the National Association of Manufacturers, the People's Association of Small Industrialists of Colombia, and chambers of commerce in the larger cities. The Bank Association is an association of both national and foreign banks in Colombia. The Colombian Livestock Association, the National Federation of Cotton Growers, and the National Association of Sugar Growers serve their respective industries. Most farmers belong to the Agricultural Society of Colombia.

Learned societies include the Academy of History, the Colombian Academy of Language, the Colombian Academy of Exact, Physical, and Natural Sciences, the Academy of Medicine, the Colombian Academy of Jurisprudence, the Colombian Geographical Society, the Colombian Institute of Anthropology, and a number of regional bodies. The National Association of Colombian Writers and Artists includes most of the country's writers, painters, sculptors, and composers. Journalists have national and local organizations.

There are a number of youth organizations, some of which are affiliated with political or religious groups. Scouting programs are active throughout the country as are organizations of the YMCA and YWCA. A wide variety of sports organizations are active in the country.

In 2004, there were over 60,000 human rights and civil society nongovernmental organizations in the country. The Center for Popular Research and Education, sponsored by the Jesuits, is a prominent human rights organization. Others include the Colombian Commission of Jurists and the Jose Alvear Restrepo Lawyers' Collective. There are national chapters of the Red Cross, UNICEF, and Habitat for Humanity.

47 TOURISM, TRAVEL, AND RECREATION

Colombia has mountains, jungles, modern and colonial cities, and resorts on both the Pacific Ocean and the Caribbean Sea, all of

which the Colombian Government Tourist Office (CORTURISMO) has aggressively promoted.

Football (soccer) is the most popular sport, followed by basketball, baseball, boxing, and cockfighting; there are also facilities for golf, tennis, and horseback riding, and bullrings in the major cities. Visas are not required, but all visitors need a valid passport and an onward/return ticket for entry.

The tourist industry in Colombia developed greatly in the late 1970s but declined in the 1980s. Spurred by the government's economic liberalization program, earnings from tourism rose from us\$755 million in 1993 to us\$955 million in 1997. In 2003, about 625,000 tourists arrived in the country and tourism receipts reached us\$1.1 billion. There were 54,820 hotel rooms with 109,940 beds and an occupancy rate of 50%.

In 2005, the US Department of State estimated the cost of staying in Cartagena at us\$234 per day; in Bogotá, us\$184; in Cali, us\$186; and in Medellín, us\$160.

48 FAMOUS COLOMBIANS

Outstanding political and military figures in Colombian history include Francisco de Paula Santander (1792–1840), who served as a general in the war of independence and was the first president of independent Colombia, and José María Córdoba (1800?–1830), a brilliant young soldier of the war of independence, who was made a general at 22 by Simón Bolívar.

Colombia, famous for its literary figures, has produced three outstanding novelists widely read outside the country: Jorge Isaacs (1837–95), whose most famous work, *María*, is a novel in the Romantic tradition; José Eustacio Rivera (1880–1929), whose outstanding novel, *La Vorágine (The Vortex)*, written after World War I, is a drama of social rebellion; and Gabriel García Márquez (b.1928), a Nobel Prize winner in 1982, who is best known for *Cien años de soledad (One Hundred Years of Solitude)*. Colombia has had a number of noteworthy poets. The 19th-century Romantic school included Julio Arboleda (1814–92), José Eusebio Caro (1817–53), Gregorio Guitiérrez Gonzales (1826–72), and Rafael Pombo (1834–1912). Caro, who was influenced by the English poets, is generally rated as the most important Colombian Romantic. José Asunción Silva (1865–96) is regarded as the father of Latin American symbolism; his *Nocturnos* are among the finest poems in the Spanish language. Guillermo Valencia (1873–1945), the author of *Anarkos*, was a polished poet of the classical school, and León de Greiff (1895–1976) was a well-known poet. Miguel Antonio Caro (1843–1909) and Rufino José Cuervo (1844–1911) were philologists and humanists of great erudition who influenced scholars and students in the 19th century. The Instituto Caro y Cuervo in Bogotá is devoted to the study and publication of their works. Well-known literary critics include Baldomero Sanín-Cano (1861–1957) and Antonio Gómez-Restrepo (1868–1951).

Colombia's most notable painter was Gregorio Vázquez Arce y Ceballos (1638–1711), whose drawing and coloring have been compared to the work of the Spanish painter Murillo. Fernando

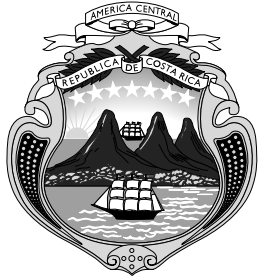
Botero (b.1932) is a contemporary painter and sculptor whose human and animal subjects are known for their corpulence and exaggerated proportions. Francisco José de Caldas (1770–1816) was a brilliant botanist who discovered a system for determining altitude by the variation in the boiling point of water and began the scientific literature of the country. Guillermo Uribe-Holguín (1880–1971) and José Rozo Contreras (1894–1976) are noted composers. The works of historian Germán Arciniegas (1900–99) are well known to the English-speaking world through translation.

49 DEPENDENCIES

The archipelago of San Andrés and Providencia, administered as an intendancy, is located 729 km (453 mi) from the Caribbean coast northwest of Cartagena and about 190 km (118 mi) off the Nicaraguan coast. Grouped roughly around the intersection of longitude 82° W and latitude 12° N, the archipelago consists of the islands of San Andrés and Providencia and 13 small keys. The population is mostly black. Both English and Spanish are spoken. The principal towns are San Andrés, San Luis, and Loma Alta on the island of San Andrés and Old Town on Providencia.

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COSTA RICA

Republic of Costa Rica
República de Costa Rica

CAPITAL: San José

FLAG: The national flag consists of five horizontal stripes of blue, white, red, white, and blue, the center stripe being wider than the others.

ANTHEM: *Himno Nacional*, beginning “Noble patria, tu hermosa bandera” (“Noble native land, your beautiful flag”).

MONETARY UNIT: The colón (c) is a paper currency of 100 céntimos. There are coins of 1, 5, 10, 25, and 50 céntimos and of 1, 2, 5, 10, and 20 colones, and notes of 5, 10, 20, 50, 100, 500, and 1,000 colones. c1 = \$0.00209 (or \$1 = c479.28) as of 2005.

WEIGHTS AND MEASURES: The metric system is the legal standard, but local measures also are used.

HOLIDAYS: New Year’s Day and Solemnity of Mary, 1 January; Day of St. Joseph (Costa Rica’s patron saint), 19 March; Anniversary of the Battle of Rivas, 11 April; Labor Day, 1 May; Day of St. Peter and St. Paul, 29 June; Anniversary of the Annexation of Guanacaste, 25 July; Feast of Our Lady of the Angels, 2 August; Assumption (Mother’s Day), 15 August; Independence Day, 15 September; Columbus Day, 12 October; Immaculate Conception, 8 December; Abolition of Armed Forces Day, 1 December; Christmas, 25 December. Movable religious holidays include Holy Thursday, Good Friday, Holy Saturday, and Corpus Christi.

TIME: 6 AM = noon GMT.

¹ LOCATION, SIZE, AND EXTENT

The third-smallest country in Central America, Costa Rica has an area of 51,100 sq km (19,730 sq mi), including some small islands. Comparatively, the area occupied by Costa Rica is slightly smaller than the state of West Virginia. Its length is 464 km (288 mi) N–S, and its width is 274 km (170 mi) E–W. Costa Rica is bordered on the N by Nicaragua, on the E by the Caribbean Sea, on the SE by Panama, and on the SW and W by the Pacific Ocean; the total boundary length is 1,929 km (1,199 mi), which includes the coastline of 1,290 km (805 mi). Costa Rica’s capital city, San José, is located in the center of the country.

² TOPOGRAPHY

Costa Rica has three main topographic regions. The central highlands, extending from northwest to southeast, reach elevations of more than 3,660 m (12,000 ft) south of San José; the highest point in the country is Chirripó Grande (3,810 m/12,500 ft). Four volcanoes, two of them active, rise near the capital city; one of these volcanoes, Irazú (3,432 m/11,260 ft), erupted destructively during 1963–65. Nestled in the highlands is the Meseta Central, with an elevation of 900–1,200 m (3,000–4,000 ft), covering some 2,000 sq km (770 sq mi) of fairly level, fertile terrain. Half of the population, the centers of culture and government, four of the six main cities, and the bulk of the coffee industry are found on the plateau.

The Atlantic coastal plain, on the Caribbean side of the highlands, comprises about 30% of Costa Rica’s territory and is low, swampy, hot, excessively rainy, and heavily forested. The Pacific slope, some 40% of the country’s area, resembles the Caribbean

lowlands, but to the northwest is a dry area producing cattle and grain. Fifteen small rivers drain Costa Rica.

The country lies in a moderately seismic area that experiences occasional earthquakes, some of which have been severe. On 22 April 1991, an earthquake in the Limón–Pandora area caused the death of 47 people, as well as severe damage to homes, buildings, and some roads. The quake triggered minor tsunamis in the Cahuita–Puerto Viejo area and at Portobelo and Cristobal in Panama.

³ CLIMATE

Costa Rica has only two seasons: the wet season, from May to November, and the dry season, from December to April. There are three climatic zones. The torrid zone (tierra caliente), which includes the coastal and northern plains to an altitude of 457 m (1,500 ft), is characterized by heavy rains, almost continuous on the Atlantic watershed, and by a temperature range of 29–32°C (84–90°F). The temperate zone, including the central valleys and plateaus, has altitudes ranging from 457 to 1,524 m (1,500 to 5,000 ft), with regular rains from April through November and a temperature range of 24–27°C (75–80°F). The cold zone, comprising areas higher than 1,524 m (5,000 ft), has a temperature range of 10–27°C (50–81°F) and is less rainy but more windy than the temperate regions. The average annual rainfall for the country is more than 250 cm (100 in).

⁴ FLORA AND FAUNA

Costa Rica supports varied flora and fauna. From the coast to an altitude of about 900 m (3,000 ft) are tropical forests and savannas;

oaks and chaparrals are found between 2,070 and 3,050 m (6,800 and 10,000 ft); and sub-Andean and subalpine flora characterizes the highest mountains. The dense tropical forests contain rich stands of ebony, balsa, mahogany, oak, laurel, campana, and cedar. Plant life is abundant. The country has more than 1,000 species of orchids.

Most of the wild mammals common to South and Central America, such as jaguar, deer, puma, and varieties of monkeys, are found in Costa Rica. There are over 600 species of birds and 130 species of snakes and frogs; fish and insects are plentiful.

5 ENVIRONMENT

Nearly all of Costa Rica was once covered by forests, but deforestation for agricultural purposes and cattle ranching has reduced forested areas to only 38% of the total area. Between 1990 and 1995, the country lost an average of 3% of its forests and woodlands annually. Most of the wood was wasted by burning or rotting, and there has been little incentive for conservation or reforestation. The result has been soil erosion and the loss of soil fertility. Another serious problem, according to the UN, has been contamination of the soil by fertilizers and pesticides used in growing important cash crops, such as bananas, sugarcane, and coffee. Costa Rica's use of pesticides is greater than that of all the other countries in Central America added together. Under the General Health Law of 1973, the Ministry of Health has broad powers to enforce pollution controls, and the Division of Environmental Health has attempted to set standards for air and water quality. However, trained personnel and equipment are lacking.

Carbon dioxide emissions from industrial sources totaled 4.6 million metric tons in 1996; in 2000, the total emissions increased to 5.4 million metric tons. As of 2001, Costa Rica has 112 cu km of renewable water resources with 80% of the total used for farming activity. Of the nation's urban dwellers 99% have safe drinking water, as do 92% of the rural population.

Costa Rica's national park system is among the most extensive and well developed in Latin America. The system, covering nearly 4% of the total land area, includes 12 parks, 6 nature reserves, 4 recreation areas, the Guayabo National Monument archaeological site in the Turrialba region, and the International Peace Park established jointly by Costa Rica and Panama on their common border. There are 3 natural UNESCO World Heritage Sites and 11 Ramsar wetland sites. Altogether, 23% of Costa Rica's total land area is protected.

According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 13 types of mammals, 18 species of birds, 8 types of reptiles, 60 species of amphibians, 13 species of fish, 9 species of invertebrates, and 110 species of plants. Threatened species include the red-backed squirrel monkey, tundra peregrine falcon, spectacled caiman, American crocodile, and four species of sea turtle (green sea, hawksbill, olive ridley, and leatherback). The golden toad has been listed as extinct since 2001.

6 POPULATION

The population of Costa Rica in 2005 was estimated by the United Nations (UN) at 4,331,000, which placed it at number 118 in population among the 193 nations of the world. In 2005, approximately 6% of the population was over 65 years of age, with another

30% of the population under 15 years of age. There were 103 males for every 100 females in the country. According to the UN, the annual population growth rate for 2005–10 was expected to be 1.3%, a rate the government viewed as satisfactory. The projected population for the year 2025 was 5,568,000. The population density was 85 per sq km (220 per sq mi).

The UN estimated that 59% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 2.49%. The capital city, San José, had a population of 1,085,000 in that year. Other large cities and their estimated populations are Alajuela, 791,900; Cartago, 475,100; Puntarenas, 397,700; Heredia, 390,400; and Limón, 380,200.

7 MIGRATION

In 1995, 24,600 refugees were in Costa Rica. Of these, 4,200 were from El Salvador and 19,500 were from Nicaragua. Large numbers of Nicaraguans migrate seasonally to Costa Rica seeking employment opportunities. Illegal migration is a major national concern, with estimates of people illegally in the country ranging from 300,000 to 500,000 in 1999, most of whom were thought to be from Nicaragua. In the aftermath of 1998's Hurricane Mitch, Costa Rica declared an amnesty on illegal immigration, which expired on 31 July 1999. While intended primarily for aliens from Belize and Panama, the United Nations High Commissioner for Refugees (UNHCR) secured a provision that extended the amnesty to refugees. Under the amnesty, some 160,000 people applied for permanent residence. In 2004, there were 10,413 refugees living in Costa Rica and 223 asylum seekers. The net migration rate in 2005 was estimated as .5 migrants per 1,000 population.

8 ETHNIC GROUPS

The population is fairly homogeneous, primarily of European (mainly Spanish) descent. Whites and mestizos (mixed white and Amerindian) account for 94% of the total population. The remainder are blacks (3%), Chinese (1%), and Amerindians (1%). The blacks for the most part are of Jamaican origin or descent, and some mulattoes live mainly in the Limón port area. Most of the Amerindians reside on isolated reservations.

9 LANGUAGES

Spanish is the official language, but English is also spoken around Limón and among members of the middle class. Descendants of the Jamaican blacks speak an English dialect.

10 RELIGIONS

Roman Catholicism, the predominant religion, is the official religion of the state; however, the constitution guarantees religious freedom and this right is generally respected in practice. About 69% of the population is nominally Roman Catholic; only about 40% of Roman Catholics are active members. About 18% of the population belong to other Christian churches. Of these churches, the primary Protestant denominations include Methodist, Baptist, Evangelical, Episcopalian, Mormon, Jehovah's Witnesses, and Seventh-Day Adventists. There is a Mormon temple in San José which serves members from Costa Rica, Panama, Nicaragua, and Honduras. San José is also the site of the Continental Headquarters for Latin America of the Unification Church. There are small communities of Quakers, Mennonites, and Beechy Amish. Other reli-



LOCATION: 8°2'26" to 11°13'12" N; 82°33'48" to 85°57'57" W. BOUNDARY LENGTHS: Nicaragua, 309 kilometers (192 miles); Panama, 330 kilometers (205 miles); Caribbean and Pacific coastlines, 1,290 kilometers (802 miles). TERRITORIAL SEA LIMIT: 12 miles.

gions include Judaism, Islam, Taoism, Hare Krishna, Scientology, Tenrikyo, and Baha'ism.

Representing the official religion of state, the Roman Catholic Church enjoys some privileges that are not automatically conferred on other religious organizations. For instance, Catholic marriages are automatically recognized by the state; couples of other faiths must have marriages legalized through a civil union. The Catholic Church also has more opportunity to be in open dialogue with the government concerning economic, social, and political causes, such as the 2003 CAFTA negotiations. Catholic holidays are celebrated as public holidays. The government does not impose any major restrictions on the activities of non-Catholic groups.

11 TRANSPORTATION

San José is linked to both coasts by railroad and by highway. The Inter-American Highway, 687 km (427 mi) long, connects Costa Rica with Nicaragua and Panama. Another major highway runs from San José to the Caribbean coast beyond Limón. As of 2003 there were 35,889 km (22,323 mi) of roads, of which 8,075 km (5,022 mi) were paved. Motor vehicle registrations in 2003 included 367,832 passenger automobiles and 230,048 commercial vehicles.

As of 2004, Costa Rica had 278 km (173 mi) of railroad, all of it narrow gauge.

Principal ports are Limón on the Caribbean Sea and Puntarenas, Caldera, and Golfito on the Pacific. As of 2005, Costa Rica had two merchant vessels of more than 1,000 GRT totaling 1,716 GRT. There are about 730 km (454 mi) of seasonally navigable waterways.

There were an estimated 149 airports in 2004, only 31 of which had paved runways as of 2005. Líneas Aéreas Costarricenses, S.A. (LACSA), the national airline, provides domestic and international services centered at Juan Santamaria International Airport near San José. Service was also provided by fifteen international passenger lines and 22 cargo lines. In 2003, about 781,000 passengers were carried on scheduled domestic and international flights.

12 HISTORY

There were about 25,000 Amerindians in the region when Columbus landed in 1502. He named the area Costa Rica ("Rich Coast"), possibly because he saw gold ornaments on some of the indigenous people. European settlement of Costa Rica began in 1522, the Spanish conquered the Ticos, as the Costa Rican natives called themselves, and Spain organized the area into a colonial province in 1540; it was eventually placed under the provincial administration in Guatemala. Cartago, the colonial capital, was founded in 1563.

When independence came to Central America in 1821, Costa Rica had fewer than 70,000 inhabitants. In the following year,

it was absorbed into the short-lived Mexican Empire proclaimed by Agustín de Iturbide. Following the collapse of Iturbide's rule, Costa Rica became a member of the United Provinces of Central America in 1823. At the same time, the provincial capital of Costa Rica was moved to San José. The United Provinces fell apart in 1838, and Costa Rica proclaimed itself sovereign. In 1848, the Republic of Costa Rica was established. The new state was threatened by William Walker, a US military adventurer who invaded Central America in 1855, but his troops were repelled in 1857. In 1860 Walker was captured and executed. In 1871, General Tomás Guardia, dictator from 1870 to 1882, introduced the constitution that, though frequently modified, remained Costa Rica's basic law until 1949. Although Guardia's rule was characterized by decreased liberty and rising debt, it also brought increased sugar and coffee exports, as well as increased education.

In the late 19th and early 20th centuries, there was a series of boundary disputes with Panama and Nicaragua, in the course of which Costa Rica annexed Guanacaste Province from Nicaragua. In World Wars I and II, Costa Rica was a US ally, but not a military participant.

Meanwhile, the success of coffee cultivation, introduced in the early 1800s, had encouraged rapid population growth, progress in education, and the beginnings of modern economic development, through the construction of a coast-to-coast railroad from Limón on the Caribbean through San José to the Pacific. Banana cultivation was started in 1871, and at the turn of the century, the US-owned United Fruit Company (now United Brands) made Costa Rica a major producer of bananas.

Costa Rica's first major political crisis of the 20th century came when President Teodoro Picado Michalski annulled the 1948 elections in order to impose Rafael Ángel Calderón Guardia as president rather than the legally chosen president-elect Otilio Ulate Blanco. José Figueres Ferrer, a socialist landowner, led a civilian uprising, installed his own junta for 18 months, and restored democratic government, turning over the presidency to Ulate. The 44-day civil war was Costa Rica's bloodiest event of the 20th century, leaving 2000 dead and resulting in the prohibition of a standing army in the new constitution. Based on the constitution of 1871, the 1949 constitution reinstated free elections and banned the army, replacing it instead with a Civil Guard. However, it was not until 2000 that a professional Coast Guard was established in addition to domestic police and internal security forces.

Figueres was himself elected president by an overwhelming majority in 1952 (with women voting for the first time), and under his leadership, Costa Rica was one of the most democratic and prosperous countries in Latin America. Figueres was strongly opposed to all dictatorships, and Costa Rica proceeded to sever diplomatic relations with several Latin American countries. A socialist, Figueres nationalized the banks and threatened the holdings of the United Fruit Co. and other large-scale utilities. Border skirmishes with Nicaragua in 1955 were resolved through the mediation of the Organization of American States.

In 1958, the candidate of the opposition National Unification Party, Mario Echandi Jiménez, was elected by a bare majority vote. He was unable to enact his program of minimizing the government's role in social and economic matters because the legislature was dominated by other parties. In 1962, Francisco J. Orlich Bolmarich, a candidate of Figueres's National Liberation Party (Parti-

do de Liberación Nacional—PLN), won the elections and continued Figueres's progressive program. Costa Rica joined the Central American Common Market (CACM) in 1963 and has benefited from Central American economic integration, especially through increasing industrialization. Figueres served as president again from 1970 to 1974 and was succeeded by the PLN candidate, Daniel Oduber Quirós. An internal split within the PLN opened the gap for a conservative, Rodrigo Carazo Odio, to be elected president in 1978. However, after facing economic and political strains from Nicaraguan refugees, as well as the destabilization from surrounding Central American conflicts and civil wars, Carazo's administration left spiking inflation and unemployment for the presidency of Luis Alberto Monge Álvarez of the PLN in 1982.

During the 1980s, Costa Ricans were confronted with a severe economic crisis and with increasing political violence in the region, including sporadic terrorist activities in San José. The Monge government, on the insistence of the World Bank and International Monetary Fund, introduced an austerity program of devaluation, budget cuts, and other fiscal contraction to help economic recovery. Monge also tried to avoid being drawn into the war in neighboring Nicaragua between the insurgents known as "contras" and the Sandinista government. Nevertheless, the government resisted pressure from the United States to support the contras or to accept US aid toward the building of a military establishment.

In February 1986, the PLN won another presidential election when Oscar Arias Sánchez defeated Rafael Ángel Calderón Fournier. An important factor in the PLN victory was Monge's popularity. As the surrounding countries of Central America descended into war, drug trafficking, corruption, and further economic distress, Arias focused on his role in international affairs, leading a peace movement to bring stability to the region. In August 1987, a peace plan for Central America was signed in Guatemala by Nicaragua, Guatemala, Costa Rica, El Salvador, and Honduras. With little support from the United States, Arias's accomplished provisions were free elections in all countries, a guarantee of basic democratic freedoms in Nicaragua, a cease-fire by both Sandinistas and contras, an end to outside aid to the contras, amnesty for the contras, repatriation or resettlement of refugees from all countries, and an eventual reduction in the armed forces of all countries. For his efforts, Arias won the Nobel Prize for Peace later that year.

In 1990, amid continued economic troubles, Rafael Ángel Calderón Fournier was elected, and his Social Christian Unity Party (Partido Unidad Social Cristiana—PUSC) won a paper-thin majority in the Legislative Assembly. Although he campaigned on a platform of liberalization, economic equality, and welfare reform, little change was accomplished. The economy nevertheless rebounded, with peace settlements easing some of Costa Rica's demographic problems.

On 6 February 1994, Costa Ricans returned the PLN to power, as José María Figueres Olsen, son of former president Figueres, was elected president of Costa Rica, though the PLN failed to win an outright majority in the assembly. In response to the nation's weakening economy, Figueres introduced an economic reform package in 1995 that focused on government-spending cuts and the privatization of state-owned enterprises. These measures, which represented a reversal of the traditional policies of Figueres's PLN ruling party, drew stiff opposition from labor leaders, who

feared cutbacks in Costa Rica's large public sector, and touched off a month-long strike by the nation's teachers. Although the government responded by modifying some of its proposed plans, public support for Figueres plummeted as the nation's economy continued to slip, officially entering a recession in 1996. The economic crisis led to cooperation between the PLN and PUSC in order to enact fiscal reform. In December 1996 Figueres announced plans to raise taxes, privatize parts of the state-owned banking and telecommunications systems, and end the state insurance monopoly. Costa Rica's economic issues increased with the damage caused by Hurricane Cesar.

Elections were held again in February of 1998 and Social Christian (PUSC) leader Miguel Angel Rodríguez won with 46.9% of the vote, narrowly defeating National Liberation Party candidate José Miguel Corrales who obtained 44%. Rodríguez's party also won 29 of out 49 seats in the unicameral Congress. The sweeping Social Christian Union Party victory was attributed to popular discontent with Figueres's administration between 1994 and 1998. Rodríguez was a popular president and his government had some important achievements in an environment of increased tourism and foreign investment. That helped PUSC candidate Abel Pacheco de la Espriella win the 2002 presidential election with 58% of the vote; however, the previous two-party political system was toppled with the arrival of three presidential candidates, with no candidate garnering at least 40% of the vote. Therefore, Pacheco was the first president since 1948 to have to win a runoff election for the presidency, and the Citizen Action Party (Partido Acción Ciudadana—PAC) won 14 seats in the Legislative Assembly, denying an overall majority to either the PLN or the PUSC. In 2003 the Supreme Court annulled the 1969 constitution amendment limiting presidents to a single four-year term, which reverted back to the 1949 rule enabling a former president to be elected again after an eight-year period out of office.

Although it has a reputation as one of the most stable and least corrupt countries, Costa Rica has not been immune to government corruption and profiteering amidst the current trend of worldwide corporate and government depravity. In October 2004, former presidents Miguel Angel Rodriguez and Rafael Angel Calderón Fournier, along with several top government officials, were implicated in a corruption scandal involving a multimillion-dollar "commission" from a pharmaceutical company. Both were incarcerated in 2004, and released to house arrest in March 2005, with the former obliged to step down as secretary general of the Organization of American States. That same month former president José María Figueres was also forced to resign as executive director of the World Economic Forum in Geneva. This led to investigations in 2005 of corruption and illegal receiving of gifts, including free airline tickets, by President Pacheco and other government officials.

Because of the corruption tainting their government, Costa Rican voters approached the 2005 presidential election lacking enthusiasm. The candidates were former president and Nobel laureate Oscar Arias, who was not among the politicians implicated in the 2005 investigation. His opponent, Otto Solís, was the candidate of the PAC. Arias won, in one of the closest elections in Costa Rica's history. Arias and his vice president, Laura Chinchilla took office 8 May 2006

13 GOVERNMENT

For the most part, Costa Rica has held to a tradition of orderly, democratic rule. The nation is a republic organized under the constitution of 1949, based on the constitution of 1871. A president, two vice presidents, and a unicameral congress (the Legislative Assembly) of 57 members (in 2003), apportioned by provinces, are all directly elected for four-year terms. Runoff provisions are in place in case no candidate wins an outright majority in the first round vote. The cabinet (composed of 15 members in 2005) is appointed by the president, who may also remove any of its members. For every three assembly deputies, one substitute deputy (*suplente*) is elected to obviate any subsequent need for by-elections. After each population census, the Supreme Electoral Tribunal proportions the number of deputies for each province. This body, consisting of three magistrates elected by the Supreme Court for six-year terms, also supervises all other aspects of the electoral process. Suffrage is universal and obligatory for all persons of 18 years or more.

The constitution bars all high government officials from running for the legislature or the presidency while already in office. The president, cabinet ministers, and all government employees are forbidden to interfere with or to participate in election campaigns or to hold party office. The constitution guarantees equality before the law, as well as freedom of speech, assembly, press, and organization. In addition, it guarantees foreigners the same rights as Costa Rican citizens. However, foreigners may not participate in political affairs, nor may members of the clergy. In the presidential election held 5 February 2005 Oscar Arias Sanchez of the Partido de Liberación Nacional—National Liberation Party (PLN) was elected president in a close contest, winning 40.9% or the vote to the PAC's Otto Solís's 39.8%. Arias and his vice president, Laura Chinchilla, took office 8 May 2006.

14 POLITICAL PARTIES

The largest political grouping is the PLN (Partido de Liberación Nacional—National Liberation Party), a reformist party that has been the nation's leading party since its formation in 1948. The other major party is the more conservative Social Christian Unity Party (Partido Unidad Social Cristiana—PUSC), which held the presidency during 1978–82, 1990–1994, and was in power during the 1998–2002 period. The PUSC has ties to Christian Democratic parties in the Western Hemisphere and Europe. Toward the end of the 20th century and the beginning of the 21st, elections were closer than in the past, and saw the rise of additional political parties. In the 1994 elections, José María Figueres of the PLN was elected president with 49.7% of the vote, to 47.5% for PUSC candidate Miguel Angel Rodriguez. In 1998, Rodríguez became president with 46.9% of the vote, defeating PLN's José Miguel Corrales. The PUSC also won a majority in Congress with 29 seats, followed by the PLN with 22, the remaining 6 seats went to small and provincial parties. In 2002, however, the PUSC presidential candidate, Abel Pacheco, obtained only 38.6% of the vote in the first round due to the increased presence of other parties. Pacheco won 58% in the runoff election on 7 April 2002 to become president. The PUSC only clinched 19 of the 57 seats of the National Assembly, with the PLN with 17 and the Citizen Action Party (Partido Acción Ciudadana—PAC) 14, depriving Pacheco of a legislative

majority. Legislative elections left the composition of the assembly as of January 2005 with the PUSC holding 19 seats, the PLN 16, PAC 8, the PML (Libertarian Movement Party) with 5, and the PRC (Costa Rican Renovation Party), 1. PUSC's power dropped significantly in the legislative assembly after elections held 5 February 2005; PUSC lost 15 seats, winning just 4. The election also resulted in the PLN gaining 8 seats (for a total of 25); PAC gaining 3 (for a total of 18); and PML gaining 1 (for a total of 6). Oscar Arias Sanchez of the PLN was narrowly elected president in that same election with 40.9% of the vote to the PAC's Otto Solís's 39.8%. Arias and his vice president, Laura Chinchilla, took office 8 May 2006.

15 LOCAL GOVERNMENT

Costa Rica is divided into seven provinces, which are further subdivided into 81 cantons and 429 districts. The governor of each province is appointed by the president and is responsible to the minister of government. There are no provincial assemblies, and no elected provincial officials. The chief city of each canton elects a council (*municipalidad*), which possesses legislative powers and cooperates with a presiding officer appointed by the national executive. In December 2002, the first mayoral elections in Costa Rican history were held; prior to 2002 the office of mayor did not exist. A police agent appointed by the national government oversees each district.

16 JUDICIAL SYSTEM

The judiciary consists of justices of the peace, lower courts, labor courts, a court of cassation, two civil courts of appeal, two penal courts of appeal, and the Supreme Court, the highest court in the land. The Supreme Court is composed of 22 justices chosen for renewable eight-year terms by the Legislative Assembly. A Constitutional Chamber of the Supreme Court was established in 1989 to review the constitutionality of legislation, executive decrees, and habeas corpus warrants. Justices are automatically reelected for an additional eight-year term unless the Legislative Assembly votes to the contrary by a two-thirds majority. The Assembly also names 25 alternates from a list of 50 names submitted by the Supreme Court, and vacancies on the court are then filled by lot from the list of alternates. Relatives of incumbent justices are ineligible for election. The Supreme Court, by a two-thirds majority, can declare legislative and executive acts unconstitutional. Justices of lower courts are appointed by the Supreme Court, but justices of the peace are appointed by the minister of government acting for the president. Capital punishment has been abolished. The judiciary is independent of the legislative and executive branches and assures fair public trials. Public security forces generally observe procedural safeguards established by law and the 1949 constitution. The constitution prohibits arbitrary interference with privacy, family, home, or correspondence. Judges may approve use of wiretaps in limited cases, primarily to combat narcotics trafficking.

17 ARMED FORCES

The 1949 constitution prohibits the establishment of military armed forces. However, the country did have an 8,400 member paramilitary force in 2005. This force included the 4,400 member Civil Guard, the 2,000 member Border Security Police, and the

Rural Guard which had 2,000 members. The security budget was \$101 million in 2005.

18 INTERNATIONAL COOPERATION

Costa Rica is a charter member of the United Nations, having joined on 2 November 1945, and participates in ECLAC and several nonregional specialized agencies. It is one of five members of the Central American Bank for Economic Integration (BCIE) and the Central American Common Market (CACM). In 2004, Costa Rica, the United States, El Salvador, Guatemala, Honduras, Nicaragua, and the Dominican Republic signed the US–Central America Free Trade Agreement (CAFTA). The agreement must be ratified by all participating countries before it enters into force. Costa Rica also participates in G-77, the Inter-American Development Bank, the Latin American Economic System (LAES), the Río Group, the Association of Caribbean States (ACS), and OAS. The nation has observer status in the Latin American Integration Association (LAIA) and the Nonaligned Movement.

Costa Rica is part of the Agency for the Prohibition of Nuclear Weapons in Latin America and the Caribbean (OPANAL) and the Organization for the Prohibition of Chemical Weapons. San José is the seat of the Inter-American Human Rights Court. In August 1987, a peace plan for Central America proposed by Costa Rica was signed by Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua. In 1999, the United States and Costa Rica signed the Maritime Counter-Drug Agreement as a cooperative effort to stop drug trafficking through Costa Rican waters. It is first of its kind in Central America. The country is a signatory of the 1947 Río Treaty, an inter-American security agreement.

In environmental cooperation, Costa Rica is part of the Basel Convention, Conventions on Biological Diversity and Whaling, Ramsar, CITES, the London Convention, the Kyoto Protocol, the Montréal Protocol, the Nuclear Test Ban Treaty, and the UN Conventions on the Law of the Sea, Climate Change, and Desertification. Costa Rica is also signatory to the Central American-US Joint Declaration (CONCAUSA).

19 ECONOMY

The economy of Costa Rica, like that of all other countries in Central America, was originally based on the production of tropical agricultural commodities for export. There is some forestry in Costa Rica but very little mining, although steps have been taken to exploit bauxite, sulfur, and petroleum. Since about 1961 there has been a significant expansion of manufacturing activity, but most industrial plants remain small, concentrating on simple consumer goods to displace more expensive imports. Government efforts to promote diversification of agricultural production have resulted in notable expansion of cattle and dairy farming, second in value only to coffee among agricultural sectors. The opening of an Intel chip-making factory in 1998 spurred high growth rates and an influx of high technology companies, and increasing tourism revenues supported the growing economy. GDP growth, based on increases in tourism and industrial output, rose to 8.2% in 1999, while the official unemployment fell to 5.6%. There is relatively little underemployment in Costa Rica. From 2000 to 2002, however, economic growth turned sluggish, averaging a little under 2% per year, the result of both a weakened external environment—

in which tourism, export demand, and foreign investment were all declining—and slackness in the domestic economy, reflected an average yearly inflation rate of 10.4% and a yearly combined government deficit amounting, on average, to 4.7% of GDP. Costa Rica's unemployment rate, however, has remained at a relatively unproblematic 6%. (with underemployment estimated at 7.8% for 2002), which relieves some of the pressure for reform.

Through the 1960s, prospects for economic expansion were promising, particularly in view of progress toward economic integration in Central America. However, in the 1970s, increases in import prices for raw materials (particularly oil) and finished goods caused an inflationary surge (reaching 100% in 1982), to which some internal policies, such as credit expansion and wage increases, also contributed significantly. Chiefly because of a decline in coffee prices in 1978 and the doubling of oil import costs in 1979, the economic growth rate fell sharply from 8.9% in 1977 to -8.8% in 1982. Costa Rica normally spends the whole of its export revenues from coffee on importing petroleum.

Positive growth rates averaging 3.8% resumed in 1983 and continued through 1985, largely due to government-imposed austerity under IMF standby agreements. Unemployment declined from an official high of 9.1% in 1982 to 6.7% in 1986, the year world oil prices finally collapsed. The annual inflation rate dropped from 90% to 11.8% in the same period. Foreign debt, rescheduled in 1983 and 1985, remained high at \$3.67 billion at the end of 1985. The overall growth rate between 1978 and 1988 was 4.1%.

Although per capita income slipped in the early 1990s, Costa Ricans still enjoyed the highest per capita income in Central America. Following a structural adjustment period, real GDP grew by 7.3% in 1992. In 1993, however, economic growth slowed to 4.5%; continually declining until the rate hit -0.8% in 1996. The decline was attributed to lingering negative expectations in the private sector, adverse effects of increasing international competition, and unfavorable weather. Tight fiscal and monetary policies adopted under an IMF standby agreement April 1993–February 1994 also contributed to the mild recession. The government entered into another standby agreement with the IMF, which ran from November 1995 to February 1997. By 1998, annual inflation was down to 12%, a significant improvement on the 22.5% recorded in 1995, and GDP growth rose to 6.2%, above the 3.7% recorded in 1997, reflecting increased tourist and export trade, and new investment activity. Inflation dropped to 10.1% in 1999, the year of Costa Rica's strongest recent growth. In 2000 GDP growth fell to 2% and in 2001 to 1.1%. In 2002, GDP growth was estimated at 2.8% and inflation at 10%.

In 2004, the economy expanded by 4.2%, down from 6.5% in 2003; in 2005, the GDP growth rate was estimated at 2.7%. The inflation rate was fairly stable, but in 2004 it grew to 12.3%, and was expected to continue this trend in 2005 (increasing to 13.6%). The unemployment rate was also stable, and remained under the 7% marker. The main economic growth engines remain agriculture, tourism, and electronics exports. Costa Rica's economy is attractive for investors as it is framed within a stable political system; it benefits from high education levels and a booming tourism sector. However, the government has to struggle with substantial internal and external deficits, and a sizable internal debt.

20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 Costa Rica's gross domestic product (GDP) was estimated at \$40.3 billion. 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 based on current dollars. The per capita GDP was estimated at \$10,000. The annual growth rate of GDP was estimated at 3.2%. The average inflation rate in 2005 was 13.8%. It was estimated that agriculture accounted for 8.6% of GDP, industry 28.3%, and services 63.1%.

According to the World Bank, in 2003 remittances from citizens working abroad totaled \$321 million or about \$80 per capita and accounted for approximately 1.8% of GDP. Foreign aid receipts amounted to \$28 million or about \$7 per capita and accounted for approximately 0.2% of the gross national income (GNI).

The World Bank reports that in 2003 household consumption in Costa Rica totaled \$11.72 billion or about \$2,925 per capita based on a GDP of \$17.5 billion, measured in current dollars rather than PPP. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the period 1990 to 2003 household consumption grew at an average annual rate of 4.2%. It was estimated that in 2004 about 18% of the population had incomes below the poverty line.

21 LABOR

As of 2005, Costa Rica's labor force was estimated at 1.82 million workers. In 2003, the services sector accounted for 62.1% of the workforce, followed by industry at 22.2%, agriculture at 15.1%, and various other occupations at 0.6%. Unemployment was estimated at 6.6% in 2005.

The law provides workers with the right to join and form unions, although this is limited in practice. Unionization was about 9% of the total workforce in 2005. *Solidarismo* (solidarity associations), a Costa Rican alternative to traditional trade unions, have grown popular and have around 330,000 workers, 95% of whom are in the private sector. *Solidarismo* are *nondues* collecting associations and work to promote cooperative labor/management relations by offering workers practical benefits (like credit unions), in exchange for which workers renounce their striking and collective bargaining rights. *Solidaristas* are established with mutual contributions from the employer and the workers, so that the fund serves as savings plan, benefits, and severance pay. Private sector workers have the right to strike, but public employees are prohibited from striking.

A minimum wage is set up by a National Wage Council. The private sector minimum wage ranged from \$150 per month for domestic servants to \$588 for university graduates in 2005. The workweek was set at 48 hours. Overtime pay is required for work in excess of that. Occupational health and safety standards are inconsistently enforced, especially outside of San José. Although child labor remains a problem, the government is working to eradicate abuses. The minimum working age is 15 years, while minors between the ages of 15 and 18 may work up to six hours per day and 36 hours per week. Night work and overtime for minors are prohibited.

2² AGRICULTURE

About 10.3% (525,000 hectares/1,297,000 acres) of the total land area is used for crop production. Nearly half of all farms average less than 10 hectares (25 acres) in size. Over 326,000 persons, or about 19% of the economically active population, were engaged in farming in 2003.

Corn and sugar crops are usually sufficient to meet domestic needs, but beans and rice must be imported from time to time. Agriculture accounted for about 9% of the GDP in 2004. The principal cash crops are coffee, bananas, cocoa, and sugar. Coffee and bananas together accounted for 12% of exports in 2004, with values of \$199.5 million and \$545.4 million, respectively.

Over 85% of coffee properties belong to Costa Ricans. The banana industry has been producing more than one million tons of bananas annually since the 1970s. The principal marketer of Costa Rica's bananas is Standard Fruit Co. Corn, rice, potatoes, beans, sisal, cotton, citrus fruits, pita (used to make hats, baskets, and mats), yucca, vegetables, pineapples and other fruits, tobacco, abaca (hemp), and vegetable oils (especially African and coconut palms) are produced primarily for domestic consumption. Estimated crop production in 2004 (in tons) was sugarcane, 3,945,000; bananas, 2,230,000; rice, 222,000; coffee, 126,000; corn, 12,000; dry beans, 10,500; and cocoa, 700. In 1999, agricultural output was 26% higher than the annual average during 1989–91. During 2002–04, it was 20% higher than during 1999–2001.

2³ ANIMAL HUSBANDRY

About 46% of Costa Rica's total land area was devoted to livestock raising in the early 1990s as the result of a major conversion of land to pasturage during the 1970s. In the past, Costa Rica had to import meat, but improvements in animal husbandry have made the country self-sufficient and provided a surplus for export. However, low productivity, low international prices, and high domestic interest rates affected profitability of the beef cattle sector in 1993 and 1994. National milk production in 2004 was an estimated 790,000 tons, enough to permit exports of excess production. Exports of meat were worth \$37.3 million in 2004. In 2004, there were an estimated 1,080,000 head of cattle, 550,000 hogs, 115,000 horses, and 19,500,000 chickens.

2⁴ FISHING

Fish abound in Costa Rican waters, particularly in the Pacific Ocean, where 89% of the annual harvest is caught. Tuna, herring, and shrimp are the most valuable commercial fish; they are caught, processed, and shipped abroad by US firms. A small native fishing industry contributes to the domestic food supply and exports shark, mollusks, and live lobsters. Pearl fishing, once an important industry on the Pacific coast, has declined. In 2003, the total volume of fish landed was an estimated 29,327 tons. Aquacultural production added another 20,546 tons to the 2003 total.

2⁵ FORESTRY

Costa Rica's forestland has declined from about 75% of the total land area in 1940 to 39% in 2000. About 18% of the area still forested is lightly exploited, while 82% is virgin forest. Varieties of commercial woods include laurel, cedar, oak, quina, espavel, campana, cristobal, pochote, maca wood, cedro macho, cedar, and

caoba (mahogany). In the Golfo Dulce rain forest of the southern Pacific coast, 135 families of trees embracing some 1,315 species in 661 genera have been identified. Forest products include rubber, chicle, ipecac, roots, medicinal plants, seeds, and other plant products. Although lumber exports have declined, overall timber output increased to 5.1 million cu m (181 million cu ft) of roundwood cut in 2003, of which about 67% was used for fuel. Forestry product exports in 2003 totaled \$21.7 million.

2⁶ MINING

The production of minerals contributed less than 1% to the GDP. Mineral production in 2003 included cement, 1.3 million tons; common clays, 420,000 metric tons; sandstone, 3.25 million tons; and limestone, 920,000 tons. Diatomite, lime, pumice, silver, marine salt, crushed stone, and sand and gravel were also mined in 2003. Except for clays, fertilizers, and lime, most mineral commodities were produced for domestic use. In May 2002, the president of Costa Rica issued a decree that placed a moratorium on oil exploration, open pit mining, and cyanide processing. While the moratorium was not expected to affect the open-pit heap-leach Bellavista and Cerro Crucitas gold projects, which were approved prior to the moratorium, other gold projects could be severely affected. Gold production in 2003 totaled 110 kg, up from 100 kg in 2002.

2⁷ ENERGY AND POWER

Costa Rica, with no proven reserves of oil, natural gas, or coal, relies heavily upon electric power to meet the bulk of its energy needs. In 2002, the country had an electric power generating capacity of 1.715 million kW, with production and consumption for that same year at 7.360 billion kWh and 6.420 billion kWh, respectively. The nation's generating capacity, and output is primarily hydroelectric. Hydropower accounted for 1.226 million kW or 71.4% of generating capacity, and for 5.871 billion kWh or almost 80% of the power produced in 2002. Additional capacity and production comes from geothermal/other and conventional thermal sources. In 2002, geothermal/other sources accounted for 0.207 million kW or 12% of capacity, and 1.374 billion kWh or 18.6% of production. Conventional thermal sources accounted for 0.282 million kW or 16.4% of capacity, and 0.115 billion kWh or 1.5% of production. Costa Rica has no nuclear power generating capacity.

Costa Rica relies mostly on imports to meet its hydrocarbon-based needs. All crude oil is imported. In 2002, crude imports averaged 9,680 barrels per day. Costa Rica however, does have limited refining capacity. According to data from the Energy Information Administration, updated as of October 2005, of the seven countries that comprise Central America, Costa Rica is among only three (El Salvador and Nicaragua are the others) to have refining capacity. Of the three, Costa Rica's refining capacity is the largest, at 24,000 barrels per day, and is handled by a single refinery, the Limón facility. In 2002, refinery output totaled 9,280 barrels per day and consisted of: distillates (2,920 barrels per day); residual product (4,500 barrels per day); liquefied petroleum gas (800 barrels per day); and unspecified products (1,780 barrels per day). However the country's demand for refined product far outstrips the capacity of this single facility, so imports are necessary. In 2002, demand for refined petroleum products averaged 39,670 barrels per day. Costa Rica must also import all of the coal it con-

sumes. In 2002, these imports consisted of hard coal and amounted to 54,000 tons.

28 INDUSTRY

Costa Rica is one of the most industrialized countries in Central America, although industries are predominantly small-scale and primarily involve assembling or finishing imported semifinished components. Of the few larger-scale manufacturing enterprises, the majority are in chemical fertilizers, textiles, coffee and cocoa processing, chemicals, plastics, electronics, and computer chips. The Intel Corporation opened a chip-manufacturing plant in 1998. The garment assembly and tuna processing industries are important. Other manufacturing projects include aluminum processing, a petrochemical plant at Moin, a tuna-processing plant at Golfito, and an oil refinery at Limón with a production capacity of 15,000 barrels per day. Major infrastructure construction projects were planned as of 2002, but with the exception of road repair, most had not progressed. Industry represented 37% of GDP in 2000. The Costa Rican Investment and Development Board (CINDE), is designed to attract high quality foreign investment oriented toward exports.

The share of industry in the GDP decreased to 28.3% in 2005, and was bested by services with a 63.1% share (which was also the country's largest employer). The industrial production growth rate was 2.6%, similar to the GDP growth rate in the same year—an indicator of unspectacular development in this sector. Manufacturing and mining continue to account for most of the industrial output.

29 SCIENCE AND TECHNOLOGY

The principal scientific policymaking body in Costa Rica is the General Directorate of Geology, Mining, and Petroleum (founded in 1951). Several institutes specialize in tropical sciences, including the Organization for Tropical Studies in San Pedro, the Tropical Science Center in San José, and the Tropical Agronomy Center in Turrialba, as well as medicine, nuclear energy, technology, geology, agriculture, and meteorology. The University of Costa Rica in San José, founded in 1843, has faculties of agronomy, science, pharmacy, engineering, medicine, microbiology, and dentistry. The National University in Heredia, founded in 1973, has faculties of exact and natural science, earth and sea sciences, and health sciences. The Technological Institute of Costa Rica in Cartago, founded in 1971, has numerous attached research centers. In 1987–97, science and engineering students accounted for 20% of college and university enrollments.

For the period 1990–2001, there were 530 researchers per million people engaged in research and development (R&D). In 2002, high technology exports by Costa Rica were valued at \$1.146 billion, which accounted for 37% of manufactured exports. In 2000, R&D expenditures totaled \$131.417 million, or 0.39% of GDP.

30 DOMESTIC TRADE

San José is the commercial center, and most importers, exporters, and manufacturers' agents operate there. Though there are a number of small merchants and traditional public markets; modern shopping centers, malls, supermarkets, and franchise outlets are becoming the norm. E-commerce is slowly becoming

popular but has been hindered by the lack of appropriate telecommunications.

In recent years, the economy has made a major shift from agricultural production and exports, primarily of bananas and coffee, to high-tech industries and tourism. As of 1999, 58% of the work force was employed in service industries. In 1998, the opening of an Intel Corporation microprocessor assembly and testing plant accounted for half of the nation's economic growth the following year. Subsequent large foreign investment companies include Abbott Laboratories and Procter and Gamble.

Shops are open on weekdays from 8:30 to 11:30 AM and from 2 to 6 PM, and on Saturday in the morning only. Business hours are from 8 AM to 12 PM, and 2 to 6 PM, Monday through Friday. Normal banking hours are 9 to 11 AM and 1:30 to 3 PM, Mondays through Friday, and 8 to 11 AM on Saturday. Advertising agencies in Costa Rica, all located in San José, offer advertising services through newspapers, radio, television, and direct mail.

31 FOREIGN TRADE

Among Costa Rica's major exports are coffee, bananas, sugar, cocoa, and cattle and meat products—all commodities vulnerable to world market prices. The major markets for Costa Rican exports are the United States, the United Kingdom, Germany, Italy, Guatemala, El Salvador, Honduras, and Belgium.

Imports consist mainly of raw materials for industry and mining, followed by consumer goods and capital goods for industry, mining, and transportation. Major suppliers include the United States, Mexico, Venezuela, Japan, Spain, Guatemala, and Germany.

In 1996, falling terms of trade due to lower international prices for coffee, beef, and sugar, and the drop in banana production, caused traditional exports to perform less well than in previous years. However, the growth of nontraditional exports picked up part of the slack, despite some adverse effects from much-enhanced competitiveness of competing Mexican exports. Despite the economic recession, the value of imports of goods increased by 16% in 1996, well above the 8% for the previous year. A major factor was the substantial increase in international fuel prices and a relatively strong local currency. As a result, the trade deficit worsened from 1995 by almost 117% to \$76 million.

Principal Trading Partners – Costa Rica (2003)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	5,800.4	7,388.2	-1,587.8
United States	2,733.2	3,682.5	-949.3
Areas nes	359.4	191.2	168.2
Guatemala	253.5	154.0	99.5
Malaysia	206.4	...	206.4
Nicaragua	186.3	51.0	135.3
Germany	179.6	165.3	14.3
Special Categories	170.8	97.9	72.9
Panama	163.3	114.5	48.8
United Kingdom	156.3	80.4	75.9
Honduras	155.4	42.3	113.1

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

The value of imports continued to rise into 1998; after 1997 the value of imports as compared to exports was balanced. Exports in 1999 climbed above imports because of the sale of computer chips, but in 2000 the trade deficit returned.

Costa Rica relied mostly on agriculture to sustain its commodity export market in 1996. Fruits and nuts made up almost a third of exports (30%) and coffee was the second-largest export (15%). Other agricultural exports included nonedible vegetable oils (4.6%), fruit (2.5%), edible vegetables (2.4%), meat (2.0%), and sugar (1.5%). Small amounts of medicines and gold were exported from Costa Rica (2.1% and 1.7%).

In 2005, exports reached \$7 billion (FOB—Free on Board), while imports grew to \$9.7 billion (FOB). In 2004, the bulk of exports went to the United States (46.9%), the Netherlands (5.3%), and Guatemala (4.4%). Imports included raw materials, capital goods, and consumer goods, and mainly came from the United States (46.1%), Japan (5.9%), Mexico (5.1%), and Brazil (4.2%).

3² BALANCE OF PAYMENTS

Costa Rica has traditionally experienced balance-of-payments difficulties because of the vulnerability of its main sources of exchange earnings to fluctuations in world markets. The nation's payments problems in the late 1970s were aggravated by domestic inflationary policies and rising trade imbalances, despite increases in foreign capital receipts. The deficit on capital accounts declined in the mid-1980s due to increases in capital investment from foreign loans and credits and favorable renegotiation of the foreign debt. During the early 1990s, an unfavorable trade balance resulted from fluctuating coffee prices and high oil prices, but the balance of payments leveled out by 1999. Costa Rica's chronic trade and current account deficits have been offset by foreign direct investment in the form of capital goods, which is reflected in the offsetting figures for the current and capital accounts. The US Central Intelligence Agency (CIA) reported that in 2001 the purchasing

power parity of Costa Rica's exports was \$5 billion while imports totaled \$6.5 billion resulting in a trade deficit of \$1.5 billion.

The International Monetary Fund (IMF) reported that in 2001 Costa Rica had exports of goods totaling \$4.91 billion and imports totaling \$6.12 billion. The services credit totaled \$2.05 billion and debit \$1.28 billion.

The current account balance was negative in 2004, slightly improving from -\$967 million in 2003 to -\$960 million in 2004. Foreign exchange reserves (including gold) decreased to \$1.4 billion in 2004, covering almost two months of imports.

3³ BANKING AND SECURITIES

The Central Bank (Banco Central de Costa Rica), an autonomous governmental body established in 1950, issues currency, holds the nation's gold reserves, formulates general banking policy, and regulates commercial banks. Three commercial state banks, which dominate the banking system, are operated as autonomous government corporations: the Banco Nacional de Costa Rica, Banco de Costa Rica, and Banco Crédito Agrícola de Cartago. The banking monopoly was surrendered in 1995. There are also nearly 70 private banks and financial groups operating in Costa Rica.

Costa Rican residents can own and deal in gold, own foreign securities and foreign currencies, maintain foreign bank balances, import and export national bank notes, and import goods from abroad, but they must repatriate export earnings. Costa Ricans traditionally put their savings into real property rather than securities, but on several occasions during the 1960s and 1970s, the government successfully floated bond issues within the country. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$2.2 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$6.1 billion. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 28.75%.

Stock sales and foreign currency transactions are handled by the Bolsa Nacional de Valores in San José. The Superintendency of Financial Markets (SUGEVAL) is in charge of the stock exchange.

3⁴ INSURANCE

Only the government's National Insurance Institute (Instituto Nacional de Seguros—INS), founded in 1924, may write insurance in Costa Rica. It handles all types of insurance, the most important being life, fire, automobile, and workers' compensation. One of the more popular features of life insurance policies is that the holder may borrow up to the full face value of the policy after paying premiums for only two years. In 1996, the insurance monopoly was reformed to allow private agents to sell policies, while the INS continued to hold all underwriting rights. The INS does, however, reinsure its risks with private, foreign insurers. In 2003, the value of all direct premiums written totaled \$318 million, of which nonlife premiums accounted for \$290 million. In 2002, the INS' gross written nonlife premiums (including personal accident) totaled \$313.5 million.

3⁵ PUBLIC FINANCE

The central government budget is passed upon by the Legislative Assembly. Municipal budgets are of minor importance, and local

Balance of Payments – Costa Rica (2003)

(In millions of US dollars)

Current Account			-967.0
Balance on goods		-1,169.6	
Imports	-7,294.4		
Exports	6,124.7		
Balance on services		838.6	
Balance on income		-848.6	
Current transfers		212.6	
Capital Account			26.1
Financial Account			653.4
Direct investment abroad		-26.9	
Direct investment in Costa Rica		576.7	
Portfolio investment assets		-91.6	
Portfolio investment liabilities		-304.5	
Financial derivatives		...	
Other investment assets		170.6	
Other investment liabilities		329.1	
Net Errors and Omissions			68.0
Reserves and Related Items			219.5

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

Public Finance – Costa Rica (2003)

(In billions of colones, central government figures)

	1,579.4	100.0%
Revenue and Grants		
Tax revenue	935.4	59.2%
Social contributions	510.7	32.3%
Grants	3.8	0.2%
Other revenue	129.5	8.2%
Expenditures	1,691	100.0%
General public services	375.6	22.2%
Defense	...	...
Public order and safety	127.6	7.5%
Economic affairs	164.6	9.7%
Environmental protection	...	...
Housing and community amenities	0.5	<1.0%
Health	352.6	20.9%
Recreational, culture, and religion	13.2	0.8%
Education	365.5	21.6%
Social protection	292.4	17.3%

(...) data not available or not significant.

SOURCE: *Government Finance Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

government funds are mainly grants from the national government. The financial range of the public sector extends to a large number of publicly owned entities. Interest costs on the accumulated government debt consume a huge 16.8% of the government's revenues. Approximately 42% of the 2001 national budget was financed by public borrowing.

The US Central Intelligence Agency (CIA) estimated that in 2005 Costa Rica's central government took in revenues of approximately us\$2.7 billion and had expenditures of us\$3.1 billion. Revenues minus expenditures totaled approximately -us\$473 million. Public debt in 2005 amounted to 56.2% of GDP. Total external debt was us\$3.633 billion.

The International Monetary Fund (IMF) reported that in 2003, the most recent year for which it had data, central government revenues in colones were c1,579.4 billion and expenditures were c1,691 billion. The value of revenues in US dollars was us\$3.97 million and expenditures us\$4.24 million, based on a market exchange rate for 2003 of us\$1 = c398.66 as reported by the IMF. Government outlays by function were as follows: general public services, 22.2%; public order and safety, 7.5%; economic affairs, 9.7%; health, 20.9%; recreation, culture, and religion, 0.8%; education, 21.6%; and social protection, 17.3%.

36 TAXATION

Indirect taxes, such as import duties, contribute about three-quarters of government revenues.

Both individuals and businesses residing in Costa Rica are subject to income tax only on income derived from sources within the country. The corporate tax rate is 30%. Incentives are available for new industries and for engaging in the export of non-traditional products. Personal income taxes range from 10–25% for employed persons and 10–20% for self-employed persons. The personal exemption level is equal to only 80% of Costa Rica's average income, and the threshold for the highest tax rate is less than four times the average. The main indirect tax is Costa Rica's value-

added tax (VAT) introduced in January 1975 at a standard rate of 10%, which was reduced to 8% during the 1990s, and then raised to 13% in 2001. Items exempted from the VAT include inputs for dwelling construction, food, medicines, educational supplies and books. Electric power to homes is subject to a 5% rate. There is also a property tax, a franchise tax, a real estate transfer tax, and a selective-consumption tax levied on luxury items, with rates ranging from 10–75%.

37 CUSTOMS AND DUTIES

Initially, the import tariff was primarily for revenue raising purposes, but in 1954 it was increased to protect Costa Rican industry. In 1962, tariffs were raised so high that they virtually prohibited foreign competition in certain fields. Import duties usually included a specific duty on the gross weight in kilograms and ad valorem duties of varying percentages of the CIF (cost, insurance, and freight) value of the imported goods.

Since Costa Rica's entry into GATT, tariffs have been lowered. As of 2002, customs duties range from 1–15%. However, food tariffs were between 14% and 19%. Import duties on raw materials, bulk grains, and oilseeds were reduced to 1% in 1996. Capital goods and most finished products have a tariff of 1% and 10–15% respectively. There is a 13% value-added tax (VAT). Excise taxes range from 5–75%, applying to about half of all products imported. For example, arms and munitions are taxed at 75%; costume jewelry, fireworks, and whiskey at 50%; wine and beer at 40%.

Costa Rica has a bilateral free trade agreement with Mexico and was planning future agreements in 1999 with Dominican Republic, Panama, Chile, and Trinidad and Tobago. Costa Rica is also a member of the Central American Common Market (CACM) with El Salvador, Guatemala, Honduras, and Nicaragua. The CACM has a common external tariff of 5–20% for most products.

38 FOREIGN INVESTMENT

Foreign investment, which is welcomed in Costa Rica, is concentrated in manufacturing (45%) and agriculture (25%, mainly banana and coffee interests). Other investments are placed in the railways, tobacco, communications, airlines, government bonds, and real estate. The United States, Costa Rica's major foreign investor (78% in 1998), has interests chiefly in computer chip manufacturing, agriculture, petroleum refining, and distribution, utilities, cement, and fertilizers. The continued high level of trade with the United States has been conducive to private foreign investment, especially in export industries. Investment incentives include constitutional equal treatment guarantees and free trade zones. Foreign direct investment in Costa Rica in 1998 was \$530 million, or 5% of GDP.

Liberalization of Costa Rica's trade and investment regimes, resolution of the internal debt problem, and passage of legislation expanding private sector investment in energy, telecommunications, roads, ports, and airports have boosted opportunities for foreign and local investors and increase Costa Rica's prosperity. In 1998, the Public Concessions Law defined the ways in which foreigners could invest in Costa Rica's public sector. Still, in the energy sector, foreign ownership may not exceed 65%, and a long list of activities are reserved for the state. The government had no privatization programs in 1999, but in 2000 investment was pro-

moted by the government in the electricity and telecommunications parastatals.

Costa Rica has sought to widen its economic and diplomatic ties, including outside the region. Costa Rica has maintained connections with the United States, the EU, along with the other Central American states, through periodic ministerial consultations. The country is a founding member of the WTO and has actively participated in the follow-up to the Summit of the Americas to bring about the Free Trade Area of the Americas by the year 2005.

In 2003, total capital inflows reached \$587 million, down from \$662 million in 2002, but up from \$454 million in 2001. The United States' stock of foreign investment decreased by \$75 million in 2003, reaching \$1.6 billion. In August 2004, Costa Rica (together with El Salvador, Guatemala, Honduras, Nicaragua, and the Dominican Republic) signed a free trade agreement with the United States. Through this agreement, Costa Rica has committed itself to open up two sectors that are currently state monopolies—telecommunications and insurance. Costa Rica is also a beneficiary of the US Caribbean Basin Trade Partnership Act (CBTPA).

3⁹ ECONOMIC DEVELOPMENT

Despite trying to remain neutral, Costa Rica was affected adversely by regional political turmoil in the late 1970s and the 1980s. Instability in neighboring Nicaragua and Panama discouraged new investment and tourism in Costa Rica. Many displaced Nicaraguans and Salvadorans sought refuge in Costa Rica, further burdening the country's educational and health facilities. An oil shock and debt crisis also made economic recovery difficult.

Following an economic crisis in the early 1980s, Costa Rica made significant progress toward macroeconomic stability, structural adjustment, and growth through increasingly diversified exports. Gross domestic product (GDP) growth averaged 4% from 1988 to 1998. Nontraditional exports and tourism have increased rapidly and account for almost 60% of foreign currency earnings. Impressive growth after 1998 was recorded, in part due to the investments of the Intel Corporation. Although that and other North American corporations remain crucial to the success of the economy, since 2000, growth slowed to around 2%, unemployment remained at 6%, and inflation remained at 10%.

The government faced a large budget deficit in 2002 (it was 6% of GDP, up from 3.8% in 2001); 42% of the 2001 national budget was financed by public borrowing. The public debt was 52% of GDP in 2002. In 2000, an effort to privatize the telecommunications sector failed, and important economic sectors remain controlled by large public enterprises. The government in 2003 planned to implement tax reform to broaden the tax base, and to improve the condition of the financial system. Costa Rica is a supporter of the Free Trade Area of the Americas.

In 2005, the economy expanded at an overall slower pace than in 2004. This deceleration was reflected in all sectors of the economy, save agriculture and utilities. Government spending also went down, holding down growth in government consumption. Domestic demand was sluggish, with the exception of fixed investment. The fastest-growing sectors were transport and communications.

4⁰ SOCIAL DEVELOPMENT

A national social insurance and mandatory private insurance system provides old age, disability and survivorship benefits for employed persons. There is also a voluntary program for the self-employed. All employed persons have coverage for sickness and maternity cash benefits, and all residents get medical care. A family allowance program provides pensions for persons, employed or not, that are not covered under the national social insurance system. The social security program is compulsory for all employees under 65 years of age. Pensions are generally set at 60% of average earnings during the last five years of coverage.

The government is taking action to protect women against domestic violence and abuse, including passing laws and providing services to victims. Domestic abuse is considered a major society problem. Women have equal rights under the law. The Law for the Promotion of the Social Equality of Women further obligates the government to promote political, economic, social, and cultural equality. Although women remain underrepresented in senior government positions, progress has been made. The law stipulates that women receive equal pay for equal work, but men usually have higher earnings. The Women's Council and the Women's Delegation, two government agencies, act as advisors and advocates for women who have suffered abuse or harassment. Child prostitution remains prevalent. However, the government is committed to children's rights and adequately funds public education and medical care.

Prisons are overcrowded, but conditions are generally considered to be humane. The judicial process tends to be slow, resulting in some lengthy pretrial detentions. Human rights are respected by the government.

4¹ HEALTH

Health standards have steadily improved in Costa Rica. The infant mortality rate, 166.7 per 1,000 live births in 1927, was 62.3 in 1968 and 9.95 in 2005. The decreases in mortality rates were attributed to improvements in sanitary and medical facilities under the national health program administered by the Ministry of Health. The fertility rate was 3.1 in 1994, a 1.3% yearly reduction since 1984, and was reduced further to 2.5 as of 2000. The use of contraceptives is one of the highest in Latin America and the Caribbean. In the mid-1990s, 75% of married females aged 15–49 were using a form of contraception. During 2005, life expectancy at birth was an average of 76.84 years.

Hospitals are located in the principal cities and about 95% of the hospital beds are in urban areas. In 2004, Costa Rica had an estimated 172 physicians, 245 nurses, 42 dentists, and 34 pharmacists per 100,000 people.

Health services for the rural population are generally inadequate and the refugee problem has severely taxed urban services. However, there are sanitary units and dispensaries to care for the health needs of the poor. During the 1980s, the greatest health problem was protein-calorie malnutrition, particularly among infants and children. Diseases of the circulatory system are the leading cause of death. Almost 100% of the population had access to safe water. Costa Rica immunized children up to one year old as follows: diphtheria, pertussis, and tetanus, 91%; measles, 99%; po-

lio, 93%; and tuberculosis, 91%. The incidence of tuberculosis was 17 per 100,000 in 1999.

The HIV/AIDS prevalence was 0.60 per 100 adults in 2003. As of 2004, there were approximately 1,200 people living with HIV/AIDS in the country. There were an estimated 900 deaths from AIDS in 2003.

42 HOUSING

In 2004, there were approximately 1,082,662 housing units in the country. About 646,806 (59.7%) were detached houses. About 74% of all dwellings were owner occupied. About 84.5% of all dwellings were listed in good or average condition and 88% were listed as having access to all basic services.

Sources for housing mortgages include private funds, the Central Bank, the Social Security Fund, and the national banking system. In 2002, the cost of building a home was about \$315 to \$540 per square meter. The National Institute of Housing and Urban Affairs, established in 1954, administers a national low-cost housing program.

In 1986, the National Bamboo Project was launched as a way to introduce new building technology aimed at preventing deforestation throughout the country. The project focuses on the use of bamboo for building material in indigenous housing projects. In 1995, FUNBAMBU (The Bamboo Foundation) was established to take over the program. To date, at least 3,000 low-cost homes have been built through this program and about 200 hectares of bamboo have been cultivated for future use. FUNBAMBU plans to build another 1,500 homes per year, about 6% of all housing construction per year.

43 EDUCATION

Primary education lasts for six years followed by three years of secondary education. Either a two-year academic course of study or a three-year technical course of study follows. Primary and secondary education is free, and primary-school attendance is compulsory.

Primary school enrollment in 2003 was estimated at about 90% of age-eligible students. The same year, secondary school enrollment was about 53% of age-eligible students. It is estimated that about 94% of all students complete their primary education. The student-to-teacher ratio for primary school was at about 23:1 in 2003; the ratio for secondary school was about 19:1.

The country has 39 universities, including an open university. The University of Costa Rica (founded in 1843) is supported by the government. The Open University (1977) in San José operates 28 regional centers for all students who apply. There are also the Autonomous University of Central America (1976) in San José and the National Autonomous University of Heredia (1973), among others. In 2003, about 19% of the tertiary age population were enrolled in some type of higher education program. The adult literacy rate for 2004 was estimated at about 95.8%, with fairly even rates for men and women.

As of 2003, public expenditure on education was estimated at 5.1% of GDP, or 22.4% of total government expenditures.

44 LIBRARIES AND MUSEUMS

The National Library at San José, founded in 1888, is a reference library that contained about 255,000 volumes in 2002. Other im-

portant libraries in San José are the National Archives, with 8,500 volumes, and the library of the University of Costa Rica, which contains about 439,000 volumes. The Inter-American Institute of Agricultural Sciences, in Turrialba, has a library of over 90,000 volumes. The Legislative Assembly maintains a library of 35,000 volumes and the Indigenous Museum (1890) holds 40,000 volumes. The Tropical Science Center in San José sponsors the L.R. Holdridge Documentation and Information Center, which specializes in research materials on nature conservation and management.

The National Museum of Costa Rica in San José, founded in 1887, is a general museum with collections of pre-Columbian, colonial, republican, and religious art, a herbarium, and bird displays. The Museum of Costa Rican Art was founded at San José in 1977. There are several other art museums in the capital as well, including the Indigenous Museum, the Museum of Pre-Columbian Gold, and the Museum of Jade.

45 MEDIA

Costa Rican telephone, telegraph, and radio systems are owned and operated by both governmental and private firms. In 2003, there were an estimated 251 mainline telephones for every 1,000 people; about 15,800 people were on a waiting list for telephone service installation. The same year, there were approximately 111 mobile phones in use for every 1,000 people.

There were 65 AM and 51 FM radio stations in 2002. The same year, there were 20 television stations in Costa Rica. Many stations are privately owned. The Commission on Control and Rating of Public Performances has the authority to restrict radio and television broadcasts, as well as films and live theater productions that may contain violent or explicitly sexual content. In 2003, there were an estimated 816 radios for every 1,000 people. The number of televisions was unavailable in the same survey.

The major daily newspapers, all published in San José, (with 2004 circulations except as noted) include *Diario Extra*, an independent morning paper (120,000); *La Nación*, an independent morning paper (125,000); *La República*, an independent morning journal (60,000 in 2002); *Al Día*, an independent morning paper (65,000); and *La Prensa Libre*, an independent evening paper (56,000). There are several periodicals and magazines available, the most popular of which is the general interest weekly *Esta Semana*, with a 1995 circulation of 27,000.

Freedom of speech and the press is guaranteed by the constitution and observed in practice. Print and electronic media are largely privately owned.

46 ORGANIZATIONS

Consumer cooperatives purchase, sell, and distribute goods among the membership. The cooperative credit societies procure loans for agriculture, stock raising, and industrial development, and cooperative housing associations provide low-cost housing facilities. There are chambers of commerce and of industry in San José. In addition, there are about 50 employers' and industrial organizations, including the National Coffee Chamber. An unusual organization, combining features found in credit unions, company unions, and building and loan societies, is the Movimiento Sol-

idarista, which advocates harmony between employers and workers. Professional associations are also available.

The Central American Health Institute is a multinational organization based in San José. There are also several organizations concerned with environmental issues and conservation. Volunteer service organizations, such as the Lions Clubs and Kiwanis International, are also present.

National women's organizations include the Association of University Women, The Center of Feminist Information and Action, and the National Institute of Women. There are two major student unions, the Federation of University Students of Costa Rica (FEUCR) and The Nation Federation of University Students (FEUNA). The Association of Guides and Scouts of Costa Rica and the YMCA are also active youth organizations. There are several sports organizations representing a variety of interests, such as taekwondo, badminton, tennis, and football (soccer), to name a few. There is an active organization of the Special Olympics.

Costa Rica has chapters of Amnesty International, the Society of St. Vincent de Paul, and the Red Cross. A national organization, the Arias Foundation for Peace and Human Progress, is based in San José. The Arias Foundation works to build peace and justice in Central America and operates the Center for Peace and Reconciliation, the Center for Human Progress, and the Center for Organized Participation. The Commission for the Defense of Human Rights in Central America and the Inter-American Institute of Human Rights are multinational groups based in San José.

47 TOURISM, TRAVEL, AND RECREATION

Popular tourist sights in San José are the National Museum, National Theater, and the Central Bank's gold exhibition. Other attractions include the Irazú and Poás volcanoes, brief jungle excursions, and the Pacific beaches. Popular recreations are bird-watching, mountain climbing, swimming, water-skiing, and deep-sea fishing. Football (soccer) is the national sport; there are matches every Sunday morning in San José from May through October. Horseback riding is widely available.

Visitors to Costa Rica must have passports and an onward/return ticket. In 2003, Costa Rica received 1,238,692 tourists, of whom 82% were from the United States. There were 35,003 hotel rooms that year. Tourism receipts reached \$1.4 billion.

In 2005, the US Department of State estimated the daily cost of staying in Costa Rica at \$171.

48 FAMOUS COSTA RICANS

José María Castro was Costa Rica's first president (1847–49, 1866–68). Juan Rafael Mora Porras, the second president of the republic

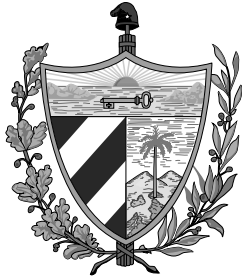
(1849–59), successfully defended the country against the invasion of US military adventurer William Walker. General Tomás Guardia (1832–82) led a revolt against the government in 1870, became a dictator, and in 1871 introduced the constitution that remained in force until 1949. José Figueres Ferrer (1906–90), president during 1953–58 and 1970–74, is regarded as the father of the present constitution. Oscar Arias Sánchez (b.1940), president 1986–90 and elected again in 2005, won the Nobel Prize for peace in 1987 for his plan to bring peace to Central America. Ricardo Fernández Guardia (1867–1950) is regarded as Costa Rica's greatest historian. Joaquín García Monge (1881–1958) founded the literary review *Repertorio Americano*. Maribel Guardia (b.1960) is a Costa Rican singer, actress, and model famous throughout Latin America.

49 DEPENDENCIES

Cocos Island—26 sq km (10 sq mi), about 480 km (300 mi) off the Pacific coast, at 5°32'N and 87°2'W—is under Costa Rican sovereignty. It is mainly jungle, with a maximum elevation of 850 m (2,788 ft). There is no permanent population, but the island is popular with transient treasure hunters. Cocos Island has two harbors and is of strategic importance because of its position along the western approach to the Panama Canal.

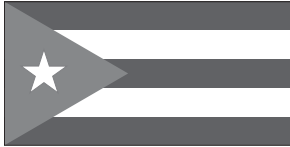
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CUBA

Republic of Cuba
República de Cuba



CAPITAL: Havana (La Habana)

FLAG: The flag consists of five alternating blue and white horizontal stripes penetrated from the hoist side by a red triangle containing a white five-pointed star.

ANTHEM: *Himno de Bayamo* (*Hymn of Bayamo*), beginning “Al combate corred bayameses” (“March to the battle, people of Bayamo”).

MONETARY UNIT: The Cuban peso (c\$) of 100 centavos is a paper currency with one exchange rate. There are coins of 1, 2, 3, 5, 20, 40, and 100 centavos and notes of 1, 3, 5, 10, 20, 50, and 100 pesos. c\$1 = us\$1.07527 (or us\$1 = c\$0.93) as of 2005.

WEIGHTS AND MEASURES: The metric system is the legal standard, but older Spanish units and the imperial system are still employed. The standard unit of land measure is the *caballería* (13.4 hectares/133.1 acres).

HOLIDAYS: Day of the Revolution, Liberation Day, 1 January; Labor Day, 1 May; Anniversary of the Revolution, 25–27 July; Proclamation of Yara, 10 October. Celebration of religious holidays falling during the workweek was prohibited by a 1972 law.

TIME: 7 AM = noon GMT.

¹LOCATION, SIZE, AND EXTENT

The Republic of Cuba consists of one large island and several small ones situated on the northern rim of the Caribbean Sea, about 160 km (100 mi) south of Florida. With an area of 110,860 sq km (42,803 sq mi), it extends 1,223 km (760 mi) E–W and about 89 km (55 mi) N–S. Cuba is the largest country in the Caribbean, accounting for more than one-half of West Indian land area. Comparatively, the area occupied by Cuba is slightly smaller than the state of Pennsylvania. It is separated from Florida by the Straits of Florida, from the Bahamas and Jamaica by various channels, from Haiti by the Windward Passage, and from Mexico by the Yucatán Channel and the Gulf of Mexico. Cuba’s total coastline is 3,735 km (2,316 mi). The largest offshore island, the Isle of Youth (Isla de la Juventud), formerly known as the Isle of Pines (Isla de Pinos), lies southwest of the main island and has an area of 2,200 sq km (849 sq mi); the other islands have a combined area of 3,715 sq km (1,434 sq mi).

Cuba’s capital city, Havana, is located on its north coast.

²TOPOGRAPHY

Cuba’s spectacular natural beauty has earned it the name Pearl of the Antilles. The coastline is marked by bays, reefs, keys, and islets. Along the southern coast are long stretches of lowlands and swamps, including the great Zapata Swamp (Ciénaga de Zapata). Slightly more than half the island consists of flat or rolling terrain, and the remainder is hilly or mountainous, with mountains covering about a quarter of its total area. In general, eastern Cuba is dominated by the Sierra Maestra, culminating in Pico Real del Turquino (2,005 m/6,578 ft); around Camagüey are rolling plains and low mountains; central Cuba contains the Trinidad (Escambray) Mountains in addition to flat or rolling land; and the west is

dominated by the Sierra de los Órganos. The largest river, the Cauto, flows westward for 249 km (155 mi) north of the Sierra Maestra but is little used for commercial navigation purposes.

³CLIMATE

Except in the mountains, the climate of Cuba is semitropical or temperate. The average minimum temperature is 21°C (70°F), the average maximum 27°C (81°F). The mean temperature at Havana is about 25°C (77°F). The trade winds and sea breezes make coastal areas more habitable than temperature alone would indicate. Cuba has a rainy season from May to October. The mountain areas have an average precipitation of more than 180 cm (70 in); most of the lowland area has from 90 to 140 cm (35–55 in) annually; and the area around Guantánamo Bay has less than 65 cm (26 in). Droughts are common. Cuba’s eastern coast is often hit by hurricanes from August to October, resulting in great economic loss.

⁴FLORA AND FAUNA

Cuba has a flora of striking richness, with the total number of native flowering species estimated at nearly 6,000. The mountainous areas are covered by tropical forest, but Cuba is essentially a palm-studded grassland. The royal palm, reaching heights of 15–23 m (50–75 ft), is the national tree. Pines like those in the southeastern United States grow on the slopes of the Sierra de los Órganos and on the Isla de Juventud (Isle of Youth). The lower coastal areas, especially in the south, have mangrove swamps. There is a small area around Guantánamo Bay where desert plants grow.

Only small animals inhabit Cuba. These include tropical bats, rodents, birds, and many species of reptiles and insects. As of

2002, there were at least 31 species of mammals and 86 species of birds throughout the country.

5 ENVIRONMENT

The Cuban government has formed several agencies to protect the environment. Among them are the National Parks Service, the National Commission of Environmental Protection and Rational Use of Natural Resources (1977), the National Environmental Education Program, the Academy of Sciences of Cuba, and the National Commission for the Protection of the Environment and for Conservation of Natural Resources. In 2003, about 69% of the land was protected by the government. There are two natural UNESCO World Heritage Sites and six Ramsar wetland sites.

As of 2000, Cuba's most pressing environmental problems were deforestation and the preservation of its wildlife. The government has sponsored a successful reforestation program aimed at replacing forests that had gradually decreased to a total of 17% of the land area by the mid-1990s. In 2000, about 21% of the total land area was forested.

Another major environmental problem is the pollution of Havana Bay. In 1994, Cuba had the seventh-largest mangrove area in the world. Altogether, 51% of the country's renewable water sources are used for agricultural purposes. About 95% of Cuba's city dwellers and 77% of its rural people have pure drinking water. In 1996 Cuban industries emitted 31.1 million metric tons of industrial carbon dioxide.

According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 11 types of mammals, 18 species of birds, 7 types of reptiles, 47 species of amphibians, 23 species of fish, 3 species of invertebrates, and 163 species of plants. Endangered species in Cuba include the Cuban solenodon, four species of hutia (dwarf, Cabela's, large-eared, and little earth), two species of crocodile (American and Cuban), and the Cuban tree boa. The ivory-billed woodpecker, Cuban red macaw, Caribbean monk seal, and Torre's cave rat have become extinct.

6 POPULATION

The population of Cuba in 2005 was estimated by the United Nations (UN) at 11,275,000, which placed it at number 72 in population among the 193 nations of the world. In 2005, approximately 10% of the population was over 65 years of age, with another 21% of the population under 15 years of age. There were 100 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 0.4%, a rate the government viewed as satisfactory. To inhibit further growth, the government has put restrictions on migration to Havana. The projected population for the year 2025 was 11,824,000. The population density was 102 per sq km (263 per sq mi).

The UN estimated that 76% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 0.44%. The capital city, Havana (La Habana), had a population of 2,189,000 in that year, accounting for about 20% of the total population. Other important cities and their estimated populations are Santiago de Cuba (554,400), Camagüey (354,400), Holguín (319,300), Guantánamo (274,300), and Santa Clara (251,800).

7 MIGRATION

Before independence, there was a large migration from Spain; the 1899 census reported 129,000 Spanish-born persons living in Cuba. The 1953 census reported about 150,000 persons of foreign birth, of whom 74,000 were Spaniards. From 1959 through 1978, Cuba's net loss from migration, according to official estimates, was 582,742; US figures indicate that during the same period a total of 669,151 Cubans arrived in the United States.

During the 1960s, Cuban emigrants were predominantly of the upper and middle classes, but in the 1970s emigrants were urban blue-collar workers and other less-educated and less-wealthy Cubans. The flow of emigrants declined in the late 1970s, but beginning in April 1980, Cubans were allowed to depart from Mariel harbor; by the end of September, when the harbor was closed, some 125,000 Cubans in small boats (the "freedom flotilla") had landed in the United States. Of that number, 2,746 were classified as "excludable aliens" and were being held in prisons or mental institutions. According to an agreement of December 1984, Cuba agreed to accept the 2,746 back; repatriation began in February 1985, but in May, Cuba suspended the agreement. By the mid-1980s, well over 500,000 Cuban exiles were living in the Miami, Florida, area. In 1990 there were 751,000 Cuban-born persons in the United States. Large numbers have also settled in Puerto Rico, Spain, and Mexico.

Since 1979, the Cuban government has been providing education to a number of students from developing countries. Due to events making return to their homelands difficult, many have become refugees. Sporadically, Cuba receives groups of Haitians who generally return to their homeland voluntarily. Between 1991 and 1994, the United Nations High Commissioner for Refugees (UNHCR) worked with the government to protect and assist more than 1,500 Haitians during a temporary stay in Cuba. In 1995, Cuba was harboring 1,500 refugees from the Western Sahara; in 1999, the government was still working with UNHCR to return them to their country of first asylum. In 2000 there was a total of 82,000 migrants living in Cuba. UNHCR assisted a total of 802 people in Cuba in 2004; 795 were refugees, 5 were asylum seekers, and 2 were returned refugees.

The Economic Commission for Latin America and the Caribbean estimated that remittances to Cuba in 2000 amounted to \$750 million, 90% from Cubans living in the United States. By 2003, remittances to Cuba were \$1.2 billion. In 2004, the United States revised its regulations restricting cash remittances to Cuba by restricting remittances to members of the remitter's immediate family. In addition, the amount of remittance that an authorized traveler may carry was reduced from \$3000 to \$300. The Cuban government takes 20% of US remittances.

In 2004, 11,821 Cubans sought asylum in the United States. The net migration rate for Cuba in 2005 was estimated as -1.58 migrants per 1,000 population. The government views the migration levels as satisfactory.

8 ETHNIC GROUPS

About 51% of the total Cuban population are described as mulattos. Whites (primarily of Spanish descent) make up about 37% of



LOCATION: 74°8' to 84°57' W; 19°49' to 23°17' N. TERRITORIAL SEA LIMIT: 12 miles.

the total; blacks account for 11%; and Chinese for 1%. Virtually the entire population is native-born Cuban.

⁹ LANGUAGES

Spanish is the national language of Cuba.

¹⁰ RELIGIONS

The Roman Catholic Church has never been as influential in Cuba as in other Latin American countries. In the 1950s, approximately 85% of all Cubans were nominally Roman Catholic, but the Church itself conceded that only about 10% were active members. From the early 1980s into the 1990s, Roman Catholics represented about 40% of the population. A 2004 report indicated that only about 40–45% of the population were nominally Catholic. Some sources indicate that a large number of the population adhere to varying degrees of syncretic Afro-Caribbean, such as Santería. The Baptists are believed to be the largest Protestant denomination. Other denominations include Jehovah's Witnesses, Methodists, Episcopalians, the Assembly of God, and Presbyterians. There is a very small Jewish population.

Fidel Castro originally established an atheist state in accordance with the beliefs of the Communist Party. As a result, his govern-

ment has closed more than 400 Catholic schools, claiming that they taught dangerous beliefs, and the number of people who attend churches has diminished during Castro's reign since many churches are closely monitored by the state and church members face harassment. In 1992, the constitution was amended to label the state as secular rather than atheist. However, according to a 2004 report, Christian churches, particularly the Catholic Church, have still been viewed suspiciously by members of the Communist Party who have claimed that the organizations are undermining public policies and laws. Separate religious schools are forbidden, though churches can provide religious instruction to their members.

There are 22 denominations that are members of the Cuban Council of Churches. Membership in the Council means that the religion is officially recognized by the government and so is shown a higher degree of tolerance by the government. All registered denominations must report to the Ministry of Interior's Office of Religious Affairs. Nonregistered groups face various degrees of government harassment and repression.

¹¹ TRANSPORTATION

In 2002, Cuba had about 60,858 km (37,817 mi) of roads, of which 29,820 km (18,530 mi) were paved, including 638 km (396 mi) of

expressways. The first-class Central Highway extends for 1,223 km (760 mi) from Pinar del Río to Guantánamo, connecting all major cities. An extensive truck and bus network transports passengers and freight. In 2003, there were 184,980 registered motor vehicles, of which 210,300 were passenger vehicles.

Nationalized railways connect the east and west extremities of the island by 4,807 km (2,986 mi) of standard-gauge track, of which 140 km (87 mi) were electrified as of 2004. In addition, large sugar estates have 7,162 km (4,451 mi) of lines of various gauges.

Cuba first began to develop a merchant marine under the revolutionary government. The USSR had supplied oceangoing vessels and fishing boats and, in the mid-1960s, built a huge fishing port in Havana Bay to service Cuban and Soviet vessels. By 2005, the Cuban merchant fleet had 15 vessels of at least 1,000 GRT, totaling 54,818 GRT. Cuba's major ports—Havana, Cienfuegos, Mariel, Santiago de Cuba, Nuevitas, and Matanzas—are serviced mainly by ships of the former Soviet republics, with ships from Spain, the United Kingdom, and Eastern Europe making up the bulk of the remainder. Cuba also has 240 km (140 mi) of navigable inland waterways.

In 2004 there were an estimated 170 airports, 78 of which had paved runways as of 2005. The principal airport is José Martí at Havana. There are daily flights between Havana and the major Cuban cities, and weekly flights to Spain, Mexico, Moscow, Prague, and Jamaica. Cubana Airlines is the national air carrier. The number of air passengers increased from 140,000 in 1960 to 1,117,000 in 1997. However, by 2003 passenger traffic declined to around 611,000. Between 1975 and 1980, airports at Havana and Camagüey were renovated, and new airports were built at Bayamo, Manzanillo, and Las Tunas.

12 HISTORY

Cuba was originally inhabited by about 50,000 Ciboney and Taíno Amerindians who are related to the Arawak peoples; they were hunter-gatherer and agricultural societies. Christopher Columbus made the European discovery of Cuba in 1492 on his first voyage to the Americas. Many died from disease and maltreatment soon after. The African slave trade began about 1523 as the Amerindian population declined, and grew thereafter, especially with the development of coffee and sugar on the island. During the early colonial years, Cuba served primarily as an embarkation point for such explorers as Hernán Cortés and Hernando de Soto. As treasure began to flow out of Mexico, Havana became a last port of call and a target for French and English pirates. In 1762, the English captured Havana, holding Cuba for almost a year. It was ceded to Spain in exchange for Florida territory in the Treaty of Paris (1763). Spanish rule was harsh, and intermittent rebellions over the next century all ended in failure.

Cuba's first important independence movement came in 1868, when Carlos Manuel de Céspedes, a wealthy planter, freed his slaves and called for a revolution against Spain. For the next 10 years, guerrillas (*mambises*), mainly in eastern Cuba, fought in vain against the Spanish colonial government and army. Although eventually subdued, Céspedes is nevertheless viewed as the father of Cuban independence. A second hero was added in the 1890s when poet and journalist José Martí founded the Cuban Revolutionary Party during exile in the United States. The call to arms (*Grito de Baire*) on 24 February 1895 initiated a new war. After

landing with a group of recruits gathered from throughout the region, Martí was killed at Dos Ríos, in eastern Cuba. The Spanish had the insurrection under control within a year.

In the end, the Cubans had to rely on the United States to defeat the Spanish. Anti-Spanish sentiment, fueled by US newspapers, erupted after the battleship *Maine* mysteriously blew up in Havana harbor on 15 February 1898. The United States declared war on Spain on 25 April, and in a few months, the Spanish-American War was over. The Treaty of Paris (10 December 1898), established Cuban independence. During the interim period 1899–1902, the US army occupied Cuba. It instituted a program that brought about the eradication of yellow fever, but it was more fundamentally concerned with the establishment of US political and commercial dominance over the island.

On 21 February 1901, a constitution was adopted, and Cuba was nominally a free nation. But the United States insisted that Cuba include in its constitution the Platt Amendment, which gave the United States the right to intervene in Cuban affairs and maintain a naval base at Guantánamo.

For the next 30 years, Cuba lived through a succession of governments, constitutional and otherwise, all under the watchful eye of the United States. American companies owned or controlled about half of Cuba's cultivated land, its utilities and mines, and other natural resources. The US Marines intervened in 1906–9, in 1912, and again in 1920. The period culminated in the brutal dictatorship of Gerardo Machado y Morales (1925–33).

Cuba entered another unstable phase in 1933. A nationalist uprising chased Machado from office. After the United States attempted to install a regime, a "sergeants' revolt" headed by 32-year-old Fulgencio Batista y Zaldívar assumed power and named Ramón Grau San Martín provisional president. Grau, a physician and university professor noted for his nationalist zeal, was never recognized by the United States, and his regime lasted only four months. From 1934 until 1940, Batista ruled through a series of puppet presidents. During these years, Batista made two major contributions to Cuba. In 1934, President Franklin D. Roosevelt allowed Cuba to abrogate the Platt Amendment, although the United States did retain its naval base at Guantánamo Bay. Batista also allowed the drafting of a new constitution, passed in 1940, under which he became president. In 1944, Batista permitted Grau San Martín, now his political enemy, to take office. The eight years of rule by Grau and his ally, Carlos Prío Socarrás, were ineffective and corrupt, and in 1952, a reform party was expected to win the election.

That election was subverted, however, on 10 March 1952, when Batista seized power in a military coup. During the seven years of Batista's second administration, he used increasingly savage suppressive measures to keep himself in office. Under the Batista regime, the United States dominated the economy, social services suffered, poverty, and illiteracy were widespread, and the bureaucracy was flagrantly corrupt. It was at this point that Fidel Castro came on the scene.

Castro's insurrection began inauspiciously on 26 July 1953 with an abortive raid on the Moncada Army Barracks in Santiago de Cuba. Captured, jailed, and then exiled, Castro collected supporters in Mexico, and in 1956 landed in Cuba. Routed by Batista's troops, Castro escaped into the Sierra Maestra mountains with a mere dozen supporters. The force never grew to more than a few

thousand, but clever use of guerrilla tactics evened the score with Batista's poorly trained army. Moreover, there was almost no popular support for Batista, and in 1958 the United States ended its military aid to the falling government. On 1 January 1959, the Batista regime collapsed, and Batista and many of his supporters fled the country. Castro's 26th of July Movement took control of the government, and began to rule by decree. The revolutionary government confiscated property that had been dishonestly acquired, instituted large-scale land reforms, and sought to solve Cuba's desperate financial and economic problems by means of a bold revolutionary program.

After June 1960, Cuban-US relations deteriorated at an accelerated pace. Largely in retaliation for the nationalization of about \$2 billion in US-owned property in Cuba, the United States severed diplomatic relations with the Castro government. Tensions increased when the revolutionary regime nationalized US oil refinery companies after they refused to process Soviet crude oil. The United States response was to eliminate Cuba's sugar quota. In April 1961, a group of 1,500 Cuban exiles—financed, trained, organized, and equipped by the CIA—invaded Cuba at the Bay of Pigs on the southern coast. The brigade was defeated within 72 hours, and the 1,200 surviving invaders were captured. They were eventually released after US officials and private sources arranged for a ransom of \$50 million in food and medical supplies.

However, the United States did continue its attempt, through the OAS and other international forums, to isolate Cuba politically and economically from Latin America and the rest of the non-Communist world. All Latin American governments were pressured to break off diplomatic relations with Cuba. Castro responded with an attempt to destabilize certain Central and South American governments. Inspired by the Sierra Maestra campaign, guerrilla movements became active throughout the region, often with Cuban support. However, by 1967, when Ché Guevara (an Argentinean collaborator of Castro), was killed in Bolivia, these movements had collapsed. The United States was only slightly more successful in its campaign of isolation. The OAS suspended Cuba in 1962, but in July 1975 passed the "freedom of action" resolution allowing countries to deal with Cuba as they pleased. Meanwhile, Communist influence was growing in the Cuban government. Castro declared Cuba to be a Socialist country in late 1960, and the following year declared himself to be a Marxist-Leninist and a part of the Socialist world. All major means of production, distribution, communication, and services were nationalized. Soviet-style planning was introduced in 1962, and Cuba's trade and other relations turned from West to East. In October 1962, US planes photographed Soviet long-range-missile installations in Cuba. The United States blockaded Cuba until the USSR agreed to withdraw the missiles, in exchange for a US government pledge to launch no more offensive operations against the island.

During the Carter administration, there were moves to normalize relations with Cuba. In 1977, the United States and Cuba resumed diplomatic contacts (but not full relations) and concluded fishing and maritime rights agreements. However, the advent of the Reagan administration brought increased tensions between the two countries. Citing Cuban involvement in Angola, Ethiopia, Nicaragua, and Grenada, the United States took up a more intransigent stance toward Cuba.

Domestically, Castro's administration has had its successes and failures. A strong social welfare system, including free health care and subsidized housing, was implemented in the 1960s and 1970s. However, an attempt to produce 10 million metric tons of sugar by 1970 seriously crippled the island's economy. Other mismanaged projects have led to economic stagnation or chaos. Cubans live frugally under a highly controlled system of rationing.

Cuba was dealt a serious blow in the late 1980s with the collapse of the Soviet Union, which meant a cutoff of economic and military aid on which Cuba had come to rely heavily over the years. The USSR had been Cuba's most important trading partner and provided the major market for Cuban sugar. The few consumer goods the USSR had supplied in the past were no longer available.

Most Cubans that fled since Castro came to power settled in southern Florida, and many have had hope of returning to a Castro-free Cuba. There have been sporadic attempts to reunite families broken up by the emigration, but political circumstances often curtail these programs. For example, in February 1985 the repatriation of 2,746 "undesirables" from the United States began, but after Radio Martí (sponsored by Voice of America) began broadcasting in Spanish in May 1985, Cuba abrogated the agreement.

Just as the Cuban economy began to show signs of a rebound from the collapse of the Soviet Union, the United States tightened its embargo with the Cuban Democracy Act of 1992. This led to another wave of emigration in 1994, as thousands of Cubans left the island on rafts and other small vessels bound for Florida. To stem this tide of illegal immigration, the United States in 1995 reached an agreement with Cuba under which the United States would admit 20,000 Cuban immigrants per year. Cuba, in turn, was to take steps to prevent future "boat lifts."

US-Cuba relations deteriorated further, and Cuba's weakened economy was hampered anew in 1996 when the US Congress passed the Helms-Burton Act, another embargo-strengthening measure. The act met with harsh international criticism, and Canada and the World Trade Organization moved to fortify trade ties with the Castro government as a rebuff to the United States. Prior to the passage of Helms-Burton, Cuba had renewed its crackdown on the pro-democracy movement. In February 1996, Cuban air force planes shot down two civilian aircraft over international waters, killing the four persons aboard. The planes had left the United States carrying computer and medical supplies.

In late 1999 and early 2000, tensions between Cuba and the United States returned to the international spotlight with the highly publicized custody dispute surrounding Elian Gonzalez, a six-year-old Cuban boy who was the sole survivor of an attempted boat crossing to the United States in which his mother and 10 other Cuban refugees drowned. The dispute between the boy's father in Cuba and his expatriate relatives in Florida, who wanted him to stay in the United States, became a rallying point for both the Castro regime in Cuba and the anti-Castro Cuban community in southern Florida.

Despite its acquiescence starting in the 1990s to some economic reforms, dollar transactions and limited self-employment in agriculture, crafts and vending, the Castro regime retains its commitment to socialism. Its economy, still recovering from the collapse of the Soviet Union, has been buoyed by increased tourism, mining, and cigar and fish exports. But economic growth has not

translated into an improved quality of life for most Cubans, and Castro has continued to blame poverty and harsh living conditions on the US embargo. After the United States declared war on terrorism, Castro accused Washington of planning to invade the island; he has increased his prosecution of political opponents. Critics observed that, during the time that world attention was focused on the US invasion of Iraq, Castro took the opportunity to increase pressure on opposition by executing political dissidents.

In January 2003 Cuba held its third direct election for the National Assembly. Participation was limited to a “yes” or “no” vote for a list of candidates approved by the Communist Party. A month later, the Assembly appointed Fidel Castro chairman of the Council of State for five more years. As of 2005, Castro had ruled Cuba for 46 years, the longest tenure in recent Latin American history.

In the period leading up to the 2004 US presidential elections, the United States limited cash transfers to Cuba and reduced the number of trips Cuban-Americans could make to visit family in Cuba. Since then, Castro rolled back many of the self-employment freedoms and forbid previously accepted US dollars, making the only accepted currency for foreigners the Cuban convertible peso. Further discouraging the use of US currency, the exchange rate for euros and Canadian dollars was more favorable. However, the island’s dual economy continued. Criminal penalties for possession of foreign currency (repealed in 1993) were not reinstated. Cubans were able to continue to hold dollars in cash and in bank accounts.

13 GOVERNMENT

After he became premier on 16 February 1959, Fidel Castro was the effective source of governmental power. The juridical basis for this power rested on the Fundamental Law of the Revolution, which was promulgated on 8 February 1959 and was based on Cuba’s 1940 constitution. To regularize government functions, a 10-member Executive Committee, with Castro as premier, was formed on 24 November 1972.

A new constitution, first published on 10 April 1975, then approved by the first congress of the Cuban Communist party in December, and ratified by a 97.7% vote in a special referendum in February 1976, established the National Assembly of People’s Power as the supreme state organ. The deputies, originally elected by municipal assemblies and directly elected in national elections since 1993, serve five-year terms. The National Assembly elects the Council of State, whose president is both head of state and head of government. There are six vice presidents in the Council of State, and 23 other members.

In January 2003, the third direct election to the National Assembly took place; all 601 candidates approved by the Communist Party received more than the required 50% of the vote necessary for election to the Assembly. One month later, the Assembly re-elected Castro as president of the state council. He remains the key figure in domestic and foreign policy making. The constitution recognizes the Communist party as the “highest leading force of the society and of the state,” which effectively outlaws other political parties.

Suffrage is universal for citizens age 16 and over, excluding those who have applied for permanent emigration.

14 POLITICAL PARTIES

Fidel Castro came to power through a coalition group known as the 26th of July Movement. Along with it, in 1959, the Student Revolutionary Directorate (Directorio Revolucionario Estudiantil) and the Communist Party (Partido Socialista Popular—PSP) were permitted to function.

Castro’s relationship with the PSP was at first uneasy. The PSP condemned his early attempts at insurrection as “putschism,” and did not support the 26th of July Movement until it had reached its final stages in 1958. After June 1959, Castro began to refer to anti-Communists as counterrevolutionaries, and used the PSP as an organizational base and as a link to the USSR. In December 1961, Castro declared his complete allegiance to Marxism-Leninism.

By 1962, the 26th of July Movement, the Student Revolutionary Directorate, and the PSP had merged into the Integrated Revolutionary Organization (Organización Revolucionaria Integrada), which, in turn, gave way to the United Party of the Socialist Revolution (Partido Unido de la Revolución Socialista) and, in 1965, to the Cuban Communist Party (Partido Comunista Cubano—PCC).

On 17 December 1975, the PCC convened its first congress, which ratified a 13-member Politburo; Fidel Castro was reelected first secretary of the PCC. The second congress of the PCC took place in December 1980. The third congress, in February and November-December 1986, witnessed a massive personnel change when one-third of the 225-member Central Committee and 10 of 24 Politburo members were replaced, with Fidel Castro reelected first secretary. The Young Communist League and the José Martí Pioneer Organization for children up to 15 years of age are mass political organizations closely affiliated with the PCC. As of 2005, the PCC remained Cuba’s only authorized political party.

However, political dissidence continued to occur in Cuba. Members of unauthorized groups such as the Dissident Liberal Party, the Cuban Orthodox Renovation Party, the Independent Option Movement and others have faced prosecution and harassment. The Ladies in White Movement is comprised of the mothers, wives, and daughters of political prisoners in Cuba. The Varela Project is a proposal from the populace to amend the Cuban constitution to include changes such as free speech, free enterprise, amnesty to political prisoners, and electoral reform.

15 LOCAL GOVERNMENT

The country is divided into 14 provinces and 169 municipalities. The Isla de la Juventud is a special municipality. The 1976 constitution provides for a system of municipal assemblies to be elected for 2-year terms by direct universal suffrage at age 16. Municipal assemblies choose delegates to provincial assemblies and deputies to the National Assembly. The most recent municipal elections were held in April 2005.

16 JUDICIAL SYSTEM

The 1976 constitution established the People’s Supreme Court, consisting of a president, vice president, and other judges, as the highest judicial tribunal. All members of the court are elected by the National Assembly, as are the attorney general and deputy attorneys general. Through its Governing Council, the court proposes laws, issues regulations, and makes decisions that must be

implemented by the people's courts, whose judges are elected by the municipal assemblies. There are also seven regional courts of appeal, as well as district courts with civil and criminal jurisdiction. Military tribunals assume jurisdiction for certain counter-revolutionary cases.

Although the constitution provides for an independent judiciary, the courts are subordinate to the National Assembly and the Council of State.

There are no jury trials. Most trials are public. The legal system is based on Spanish and American law influenced by communist legal theory.

17 ARMED FORCES

Total armed strength in 2005 came to 49,000 active duty personnel, with 39,000 reservists. The Army had an estimated 38,000 personnel, whose equipment included around 900 main battle tanks, an undisclosed number of light tanks, reconnaissance and armored infantry fighting vehicles, an estimated 700 armored personnel carriers and over 1,715 artillery pieces. The navy had an estimated 3,000 personnel including more than 550 Naval Infantry members. Major naval units included five patrol/coastal vessels and six mine warfare ships. The air force had around 8,000 personnel and 125 combat capable aircraft, of which only 25 are known to be operable. The service also has around 40 attack helicopters. Paramilitary forces included 20,000 State Security troops, 6,500 border guards, 50,000 Civil Defense Force members, the 70,000-member Youth Labor Army, and the million-member Territorial Militia. Cuba's key military ally and supporter for decades, Russia had cut off nearly all military assistance by 1993. In 2004, defense spending was estimated at \$1.3 billion.

The US maintains a naval base at Guantánamo Bay in southeastern Cuba, under a 1934 leasing treaty. The US government considers the base to be of some strategic and training significance in the Caribbean and has refused to give it up, despite demands by the Castro regime that it do so. About 2,000 military personnel are stationed at Guantánamo.

18 INTERNATIONAL COOPERATION

Cuba is a member of the United Nations, having joined on 24 October 1945; it belongs to ECLAC and several specialized agencies, such as the FAO, IAEA, IFAD, ILO, UNESCO, UNIDO, and WHO. Cuba is a part of the ACP Group, G-77, the Latin American Economic System (LAES), the Alliance of Small Island States (AOSIS), the Association of Caribbean States (ACS), and the Latin American Integration Association (LAI). Cuba's charter membership in the OAS was suspended at the second Punta del Este meeting, in February 1962, through US initiative. The isolation of Cuba from the inter-American community was made almost complete when, at Caracas, on 26 July 1964, the OAS voted 15–4 for mandatory termination of all trade with the Castro government. Cuba has been very active in the Nonaligned Movement, and held its chairmanship between 1979 and 1983. The nation is also part of the Agency for the Prohibition of Nuclear Weapons in Latin America and the Caribbean (OPANAL) and the Organization for the Prohibition of Chemical Weapons. In environmental cooperation, Cuba is part of the Antarctic treaty, the Basel Convention, the Convention on Biological Diversity, Ramsar, CITES, the London Convention, the Kyoto Protocol, the Montréal Proto-

col, MARPOL, and the UN Conventions on the Law of the Sea, Climate Change, and Desertification.

19 ECONOMY

Traditionally, one of the world's leading cane sugar producers, Cuba has been primarily an agricultural nation. Sugar was the leading earner of foreign exchange until 1992, when tourism revenues outstripped sugar revenues. Agriculture's contribution to GDP has decreased from 24% in 1965 to 10% in 1985, to 7% in 2000. Manufacturing increased from 23% of GDP in 1965 to 36% by 1985. In 2000, the contribution of the industrial sector fell to 34.5% as services, including tourism, became more dominant.

After 1959, the revolutionary government, following policies espoused by Ernesto "Che" Guevara, attempted to liberalize the sugar economy in order to achieve agricultural diversification and industrialization. When this policy proved disastrous to the sugar crop, Castro reversed the Guevara program in 1962 and announced a goal of 10-million-ton crop by 1970. Despite a severe drought in 1968–69, Cuba did achieve a record 7.6-million-ton output of refined sugar in 1970. Efforts to diversify foreign trade during the early 1970s were aided by record high prices for sugar. Between 1971 and 1975, the Cuban economy grew by about 10% annually, and moderate growth averaging about 4.4% per year continued through most of the 1980s. The special relationship with the Soviet Union, whereby it supplied Cuba with oil below market prices and bought its sugar at above market prices, insulated the Cuban economy from the vagaries of the two oil shocks of the 1970s and the Third World debt crisis of the early 1980s. However, commercial agreements with Argentina, Canada, Spain, France, the United Kingdom, Italy, and Germany indicated Cuba's keen desire to move away from nearly exclusive reliance on the Socialist countries for both imports and exports. Trade with the then-USSR and other CMEA members, nevertheless, made up the bulk of Cuba's foreign commerce, and Soviet aid remained essential to the economy.

From 1981 to 1985, Cuba's GDP growth averaged 7.3% due mainly to increased sugar production. In 1986 and 1987, however, GDP growth dropped to approximately 1.7% due mainly to the collapse of oil prices, a depressed world sugar market, prolonged drought in Cuba, and the fall in the value of the dollar. The situation worsened when the Soviet bloc collapsed in 1989, eliminating its assistance and subsidized markets. Cuban GDP fell 35% between 1989 and 1993. The Castro government restricted public expenditure and in 1993–94 introduced a series of market-oriented reforms. It legalized the dollar, allowed trading with market economies and developed new sources of foreign currency. The government placed special emphasis on the promotion of foreign investment and the development of sugar and tourism. About 150 occupations were opened up for self-employment. The economy began to expand again in 1994, and by 1996 GDP growth was at 7.8%. Tourism established new records in 1996, with arrivals increasing by 35% to 1,001,739, and gross revenues rising by 18% to \$1.3 billion. The number of self-employed rose to over 200,000, but after income taxes were introduced, fell to an estimated 100,000 by 2001. By the end of 2000, nearly 400 joint ventures with foreign companies had been established representing a total investment of \$4.2–4.5 billion.

In 1997, growth fell to 2.5% and then to 1.2% in 1998. Annual inflation was almost nonexistent in 1998, down from 19.0% in 1995. Growth increased to 6.2% in 1999 and 5.6% in 2000 as tourist arrivals rose to 1.7 million in 2000, and gross receipts to about \$1.9 billion. In 2001, in the context of a global economic slowdown, the aftermath of the 11 September 2001 terrorist attacks in the United States, and a devastating hurricane in November, tourist arrivals increased only marginally and gross receipts remained unchanged. Tourism was estimated to have declined in 2002.

In 2002, the government introduced a comprehensive restructuring of the sugar sector. Over half of Cuba's 156 mills were to be closed, leaving only the 71 most efficient. 100,000 of the 400,000 employed in the mills were to be retrained for other jobs. More rice and other crops were to be grown. Sugar production, at 8 million tons a year in 1989, had fallen to 3.2 million tons a year by 2003.

Between 75–90% of adult Cubans are employed by the state in relatively low-paying jobs. However, education, medical care, housing, and other public services are free or highly subsidized, and there are no taxes on public jobs. Although there has been an increasing infusion of dollars and other hard currencies into the economy, the society still faces a painful transition out of its isolated socialism.

In 2004, the economy expanded by 4.2%, up from 2.9% in 2003; in 2005, the GDP growth rate was estimated at an impressive 8.0%, while the GDP per capita, at purchasing power parity, was \$3,300. The standard of living in Cuba continues to hover at levels lower than before the downturn of the 1990s. The inflation rate was insignificant in 2003 and 2004, but by 2005 it was estimated to have risen to 4.2%. As a result, the government strengthened its control over inflowing currencies (which are mainly provided by tourism, remittances, and trade).

20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 Cuba's gross domestic product (GDP) was estimated at \$37.1 billion. 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 based on current dollars. The per capita GDP was estimated at \$3,300. The annual growth rate of GDP was estimated at 5.2%. It was estimated that agriculture accounted for 5.5% of GDP, industry 26.1%, and services 68.4%.

21 LABOR

As of 2005, Cuba's workforce was estimated at 4.6 million, of which the nonstate sector accounted for 22% and the state sector 78%. In 2004, the Cuban workforce by occupation was distributed as follows: industry 14.4%; agriculture 21.2%; and services 64.4%. The unemployment rate in 2005 was estimated at 1.9%. However, underemployment is a chronic problem, and has been exacerbated by the idling of thousands of industrial workers whose jobs rely on foreign imports. Labor has been shifted to agriculture to compensate for fuel and machinery shortages affecting food and production.

All Cuban workers belong to a trade union, under the central control of the Confederation of Cuban Workers (CUTC), which is

affiliated with the Communist-oriented World Federation of Trade Unions. Independent unions are explicitly prohibited. Those who attempt to engage in independent union activities face government persecution and harassment. Strikes and collective bargaining are not legally permitted.

The minimum wage varies, depending on the type of employment. As of 2005, the average monthly wage was \$9. The minimum wage is supplemented by social security consisting of free medical care and education, and subsidized housing and food. However, a worker must still earn significantly more than minimum wage to support a family. The eight-hour workday, a weekly rest period, an annual paid vacation of one month, and workers' compensation are guaranteed by the constitution. The standard work week is 44 hours, with shorter workdays for hazardous occupations. Although the legal minimum working age is 17, the employment of minors 15 and 16 years of age is permitted as a way to offset labor shortages or to obtain training. Teenagers can only work 7 hours per day or 40 hours per week or only on holidays.

22 AGRICULTURE

The state owns about 3 million hectares (7.4 million acres) of arable land, and 750,000 hectares (1.8 million) of permanent crops. About 13.1% of the economically active population was engaged in the agricultural sector in 2003. An agrarian reform law of June 1959 made the government proprietor of all land in Cuba, created the National Institute of Agrarian Reform (INRA) as administrator, and set a general limit of 30 caballerías (400 hectares/990 acres) of farmland to be held by any one owner. A second agrarian reform, of October 1963, expropriated medium-size private holdings; there remained about 170,000 small private farms, with average holdings of over 16 hectares (40 acres). By 1985 there were 1,378 farm cooperatives. Almost a third of cultivated land is irrigated.

Sugarcane, Cuba's most vital crop and its largest export, is grown throughout the island, but mainly in the eastern half. The government regulates sugar production and prices. Sugar output reached 7.6 million tons in 1970, but that fell short of the 10 million tons projected. Subsequent targets were lowered, and the output was 7.9 million tons in 1979, 6.7 million in 1980 (when crop disease reduced production), 8 million in 1985, and 3.5 million in 1999. In 2004, exports of raw sugar amounted to 1.9 million tons, valued at \$348.8 million. Cuba has pioneered the introduction of mechanical cane harvesters, and by 2002 there were 7,400 harvester-threshers (up from 5,717 in the early 1980s). Cuba and Russia signed several finance and investment accords in 1992 and 1993 whereby Russia will supply fuel, spare parts, fertilizer, and herbicide in exchange for Cuba's sugar harvest, with Russia annually importing a minimum of two million tons of Cuban sugar. The sugar industry also has diversified into exporting molasses, ethyl alcohol, rum and liquor, bagasse chipboard, torula yeast, dextran, and furfural. Tobacco, the second most important crop, is grown on small farms requiring intensive cultivation. In the late 1970s, the average annual production was about 35,000 tons, but crop disease in 1979 resulted in a drop in production to 8,200 tons in 1980; production was 34,494 tons in 2004. Other crops in 2004 included (in tons) oranges, 490,000; lemons and limes, 26,000; grapefruit, 225,000; rice, 610,000; plantains, 790,000; bananas, 310,000; potatoes, 300,000; sweet potatoes, 490,000; and coffee,

12,900. Other Cuban products with export potential include mangoes, pineapples, ginger, papayas, and seeds.

23 ANIMAL HUSBANDRY

In the state sector, milk production in 2004 amounted to 610,700 tons (up from 431,000 during 1989–91) and egg production reached 79,000 tons (120,000 tons during 1989–91). Livestock in 2004 included an estimated 4,050,000 head of cattle, 1.7 million hogs, 400,000 horses, 3.2 million sheep, 425,000 goats, and 18.4 million chickens. The populations of most livestock species have declined since 1990, as a result of input shortages from the worsening economy. Honey production in 2004 was an estimated 7,200 tons, the highest in the Caribbean.

24 FISHING

The territorial waters of Cuba support more than 500 varieties of edible fish. The catch in 2003 was 68,420 tons, compared with 244,673 tons in 1986. Tuna, lobster, and shellfish are the main species caught. The Cuban Fishing Fleet, a government enterprise, supervises the industry.

The former USSR aided in the construction of a fishing port in Havana. Seafood exports are an important source of foreign exchange; in 2003, fish and fish products exports amounted to \$64.4 million.

25 FORESTRY

Much of the natural forest cover was removed in colonial times, and cutting between the end of World War I and the late 1950s reduced Cuba's woodland to about 14% of the total area and led to soil erosion. Between 1959 and 1985, about 1.8 billion seedlings were planted, including eucalyptus, pine, majagua, mahogany, cedar, and casuarina. State forests cover 2,348,000 hectares (5,802,000 acres), or about 21.4% of the total land area. Roundwood production in 2003 amounted to 2.6 million cu m (93 million cu ft), with 69% used for fuel.

26 MINING

Nickel was Cuba's leading mineral commodity, second to sugar in export earnings. The country produced 74,018 metric tons of mined nickel in 2003, up from 71,342 metric tons in 2002. Cuba's nickel reserves were the world's fourth-largest and the reserves base was the largest. Recent changes in investment and mining laws have increased foreign trade. Production has been boosted by a joint venture formed in 1994 between Sherritt International of Canada, and the Cuban government. Nickel deposits and plants were located in eastern Cuba at Nicaro, Moa, and Punta Gorda, all in Holguín Province. Production of cobalt (oxide, oxide sinter, sulfide, and ammoniacal liquor precipitate), a by-product of nickel operations, totaled 3,982 metric tons in 2004. In 2004, Cuba also produced ammonia, chromite, gold, gypsum, salt from seawater (180,000 metric tons), and silica sand. Production of copper has declined substantially from pre-Revolutionary times.

27 ENERGY AND POWER

Cuba is the second-largest producer of electric power in the Caribbean region, exceeded only by Puerto Rico. In 2002, Cuba's electrical generating capacity stood at 4.411 million kW, of which 4.354 million kW, was dedicated to conventional thermal sources and

0.057 million kW to hydropower. Output in 2002 stood at 14.771 billion kWh, with 13.920 kWh produced by fossil fuels, 0.105 billion kWh generated by hydropower, and 0.746 billion kWh generated by geothermal or other sources. Demand for electric power in 2002 totaled 13.737 billion kWh.

Cuba has the second-largest proven hydrocarbon reserves in the Caribbean area, surpassed only by those of Trinidad and Tobago. In 2005, according to the Oil and Gas Journal, Cuba's proven reserves of oil stood at 750 million barrels. Over the previous two decades the production of crude oil has risen noticeably, going from 16,000 barrels per day in 1984 to 67,000 barrels per day in 2004. The majority of the country's production is centered in the northern Matanzas province. However, the oil produced is a sour, heavy type of crude that requires special processing. There is interest in offshore production, and it has been reported by industry analysts that Cuba's offshore basins may hold at least 1.6 billion barrels of crude oil. Cuba has a refining capacity, consisting of four facilities operated by state-owned Cubapetroleo (Cupet) totaling 301,000 barrels per day, as of July 2005.

Cuba's consumption of oil in 2004 amounted to 211,000 barrels per day, far outpacing the country's production capabilities. While Cuba has had to import the difference, it has also taken measures to offset the cost of imported oil. In 2000, Cuba signed a five-year agreement to import crude oil and refined oil products from Venezuela, paying for the oil via a barter arrangement that has seen Cuban teachers and doctors sent to Venezuela to promote literacy and provide medical help to Venezuela's poor. In addition Cuba has offered offshore exploration rights in its territorial waters in the Gulf of Mexico to international oil companies. Among them are two Canadian companies—Sherritt International; and Pebercan—both of which are producing oil in conjunction with Cupet, under joint venture agreements.

Cuba had proven natural gas reserves of 2,500 billion cu ft in 2005, according to the Oil and Gas Journal. Gross natural gas production in 2002 amounted to 19.42 billion cu ft, with 3.53 billion cu ft vented or flared and 15.89 billion cu ft marketed. Dry production and consumption for 2002 each stood at 12.36 billion cu ft.

Cuba has no known coal production so the country must import what it uses. In 2002, Cuba imported a total of 44,000 tons of coal and related products, which consisted of 29,000 tons of hard coal and 15,000 tons of coke. Coal product demand in that year amounted to 30,000 tons, with 14,000 tons stockpiled.

28 INDUSTRY

All Cuban industrial production was nationalized by March 1968. Industry accounts for approximately 35% of GDP.

Cuba had 156 sugar mills in 1985, and at that time, about 10% of exports from the then-USSR to Cuba consisted of machinery for the sugar industry. Other food processing plants produced cheese, butter, yogurt, ice cream, wheat flour, pasta, preserved fruits and vegetables, alcoholic beverages, and soft drinks. Light industry comprises textiles, shoes, soap, toothpaste, and corrugated cardboard boxes. Other industries are petroleum products (Cuba has four oil refineries with a total production capacity of 301,000 barrels per day), tobacco, chemicals, construction, cement, agricultural machinery, nickel, and steel production. In the mid-1990s, tourism surpassed sugar processing as the main source of foreign

exchange, although the government in 2002 announced plans to implement a “comprehensive transformation” of the sugar industry, including the closing of almost half the existing sugar mills. Although 1.7 million tourists visited the country in 2000, bringing in \$1.9 billion, the global economic slowdown in 2001 and the 11 September 2001 terrorist attacks on the United States negatively impacted Cuba’s tourism industry.

In 2005, industry accounted for 26.1% of the GDP and it employed 14.4% of the labor force. The industrial production growth rate in the same year was 3.5%, less than the overall GDP growth rate. Services were by far the largest economic engine, with a 68.4% share of the economy, and the largest employer, with 64.4% of the labor force engaged in this sector. Agriculture was the smallest economic sector (5.5% of the GDP), but a significant employer (21.2% of the work force). Financing from abroad has contributed to positive developments in the mining, oil, and construction sectors.

2⁹ SCIENCE AND TECHNOLOGY

In 2002, total expenditures for research and development (R&D) amounted to 189.6 million Cuban pesos, or 0.62% of GDP. Of that amount in 2002, 60% came from government sources, with 35% from business and 5% from foreign sources. For that same year, there were 2,510 technicians and 538 researchers per million people that were engaged in R&D. High technology exports in 2002 totaled \$48 million, or 29% of manufactured exports.

The Academy of Sciences of Cuba, founded in 1962, is Cuba’s principal scientific institution; it, as well as the Ministry of Agriculture, operates numerous research centers throughout Cuba. Institutions offering higher education in science and engineering include the University of Havana (founded in 1928), the University of Oriente at Santiago de Cuba (founded in 1947), the Central University of Las Villas in Villa Clara (founded in 1952), the University of Camagüey (founded in 1967), and the University Center of Pinar del Río (founded in 1972). In 1987–97, science and engineering students accounted for 16% of college and university enrollments.

3⁰ DOMESTIC TRADE

Havana is Cuba’s commercial center. Provincial capitals are marketing and distribution centers of lesser importance. Camaguey is a cattle and sugar center, Santa Clara lies in the tobacco belt, and Santiago is a major seaport and mining city. Holguín has been transformed into a major agricultural and industrial center.

By May 1960, the National Institute of Agrarian Reform was operating about 2,000 “people stores” (*tiendas del pueblo*), and by the end of 1962 all retail and wholesale businesses dealing in consumer essentials had been nationalized. In 1984 there were 27,301 retail establishments in Cuba. As of 2002, there were only about 200,000 independent farmers and only 100,000 private business owners. These private businesses are strictly controlled by the government.

Due to the US-organized trade boycott and the inability of production in the then-USSR and Cuba to meet Cuban demands, rationing was applied to many consumer goods in the 1960s and 1970s. By the mid-1980s, rationing had been reduced and accounted for about 25% of individual consumption. Allocation of major consumer items after 1971 was by the “just class” principle,

with the best workers receiving priority. The availability of basic consumer items increased noticeably after 1980, when the small-holder’s free market (*mercado libre campesino*) was introduced. Under this system, small-scale private producers and cooperatives could sell their surplus commodities directly to consumers once their quotas had been filled. However, the peasant markets were abolished in May 1986, allegedly because they led to widespread speculation and profiteering. It has been estimated that nearly 40% of the domestic economy operates in the “informal” sector, or black market.

Between \$800 million and \$1 billion per year is added to the domestic economy in the form of remittances from expatriates. Much of this comes from families residing in the United States, who are permitted to send a total of \$1,200 per year. The Cuban government acquires these funds by allowing consumers to purchase products in state-run “dollar stores.”

3¹ FOREIGN TRADE

Cuba has established or reestablished trade relations with many countries in Latin America, the Caribbean, Africa, Asia, and Europe. The sudden rupture of trade with the former Soviet Union and the Eastern bloc nations in 1989 after 30 years of interrelationship caused severe trauma to the Cuban economy. However, there remains a clear political will on the part of the former Soviet republics to maintain economic relations with Cuba with a certain degree of preference. Nevertheless, Cuba has diversified its trading partners in recent years.

Almost half of Cuba’s commodity export market (53%) is taken up by sugar and honey, representing 5.7% of the world’s export sales in these commodities. Nickel is the second most lucrative exported commodity (23%), followed by fish (6.8%). Other exports include tobacco (5.6%) and medicinal and pharmaceutical products (2.8%). Primary imports include petroleum, food, machinery, and chemicals.

In 2005, exports reached \$2.4 billion (FOB—Free on Board), while imports grew to \$6.9 billion (FOB). In 2004, the bulk of exports went to the Netherlands (22.7%), Canada (20.6%), China (7.7%), Russia (7.5%), Spain (6.4%), and Venezuela (4.4%). Imports mainly came from Spain (14.7%), Venezuela (13.5%), the

Principal Trading Partners – Cuba (2001)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	1,660.6	4,838.7	-3,178.1
Russia	402.6	81.0	321.6
Netherlands	333.9	69.3	264.6
Canada	227.8	369.6	-141.8
Spain	188.6	707.9	-519.3
China	70.8	551.3	-480.5
France-Monaco	62.8	269.9	-207.1
Dominican Republic	30.7	16.5	14.2
Switzerland-Liechtenstein	30.3	...	30.3
Japan	28.8	81.9	-53.1
Mexico	26.0	298.0	-272.0

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

United States (11%), China (8.9%), Canada (6.4%), Italy (6.2%), and Mexico (4.9%).

3² BALANCE OF PAYMENTS

Since the United States stopped trading with Cuba in 1963, Cuba's dollar reserves have dropped to virtually nothing, and most trade is conducted through barter agreements. In 1997, Cuba's debt to the former Soviet Union was estimated at \$20 billion. With the demise of the USSR, Cuba has focused on trading with market-oriented countries in order to increase foreign currency reserves, notably by promoting sugar exports and foreign investment in industry. Remittances from Cuban workers in the United States (totaling approximately \$800 million annually), tourism dollars, and foreign aid help to cover the trade deficit.

The US Central Intelligence Agency (CIA) reported that in 2001 the purchasing power parity of Cuba's exports was \$1.8 billion while imports totaled \$4.8 billion resulting in a trade deficit of \$3 billion.

Exports of goods reached \$2.2 billion in 2004, up from \$1.7 billion in 2003. Imports increased from \$4.6 billion in 2003, to \$5.3 billion in 2004. The resource balance was consequently negative in both years, deteriorating from -\$2.9 billion in 2003, to -\$3.1 billion in 2004. The current account balance followed a similar path, worsening from -\$130 million in 2003, to -\$177 million in 2004. Foreign exchange reserves (including gold) reached \$2.5 billion in 2005, covering less than five months of imports.

3³ BANKING AND SECURITIES

All banks in Cuba were nationalized in 1960. The National Bank of Cuba, established in 1948, was restructured in 1967. Commercial banks include Banco Financiero Internacional (1984). Savings banks include Banco Popular del Ahorro. A number of foreign banks offer limited services in Cuba. The Grupo Nuevo Banco was set up in 1996.

There are no securities exchanges.

Hard-currency reserves have been depleted by import growth in excess of export growth. In the domestic economy, the attempt to reduce enterprise subsidies caused an increase in demand for working capital that the state was unable to meet. A combination of price and direct rationing systems is operating.

3⁴ INSURANCE

All insurance enterprises were nationalized by January 1964. Although insurance never accounted for more than 1% of national income, new opportunities began to emerge throughout the insurance sector as a result of the changes in economic structure. Seven insurance companies and two reinsurers had offices in Cuba in 1997. They concentrated on freight insurance, but there was interest in development and diversification.

Cuba's domestic state insurance company, Esen, appeared to be preparing to compete with foreign companies in the domestic market in 1997. It launched a major marketing drive with an expanded sales force of 3,500 to persuade Cubans to take out new personal insurance policies. Apparently, they were having some success, despite the lack of a private insurance tradition. The volume of premiums was 30% higher in 1995 than in 1990. New products include not only travel and medical insurance, but also pensions and life insurance policies. In 1997, a new insurance law

was passed to permit the establishment of private insurers to compete with the state-owned companies. Although limited foreign penetration into the Cuban market will help to develop the sector, the authorities will continue to foster the development of Cuban insurers before the sector is fully opened. Private insurance schemes will not replace state social security provision.

Third-party automobile liability for foreign residents (including diplomats) and for vehicles carrying either freight or people are compulsory.

3⁵ PUBLIC FINANCE

Under the Economic Management System, developed during the 1970s and approved by the PCC Congress in 1975, state committees for statistics and finances have been established, and formal state budgets, abandoned in 1967, have been reintroduced. State revenues come from the nationalized enterprises, income tax, social security contributions, and foreign aid.

The US Central Intelligence Agency (CIA) estimated that in 2005 Cuba's central government took in revenues of approximately \$22.1 billion and had expenditures of \$23.6 billion. Revenues minus expenditures totaled approximately -\$1.5 billion. Total external debt was \$13.1 billion.

3⁶ TAXATION

A 1962 tax code instituted a sharply progressive income tax as well as a surface transport tax, property transfer tax, documents tax, consumer goods tax, and a tax on capital invested abroad.

3⁷ CUSTOMS AND DUTIES

Cuba's average weighted tariff in 1997 (the most recent year the World Bank could gather statistics) was 8.1%. However, Cuba also maintains significant nontariff barriers to trade. Required government inspection of imports and corrupt customs officials are among the worst factors.

3⁸ FOREIGN INVESTMENT

In February 1960, Fidel Castro announced that foreign investment in Cuba would be accepted only if delivered to the government to be used as it saw fit. The enterprises in which this capital would be invested were to be "national enterprises," so that Cuba would not be dependent on foreigners. Any new foreign investments were to be controlled by the Central Planning Board. From mid-1960s, US holdings in Cuba were systematically seized, partly for political reasons and partly because US corporations refused to accept Cuba's terms of nationalism. Some of the investments of other foreign nationals were left operating under stringent governmental regulation.

Between 1960 and the early 1970s, foreign investment activities were restricted to limited technical and economic assistance from East European countries and the then-USSR, with which Cuba concluded over 40 cooperation agreements between 1963 and 1983. Limited investments from the noncommunist world were sought with some success in the mid-1970s. In 1982, in a further effort to attract investors from Western Europe, Canada, and Japan, Cuba passed its first foreign investment law, permitting foreign companies to form joint ventures with the Cuban government, but to own no more than 49% of the stock. In 1985, how-

ever, direct investment in Cuba by OECD countries totaled only \$200,000.

Since 1990, the Cuban government has seen the necessity to open its recessed economy to foreign investment, either via joint ventures or other forms of association. In 1992, Cuba further intensified its efforts to attract foreign investment in several key areas of its economy, including sugar, tourism, textiles, tobacco, pharmaceuticals, nickel, and shipping. In 1995, full repatriation of profits and 100% foreign ownership was allowed in Cuba.

As of 1998, there were 322 joint ventures in force, with partners from over fifty different countries. In addition, many foreign contracts were being sought for oil drilling. The annual inflow of foreign direct investment (FDI) into the more liberalized Cuba reached a peak of \$15.2 million in 1998. FDI inflow dropped, to \$9 million in 2000 and further, to \$4.6 million in 2001. Principal sources of foreign investment include Canada, Spain, France, Italy, the Netherlands, and Latin America.

In April 2002, after President Hugo Chavez of Venezuela was returned to power, oil shipments to Cuba on concessional terms were cut off. In April 2003, there appeared to be a decisive shift away from further opening of the economy as the Castro regime rounded up dissidents and executed by firing squad three men who attempted to hijack a passenger ferry to take them to Florida, accusing the US Mission Chief of trying to organize political opposition to the regime.

39 ECONOMIC DEVELOPMENT

Until 1959, the Cuban government followed a policy of free enterprise; government ownership was largely limited to local utilities. When the Castro government came to power in 1959, it proceeded to create a centrally planned economy. By means of nationalization and expropriation, all producer industries, mines, refineries, communications, and export-import concerns were brought under government control by 1968.

Planning in the 1960s vacillated on the question of whether Cuba should concentrate on the production of sugar, on industrialization, or on a balance between the two. After 1963, sugar predominated. But the effort that went into the 1970 harvest diverted enormous resources from other sectors of the economy. At the same time, there was growing absenteeism and low productivity in the labor force, attributed to the policy of eliminating material incentives. Under the Economic Management System, pay was again tied to production though the introduction of a system akin to piecework.

The 1975–80 development plan, approved by at the PCC Congress in December 1975, set specific production goals for Cuban industry and projected an overall economic growth rate of 6% annually; it was announced in 1980 that the actual growth rate was 4%. The 1981–85 plan introduced new incentive schemes and gave more freedom to market forces; it also eased restrictive hiring regulation. One of the major aims of the plan was to increase industry's share of gross social product to 50%, but industry accounted for only 45.3% in 1985. The 1986–90 plan envisioned a 5% annual growth and aimed particularly at an increase in exports. In December 1986, 28 austerity measures were approved by the National Assembly, including increases in transport and electricity prices and rationing of kerosene.

Under several finance and investment accords signed by Cuba and Russia in 1992 and 1993, Russia agreed to supply fuel, tires, and spare parts for mechanical harvesters and other vehicles, in addition to fertilizers and herbicides, all for Cuba's sugar harvest. In addition, Russia agreed to import a minimum of 2 million tons of Cuban sugar. Russia also agreed to extend a \$350 million credit to Cuba to complete and further develop a number of oil, energy, and nickel mining projects that had previously been backed by the Soviet Union.

Since 1998, Cuba has sat as an observer at International Monetary Fund (IMF)/World Bank meetings. Cuba's economic planners predicted a 1.5% growth rate for 2003, as tourism declined following the 11 September 2001 terrorist attacks on the United States, sugar prices were low, hurricanes damaged the island, and external financing was lacking. The Central Bank reported a \$12.2 billion hard-currency foreign debt by late 2002. Unemployment stands at approximately 12%, but close to 30% of workers have been displaced or underemployed. Castro in 2003 replaced at least five officials in economy-related government positions in an effort to combat a faltering economy. Cubans increasingly turn to the black market for food, clothing, and household goods. Cuba continued to apply timid market reforms while actively seeking foreign investment. Economic growth in the late 1990s came from an expansion of manufacturing, tourism, mining, and services. Other positive factors included the improved tourist industry and a sharp recovery of the cigar industry. Indeed, during the 1990s, tourism replaced sugar exports as Cuba's primary source of foreign exchange. The creation of a new Central Bank completed financial sector reforms begun in 1995. These reflected the increased role of the private sector in financial transactions. In 2000, the Cuban economy continued its growth through the generous investment of foreign countries, but the US trade embargo held fast in the face of opposition from key US political leaders.

The main impediment to growth in 1990s Cuba was the restricted access to external financing. As a response, in 2005 the government strengthened its control over capital flows—especially from tourism, oil, mining, and construction. New trade agreements and investment commitments from China and Venezuela will likely give a boost to the Cuban economy in the years to come. Positive developments in the tourism, nickel, and oil sectors will also contribute to the overall growth trend. However, if President Hugo Chavez were to lose power in Venezuela or if the Chinese economy were to face a downturn, Cuba would suffer the repercussions.

40 SOCIAL DEVELOPMENT

A single system of social security covering almost all workers and protecting them against the risks of old age, disability, and survivorship was enacted in 1963. Contributions to pension programs are made by employers (10% of earnings for self-employed persons), with the government making up the deficit. These contributions also fund maternity, sickness, and work-injury programs. Pensions are set at a rate of 50% of average earnings. The national health care system covers all citizens. The Maternity Law provides up to one year of maternity leave.

The Family Code proscribes all sex discrimination. Women receive equal access to education and are found in most professions. Legislation provides for the equal rights of illegitimate and legitimate children, and specifies the obligations of parents. Crime is

not reported in the media, and there are no reliable data regarding the prevalence of violence against women and domestic abuse. Prostitution is legal for those over 17 years of age, but the government has been curtailing activity to combat the perception that sex tourism is endorsed.

Human rights activists have been targeted for arbitrary arrest and detention. Prison conditions are harsh: medical care is inadequate and abusive treatment is not uncommon. The government does not allow international organizations to operate in the country.

4¹ HEALTH

Sanitation is generally good and health conditions greatly improved after the 1959 revolution. However, with the dissolution of the Soviet Union, Cuba no longer receives the same level of foreign support and has fallen behind in many of its social services. In spite of this, in 1993 100% of the population was reported to have access to health care. In 2000, 95% of the population had access to safe drinking water and 95% had adequate sanitation.

Infant mortality declined from more than 60 per 1,000 live births before 1959 to 6.33 in 2005. About 8% of babies born in 1999 were considered low birth weight. Approximately 79% of married women (ages 15 to 49) used contraception. The government claims to have eradicated malaria, diphtheria, poliomyelitis, tuberculosis, and tetanus. Children up to one year of age were immunized as follows: tuberculosis, 99%; diphtheria, pertussis, and tetanus, 99%; polio, 97%; and measles, 99%.

Life expectancy was an average of 77.23 years in 2005. Major causes of death were circulatory system diseases, cancer, injuries, and infectious diseases. There were 15 reported cases of tuberculosis per 100,000 in 2001. The HIV/AIDS prevalence was 0.10 per 100 adults in 2003. As of 2004, there were approximately 3,300 people living with HIV/AIDS in the country. There were an estimated 200 deaths from AIDS in 2003.

As of 2004, there were an estimated 591 physicians, 744 nurses, and 87 dentists per 100,000 people. Medical services are now more widely distributed in rural as well as urban areas. All doctors are obliged to work for the rural medical service in needy areas for two years after graduation. All health services are provided free of charge. Health care expenditure was estimated at 6.1% of GDP.

4² HOUSING

Within the past few years decades, Cuban housing has begun to catch up to population demand. Nearly 1.3 million housing units were built between 1959 and 1993. In the 1980s, over half of all housing units were detached houses. The remainder were apartments, palm huts called *hohios*, and *cuarterias*, housing units in buildings composed of a number of detached rooms where occupants share some or all facilities. More than half of all dwellings were concrete and brick, about one-third were solid wood, and a smaller number were constructed with palm planks. Water was piped indoors to roughly half of all homes and outside to one-fifth; about half had private bath facilities.

Housing conditions have generally improved over the past few years. By 1998, about 87% of urban dwellings were graded as good or fair, as were 68% of rural dwellings. From 1998–2001, some 800,212 housing conservation and rehabilitation projects were

completed; about 51% were initiated by the government and 49% by residents.

Though most dwellings are built by the state, there are a few cooperative and individual concerns represented in the market. Habitat-Cuba, a nongovernment organization, has been working with local architects and low-income families to provide quality, low-cost housing. Part of this program involves using indigenous and more easily renewable materials for construction, such as clay and bamboo.

4³ EDUCATION

Education has been a high priority of the Castro government. In 1959 there were at least one million illiterates and many more were only semiliterate. An extensive literacy campaign was inaugurated in 1961, when 100,000 teachers went out into the countryside.

Education is free and compulsory for six years (6–11 years of age) of primary school. Basic secondary studies last for three years, after which students may then choose to pursue a three-year course of university prep studies or a three-year technical school course. The addition of agricultural and technical programs to the secondary-school curriculum was an innovation of the Castro government; the work-study principle is now integral to Cuban secondary education. Students in urban secondary schools must spend at least seven weeks annually in rural labor. The first junior high schools, based on the work-study concept, were introduced in 1968. Catholic parochial schools were nationalized in 1961.

In 2001, nearly all children between the ages of three and five were enrolled in some type of preschool program. Primary school enrollment in 2003 was estimated at about 95.7% of age-eligible students. The same year, secondary school enrollment was about 86% of age-eligible students. It is estimated that about 94% of all students complete their primary education. The student-to-teacher ratio for primary school was at about 11:1 in 2003; the ratio for secondary school was about 12:1.

Cuba has five universities: the University of Havana (founded 1728), Oriente University at Santiago de Cuba (1947), the University of Las Villas at Santa Clara (1952), University of Camagüey (1974), and the University of Pinar Del-Rio. Workers' improvement courses (*superación obrera*), to raise adults to the sixth-grade level, and technical training schools (*mínimo técnico*), to develop unskilled workers' potentials and retrain other workers for new jobs, were instituted after 1961. Special worker-farmer schools prepare workers and peasants for enrollment at the universities and for skilled positions in industrial and agricultural enterprises. In 2003, about 34% of the tertiary age population were enrolled in some type of higher education program. The adult literacy rate for 2004 was estimated at about 99.8%.

As of 2003, public expenditure on education was estimated at 9% of GDP, or 18.7% of total government expenditures.

4⁴ LIBRARIES AND MUSEUMS

The José Martí National Library in Havana, founded in 1901, had a collection of two million volumes in 2002. Besides acting as the National Library, it provides lending, reference, and children's services to the public. Other sizable collections in Havana are found at the Havana University Library (203,000 volumes), the Library of the Institute of Literature and Linguistics (1 million), the José An-

tonio Echevarría Library of the House of the Americas (150,000), and the University of the East in Santiago (535,000 volumes).

Although libraries of private institutions disappeared in the 1960s and many collections were transferred to the National Library, the number of special and research libraries increased, especially with the creation of many departments of the Academy of Sciences. A national library network was established by the Department of Libraries of the National Cultural Council.

The National Museum of Fine Arts in Havana contains classical and modern art from around the world as well as Cuban art from the colonial period to the present day. The Colonial Municipal Museum and the Felipe Poey Natural History Museum in Havana, the Bacardi Municipal Museum in Santiago, the Oscar Rojas Museum in Cárdenas, and the Ignacio Agramonte Museum in Camagüey are also noteworthy. There is a Naval Museum at Cienfuegos and a Museum of Archaeology in Sancti Spiritus.

45 MEDIA

All telephone service is free; about 95% of the telephones are automatic. In 2003, there were an estimated 51 mainline telephones for every 1,000 people. The same year, there were approximately two mobile phones in use for every 1,000 people.

As of 1999 there were 150 AM and 5 FM radio broadcasting stations and 58 television stations operating throughout the country. All stations are owned and operated by the government. In 2003, there were an estimated 185 radios and 251 television sets for every 1,000 people. The same year, there were 31.8 personal computers for every 1,000 people and 11 of every 1,000 people had access to the Internet. There was one secure Internet server in the country in 2004.

Like the radio and television stations, the press is entirely controlled and owned by the government. Cuba's major newspapers are all published in Havana and include *Granma*, established in 1965 (with an estimated 2002 circulation of 400,000) as the official organ of the Communist party. The party also publishes weekly editions in Spanish, English, and French. The weekly *Juventud Rebelde* is the publication of the Union of Young Communists, and had a 2002 circulation of 250,000.

Magazines published in Havana include *Bohemia* (weekly, 20,000, general articles and news) and *Mujeres* (monthly, 250,000, women's-interest news). *Prensa Latina*, the Cuban wire service, covers international affairs and distributes its coverage throughout Latin America.

The constitution states that print and electronic media are state property and cannot be made private. Media operate under strict guidelines and reflect government views. The government is said to intimidate journalists through the penal system and the threatening of jobs.

46 ORGANIZATIONS

Most of the leading mass organizations in Cuba were founded shortly after the revolution. The Committees for the Defense of the Revolution were founded on 28 September 1960 to combat counterrevolutionary activities. The Federation of Cuban Women was established 23 August 1960. The National Association of Small Farmers, the leading peasants' organization, was established 17 May 1961; in 1989 it had 167,461 members, both private farmers and members of cooperatives. The Confederation of Cuban

Workers, the principal trade union federation, antedates the revolution. Founded in 1939, it had a total membership of 3,060,838 workers in 1990.

The Union of Young Communists of Cuba (UJC), founded in 1962, has reported over 500,000 members. The Federation of Cuban University Students (FEU), founded in 1922, consists of students from all major universities, colleges, and secondary schools. There are a number of sports organizations in the country and an active organization of the Special Olympics.

There are national chapters of the Red Cross Society and Caritas.

47 TOURISM, TRAVEL, AND RECREATION

Before 1959, tourism, especially from the United States, was a major source of revenue. Foreign tourism declined in the 1960s, and Cuba's ornate and expensive hotels were used mainly by visiting delegations of workers and students. Renewed emphasis on international tourism characterized the 1976–80 development plan, under which 25 new hotels were opened. The Cuban government actively promotes tourism as a means of offsetting the financial decline brought on by the collapse of the Soviet bloc.

Among Cuba's attractions are fine beaches; magnificent coral reefs, especially around the Isle of Youth; and historic sites in Old Havana (where some buildings date from the 17th century), Trinidad, and Santiago de Cuba. Passports and visas are required for nationals of countries that do not have visa-free agreements with Cuba. In June 1992, Cuba was admitted to the Caribbean Tourism Organization.

There were 1,905,682 foreign visitors who arrived in Cuba in 2003. Hotel rooms numbered 43,696 with 84,200 beds and a 62% occupancy rate. Tourism receipts reached \$1.8 billion.

In 2004, the US Department of State estimated the cost of staying in Havana at \$167 per day, and in Guantánamo Bay, \$78 per day.

48 FAMOUS CUBANS

José Martí (1853–95), poet, journalist, and patriot, was the moving spirit behind the revolution that liberated Cuba from Spain. Antonio Maceo (1848–96), the mulatto general known as the "Titan of Bronze," became famous both as a guerrilla fighter and as an uncompromising advocate of independence. Carlos J. Finlay (1833–1915) gained lasting recognition for his theory regarding the transmission of yellow fever.

Cuban literature is most famous for its poetry and essays. The influential Afro-Cuban tradition has been explored by Cuban scholars, most notably by Fernando Ortiz (1881–1916), jurist and ethnographer. Another leading writer was José Antonio Saco (1797–1879), author of a six-volume history of slavery. Ernesto Lecuona (1896–1963) was a composer of popular music, and Juan José Sicre (1898–1974) is Cuba's outstanding sculptor.

The major heroes of the revolution against Batista are Fidel Castro Ruz (b.1926); his brother, Gen. Raúl Castro Ruz (b.1931); Argentine-born Ernesto "Che" Guevara (1928–67), who was killed while engaged in revolutionary activities in Bolivia; and Camilo Cienfuegos (d.1959). Cubans notable in literature include poet Nicolás Guillén (1902–89) and playwright and novelist Alejandro Carpentier y Valmont (1904–80). Cuban-American writer Cristina Garcia (b.1958), made her debut as a novelist with *Dream-*

ing in Cuban (1992); she was a Guggenheim Fellow. Alicia Alonso (b.1921), a noted ballerina, founded the National Ballet of Cuba.

49 DEPENDENCIES

Cuba has no territories or colonies.

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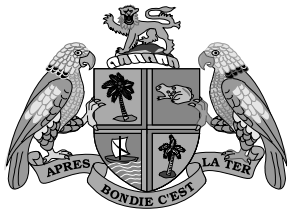
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DOMINICA

Commonwealth of Dominica

Dominica



CAPITAL: Roseau

FLAG: On a green background appears a cross composed of yellow, black, and white stripes; in the center is a red disk with 10 yellow-bordered green stars surrounding a parrot.

ANTHEM: *Isle of Beauty, Isle of Splendor.*

MONETARY UNIT: The East Caribbean dollar (EC\$) of 100 cents is the national currency. There are coins of 1, 2, 5, 10, and 25, and 1 dollar, and notes of 5, 10, 20, and 100 East Caribbean dollars. EC\$1 = US\$0.37037 (or US\$1 = EC\$2.7; as of 2004).

WEIGHTS AND MEASURES: The metric system is being introduced, but imperial measures remain in common use.

HOLIDAYS: New Year's Day, 1 January; Labor Day, 1 May; CARICOM Day, 2 July; Bank Holiday, 1st Monday in August; National Days, 3–4 November; Christmas, 25 December; Boxing Day, 26 December. Movable religious holidays include Carnival, Good Friday, Easter Monday, and Whitmonday.

TIME: 8 AM = noon GMT.

¹ LOCATION, SIZE, AND EXTENT

Although usually classified as one of the Windward Islands, Dominica, located between Guadeloupe to the N and Martinique to the S, marks the midpoint of the Lesser Antilles. To the E lies the Atlantic Ocean, to the W the Caribbean Sea. The island has an area of 754 sq km (291 sq mi) and is 47 km (29 mi) long by 26 km (16 mi) wide, with a coastline of 148 km (92 mi). Comparatively, the area occupied by Dominica is slightly more than four times the size of Washington, D.C.

Dominica's capital city, Roseau, is located on the southwest coast of the island.

² TOPOGRAPHY

The most rugged island of the Lesser Antilles, Dominica is a mass of peaks, ridges, and ravines. Several mountains are over 1,200 m (4,000 ft), of which the highest is Morne Diablatins, with an altitude of 1,447 m (4,747 ft). The whole land mass is of recent volcanic formation, and the mountain peaks are cones of volcanoes with lava craters and small lakes of boiling water. The largest of these is Boiling Lake near Roseau, which is the second-largest thermally active lake in the world. The coastal rim of the island is a thin strip limited by the mountainsides, which extend directly down to the shore.

³ CLIMATE

The climate of Dominica is mildly tropical; in the winter months the temperature averages 25°C (77° F); in the summer, 28°C (82° F). The spring months are the driest; the heaviest rains fall during late summer. The average yearly rainfall ranges from about 191 cm (75 in) on the drier Caribbean coast to 508 cm (200 in) in moun-

tainous inland areas. Destructive hurricanes coming in from the Atlantic Ocean can be expected during the late summer months.

⁴ FLORA AND FAUNA

Since few plantations could be established on Dominica's rugged terrain, the island is still covered with forests, some of which have never been cut except by the destructive winds of a hurricane. On one 4-hectare (10-acre) plot in the rain forest, as many as 60 species of trees may be identified. Some of the most common are cha-taignier, gommier, carapite, breadfruit, white cedar, and laurier.

There are no large wild animals, but the agouti and maniocu can be found. Some 135 species of birds inhabit Dominica. The coastal waters abound in fish.

⁵ ENVIRONMENT

As a member of the Organization of Eastern Caribbean States (OECS) formed in 1981, Dominica shares environmental problems common to the area's island countries. Water shortages are among the most significant. Other areas of concern are pollution from chemicals used in farming and untreated sewage. The nation's forests are endangered by the expansion of farming activities. Hurricanes are the most destructive natural threat to the environment.

Pollution of the nation's coastal waters threatens the tourist trade in the area. Two extensive areas have been set aside as nature reserves. The southern reserve, which constitutes Morne Trois Pitons National Park, is a natural UNESCO World Heritage Site that covers an area of 6,500 hectares (16,100 acres). In it are the nesting places of the red-necked and imperial parrots, both endangered species of Dominica.

According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 1 type of mammal, 4 species of birds, 4 types of reptiles, 2 species of amphibians, 11 species of fish, and 11 species of plants. The tundra peregrine falcon and the green sea and hawksbill turtles are classified as endangered.

6 POPULATION

The population of Dominica in 2005 was estimated by the United Nations (UN) at 70,000, which placed it at number 184 in population among the 193 nations of the world. In 2005, approximately 8% of the population was over 65 years of age, with another 28% of the population under 15 years of age. According to the UN, the annual population rate of change for 2005–10 was expected to be 0.8%, a rate the government viewed as satisfactory. The projected population for the year 2025 was 78,000. The population density was 93 per sq km (242 per sq mi), one of the lowest in the West Indies.

The UN estimated that 71% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 0.67%. The capital city, Roseau, had a population of 27,000 in that year.

AIDS was the leading cause of death among people ages 15–44 in the Eastern Caribbean region.

7 MIGRATION

There are no restrictions on foreign travel, emigration, or repatriation. In 2005 the net migration rate was estimated as -11.6 migrants per 1,000 population. The number of migrants living in Dominica in 2000 was 4,000, close to 5% of the total population. The government views the migration levels as satisfactory.

8 ETHNIC GROUPS

The vast majority of Dominicans are descendants of African slaves brought to the island in the 17th and 18th centuries. Some of the population are of mixed descent and a small minority are of European origin. Dominica is the only island of the Caribbean on which descendants of the native Carib population still make up a community of significant size. Isolation and the establishment of a 1,500-hectare (3,700-acre) reserve have enabled the Caribs, who number about 3,000 people, to preserve their identity.

9 LANGUAGES

English is the official language of Dominica. Nearly all Dominicans also speak a French patois, based on a mixture of African and French grammar and consisting mostly of French words, with some English and Spanish borrowings. Some islanders speak French as their first language.

10 RELIGIONS

About 61% of the population are Roman Catholic. Evangelical churches have a membership that accounts for about 18% of the population. About 6% of the people are Seventh-Day Adventists and 3.7% are Methodists. Other minority groups include Anglicans, Jehovah's Witnesses, Muslims, Baha'is, Rastafarians, Bap-

tists, Nazarenes, and Brethren Christians. About 6% of the population does not claim any religious affiliation.

Religious freedom for all faiths is provided for in the constitution and this right is generally respected in practice. All religious groups must register with the government to receive nonprofit status. Certain Christian holidays are observed as national holidays. The Dominica Christian Council and the Dominica Association of Evangelical Churches offer opportunities for interreligious dialogue on religious and social matters.

11 TRANSPORTATION

A paved road circles the northern two-thirds of the island, connecting the two main towns, Roseau and Portsmouth, with Melville Hall Airport in the northeast. Much of the road system was severely damaged by a 1979 hurricane; reconstruction averages about 16 km (10 mi) a year. There were about 780 km (485 mi) of roadways in 2002, of which 390 km (242 mi) were paved. There are 2,770 passenger cars and 2,830 commercial motor vehicles on the island. A deepwater harbor has been completed near Roseau on Woodbridge Bay, and both Roseau and Portsmouth also receive ships. As of 2005, Dominica's merchant marine consisted of 32 ships of 1,000 GRT or over, for a total of 13,771 GRT. Dominica Air Transport and other small airlines connect the main airport with Martinique, Guadeloupe, Antigua, and Barbados. In 2004 there were two airports, both with paved runways, one is a 760-m (2,500-ft) airstrip at Canefield, about 5 km (3 mi) north of Roseau.

12 HISTORY

The first island sighted by Christopher Columbus on his second voyage to the New World was Dominica at which he arrived Sunday (*dies dominica*), 3 November 1493. Carib Indians, whose ancestors originally had come from the Orinoco Basin in South America and, during the 14th century, had driven out the indigenous Arawaks, inhabited the island. The Caribs resisted conquest and the Spaniards soon lost interest in the island, which had no apparent mineral wealth.

In 1635, France claimed Dominica, and French missionaries visited the island seven years later, but strong Indian resistance to further contact prevented either the French or the English from settling there. In 1660, England and France declared Dominica a neutral island and left it to the Caribs. Within 30 years, however, Europeans began to settle on the island, and in 1727 the French took formal possession. Under the Treaty of Paris in 1763, however, France ceded the island to Great Britain, which then developed fortifications for its defense. French colonists established coffee plantations during the nearly forty years they held the island. The British introduced sugar production later, but the large slave plantations that characterized other West Indian islands never developed on Dominica. When Great Britain abolished slavery in the West Indies in 1834, 14,175 Dominican slaves obtained their freedom.

Dominica became the first and only British Caribbean colony to have a black-controlled legislature in the 19th century, but blacks lost most of their political power when the British government, acceding to the wishes of Dominican planters, diluted the strength of the Legislative Assembly and, in 1896, reduced Dominica to

a crown colony. Great Britain governed Dominica as part of the Leeward Islands from 1871 until 1939, and in 1940 transferred governance to the Windward Islands administration. From 1958 to 1962, the island belonged to the Federation of the West Indies. Dominica became an associated state of the Commonwealth of Nations in 1967 and on 3 November 1978 became an independent republic.

In its first years of independence, Dominica had several problems. Hurricanes, especially Hurricane David in 1979, brought great destruction to the island, but the corrupt, tyrannical administration of Premier Patrick John led to numerous severe difficulties. Dominicans ousted John in June 1979, and, after a year of interim rule, Mary Eugenia Charles became prime minister in July 1980.

Charles, the first female prime minister in the Caribbean, remained in office for 15 years. (She died at the age of 86 on 6 September 2005.) Her Dominica Freedom Party received parliamentary majorities in 1985 and 1990, partly because of an improved economic picture. Charles fully supported and sent a token force to participate in the US-led intervention of the island of Grenada in October 1983.

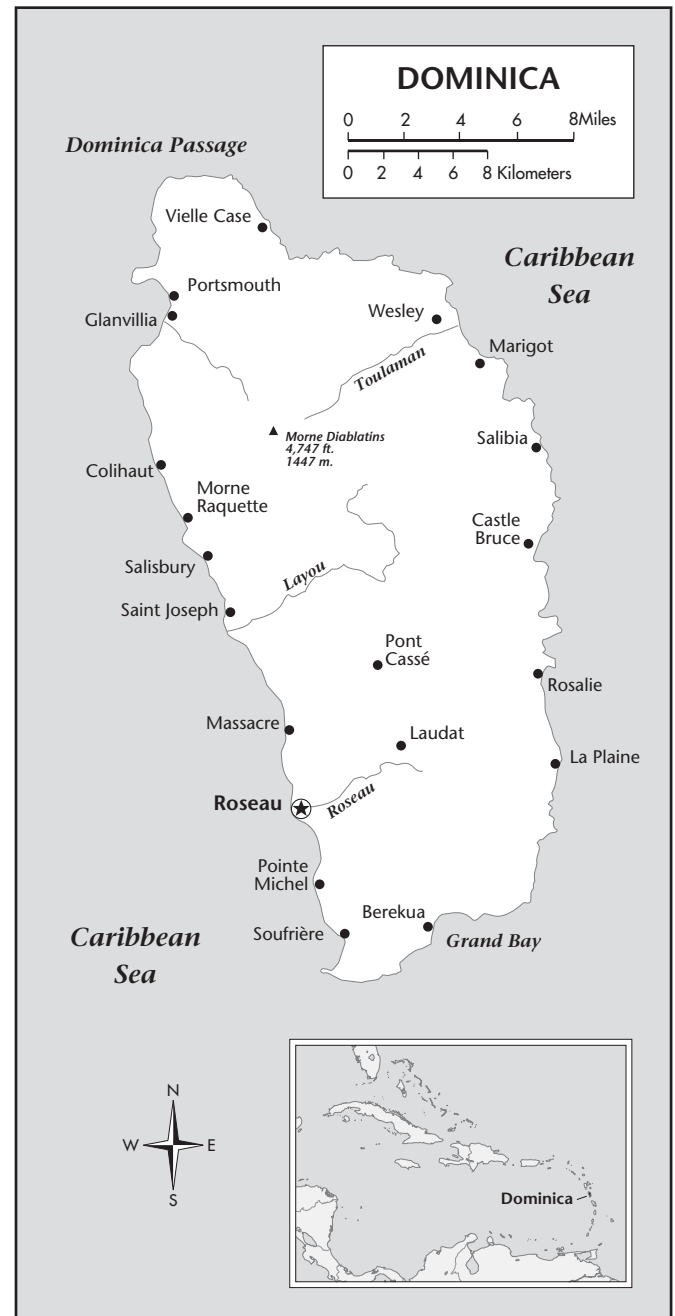
In the early 1990s, controversy flared over the practice of granting “economic citizenship” to Asian nationals who invested \$35,000 or more in the country. In response, the government implemented stiffer requirements, including licenses, waiting periods, and additional financial outlays.

Prime Minister Charles’s DFP lost its majority in the 1995 elections, and Edison James, leader of the United Workers’ Party, formed a new government. Under James, Dominica’s economy improved, but charges of corruption concerning the continued sale of Dominican citizenship to foreigners, allegedly including gangsters and smugglers, seriously undermined his credibility. In the election held in January 2000, the UWP narrowly won a plurality of votes over the DLP and DFP. In 2000–04, UWP’s Pierre Charles was prime minister.

In 2002, Pierre Charles told the Caribbean Development Bank that Dominica faced economic and financial collapse. Revenue from exports and tourism was down, and Charles cited the effects of globalization as one of the causes of Dominica’s economic troubles. Charles died in office at the age of 49 in January 2004. Education Minister Roosevelt Skerrit succeeded him as prime minister. In November 2004, an earthquake damaged buildings on the north side of the island, and Prime Minister Skerrit estimated the damages would rise in the millions of dollars. Skerrit and the governing DLP won the general elections held in May 2005.

13 GOVERNMENT

Under the independence constitution of 3 November 1978, Dominica has a unicameral parliament, the House of Assembly, with 21 members elected by universal adult suffrage (at age 18) and 9 appointed members (5 named on the advice of the prime minister, 4 on the advice of the leader of the opposition). The term of the Assembly is five years. The prime minister and leader of the opposition nominate the president, though Parliament officially elects



LOCATION: 15° N; 16° W. TOTAL COASTLINE: 148 kilometers (92 miles). TERRITORIAL SEA LIMIT: 12 miles.

the head of state, who in turn appoints the prime minister and cabinet from the majority party in the assembly.

14 POLITICAL PARTIES

Dominica’s major political parties are the Dominica Freedom Party (DFP), the Dominica Labour Party (DLP), and the United Workers’ Party (UWP). The DFP held power from 1980 to 1995, led by Eugenia Charles, the first woman prime minister in the Caribbean region. (Party leadership was transferred to Brian Alleyne

in 1993, but Charles remained prime minister.) The UWP dominated the 1995 elections, winning 11 of the 21 elected seats in the National Assembly. (The DFP and DLP, led by Rosie Douglas, each won 5.) Following the elections, UWP leader Edison James became prime minister. The DLP won 10 of the 21 elected seats in the 2000 election and formed a coalition government with the DFP, then led by Pierre Charles, which captured two seats. In the 2005 general election, the DLP won 52.08% of the vote (12 seats), the UWP won 43.6% of the vote (8 seats), and the DFP won 3.15% of the vote. An independent held the remaining seat in the House of Assembly. Roosevelt Skerrit, who had been chosen prime minister after the death of Pierre Charles in 2004, remained prime minister.

15 LOCAL GOVERNMENT

In contrast to other English-speaking islands in the Caribbean, Dominica has a well-developed local government system. There are 37 village councils, made up of both elected and appointed members. Both Roseau and Portsmouth have town councils, and Canefield has an urban council. There is a Carib Council which governs the Carib territory, set aside for indigenous peoples. There are also 10 parishes, which are administrative divisions for the national government.

16 JUDICIAL SYSTEM

Dominica's judicial process derives from English common law and statutory acts of the House of Assembly. The courts of first instance are the four magistrates' courts; at the second level is the Court of Summary Jurisdiction. The highest court is the Eastern Caribbean Supreme Court, based in St. Lucia, and one of its six judges must reside in Dominica and preside over the Court of Summary Jurisdiction. In exceptional cases prior to 2003, appeals were carried to the Judicial Committee of the Privy Council in the United Kingdom.

On 9 June 2003, Caribbean leaders met in Kingston, Jamaica, to ratify a treaty to establish the Caribbean Court of Justice (CCJ). The court was officially inaugurated in April 2005, in Port-of-Spain, Trinidad and Tobago. As of 2005, however, the court's jurisdiction was limited to the CARICOM states of Barbados and Guyana. The CCJ heard its first case in August 2005.

The law provides for public trial before an independent, impartial court. Criminal defendants have the right to legal counsel, and to appeal.

17 ARMED FORCES

A police force of 300 is in charge of law and order. Dominica, along with Antigua and Barbuda, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines, is a member of the Regional Security System, established in 1985. Defense from foreign attack would come from the United States or United Kingdom.

18 INTERNATIONAL COOPERATION

Dominica became a member of the United Nations on 18 December 1978 and belongs ECLAC and several specialized agencies, such as the FAO, IMF, ILO, UNESCO, WHO, and the World Bank. Dominica is also a member of the WTO, OAS, the Caribbean Development Bank, the Commonwealth of Nations, G-77, CARICOM, the ACP Group, the OECS, the Association of Carib-

bean States (ACS), and the Alliance of Small Island States (AOSIS). The nation is an observer in the Nonaligned Movement and a member of the Agency for the Prohibition of Nuclear Weapons in Latin America and the Caribbean (OPANAL). In environmental cooperation, Dominica is part of the Basel Convention, Conventions on Biological Diversity and Whaling, CITES, the Kyoto Protocol, the Montréal Protocol, MARPOL, and the UN Conventions on the Law of the Sea, Climate Change and Desertification.

19 ECONOMY

Bananas and other agriculture dominate Dominica's economy, and nearly one-third of the labor force works in agriculture. This sector, however, is highly vulnerable to weather conditions and to external events that affect commodity prices. With the decline of banana exports, GDP growth began declining and in the late 1980s, average annual GDP growth was 5.5%; in the early 1990s, about 3.5%, and from 1996 to 1999, 2.5%. In 2000, GDP stagnated and in 2001 there was a contraction of about 4.5% as adverse weather, a drop in tourism, and reduced export demand added to the effects of declining banana production. From 1998 to 2000, banana exports fell 24.6%, and then in the global slowdown of 2001, fell another 35.4%.

In response to decreasing European Union (EU) banana trade preferences, the government has diversified the agricultural sector, with the export of small quantities of citrus fruits and vegetables and the introduction of coffee, patchouli, aloe vera, cut flowers, and exotic fruits such as mangos, guavas, and papayas. Dominica also has had some success increasing its manufactured exports, primarily soap. Furthermore, Dominica recently entered the offshore financial services market.

Dominica is mostly volcanic and has few beaches; therefore, tourism has developed more slowly than on neighboring islands. Nevertheless, Dominica does have the highest mountain peak in the Caribbean. Rain forests, freshwater lakes, over 200 rivers, hot springs, waterfalls, and diving spots make it an attractive ecotourism destination. Cruise ship stopovers have increased following the development of modern docking and waterfront facilities in the capital. However, development of the tourism industry remains difficult because of the rugged coastline and the absence of an international airport.

The government is promoting industrial development involving agro-processing and light industry, and hopes to build an airport with greater accessibility. After the government began a comprehensive restructuring of the economy in 2003, the 2004 GDP growth rate was reported at 3.5%. The country nearly had a financial crisis in 2003 and 2004, but it has managed to stabilize its debt and fiscal deficits using some difficult reform measures, earning the praise of international financial institutions (IFIs).

20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 Dominica's gross domestic product (GDP) was estimated at \$384.0 million. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange based on current dollars. The per capita GDP was estimated at \$5,500. The annual growth rate of GDP was estimated at -1%. The average inflation

rate in 2001 was 1%. It was estimated that agriculture accounted for 18% of GDP, industry 24%, and services 58%.

It was estimated that in 2002 about 30% of the population had incomes below the poverty line.

2¹ LABOR

The labor force in 2002 (the latest year for which data was available) was estimated at 25,000. About 40% of the labor force was employed in agriculture, 32% in industry and commerce, and 28% in services. Unemployment was officially 23% in 2002.

Unions have the right to strike, organize, and engage in collective bargaining. As of 2005, unions represented about 33% of the workforce, with approximately 50% of all government employees belonging to unions as that same year. Essential services are prohibited from striking and this includes the coconut, citrus, and banana industries, as well as the port service that supports them.

The standard work week is 40 hours over 5 days. However, excessive overtime is not prohibited. The minimum wage is set by the government and varies from sector to sector. Last revised in 1989, the average wage was between US\$.74 per hour and US\$1.11 per hour in 2005 for most workers. These wages are not sufficient to support a family, although most workers earn more than the minimum. The minimum working age is 15 and this is generally observed without government enforcement. Children between the ages of 12 and 14 were permitted to work in certain family businesses such as farming. Occupational safety and health standards for adults and children are generally enforced by the government, and most employers comply with them.

2² AGRICULTURE

About 26.7% of the total land area is arable. Agricultural production was on the decline even before the 1979 hurricane disaster. The main crop of Dominica is bananas, output of which had fallen to 29,700 tons in 1978. As a result of Hurricane David, production hit a low of 15,700 tons in 1979. Agriculture suffered a further blow from Hurricane Allen in August 1980. However, after outside financial support began to rehabilitate the sector, production rose to 27,800 tons in 1981 and totaled 29,000 tons in 2004.

Agriculture accounts for about 18% of GDP and employs about 40% of the labor force. Agricultural exports amounted to \$15.3 million in 2004. Most crops are produced on small farms, the 9,000 owners of which are banded together in about 10 cooperatives; there are also several large farms that produce mostly bananas for export. Coconuts and citrus fruits are grown in commercial quantities. Production for 2004 included coconuts, 11,500 tons; grapefruit, 17,000 tons; lemons and limes, 1,020 tons; and oranges, 7,200 tons. Fruits and vegetables are produced mostly for local consumption.

2³ ANIMAL HUSBANDRY

There are about 2,000 hectares (4,900 acres) of pastureland, comprising 2.7% of the total land area. The island does not produce sufficient meat, poultry, or eggs for local consumption. In 2004 there were an estimated 13,400 head of cattle, 9,700 goats, 7,600 sheep, and 5,000 hogs. In 2004, production of meat totaled 1,364 tons; and milk, 6,100 tons.

2⁴ FISHING

Before Hurricane David in 1979, some 2,000 persons earned a living fishing in coastal waters, producing about 1,000 tons of fish a year and meeting only about one-third of the local demand. The hurricane destroyed almost all of the island's 470 fishing boats; afterward, only about a dozen vessels could be reconstructed for use. In 2003, the catch was 1,103 tons, up from 552 tons in 1991.

2⁵ FORESTRY

Dominica has the potential for a lumber industry. Some 46,000 hectares (114,000 acres) are classified as forest, representing 61% of the total land area. In 1962, Canadian experts produced a study indicating that over a 40-year period the island could produce a yearly output of 22,000 cu m (800,000 cu ft) of lumber. Before Hurricane David in 1979, annual output had reached about 7,500 cu m (265,000 cu ft). There are some 280 hectares (700 acres) of government land allocated to commercial forestry and about 100 hectares (240 acres) of forestland in private hands. Commercially valuable woods include mahogany, blue and red mahoe, and teak.

2⁶ MINING

Dominica had no significant or recorded production of minerals in 2003, although small amounts of pumice are exported. What production there is of clay, limestone, volcanic ash, and sand and gravel is primarily for the domestic construction industry.

2⁷ ENERGY AND POWER

Dominica's energy and power sector is marked by a complete lack of any proven reserves of oil, natural gas, or coal, nor does it possess any refining capacity. As a result, the country is entirely dependent upon imports to meet its consumption of fossil fuels. However, the country does have access to hydropower, which makes up a large portion of the nation's electric power generating capacity and production.

In 2002, Dominica imported an average of 820 barrels per day of refined oil products, the largest of which were gasoline at 470 barrels per day, and distillates, at 250 barrels per day. Liquefied natural gas imports for that year stood at 60 barrels per day, with kerosene and residual fuel oils each at 20 barrels per day.

Dominica's electric power sector is solely managed by a private utility the Dominica Electricity Service (Domlec). According to Domlec's 2002 annual report, the company had an installed capacity of 20,440 kW, of which diesel fueled generation accounted for 12,840 kW and hydropower at 7,600 kW. However, the Energy Information Administration (EIA) for that year placed the country's generating capacity at 19,000 kW, with hydropower and conventional thermal capacity at 8,000 kW and 11,000 kW, respectively. In addition, the company's hydropower capacity can drop sharply during a very dry season. According to Domlec's 2002 annual report, installed hydropower capacity could fall to as much as 32,000 kW. In 2002, the CIA reported that Dominica's output and consumption of electrical power was 68.41 million kWh and 63.62 kWh, respectively, while the EIA placed production and consumption of electrical power at 65 million kWh and 61 million kWh, respectively. Domlec's annual report for 2002 placed total electric power output at 80.1 million kWh.

In April 2004, Commonwealth Development Corporation (London, UK) sold its 72% stake in Domlec to WRB Enterprises (Tampa, Florida).

2⁸ INDUSTRY

Dominica has only light industry and most of it is connected with the processing of agricultural products. Industrial establishments include a plant for processing coconuts into oil and copra for export, four plants to process limes and other citrus fruits, two bottling plants, two distilleries, four small apparel plants, and four small furniture factories. Dominica exports water to its Caribbean neighbors; shoes, cement blocks, furniture, soap and toiletries are also exported. Home industries produce some leather work, ceramics, and straw products. Wood products, including furniture, are produced from local timber. Portsmouth is the main boat-building center.

Since the 1990s, the small manufacturing sector has been expanding at a modest pace, including electronics assembly, rum, candles, and paints. Industry accounted for 24% of GDP in 2004. While services account for 58% of GDP it only hires 28% of the labor force (with comparison to agriculture, which hires 40%)

The Dominican economy has high poverty (30%), high unemployment (23%), and a low per capita GDP (us\$5,400). The Dominican economy has been hurt by problems in the banana industry. The entire economy suffers when weather conditions damage the banana crop, or when the price of bananas falls. The European Union has phased out preferred access of bananas to its markets, causing banana demand to fall. In response, the Dominican government privatized the banana industry.

2⁹ SCIENCE AND TECHNOLOGY

Late in 1980, Dominica created a Council for Science and Technology, under the Ministry of Education. The Caribbean Agricultural Research Development Institute has been active in more than a half-dozen projects.

3⁰ DOMESTIC TRADE

Local produce markets exist in all the small villages and towns. About 40% of the work force is employed in agriculture and many foods and manufactured goods have to be imported.

The island has sought to develop preserves of its unique flora and fauna to attract tourists.

The tourism industry has reoriented many artisan jobs, such as in the fishing industry; the Dominica fleet has increased from only 913 vessels in 1994 to more than 1100 in 2000. However tourism overall has been slow to develop because of poor transport and the lack of hotel facilities and good beaches. Commercial activity is concentrated in the morning hours, since tropical rains impede afternoon travel.

3¹ FOREIGN TRADE

Dominica is well known for its exports of bananas, which reflect over a quarter of the country's commodity export revenues. Soap and cleaning products account for almost a third of exports (29%). Other exports include vegetables (3.7%), paint (3.1%), and perfume (13.7%). Exports accounted for \$41.2 million in 2004 (main-

Principal Trading Partners – Dominica (2003)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	39.3	127.0	-87.7
Jamaica	9.0	1.6	7.4
United Kingdom	6.2	9.7	-3.5
Antigua and Barbuda	4.0	0.3	3.7
France-Monaco	3.6	3.1	0.5
Guyana	3.3	1.5	1.8
Trinidad and Tobago	2.6	23.2	-20.6
United States	2.5	47.2	-44.7
Barbados	2.0	5.5	-3.5
Saint Kitts and Nevis	1.3	0.4	0.9
Saint Lucia	1.3	3.5	-2.2

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

ly bananas, citrus fruits, soap, and cocoa). The major markets are CARICOM, 61%; the European Union, 18%; and the United States, 3%. On the other hand, imports reached \$145 million in 2004, mainly of machinery and equipment, foodstuffs, manufactured articles, and cement. The major suppliers are the United States 35%, CARICOM 29%, EU 13% and Japan 5%.

Dominica is a beneficiary of the US Caribbean Basin Initiative, which grants duty-free entry into the United States for many goods. In 2004, exports totaled \$41 million, with 3% going to the United States. Dominica also belongs to the predominantly English-speaking Caribbean Community and Common Market (CARICOM), the CARICOM Single Market and Economy (CSME), and the Organization of Eastern Caribbean States (OECS). Dominica and the other countries of the Organization of Eastern Caribbean

Balance of Payments – Dominica (2002)

(In millions of US dollars)

Current Account		-38.1
Balance on goods		-59.4
Imports	-102.4	
Exports	42.9	
Balance on services		26.0
Balance on income		-18.5
Current transfers		13.8
Capital Account		20.5
Financial Account		8.9
Direct investment abroad		...
Direct investment in Dominica		11.4
Portfolio investment assets		0.0
Portfolio investment liabilities		12.1
Financial derivatives		...
Other investment assets		-2.8
Other investment liabilities		-11.8
Net Errors and Omissions		17.0
Reserves and Related Items		-8.3

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

States (OECS) were scheduled to join the Caribbean Single Market and Economy (CSME) in June 2006.

In 2004 Dominica cut diplomatic relations with Taiwan in favor of ties with mainland China. China agreed to give aid worth more than \$100 million over five years.

32 BALANCE OF PAYMENTS

The increasingly unfavorable balance of trade produces a current account deficit and boosts the foreign debt. Recurrent hurricanes and other natural disasters, such as an earthquake that caused millions in damages in November 2004, have added to the debt burden. Dominica hopes to be able to offset the trade deficit with tourism revenues.

The US Central Intelligence Agency (CIA) reported that in 2004 the purchasing power parity of Dominica's exports was \$74 million while imports totaled \$234 million resulting in a trade deficit of approximately \$150 million, increasing yearly.

33 BANKING AND SECURITIES

The principal national banks are the National Commercial and Development Bank of Dominica and the Dominica Agricultural Industrial and Development (AID) Bank. Private commercial banks include Barclays (UK), the Royal Bank of Canada, and the Banque Française Commerciale. Dominica is a member of the Eastern Caribbean Central Bank, which issues a common currency. Dominica has no stock market, and is considered an offshore tax haven for international companies. It guarantees a 20-year tax exemption. The International Monetary Fund reported that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$39.3 million. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$204.1 million.

34 INSURANCE

Representatives of British, Canadian, and US insurance companies do business in Dominica.

35 PUBLIC FINANCE

Operating revenues come mostly from customs duties, excise taxes, and other taxes and fees for government services. The leading areas of expenditure are education, health, public services, housing, and defense.

The US Central Intelligence Agency (CIA) estimated that in 2001 Dominica's central government took in revenues of approximately \$73.9 million and had expenditures of \$84.4 million. Revenues minus expenditures totaled approximately -\$10.5 million. Total external debt was \$161.5 million.

36 TAXATION

Taxes levied by the Dominican government include a progressive personal income tax ranging from 0–40%; a business income tax of 35%; social security taxes; a 3% gross receipts tax on retail sales; and taxes on land transfers and land-value appreciation. There is no capital gains tax except the land-value appreciation tax.

37 CUSTOMS AND DUTIES

Specific import duties apply to food and ad valorem duties apply to other items. The government levies export duties on principal agricultural products; the charge is heavy on rum and cigarettes but lighter on bananas and coconuts. Under a 1992 Caribbean Community agreement, Dominica eliminated import licensing. Dominica adopted CARICOM's common external tariff, which ranges up to 35%. Additional duties are applied to cigarettes, rum and motor vehicles.

38 FOREIGN INVESTMENT

The amount of foreign investment in Dominica is limited, largely because the island lacks the infrastructure to support an industrialization program. Investment increased in the early 1990s under the Charles government, particularly in agriculture. The marketing of banana production is monopolized by European multinational corporations. Tax holidays and import-duty exemptions are offered as investment incentives. The area near the Canefield airstrip is an industrial estate and export processing zone. The government agency for industrial development has had some success attracting capital investment funds for the island. The introduction of an offshore financial industry may also attract investment, as well as increased tourism. Other investment incentives include repatriation of profits, alien landholding license fees, factory building/industrial estates, and residence/work permits.

Foreign direct investment (FDI) inflows peaked in 1997 at \$21 million before falling to \$6.1 million in 1998. FDI inflows recovered to \$18 million in 1999 and averaged about \$13 million a year in 2000 and 2001. By 2003 there was a decent increase in FDI of up to \$17 million, but FDI as a percentage of GDP continues to decrease.

39 ECONOMIC DEVELOPMENT

Similar to its Eastern Caribbean neighbors, the main priority of Dominica's foreign relations is economic development. Dominica seeks to foster private enterprise.

Dominica's government until recently has been sensitive about market liberalization. In 1986, for example, it created an export-import agency and announced a land-reform program, both to stimulate agriculture. Under the latter, the government purchased 800 hectares (2,000 acres) of land in prime growing areas and then guaranteed a minimum holding with security of tenure, as well as services and equipment, to small farmers and landless farm workers. As of 1994, the government encouraged agriculture expansion through a diversification program, which was aimed at improving the marketing of products and providing income guarantees for farmers who are in the process of diversifying into new crops. There was still serious concern about the implications of the restructuring of formerly protected European markets.

In August 2002, Dominica negotiated a one-year \$4.3 million Stand-By Arrangement with the IMF and immediately the government implemented a 4% Stabilization Levy tax to tackle the financial crisis. Further economic austerity measures were taken while massive protests followed. But by 2003 the government began a comprehensive restructuring of the economy, which included elimination of price controls, privatization of the state banana

company, and tax increases—to address Dominica's economic crisis and to meet IMF targets.

The main problem has been that the small island's economy is dependent on agriculture and thus is highly vulnerable to climatic conditions. Development of the tourist industry remains difficult because of the rugged coastline and the lack of an international airport (though the government bought land for the construction of an airport in 1999). There has been much debate over proposals to build an airport capable of handling large jet aircraft because there is concern that an increase in tourist arrivals, as well as the promotion of eco-tourism, would damage the island's finely balanced environment.

Besides tourism, the government has attempted to diversify the economy and inspire confidence in investors and the population. For example, for a time the offshore business sector of Dominica was included on a list of countries deemed to be noncooperative in the fight against money-laundering. The government subsequently tightened up banking rules and set up a financial intelligence unit. Other positive events have been the establishment of diplomatic ties with the People's Republic of China in March 2004 and the announcement by Prime Minister Skerrit in June that year that the Stabilization Levy had ended. In early 2005 a boost to the economy was given by the shooting of the feature film *Pirates of the Caribbean*.

40 SOCIAL DEVELOPMENT

Until the early 1980s, a high rate of unemployment, a markedly high rate of emigration, and very limited resources hindered the development of social service programs in Dominica. A social insurance system covers all workers from 14–60 years of age, including apprentices. Under this plan, both workers and employers contribute specific amounts to a government fund, which provides pensions for workers reaching retirement age, compensation for workers who become incapacitated, and survivor benefits. There are also sickness and maternity benefits. The social security system is funded by worker contributions of 3% of earnings (7% self-employed) and a 7% employer payroll tax. Retirement is set at age 60.

Domestic violence is prevalent. A hotline manned by volunteers is available for battered women, and the Welfare Department often helps them find temporary quarters. Apart from the constitution, there is no specific legislation in force to protect women from sex discrimination. Property ownership is given to the "head of household" which is generally male. When a man dies without a will his wife cannot inherit the property. Many women in rural areas face considerably difficulty in meeting basic needs. Children's rights are generally protected, and education is free and compulsory.

Indigenous Carib minorities face minimal discrimination, and most live on a 3,700-acre reservation set aside for them by the government in 1903. Human rights are generally respected in Dominica. However, instances of excessive police force have been reported, and prison conditions are poor.

41 HEALTH

In 2004 there were an estimated 49 physicians, 415 nurses, and 6 dentists per 100,000 people. The one general hospital on Dominica is in Roseau, the 195-bed Princess Margaret Hospital. There are

7 health centers and 44 clinics scattered across the island. Serious tropical diseases such as yaws and malaria have been eradicated, but owing to the high humidity and rainy conditions, tuberculosis and other respiratory diseases continue to be a problem. Intestinal parasites afflict particularly those in the early years of life. Only 7% of newborns were low birth weight. In 2005, the infant mortality rate was estimated at 14.15 per 1,000 live births. Average life expectancy for that year was 74.65 years. Approximately 99% of the country's children were immunized against measles and the same percentage for DPT, tuberculosis, and polio. There were no cases of polio or measles reported on the island.

42 HOUSING

Hurricane David in 1979 destroyed the homes of over four-fifths of the population. Under an emergency housing program, construction supplies were brought into the island, and shelters were built for most of the population. Most of all dwellings are detached houses. In 1993, at least 71% were owner occupied. Most houses are built through the private sector, with individuals financing their own homes. Over half of all housing units were wooden, while smaller percentages were either concrete or wood and concrete.

Since the mid-1990s, the nation has participated in a reconstruction program focusing on techniques for hurricane retrofitting. Through the Cooperative Housing Foundation, eligible residents can obtain loans to aid in the upgrade of their homes.

43 EDUCATION

Education is compulsory between the ages of 5 and 16. Technical and vocational studies offer practical training in technical and electrical engineering, auto mechanics, plumbing, general business, construction, and agriculture. Transportation to secondary schools is a problem for students in rural areas.

Primary school enrollment in 2003 was estimated at about 81% of age-eligible students; 83% for boys and 79% for girls. The same year, secondary school enrollment was about 92% of age-eligible students; 86% for boys and 98% for girls. It is estimated that about 91% of all students complete their primary education. The student-to-teacher ratio for primary school was at about 19:1 in 2003; the ratio for secondary school was about 17:1. In 2003, private schools accounted for about 28% of primary school enrollment and 32% of secondary enrollment.

Higher educational facilities include a teacher training institute, a technical college, a nursing school, and a local center maintained by the University of the West Indies. In higher-level institutions, there were 34 teaching staff and 484 students in 1993. The adult literacy rate was estimated at about 94% in 2003.

As of 2003, public expenditure on education was estimated at 5% of GDP.

44 LIBRARIES AND MUSEUMS

A national library system of about 50,000 volumes includes a Main Library in Roseau and branches in Portsmouth, Grand Bay, and Marigot. There is also a mobile library unit for rural areas. The Roseau Museum highlights the island's cultural and natural history.

45 MEDIA

In 2002, there were 23,700 mainline telephones in use, with an additional 9,400 cellular phones throughout the country. In 1997 there were 703 radios and 81 television sets per 1,000 population. As of 2004, there were 2 AM and 4 FM radio stations and one (cable) television station. Dominicans also receive TV and radio broadcasts from neighboring islands. In 2002, there were about 12,500 Internet subscribers in the country. Two weekly newspapers are published in Roseau, the *Chronicle* (circulation in 2002, 2,500) and the government-published *Official Gazette* (550), among other journals and periodicals.

The constitution provides for the right of free expression, and the government is said to respect free speech and a free press. Independent print and electronic media operate without restrictions by the government authorities.

46 ORGANIZATIONS

There are many cooperatives and credit unions in Dominica. A chamber of commerce and a small Rotary Club also function. There is a Dominica Employers' Federation in Roseau. The Dominica National Development Corp. promotes both industry and tourism. The Association of Eastern Caribbean Manufacturers is a multinational union based in Djibouti. There are unions, such as the Waterfront and Allied Workers' Union, and professional associations, such as the Dominica Association of Teachers.

The Dominica National Council of Women and the Women's Bureau are umbrella organizations supporting a variety of national women's groups. Youth organizations include the Young Freedom Movement, the Scout Association of Dominica, Girl Guides, and YWCA. Sports associations are active for several different pastimes, including tennis, track and field, and squash.

Volunteer service organizations, such as the Lions Clubs and Kiwanis International, are also present. There is a national chapter of the Red Cross Society.

47 TOURISM, TRAVEL, AND RECREATION

Dominica's tourism industry has developed slower than that of neighboring Caribbean islands. However, the growth of ecotour-

ism has helped make tourism a staple in the economy. The principal attraction is the rugged natural beauty of its volcanic peaks, forests, lakes, waterfalls, and over 365 rivers. Day trips to Dominica from Barbados, Guadeloupe, and Martinique have gained increasing popularity. Cricket is the national sport.

Citizens of the United States and Canada may enter the country with proof of citizenship; other foreign visitors must have a valid passport. All tourists must have an onward/return ticket. A certificate of vaccination against yellow fever is required if traveling from an infected area.

In 2003, there were 72,948 tourists who visited Dominica, of whom 83% came from the Americas. The US Department of State estimated the average stay in Dominica at us\$182 per day.

48 FAMOUS DOMINICANS

Maria Eugenia Charles (1919–2005), cofounder of the Dominica Freedom Party, became prime minister in 1980. She served until 1995, and was the first female prime minister in the Caribbean. Edison Chenfil James (b.1943) was prime minister from 1995 until 2000. Pierre Charles (1954–2004) was prime minister from 2000–2004. Roosevelt Skerrit (b.1972) succeeded him.

49 DEPENDENCIES

Dominica has no territories or colonies.

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DOMINICAN REPUBLIC

Dominican Republic
República Dominicana



CAPITAL: Santo Domingo

FLAG: The national flag, adopted in 1844, consists of a white cross superimposed on a field of four rectangles, the upper left and lower right in blue, the upper right and lower left in red.

ANTHEM: *Himno Nacional*, beginning “Quisqueyanos valientes, alcemos nuestro canto” (“Valiant Dominicans, let us raise our song”).

MONETARY UNIT: The Dominican peso (RD\$) of 100 centavos is a paper currency. There are coins of 1, 5, 10, 25, and 50 centavos and 1 peso, and notes of 1, 5, 10, 20, 50, 100, 500, and 1,000 pesos. RD\$1 = US\$0.03287 (or US\$1 = RD\$30.42) as of 2005.

WEIGHTS AND MEASURES: The metric system is the legal standard, but US and Spanish weights are widely used in commercial transactions.

HOLIDAYS: New Year’s Day, 1 January; Epiphany, 6 January; Altigracia Day, 21 January; Duarte Day, 26 January; Independence Day, 27 February; Labor Day, 1 May; Restoration of Independence, 16 August; Day of Our Lady of Las Mercedes, 24 September; All Saints’ Day, 1 November; Christmas, 25 December. Movable religious holidays include Good Friday and Corpus Christi.

TIME: Eastern Daylight Savings Time is maintained throughout the year; 8 AM = noon GMT.

¹LOCATION, SIZE, AND EXTENT

The Dominican Republic occupies the eastern two-thirds of the island of Hispaniola (Española) and includes the islands of Beata, Catalina, Saona, Alto Velo, and Catalinita in the Caribbean Sea, and several islets in the Atlantic Ocean. It has an area of 48,730 sq km (18,815 sq mi), with a length of 386 km (240 mi) E–W, extending from Cape Engaño to the Haitian border, and a width of 261 km (162 mi) N–S, extending from Cape Isabela to Cape Beata. Comparatively, the area occupied by the Dominican Republic is slightly more than twice the size of the state of New Hampshire. Bounded on the N by the Atlantic Ocean, on the E by the Mona Passage (which separates it from Puerto Rico), on the S by the Caribbean Sea, and on the W by Haiti, the Dominican Republic has a total boundary length of 1,648 km (890 mi), of which only 360 km (194 mi) is the length of the land boundary with Haiti.

The Dominican Republic’s capital city, Santo Domingo, is located on its southern coast.

²TOPOGRAPHY

The Dominican Republic is generally mountainous, with deserts in the extreme western regions. The principal mountain range, the Central Cordillera, running from east to west and extensively pine-forested, bisects the republic. Between the Central Cordillera and the Northern Cordillera (and their associated plains) lies the famous Cibao (La Vega Real) Valley (225 km/140 mi long, with an average width of 23 km/14 mi), noted for the excellent quality of its soil. Fertile valleys also abound in the central and eastern areas. The country contains both the highest mountain in the West

Indies, Mt. Duarte (Pico Duarte, 3,175 m/10,417 ft), and the lowest-lying lake, Lake Enriquillo (46 m/151 ft below sea level). The Yaque del Norte, the Yaque del Sur, and the Yuna are the principal rivers.

³CLIMATE

Climate and rainfall vary with region and altitude. Generally, however, average minimum and maximum temperatures range from 18–29°C (64–84°F) in the winter and from 23–35°C (73–95°F) in the summer. The coastal plain has an annual mean temperature of 26°C (79°F), while in the Central Cordillera the climate is temperate and the mean is 20°C (68°F). Rainfall varies from an annual average of 135 cm (53 in) in the eastern regions, with an extreme of 208 cm (82 in) in the northeast, to a mean of 43 cm (17 in) in the western areas. The rainy season generally extends from June to November and the dry season from December to May. The nation lies within the hurricane belt, and tropical storms constitute a major weather hazard.

⁴FLORA AND FAUNA

Plants and animal life vary by region. Dense rain forests are common in the wetter areas; scrub woodland thrives along the drier slopes; and savanna vegetation is found on the open plains. Dominican mahogany and highly resinous pine trees grow in the high mountains. The rare hutia (a small rodent) and herds of wild boar are found in the mountainous areas. Ducks, doves, and several varieties of pigeons are seasonal visitors. Lake Enriquillo is the natural habitat of large flocks of flamingos. Spanish mackerel, mullet, bonito, and yellowtail snapper are found in the surround-

ing waters. As of 2002, there were at least 20 species of mammals, 79 species of birds, and over 5,600 species of plants throughout the country.

5 ENVIRONMENT

The main agencies responsible for environmental protection are the Department of National Parks and the Department of State for Agriculture. The Dominican Republic has environmental problems in the areas of deforestation, water supply, and soil erosion, the latter of which also damages the nation's coral reefs. United Nations (UN) sources report that, as of 1993, the nation was losing 20,000 hectares per year of its forest lands largely due to commercial interests. The felling of trees was prohibited in 1967 to remedy the ill effects of indiscriminate cutting by commercial producers and farmers and the destruction by fire of large stands of timber. However, many farmers continue to cut trees surreptitiously to make more land available for cultivation. Soil erosion results from a combination of rainfall and the use of land in mountainous areas. The country has 21 cu km of renewable water resources with 89% used for farming. About 97% of the population has access to pure drinking water. Water pollution results from the effects of mining along with industrial and agricultural sources.

In 2003, about 51.9% of the total land area was legally protected. Lago Enriquillo is a Ramsar wetland site. According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 5 types of mammals, 16 species of birds, 10 types of reptiles, 31 species of amphibians, 10 species of fish, 2 species of invertebrates, and 30 species of plants. Endangered species in the Dominican Republic include the tundra peregrine falcon, Haitian solenodon, three species of sea turtle (green sea, hawksbill, and leatherback), and American crocodile. The imposter hutia, the Hispaniolan edible rat, and Marcano's solenodon have become extinct.

6 POPULATION

The population of Dominican Republic in 2005 was estimated by the United Nations (UN) at 8,862,000, which placed it at number 86 in population among the 193 nations of the world. In 2005, approximately 5% of the population was over 65 years of age, with another 34% of the population under 15 years of age. There were 102 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 1.7%, a rate the government viewed as too high. The government was initiating programs to address the high rate of adolescent fertility. The projected population for the year 2025 was 11,038,000. The population density was 182 per sq km (471 per sq mi). The southern coastal plains and the Cibao Valley are the most densely populated areas of the country.

The UN estimated that 64% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 1.99%. The capital city, Santo Domingo, had a population of 1,865,000 in that year. Other important cities are Santiago de los Caballeros, La Romana, San Pedro de Macorís, San Francisco de Macorís, and Concepción de la Vega.

7 MIGRATION

Four overseas immigration movements took place 1930–60: approximately 5,000 refugees from the Spanish Civil War in the late

1930s; a Jewish refugee group, which arrived in 1940; a continuous flow of Japanese, mainly farmers, since 1950; and 600 Hungarian refugees invited by the government in 1957. These are dwarfed, however, by the influx of Haitians, some seasonal, others permanent.

An estimated 35,000 Haitians entered the Dominican Republic after the military coup that overthrew Haiti's president, Jean-Bertrand Aristide, in September 1991. By May 1997, 20,000 Haitians had returned to their homeland, voluntarily or by deportation. The majority of Haitian refugees live outside the capital, Santo Domingo. The Dominican Republic government initiated a program to deport illegal migrants back to Haiti. However, this program does not affect recognized refugees or asylum seekers, as they receive temporary residence permits. In October 2005, *Migration News* reported that estimates of the number of Haitians in the Dominican Republic in 2005 ranged from 300,000 to 1.6 million. A census of Haitians was planned to determine how they obtained illegal Dominican identity cards. The Dominican Republic began to issue identity cards to 300,000 Dominicans living illegally in Puerto Rico.

Emigration became significant for the first time during the 1960s, when 93,300 Dominicans legally entered the United States; during 1971–80, the figure rose to 148,100, and during 1981–85, it was 104,800. In 1990 there were 357,000 Dominican-born people living in the United States, mostly along the eastern seaboard. This census total may have been an undercount, for estimates of the Dominican population in the United States ranged as high as 1,000,000, including 200,000 in Puerto Rico. The total of remittances in 2001 was \$1,982,000, or 9.3% of GDP. By the end of 2004, 99 Dominicans had applied to Canada for asylum.

The net migration rate estimated in 2005 was -3.2 migrants per 1,000 population, almost equivalent to the rate of -3.03 migrants per 1,000 population in 1999.

8 ETHNIC GROUPS

Ethnic divisions have been estimated at 16% European, 11% African, and 73% mixed. Descendants of early Spanish settlers and of black slaves from West Africa constitute the two main racial strains.

9 LANGUAGES

Spanish is the official language. Some English is spoken in the capital, and a Creole dialect is used along the Haitian border.

10 RELIGIONS

According to a 1997 population survey, professing Roman Catholics represented an estimated 68.1% of the population and Protestants, including Baptists, Jehovah's Witnesses, Methodists, Mormons, Seventh-Day Adventists, and others accounted for another 11%. However, the Catholic Church has claimed that their membership accounts for about 87% of the population and Evangelical Christians have claimed up to 25% of the population as members. As many as 20% of the population claims no religious affiliation whatsoever. It is believed that some Catholics may practice a combination of Catholicism and tradition Afro-Caribbean beliefs and customs. Other religions include Judaism, Islam, and Buddhism.

Religious freedom is protected by law, and there is no state religion. However, the Roman Catholic Church, which signed a con-



LOCATION: 17°36'22" to 19°56'9" N; 68°19'24" to 72°0'48" W. BOUNDARY LENGTHS: Total coastline, 1,288 kilometers (799 miles); Haiti, 275 kilometers (170 miles). TERRITORIAL SEA LIMIT: 6 miles.

cordat with the government in 1954, is extended special privileges not granted to other religions. Religious groups are required to register with the government for legal tax-exempt status. Roman Catholic marriages are the only religious marriages that are automatically recognized by the state. Civil unions are required for other faiths.

11 TRANSPORTATION

The national highway system is the dominant means of inland public transportation. Three main highways emanate from Santo Domingo: the Carretera Sánchez (connecting with Elias Piña on the Haitian border), the Carretera Mella (to Higüey in the extreme southeast), and the Carretera Duarte (to Monte Cristi on the northwest coast). In 2002 there were 12,600 km (7,830 mi) of roadways, of which 6,224 km (3,868 mi) were paved. In 2003, a total of 171,200 passenger cars and 207,000 commercial vehicles were licensed.

In 2004, the Dominican Republic had 1,743 km (1,084 mi) of standard and narrow gauge railroad. Of that total, 1,226 km (763

mi) were operated by sugar companies, and consisted of varying types of narrow gauge track. In that same year, there were 375 km (233 mi) of standard gauge track in operation, and another 142 km (88 mi) of narrow gauge railroad not affiliated with the sugar companies operated that year.

The Santo Domingo, Andrés, and Haina harbors, all in the Santo Domingo area, handle the vast majority of imports. Other large ports include Puerto Plata in the northwest; La Romana, Boca Chica, and San Pedro de Macoris in the southeast; and Barahona in the southwest. The Dominican merchant fleet had three cargo ship of 1,000 GRT or over, totaling 11,230 GRT in 2005.

In 2004, there were an estimated 31 airports, 13 of which had paved runways as of 2005. Dominicana de Aviación provides international service from Las Americas International Airport at Punta Caucedo, 29 km (18 mi) east of Santo Domingo. Cargo and mail service to the US mainland, Puerto Rico, and the US Virgin Islands is provided by Aerolíneas Argo. Alas del Caribe provides domestic passenger service, as does Aerovías Quisqueyanas. There are also six other international airports at Puerto Plata, Punt

Cana, Santiago, Samana, Barahona, a new airport in Santo Domingo, and La Romana. In 1997 (the latest year for which data is available), about 34,000 passengers were carried on regularly scheduled domestic and international flights.

¹²HISTORY

The eastern part of the island of Hispaniola was originally known as Quisqueya, meaning “mother of all lands.” It was first settled by the nomadic and warlike Carib Amerindians and later by the agricultural and peace-loving Arawaks. Christopher Columbus made the European discovery of the island and claimed it for Spain in 1492. Santo Domingo, the oldest city in the New World, was founded four years later by Bartholomew Columbus, the explorer’s brother. By 1517, Hispaniola had become the springboard for Spanish conquest of the Caribbean and of the American mainland. As with other Caribbean islands, the Amerindian population dwindled, and was replaced by African slaves.

The importance of Hispaniola waned during the 16th and 17th centuries. In 1697, by the Treaty of Ryswick, Spain was forced to recognize French dominion over the western third of the island, an area now known as Haiti. In 1795, under the Treaty of Basel, Spain ceded to France the eastern two-thirds of the island, which by then had been renamed Santo Domingo. The island then came under the rule of the rebellious ex-slave Toussaint L’Ouverture. After Haiti received independence in 1804, the French retained the rest of the island until 1809. After a brief attempt at independence, the Dominicans fell under the control of Spain, which regained the eastern section of the island under the Treaty of Paris (1814).

In 1821, the Dominicans, led by José Muñoz de Cáceres, proclaimed their independence. The Dominicans sought to become part of Simón Bolívar’s newly independent Republic of Gran Colombia, but in 1822, the Haitians conquered the entire island. For 22 years, the Haitians ruled with an iron fist. A civil war in 1843 gave the Dominicans the opportunity to try again for independence, and, under Juan Pablo Duarte, they established the Dominican Republic as an independent state.

Between 1844 and 1916, the new republic alternated among personalist leaders, who sought foreign protection against Haiti. The most prominent among these were Pedro Santana and Buenaventura Baez, who dominated Dominican politics until 1882. Santana restored the Dominican Republic to the Spanish Empire during 1861–65. Baez in 1869 negotiated a treaty providing for US annexation, but the US Senate refused to ratify it.

After a 17-year dictatorship, the Dominican Republic entered a turbulent period characterized by general political instability and increasing debt to US interests. In 1905, US president Theodore Roosevelt appointed an American receiver of Dominican customs, and a subsequent treaty provided for repayment of the debt. This first application of the “Roosevelt Corollary” to the Monroe Doctrine was followed in 1916 by the US establishment of a military government under Marine Capt. H. S. Knapp. It ruled the Dominican Republic until 12 July 1924, when sovereignty was restored. US customs control continued until 1941.

In 1930, Rafael Leonidas Trujillo Molina was elected president. For the next 31 years, he ruled the Dominican Republic either directly or indirectly. Trujillo had himself reelected in 1934, 1940, and 1947, then arranged for his brother to become president in

1952 and 1957, and then installed Joaquín Balaguer in 1960. Under Trujillo, the Dominican Republic achieved some economic progress, removing its foreign debt. But Trujillo brutally suppressed fundamental human rights. Only one party was allowed, the press was totally controlled, and constant purges weeded out all but his most servile supporters. His most dubious achievements were a result of his own megalomania. In the capital city of Santo Domingo, which he renamed Ciudad Trujillo (Trujillo City), there were 1,870 monuments to Trujillo, who gave himself the title “The Benefactor of the Fatherland.” He also amassed a personal fortune estimated at \$900–\$1,500 million.

Trujillo was assassinated on 30 May 1961. In July 1961, the Balaguer cabinet resigned as street rioting broke out. The opposition agreed to an interim coalition government under Balaguer that September, with Rafael Trujillo, Jr., as head of the armed forces. In November, the United States sent warships just outside Dominican waters to prevent the armed forces chief and his two uncles from a staging a rumored coup. They went into exile immediately.

After rule by an interim Council of State, Juan Bosch of the Dominican Revolutionary Party was elected president in 1962. He assumed office in February 1963 but remained in power for only seven months, during which time very little of the promised social and economic reform could be accomplished. The military, which overthrew Bosch in September 1963, proceeded to install a three-man civilian junta, called the Triumvirate, which was in turn overthrown by the supporters of Juan Bosch in April 1965. With anarchy threatening—and, according to US allegations, Communists deeply involved in the pro-Bosch insurrection—the United States sent 23,000 troops into the Dominican Republic, ostensibly to protect the lives of US citizens. Within weeks, the OAS had set up an Inter-America Peace Force in the country. This controversial set of arrangements eventually brought order to the country. After the 1966 elections, all US and OAS troops left the island.

In the general elections of June 1966, Balaguer, returned from exile, campaigned vigorously throughout the country, while Bosch, his chief opponent, remained home, apparently fearful of an attempt on his life. Balaguer won with 57.2% of the vote. Four years later, Balaguer ran essentially without opposition, as most parties withdrew from the campaign in response to rising political violence.

Events in 1974 followed a similar pattern. Two days before the election, an opposition coalition announced their withdrawal from the contest. The opposition’s principal candidate, Silvestre Antonio Guzmán Fernández of the PRD (Dominican Revolutionary Party), called for general abstention from the election, charging Balaguer with fraudulent practices. Only one candidate—Adm. Luis Homero Lajara Burgos, a former chief of police under Trujillo—remained in the race. The results gave Balaguer an overwhelming majority, with 924,779 votes to Lajara Burgos’s 105,320.

Following the 1974 elections, the opposition coalition, an amalgam of widely divergent political elements, decided to disperse in anticipation of the 1978 campaign. Despite their lack of representation in the legislature and in municipal councils as a result of the election boycott, the major opposition parties, aided by a large degree of press freedom, remained active and vocal. In the 1978 elections, the main presidential candidates were Balaguer and the

PRD's Guzmán. Guzmán won with a 158,000-vote plurality, and his party gained a majority in the Chamber of Deputies. Numerous other parties, including the newly legalized Dominican Communist Party, participated in the elections. A right-wing military attempt to prevent Guzmán from assuming office was foiled, partly because of US government pressure.

During Guzmán's term, political prisoners were freed, press censorship was practically abolished, and political parties engaged in open activity. At the same time, however, there were mounting economic difficulties, aggravated by two hurricanes in 1979, which together left 1,300 people dead, 500 missing, and 100,000 homeless. In May 1982, a left-wing PRD senator, Salvador Jorge Blanco, was elected president. On 4 July, six weeks before his term was due to expire, Guzmán committed suicide, after several close associates were accused of fraud. Power was transferred peacefully to Vice President Jacobo Majluta Azar, and in August 1982, to Blanco.

Whatever plans President Blanco may have had were soon overtaken by the country's burgeoning foreign debt. Blanco turned to the IMF for assistance. The resultant restrictive economic policy raised production costs and reduced industrial output. A cut in the US sugar quota, as well as a generally low world price for the commodity, was a further blow to the economy.

In presidential elections held 16 May 1986, former president Joaquín Balaguer was returned to office with 857,942 votes (41.6%). Jacob Majluta Azar of the PRD took 814,716 votes (39.5%), and Juan Bosch of the PLD (Dominican Liberation Party) won 379,269 votes (18.4%). Balaguer embarked on an ambitious program of public works that created employment for nearly 100,000 people. But by 1988, inflation was on the rise, and the peso had become unstable. Nationwide strikes in 1989 suggested that the country was headed for further crisis.

In 1990, Balaguer stood for reelection, and won a narrow, hotly contested victory amid claims of fraud by the opposition. Officially, Balaguer received 35.7% of the vote to Juan Bosch's 34.4%. Balaguer was inaugurated, but immediately created controversy by suggesting a set of IMF-style liberal reforms. This brought national strikes in August and November of 1990, and demands for resignation. In the Chamber of Deputies, where Bosch's PLD held a plurality, Balaguer faced serious opposition.

The results of a large portion of the May 1994 presidential vote, won once again by Balaguer, were voided by the electoral board, and Balaguer agreed to shorten his term to two years, scheduling a new election for May 1996. In that contest, no candidate won a majority, but a second round of voting on 30 June produced a victory for Leonel Fernández of the PLD, who took office in August.

Although economic reforms introduced in late 1994 helped improve growth and lower inflation, unemployment remained high, spurring substantial emigration to the United States and Puerto Rico. In March and June 1995, riots occurred in response to unauthorized increases in public transportation fares. During his four years in office, Fernández successfully privatized several state-owned enterprises and utilities. The economy expanded at an average of 5% annually, unemployment fell, and inflation was low. Fernández successfully fought government corruption and consolidated democratic institutions. In spite of his popularity, however, he was constitutionally prevented from seeking reelection in the polling scheduled for May 2000. PRD's Rafael Hipólito Mejía

won the May 2000 election after PLD's Danilo Medina withdrew from the runoff. Mejía had obtained 49.5% of the vote in the first round and was expected to easily defeat Medina in the runoff. Mejía took office promising to increase social spending but vowing to maintain the macroeconomic policies adopted by Fernández that helped that country become one of the fastest growing nations in Latin America in the late 1990s. In July 2002, Joaquín Balaguer died at the age of 95.

Deadly clashes between police and protestors broke out in November 2003 during demonstrations held to protest higher prices and cuts in electricity. In January 2004, further protests took place, demonstrating against the government's economic policies; five people were killed.

In May 2004, Mejía admitted defeat in presidential elections that were won by Leonel Fernández with 57.1% of the vote. That month, severe flooding took place in the southwest and in parts of neighboring Haiti; more than 2,000 people died or disappeared. The next presidential election was scheduled for May 2008.

13 GOVERNMENT

The constitution of 28 November 1966 established a unitary republic consisting of 26 (later increased to 31) provinces and a single National District. The government is effectively controlled by the chief executive, a president directly elected for a four-year term and eligible for reelection. Cabinet ministers (called secretaries of state) are appointed by the president, who must be at least 30 years of age.

The National Congress consists of a Senate, composed of 32 members, and a 150-member Chamber of Deputies, apportioned on the basis of population. Members of the two houses are elected for four-year terms and must be at least 25 years of age. Bills for legislative action may be introduced by the president, by the National Congress, or by the Supreme Court. Voting is by universal suffrage of citizens 18 years or older, although younger citizens, if married, may also vote. Members of the armed forces and national police may not vote. Presidential and congressional elections are not held simultaneously.

14 POLITICAL PARTIES

Although the Dominican Republic has three major parties and more than ten minor parties, two men, Joaquín Balaguer Ricardo and Juan Bosch Gavino, dominated its political system for decades, but starting in 1996 a new cadre of politicians emerged.

Joaquín Balaguer, a former president under Trujillo, was elected to the presidency six times, the last time in 1994. He died in 2002. He founded the Social Christian Reform Party (Partido Reformista Social Cristiano—PRSC) while living in exile in New York in 1963. The party is tied to the Christian Democratic political movement, and relies principally on peasant and middle-class support. As of 2005, the PRSD held 1 of 32 Senate seats and 36 of 150 seats in the Chamber of Deputies.

Juan Bosch, who held the presidency for seven months in 1963, remained a major voice in Dominican politics into the 1990s. Bosch founded the Dominican Revolutionary Party (Partido Revolucionario Dominicano—PRD) in 1939. After withdrawing from the PRD, Bosch created his own party, the Dominican Liberation Party (Partido de la Liberación Dominicana—PLD) in 1973. In the second round of voting in the 1996 presidential elections, the

PLD's Leonel Fernández was elected president with just over 51% of the vote. In May 2004, Fernández defeated incumbent Rafael Hipólito Mejía and was returned to office as president with 57.1% of the vote.

The PRD continued on without Bosch, and with far more success than Bosch was ever able to achieve. The PRD won the presidential elections of 1978 and 1982, although it was unable to achieve a majority in either house of congress in 1982. Headed by Vicente Sanchez Baret, the PRD has an association with Socialist International, and a "Eurosociologist" ideological thrust of moderate economic and social change. The party draws support from landless peasants and urban workers. Rafael Hipólito Mejía emerged as the PRD leader and easily won the 2000 presidential election. The PRD went on to win the 2002 parliamentary elections with 41.9% of the vote. The PRD held 29 out of the 32 seats in the Senate and also commanded a majority control in the Chamber of Deputies with 73 out of the 150 seats. The next parliamentary elections were scheduled for May 2006.

The Independent Revolutionary Party (PRI) was the vehicle for Jacobo Majluta Azar, who served as president briefly in 1982. A former PRD member, Majluta received only 7% of the vote in 1990. As of 2006 the party held no seats in the Chamber of Deputies or the Senate.

15 LOCAL GOVERNMENT

The Dominican Republic is divided into 31 provinces and a National District, encompassing Santo Domingo. The provinces are further subdivided into municipal districts and municipalities. The president appoints the provincial governors. Municipal districts must have at least 5,000 inhabitants and produce sufficient revenue to finance their own administrative agencies. The municipalities and the National District are governed by mayors and municipal councils of at least five members, elected by popular vote.

16 JUDICIAL SYSTEM

The judicial system is headed by a Supreme Court with 16 judges, which rules on constitutional questions and serves in the last instance on appeals. Supreme Court judges are appointed by the National Judicial Council (consisting of the president, the leaders of both chambers of the National Congress, the president of the Supreme Court, and an opposition or nongoverning party member). The National Judicial Council appoints the judges of the lower courts and of the special courts. All judges are required to hold a law degree.

There are 31 provincial courts, as well as one court of first instance in the National District. The judicial system also includes one judge or court of justice for each of the country's 124 municipal districts, three courts of appeal, a court of accounts, and a land tribunal. There are also justices of the peace. The death penalty was abolished in 1924. Although the constitution provides for an independent judiciary, in practice the executive branch as well as public and private entities exert pressures on the courts. The constitution guarantees public trials, and indigent defendants have a right to a court-appointed attorney at state expense. Judicial reforms were being undertaken in the early 2000s.

Military courts try military personnel charged with extrajudicial killings.

17 ARMED FORCES

Active armed forces personnel in the Dominican Republic numbered 24,500 in 2005. The Army had 15,000 active personnel and was organized into six infantry brigades, one (each) armored, special forces, mountain infantry, artillery, engineer and Presidential Guard battalions. Equipment included 12 light tanks, 28 armored personnel carriers and over 56 artillery pieces. The Air Force has 5,500 personnel, whose equipment included 6 combat capable aircraft that consisted of fighter ground attack aircraft. The Navy had 4,000 personnel. Major naval units consisted of 15 coastal defense and 4 logistics/support ships. The country's paramilitary force consisted of the 15,000 member National Police. In 2005, the armed forces were allocated \$190 million.

18 INTERNATIONAL COOPERATION

The Dominican Republic is a charter member of the UN, having joined on 24 October 1945, and participates in the ECLAC, as well as other nonregional specialized agencies. The nation is also a member of the WTO, the ACP Group, G-77, the Inter-American Development Bank, the Latin American Economic System (LAES), the OAS, the Association of Caribbean States (ACS), and the Río Group. The country has observer status in CARICOM and the Latin American Integration Association (LAIA). In 2004, the Dominican Republic, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and the United States signed the US-Central America Free Trade Agreement (CAFTA). The agreement must be ratified by all participating countries before it enters into force.

The Dominican Republic is a member of the Agency for the Prohibition of Nuclear Weapons in Latin America and the Caribbean (OPANAL) and an observer in the Nonaligned Movement. The country is a signatory of the 1947 Río Treaty, an inter-American security agreement. In environmental cooperation, the Dominican Republic is part of the Basel Convention, the Convention on Biological Diversity, CITES, the London Convention, the Kyoto Protocol, the Montréal Protocol, MARPOL, and the Nuclear Test Ban Treaty, and the UN Conventions on Climate Change and Desertification.

19 ECONOMY

Traditionally, the economy of the Dominican Republic was based primarily on agriculture, with sugar, coffee, and tobacco as the main export crops, but the services sector has become the largest employer (about 60% of the labor force), led by tourism. Between 1968 and 1974, the average annual growth of GDP was 10.5%. The improved political climate during that period stimulated public and private investment, both domestic and foreign, and the development of tourism. A sugar boom also contributed to rapid growth. During the second half of the 1970s, the growth rate slowed, in part because of rising oil prices and a weakening of the sugar market; damage from two 1979 hurricanes cost an estimated \$1 billion. The GDP declined by 2.2% in 1985, reflecting low world prices for the country's exports, declining US sugar quotas, and IMF-imposed austerity. Unemployment soared to 26%, and inflation reached 37.5% the same year. The economy recovered some-

what in 1986 and 1987, due to the government's capital spending program and an increase in foreign investment.

The Dominican Republic had one of the fastest growing economies in the world in the 1990s, owing much of its success to the adoption of sound macroeconomic policies in the early 1990s and greater opening to foreign investment. Although GDP declined in both 1990 and 1991, in 1992 real GDP increased by 7%. The high inflation prevailing in the late 1980s and early 1990s was finally tamed in 1993 as a result of an austerity program that brought the annual inflation rate from 53.9% in 1992 to only 4.6% in 1993. However, very tight monetary and fiscal policies caused the economy to decline by 1.7% in 1994. Boosted by the continuous expansion of tourism, mining, and the export processing zones, the annual average growth rate 1995–2001 was 7.7%, despite Hurricane Georges in September 1998, which left about 300 dead, hundreds of thousands homeless, and did an estimated \$1.3 billion worth of damage (8% of GDP). The rate of inflation fell from 14.3% in 1994 to 6% in 1999, but in 2000 had increased to 9%. Fiscal measures were introduced in 2001 to reduce the inflation rate in the booming economy, but this coincided with the decline in the external economy, and also became a factor in reducing the country's GDP growth rate to 2.7% in 2001, down from 7.6% in 2000 (the highest in Latin America).

In 2003, services accounted for over half of GDP (57.8%) and agriculture accounted for only 10.7%, down from about 20% in the mid-1990s. Tourism (the leading foreign exchange earner), telecommunications, and free-trade-zone manufacturing remain increasingly important industries. The Dominican Republic is among the top ten developing countries in terms of the amount of remittances received from abroad. In 2001 these totaled about \$2 billion, double the rate in the mid-1990s. The economy's other major engine of growth has been its free trade zones. In 2000, net exports from the free trade zones were \$1.7 billion, up from \$1.2 billion in 1997, whereas traditional exports had fallen to \$.97 billion from \$1 billion. Both sectors declined in 2002, and in 2003 growth turned negative in (-0.4%), mainly due to the effects of a major bank fraud and limited growth in the US economy. The Dominican Republic continued to go through difficult economic times due in large part to bank frauds discovered in 2003 in which losses totaled more than 20% of GDP. In 2004 the real growth rate was only 1.7%.

20 INCOME

The US Central Intelligence Agency (CIA) reported that in 2005 the Dominican Republic's gross domestic product (GDP) was estimated at \$58.5 billion. 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 based on current dollars. The per capita GDP was estimated at \$6,500. The annual growth rate of GDP was estimated at 4.1%. The average inflation rate in 2005 was 4.3%. It was estimated that agriculture accounted for 10.7% of GDP, industry 31.5%, and services 57.8%.

According to the World Bank, in 2003 remittances from citizens working abroad totaled \$2.325 billion or about \$266 per capita and accounted for approximately 14.1% of GDP. Foreign aid re-

ceipts amounted to \$69 million and accounted for approximately 0.5% of the gross national income (GNI).

The World Bank reports that in 2003 household consumption in Dominican Republic totaled \$11.98 billion or about \$1,371 per capita based on a GDP of \$16.5 billion, measured in current dollars rather than PPP. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the period 1990 to 2003 household consumption grew at an average annual rate of 4.1%. It was estimated that in 2002 about 25% of the population had incomes below the poverty line.

21 LABOR

The labor force in 2002 (the latest year for which data was available) consisted of about 2.6 million persons. For that same year, 15.9% were engaged in agriculture, 21.1% in industry, and 63% in services and government. Unemployment is a persistent problem, affecting an estimated 17% of the workforce in 2005. Underemployment was also widespread.

The labor code provides comprehensive protection for workers, but as of 2005, only about 8% of the Dominican workforce was unionized. Employees in nonessential public services are provided with the right to strike. The labor code also specifies steps for union registration, entering into collective bargaining pacts, and calling strikes. While it is illegal for companies to dismiss union members and organizers, enforcement has been inconsistent and there have been reports of intimidation of union organizers and members.

The standard work week is set at 44 hours with an eight hour day. The law also provides for a rest time each week of 36 uninterrupted hours. The labor code prohibits employment of children under 14. However, economic and social conditions have forced many children to work to help support their families. The minimum wage was \$119 per month in the nation's free trade zones (FTZs) and \$164 per month outside the FTZs in 2005. However, these amounts were insufficient to support a worker and a family. Occupational health standards are not enforced and working conditions, especially on sugar plantations, can be particularly harsh.

22 AGRICULTURE

With almost 33% of the total land area suitable for crop production and about 17% of the labor force engaged in farming, agriculture remains the primary occupation, accounting for 11% of GDP in 2003. Value of agricultural output grew at an average annual rate of 7.1% during 1968–73, but since 1975 the sector has been hampered by droughts (1975, 1977, and 1979), hurricanes (in 1979 and 1980), and slumping world prices and quota allocations for sugar (since 1985). In 1999, agricultural production was 0.4% higher than during 1989–91. The fertile Cibao Valley is the main agricultural center. In 2003, arable land totaled 1,546,000 hectares (3,944,000 acres).

After Cuba, the Dominican Republic is the second-largest Caribbean producer of sugarcane, the nation's most important commercial crop. The State Sugar Council (Consejo Estatal de Azúcar—CEA) operates 12 sugar mills and accounts for more than half of total production. Other large producers are the privately owned Vicini, with three mills, and Gulf and Western, whose

largest mill is at La Romana. In 2004, sugarcane production was 5.2 million tons, down from an average of 7.1 million tons during 1989–1991. Output of sugar has declined since 1982, and land is gradually being taken out of sugar production and switched to food crops. Production of raw sugar rose from 636,000 tons in 1990 to 813,000 tons in 1997 but fell to 508,000 tons in 2004/05. The Dominican Republic has the largest single allocation of the US sugar import quota.

Another leading cash crop is coffee. Part of the crop was destroyed by hurricanes in 1979 and 1980, and 1979–80 production was only 670,000 bags (40,200 tons). Although production was usually about 57,000–59,000 tons annually in the 1980s, the acreage harvested declined from 157,000 hectares (388,000 acres) in the early 1980s to 139,000 hectares (363,000 acres) by the late 1990s, indicating a greater yield per acre. Coffee production in 2004 was estimated at 45,000 tons; exports of coffee in 2004 generated \$5.8 million. Cocoa and tobacco are also grown for export. In 2004, production of cocoa beans was 45,000 tons and of tobacco, 18,000 tons. Banana production in 2004 was 480,000 tons. Production of other crops in 2004 (in thousands of tons) included rice, 640; coconuts, 181; cassava, 105; tomatoes, 154; pulses, 69; dry beans, 26; eggplants, 7; and peanuts, 3.

Under a land reform program initiated in 1962, a total of 178,602 hectares (441,333 acres) had been distributed to 36,480 farmers by the end of 1977. The government encourages fuller use of the nation's arable land through extensive land-clearing and irrigation projects and diversification of crops. Some mechanization has taken place on the large plantations, but primitive techniques are generally used. In 1973, the first stage of the Integrated Agricultural and Livestock Development Plan was initiated, calling for an investment of \$38.1 million, to be financed by the IDB. The plan was designed to provide credit and technical aid to 45,000 small farmers, improve side roads, and study the country's water resources. The second stage of the plan, in the early 1980s, included extension of farm credits, reforestation, manpower training for irrigation projects, and reorganization of the Dominican Agrarian Institute.

Agricultural exports, mostly in the form of sugar, coffee, cocoa, tobacco, and cigars generated \$646 million in 2004, or 48.4% of total exports. The government and private sector are emphasizing diversification to nontraditional agricultural crops such as fresh fruits, vegetables, and flowers.

2³ ANIMAL HUSBANDRY

In 2005, Dominican livestock included 190,000 goats and 123,000 sheep. There were also about 2.2 million head of cattle, 60% for beef and 40% for dairy. The hog population, decimated by African swine fever in the late 1970s, decreased from 400,000 in 1978 to 20,000 in 1979; by 2005, however, it had recovered to 580,000. Poultry is the main meat source because it is cheaper than beef or pork. Poultry production relies on imports of feed grain from the United States. In 2005, 185,000 tons of poultry meat were produced, along with 78,000 tons of beef and 690,000 tons of milk.

2⁴ FISHING

Although the waters surrounding the Dominican Republic abound with fish, the fishing industry is comparatively undeveloped, and

fish for local consumption are imported. In 2003, the total marine catch was 17,490 tons, down from 19,048 tons in 1994. Marlin, barracuda, kingfish, mackerel, tuna, sailfish, and tarpon are found in the Monte Cristi Bank and Samaná Bay, which also supports bonito, snapper, and American grouper. The inland catch amounted to 4,161 tons in 2003.

2⁵ FORESTRY

About 28.4% of the total land area consisted of forests and woodlands in 2000. Roundwood production in 2003 totaled 562,000 cu m (19.8 million cu ft). Virtually all the timber cut is for land clearing and fuel.

2⁶ MINING

The Dominican Republic in 2003, was a regional producer of cement, steel, ferronickel, salt and gypsum, while the production of sand and gravel, limestone and marble were produced for the domestic market. Also, modest amounts of pectolite (larimar), amber, and limestone are produced by six artisanal mining associations. While, mining activity in the Dominican Republic has been centered on gold exploration as of 2003, there was no recorded gold production since 1999, when 651 kg were produced. In that same year, the production of gold and silver were suspended. Silver output in 1999 totaled 3,140 kg. Nickel production (mine output, laterite ore) in 2003 totaled 45,400 metric tons, up from 38,859 metric tons in 2002. The only nickel producer was Falconbridge Dominicana, an 85% Canadian-owned company.

The country was one of the few sources of amber in the Western Hemisphere. Salt Mountain, a 16 km block of almost solid salt west of Barahona, was the world's largest known salt deposit. There were also large deposits of gypsum near Salt Mountain, making the Dominican Republic one of three sources of gypsum in the Caribbean. In 2003, the country produced 230,632 metric tons of gypsum and 2,906,699 metric tons of hydraulic cement. Limestone, marble, and sand and gravel were also produced in 2003. Substantial lignite deposits were found in the early 1980s.

Production of bauxite, traditionally the principal mining product, ceased in 1992. The Aluminum Co. of America (Alcoa) mined bauxite between 1959 and 1983, when it turned its concession over to the state. Production in 1991 dropped 92% from the previous year, as a presidential decree suspended mining operations at the largest mine, in response to increasing fears of deforestation, although reforestation of mined areas was in progress.

2⁷ ENERGY AND POWER

The Dominican Republic's energy and power sector is marked by a lack of oil, natural gas and coal. Therefore, the country is heavily dependent upon imports to satisfy its fossil fuel needs. Although the country does have a small refining capacity, imports far outweigh production.

In the electrical power sector, the Dominican Republic's capacity for 2002 has been placed at 2.968 billion kW, with the bulk, 2.486 billion kW generated by fossil fuels. Hydroelectric generating capacity takes up the remaining portion at 0.482 million kW. Electric power production in 2002 totaled 10.863 billion kWh, of which: 9.957 kWh came from conventional thermal sources; 0.869 kWh came from hydropower sources; and 0.037 billion kWh from

geothermal/other sources. Electric power consumption in 2002 stood at 10.103 billion kWh. The Dominican Electric Corp. (Corporación Dominicana de Electricidad) is responsible for all public production, sale, and distribution of energy. However, electrical power supply has been erratic. Power blackouts are frequent and can last up to 20 hours per day. Although the government has taken steps to remedy the power shortage, as of 2006, the reliability of the power supply remained a problem.

The Tavera Dam, with a capacity of 60,000 kW, was completed in 1972. The Sabana Yegua hydroelectric and irrigation complex, begun in 1974, opened in 1980. The Habo I coal-fired plant at Haina was inaugurated in 1984.

In 2002, crude oil imports totaled an average 39,500 barrels per day, with total oil product imports at 130,540 barrels per day. Distillate residual and gasoline imports were the top three refined products imported in that year at 29,880 barrels per day, 25,090 barrels per day and 18,670 barrels per day respectively. Consumption of refined oil products in 2002 stood at 126,150 barrels per day.

Under the terms of the San José Pact, the Dominican Republic buys oil at discount prices from Venezuela and Mexico. It imports liquefied natural gas (LNG) from Trinidad and Tobago. An LNG terminal that is part of a \$400 million project built by AES Andres became operational at the beginning of 2003, but the associated 300 MW power plant was not expected to be completed until the summer of 2003.

Imports of coal in 2002 came to 257,000 tons of hard coal.

28 INDUSTRY

Including the processing of sugar, food processing represents more than half of the total industrial production. Dominican agriculture was hit hard during the late 1990s by droughts in 1996 and 1997, and a hurricane in 1998, but little effect was seen on the manufacturing sector. The construction sector realized high growth after the arrival of Hurricane Georges in 1998, including in housing, commercial construction, and public works projects. Small plants produce powdered and condensed milk, ceramics, aluminum furniture and fittings, concrete blocks, pipes and tiles, air conditioners, barbed wire, and other products.

Since 1990, free assembly zones have contributed more than 3.5% of the GDP, although growth in the free trade zones decreased in 2001. The most active sectors in this industry were related to the processing of clothes and textiles, tobacco, electronics, and shoes. The Dominican Republic was the seventh-largest supplier of textiles to the United States after Mexico, Hong Kong, Taiwan, Indonesia, and South Korea at the end of 2001. However, lack of demand in the United States for textiles resulted in layoffs in that sector and domestic manufacturing experienced no growth in 2001. The Dominican Republic has two oil refineries, with a total production capacity in 2002 of 49,000 barrels per day.

Industry represents a 31% of GDP, mainly focused on sugar refining, pharmaceuticals, cement, light manufacturing, and construction.

29 SCIENCE AND TECHNOLOGY

The Dominican Medical Association and the Dominican Sugar Institute have their headquarters in Santo Domingo. Ten colleges

and universities offer degrees in engineering, basic sciences, medicine, and agriculture. In 1987–97, science and engineering students accounted for 35% of college and university enrollments.

30 DOMESTIC TRADE

Santo Domingo is the principal port and commercial center, while Santiago de los Caballeros is the market and distribution center for the Cibao Valley. Most importing and exporting firms are located in Santo Domingo. Importers ordinarily represent numerous foreign manufacturers.

Department stores and supermarkets are increasing in number, but most retail stores are specialty shops. Groceries, meat, and fish are sold in most cities through a large central market, by neighborhood stores, and by street vendors. Retail credit is granted by larger stores and automobile dealers.

The domestic economy has shifted to rely on the developing tourism, which accounts for about \$1.5 billion in annual earnings. Remittances from Dominicans living abroad are estimated to be about \$3 billion per year.

Much of the population still lives in rural areas—many as impoverished peasants or migrant workers, others as independent small-scale landowners, and a small minority as elite landowners. Moreover, rural life in the Cibao Valley generally diverges from that of the southeastern sugar plantations and other areas, and city life varies from the frenetic pace of Santo Domingo to the more relaxed, traditional character of Santiago and smaller towns.

31 FOREIGN TRADE

Numerous free trade zones make the Dominican Republic attractive to export-import businesses. After the passage of the 299 Law on 23 April 1969, the free zone sector started to develop in the Dominican Republic. The first to be installed was La Romana Free Zone, followed by San Pedro de Macorís Free Zone, which was created by law in 1971 and built in 1972. However, some FTZ businesses moved to Mexico after the North American Free Trade Agreement (NAFTA) between the United States, Canada, and Mexico, went into effect.

Clothing production brings in the majority of export revenues (32%), but the commodity market also supports the export of pig iron (7.8%), medical instruments (7.7%), sugar (5.6%), and electrical parts (5.1%). Dominican Republic imports include food, petroleum, cotton and fabrics, chemicals, and pharmaceuticals.

The Dominican Republic's most important trading partner is the United States (87% of export revenues); other markets include Canada, Western Europe, and Japan. The country exports free-trade-zone manufactured products (garments, footwear, etc.), nickel, sugar, coffee, cacao, and tobacco, and it imports foodstuffs, petroleum, industrial raw materials, and capital goods. On 5 August 2004, the Dominican Republic signed a Free Trade Agreement with the United States and five Central American countries to integrate into the US-Central American Free Trade Agreement.

32 BALANCE OF PAYMENTS

For more than 20 years prior to 1961, the Dominican Republic had no internal or external debt. In 1961, however, about US\$70 million was taken out of the country by the Trujillo family and others. Political instability induced further net outflows of private capital throughout the 1960s. The nation's current accounts posi-

Balance of Payments – Dominican Republic (2003)

(In millions of US dollars)

Current Account		867.1
Balance on goods	-2,444.0	
Imports	-7,883.4	
Exports	5,439.4	
Balance on services	2,219.2	
Balance on income	-1,243.6	
Current transfers	2,335.5	
Capital Account		...
Financial Account		-853.4
Direct investment abroad	...	
Direct investment in Dominican Republic	309.9	
Portfolio investment assets	-20.1	
Portfolio investment liabilities	552.6	
Financial derivatives	...	
Other investment assets	-1,535.2	
Other investment liabilities	-160.6	
Net Errors and Omissions		-468.1
Reserves and Related Items		454.4

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

tion worsened during the 1970s, as trade deficits grew. Declines in export earnings in the 1980s brought shortages of foreign exchange. Large increases in imports and a sharp drop in commodity exports pushed the merchandise trade deficit to over \$1.6 billion by the end of 1992, and \$1.4 billion in 1998. Tourism (now the country's largest foreign exchange earner), expatriate remittances, and earnings from the free trade zones help to finance the trade deficit. Foreign direct investment as of the early 2000s was likely to remain high.

In 2004 the purchasing power parity of the Dominican Republic's exports was \$5.2 billion while imports totaled \$8.9, resulting in a trade deficit of -\$3.7 million.

3³ BANKING AND SECURITIES

The Central Bank of the Dominican Republic (Banco Central de la República Dominicana—BCRD) is the sole bank of issue. The state-owned Banco de Reservas, established in 1941, is the largest commercial bank in the country and acts as the fiscal agent and depository for the government. The Agricultural and the Industrial Credit Bank promotes the development of agriculture as well as industry by granting medium-term and long-term credit. The National Housing Bank (Banco Nacional de Vivienda) is a primary investor in low-cost housing. Other commercial banks include the Bank of Nova Scotia, Citibank, Banco Nacional de Credito, Banco Intercontinental (BANINTER), Banco Mercantil, Banco Osaka, Banco Global, Banco Hipotecario Dominicano (BHD), Banco Domingo del Progreso, Banco Popular Dominicano, and Banco Santa Cruz.

At the end of January 1996, the central bank tightened reserve requirements for lending based on new deposits and imposed limits on new lending to the commercial sector. The prime lending rate, which had fallen from 24% in December 1995 to 17% in 1996, was 18% in 1999. The exchange rate was devalued 9% in 1998, and continued to devalue through that year, but stabilized in

1999. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$2.4 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. The money market rate, the rate at which financial institutions lend to one another in the short term, was 13.47%.

Securities are traded on the Santo Domingo Securities Exchange, founded in 1991.

3⁴ INSURANCE

Insurance firms are government-supervised and are required to furnish a bond to guarantee their obligations. Net premiums on life insurance are taxable, and the law requires that a certain proportion of the premiums collected must be invested locally. Workers' compensation and third-party automobile liability are compulsory insurance. The insurance market is regulated by the Superintendent of Insurance of the nation. In relation to the North American and European markets, the Dominican insurance industry has very low penetration and was among the lowest in Latin America, the result of relatively low per capita income and general lack of insurance awareness. In 2003, the value of all direct premiums written totaled \$400 million, with nonlife premiums accounting for \$368 million. Seguros Popular was the country's top nonlife and life insurer in 2003, with gross nonlife (including personal accident) and life insurance premiums written, totaling \$98.2 million and \$8.3 million, respectively.

3⁵ PUBLIC FINANCE

Between 1968 and 1975, dependence on foreign loans and grants to finance the budget was substantially decreased, and by 1975 tax revenues amounted to about 12% of the GNP. In the late 1970s, this trend was reversed, with rising expenditures and increased assistance from abroad. Legislation was passed in 1997 to allow the privatization of state-owned enterprises, including public utilities,

Public Finance – Dominican Republic (2002)

(In millions of pesos, central government figures)

Revenue and Grants	70,158	100.0%
Tax revenue	63,101	89.9%
Social contributions	2,974	4.2%
Grants	540	0.8%
Other revenue	3,544	5.1%
Expenditures	70,874	96.2%
General public services	9,911	14.0%
Defense	4,264	6.0%
Public order and safety	3,167	4.5%
Economic affairs	16,676	23.5%
Environmental protection	471	0.7%
Housing and community amenities	5,928	8.4%
Health	9,161	12.9%
Recreational, culture, and religion	...	...
Education	11,889	16.8%
Social protection	6,690	9.4%

(...) data not available or not significant.

SOURCE: *Government Finance Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

the country's largest bank, an insurance company, and a number of factories. The government receives almost one-third of its revenues from taxes on imports, but the increasing use of the free trade zones diminishes indirect tax returns.

The US Central Intelligence Agency (CIA) estimated that in 2005 the Dominican Republic's central government took in revenues of approximately \$5.3 billion and had expenditures of \$5.4 billion. Revenues minus expenditures totaled approximately -\$163 million. Public debt in 2005 amounted to 51.4% of GDP. Total external debt was \$7.907 billion.

The International Monetary Fund (IMF) reported that in 2002, the most recent year for which it had data, central government revenues were RD\$70.158 billion and expenditures were RD\$70.874 billion. The value of revenues in US dollars was US\$3.770 billion and expenditures US\$3.637 billion, based on a market exchange rate for 2002 of US\$1 = RD\$18.610 as reported by the IMF. Government outlays by function were as follows: general public services, 14.0%; defense, 6.0%; public order and safety, 4.5%; economic affairs, 23.5%; environmental protection, 0.7%; housing and community amenities, 8.4%; health, 12.9%; education, 16.8%; and social protection, 9.4%.

36 TAXATION

Personal income tax rates in the Dominican Republic in 2002 were 15–25%. The personal exemption level was equal to 2.3 times the country's average income and the threshold for the highest income tax bracket was 5.8 times the average income (in contrast to 1985 when the highest bracket was 73% and the threshold was 413.5 times the average income). Since January 1995 business income has been taxed at a flat rate of 25%. The main indirect tax is the Dominican Republic's value-added tax (VAT) introduced in January 1983 with a standard rate of 16% as of 2005. Excise taxes are imposed on alcoholic beverages (25–45%), tobacco products (25–50%), nonalcoholic beverages, and petroleum products. There is also a technical education tax.

37 CUSTOMS AND DUTIES

The customs tariff is primarily a revenue-raising instrument, although it is occasionally used to protect local industry. In September 1990, a government decree simplified the tariff schedule to six categories, with seven tariff rates, ranging from 5–35%.

As of 2001, the maximum basic tariff rate stood at 20%, but there were also levied consumption taxes that generally range from 15–60% on “nonessential” goods. However, nonagricultural luxury goods such as perfumes, automobiles and jewelry are subject to additional consumption taxes that range from 15–80%, which are calculated on the CIF (cost, insurance, freight) price. There is also a 5% foreign exchange surcharge associated with import transactions. A 16% industrialized goods and services tax is also levied on processed agricultural and nonagricultural goods based upon the CIF price plus the amount paid for taxes and duties.

There are no free ports, but at least 19 industrial free zones have been established at locations including La Romana, San Pedro de Macoris, Santiago de los Caballeros, Baní, and Puerto Plata.

In 1998, the Dominican Republic helped to establish the Central American–Dominican Republic Free Trade Area (CADRFTA). The country also has an agreement with CARICOM and Western Hemisphere governments for a free trade area by 2005.

38 FOREIGN INVESTMENT

In August 1996, the Dominican congress passed the Multilateral Investment Guarantee Agreement (MIGA) and in September 1996, President Leonel Fernández signed the accord. The program was designed to encourage the flow of foreign private investment by mitigating political risks associated with a project. It also provides guarantees to foreign investors against the risk of transfer restriction, expropriation, and war and civil disturbance in the host country. In 1997, the government established the Office for Investment Promotion (OPI).

In 1998, foreign direct investment (FDI) inflows rose to nearly \$700 million, up from \$421 million in 1997 and then peaked at a record \$1.3 billion in 1999. For 2000 and 2001, average yearly FDI inflow was a little over \$1 billion. At the end of 2000, total FDI stocks were an estimated \$5.2 billion, up from \$2.9 billion at the end of 1998. In 1998, the tourist sector was the destination of 44.5% of FDI inflows, but in 1999, tourism accounted for only 20% while foreign investments in electricity became the single-largest destination for inward FDI, attracting 47.2%. In 2000, the tourist sector was the destination of 7.7% of FDI inflows, investments in electricity (29.5%), telecommunications (28.6%), and trade (16%) all ahead of it.

In 2000, the leading source of FDI was the United States (21%); other major sources in 2000 were Spain (20%), Canada (14%), and France (10%). Major foreign investors include GTE and Bank of Nova Scotia of Canada; Shell of Holland/England; and Central Romana, Philip Morris, Citibank, Esso, Texaco, and Colgate Palmolive of the United States.

The International Monetary Fund reported that foreign direct investment is permitted in all sectors except the disposal and storage of toxic, hazardous, or radioactive waste; activities that affect public health or the environment; and activities related to defense and security. Furthermore, it reported that both residents and nonresidents may hold foreign exchange accounts. Payments and transfers are subject to documentation requirements. Some capital transactions are subject to approval, documentation, or reporting requirements.

Foreign direct investment (FDI) was \$309 million in 2003; it was projected to be about \$100 million for 2004, much of it directed at the tourism sector, free trade zones, and telecommunication sector. The decision to privatize or “capitalize” ailing state enterprises (electricity, airport management, sugar) has attracted substantial foreign capital to these sectors.

39 ECONOMIC DEVELOPMENT

Caribbean Basin Initiative (CBI) and Generalized Systems of Preferences—government programs that allow the import of raw materials, equipment, and goods for re-export duty-free—benefit the economy. Tax exempt status for up to 20 years is also available. Duty-free access to the European common market was granted by joining the Lomé Convention in 1989, which also provides inexpensive financing for economic development projects. The addition of free trade zones greatly improved the level of industry in the country, but the NAFTA agreement transplanted some manufacturers to Mexico.

The 1998 hurricane caused at least \$1.2 billion in damage; analysts estimated that the Dominican Republic's emergency aid

would amount to 25% of its annual budget. The United States offered \$47 million, and the European Union (EU) offered \$50 million. Foreign aid may have successfully saved the small economy, and even improved it in 1999. Still, the state has a number of parastatals to privatize, and the fairly strict tariff regime has driven most investment capital into the free trade zones.

Rising foreign direct investment, particularly in the electricity, telecommunications, tourism, and free-trade zone sectors drove the average annual gross domestic product (GDP) growth rate from 2.25% in the early 1990s to 7.75% in the second half of the decade. Economic growth fell to 2.7% in 2001, however, in part due to the global economic downturn, and to the 11 September 2001 terrorist attacks on the United States. The unemployment rate rose that year, yet the inflation rate was reduced by half. The government maintained a strict fiscal policy, and tightened monetary policy in early 2002. There was a need for further social spending and investments in infrastructure, however.

Growth turned negative in 2003 with reduced tourism, a major bank fraud, and limited growth in the US economy (the source of about 85% of export revenues), but recovered in 2004 and 2005. Resumption of a badly needed IMF loan, slowed due to government repurchase of electrical power plants, was basic to the restoration of social and economic stability.

As of 2005, the Dominican Republic was a country on the mend following the 2003 banking scandal under former President Hipólito Mejía, when inflation spiked to 63% and GDP contracted by 0.4%. Since then, President Leonel Fernández has improved banking supervision, cut government spending, and introduced tax reforms. His administration passed tax reform and arranged a \$600 million IMF standby arrangement in March 2005 to ease the country's fiscal situation. Although the economy continued to grow at a respectable rate, inflation and unemployment remained the two biggest challenges. Other challenges include the continuous flow of undocumented Haitians seeking refuge and an inefficient legal system in which a lack of resources and personnel keeps rule-of-law reforms from expediting judicial processes. Additionally, a deteriorated electrical distribution system, partly sustained by subsidies, was subject to frequent outages that hurt industry and tourism. Finally, the end of global quotas on apparel exports might allow China to increase its share of sales to the United States, cutting into exports from the Dominican Republic. The DR-CAFTA agreement could help the Dominican Republic to overcome such changes in global markets, but increases in the competitiveness of the economy are required.

40 SOCIAL DEVELOPMENT

A 2001 law created a three-part social security program to be implemented in stages until 2006. Individual accounts provide coverage for public and private sector workers, including Dominican citizens living abroad. The funding for old age, disability and survivorship programs comes from contributions from the insured and the government, with the bulk of responsibility on the employer. There is universal coverage for basic health care and pediatrics. Employers cover the total cost of workers' compensation. Family allowances are limited to unemployed single mothers with young children.

Women continue to have lower economic and social status than men. They are often paid less for similar work and occupy few top

leadership positions. Employers avoid hiring pregnant women, and some administer pregnancy tests to job applicants. Divorce is easily obtainable by either spouse and women can own property in their own name. Domestic violence and sexual harassment are common. The first shelter for battered women opened in 2004. Rape is a serious and grossly underreported problem.

Haitian immigrants, many of whom are low paid agricultural workers, face considerable discrimination. An estimated half million live under harsh conditions in special camps for sugarcane workers. Reports of mistreatment of Haitian migrant workers continue. Documented human rights violations include police brutality, arbitrary detention, and mistreatment of suspects in custody.

41 HEALTH

In 2005, average life expectancy was 71.44 years; in the same year the infant mortality rate was 29.37 per 1,000 live births. The overall mortality was estimated at 4.7 per 1,000 people. Approximately 64% of women with partners (ages 15 to 49) used contraception.

Modern aqueducts, drainage systems, and garbage disposal plants have been constructed in the principal cities. The National Water Supply and Sewerage Institute was established in 1962 and the National Rural Water Service was formed in 1964. In 2000, an estimated 79% of the population had access to safe water, compared with 37% in 1970, and 71% had adequate sanitation. In 2000, however, approximately 11% of children under five years of age were considered to be malnourished and as of 1999, 14% of all births were low birth weight. As access to health care has improved, so has the under-5 mortality rate, which in 1996 was 56; in 1980 it was 94. In 1999, there were 135 cases of tuberculosis per 100,000 people.

The country immunizes over 80% of children up to one year of age against tuberculosis, diphtheria, pertussis, and tetanus, and polio. Major causes of death between 1990 and 1994 were: communicable diseases (27 per 100,000), malignant neoplasms (28 per 100,000), and injuries (30 per 100,000). As of 1999 total health care expenditure was estimated at 4.8% of GDP. Approximately 80% of the population has access to health care services. As of 2004, there were an estimated 188 physicians, 184 nurses, and 84 dentists per 100,000 people. The HIV/AIDS prevalence was 1.70 per 100 adults in 2003. As of 2004, there were approximately 88,000 people living with HIV/AIDS in the country. There were an estimated 7,900 deaths from AIDS in 2003.

42 HOUSING

Rapid population growth and migration to urban areas have combined to create an increasingly serious housing shortage. Destructive hurricanes have not helped the situation either. The National Housing Institute and the National Housing Bank, both established in 1962, have been responsible for a great deal of construction, including about 10,000 homes during the period 1966–72. In the period 1975–78, construction activity slowed down, but a 1979 hurricane prompted a construction boom—not, however, to create new housing but to replace units that had been destroyed by the storms. The Guzmán government promoted the building of low-cost housing at a rate of about 6,000 units a year. President Jorge Blanco pledged in 1982 that 25,000 low-cost houses would be built annually during his administration and President

Balaguer, after he returned to office in 1986, also built low-cost housing, though at a far slower pace than announced.

Hurricane Georges in 1998 damaged about 170,000 homes or about 10% of the nation's entire housing stock. About 49,000 of these homes were completely destroyed. With assistance from foreign programs such as USAID, the government was able to complete 2,250 new homes and make repairs and utility upgrades to over 1,000 others.

At the 2002 census, there were about 2,445,315 dwellings in the country; this figure does not include institutionalized dwelling spaces. Most housing units are detached houses; accounting for 80% of all housing in the census. Concrete blocks, cement, and wood are the most frequently used construction materials for dwellings.

43 EDUCATION

The foremost educational objective in recent years has been the enrollment of the entire population in the 5–14 age range. Nine years of education is compulsory. Primary education lasts for six years. Students have two choices for secondary education. The traditional system covers a six-year course of study with two years of general education followed by a four-year track of academic, technical, vocational, or teacher-training studies. The reform system also covers six years, with four years of science based studies and two years of specialization.

In 2001, about 35% of children between the ages of three and five were enrolled in some type of preschool program. Primary school enrollment in 2003 was estimated at about 96% of age-eligible students. The same year, secondary school enrollment was about 36% of age-eligible students (30% for boys and 41% for girls). It is estimated that about 93% of all students complete their primary education. The student-to-teacher ratio for primary school was at about 39:1 in 2003; the ratio for secondary school was about 31:1.

The state-run Autonomous University of Santo Domingo, founded in 1538 and the oldest in the hemisphere, has suffered from a lack of resources. There are four private universities, one technological institute, four colleges, and seven schools of art and music. In 2003, about 34% of the tertiary age population were enrolled in some type of higher education program (26% men and 43% women). The adult literacy rate for 2004 was estimated at about 87.7%.

As of 2003, public expenditure on education was estimated at 2.3% of GDP, or 12.4% of total government expenditures.

44 LIBRARIES AND MUSEUMS

There are about 130 libraries located throughout the country. The library of the University of Santo Domingo is the most important, with over 105,000 volumes. The Pedro Henríquez Ureña National Library, founded in Santo Domingo in 1970, had a collection of over 154,000 volumes in 2002. In general, public library collections are few and small, mostly containing only a few hundred books. Exceptions are the public libraries in Santo Domingo and Baní, with holdings of about 35,000 volumes and 38,000 volumes, respectively.

All of the leading museums are in and around Santo Domingo. The Museum of Dominican Man (formerly the National Museum) houses 19,000 pre-Columbian, colonial, and contemporary

exhibits relating to the country's history. The Gallery of Modern Art promotes the music, painting, sculpture, and poetry of both Dominican and foreign artists and writers. A new complex at the Plaza of Culture houses several museums, the National Library, and the National Theater. The Alcázar de Colón is the 16th-century home of the Columbus family; the reputed tomb of Christopher Columbus is in the Cathedral of Santa María la Menor. The Zoological and Botanical Garden in Santo Domingo is unique because of its natural setting and grottoes. Ponce de Leon's fort was declared a historic site in 1972 and is maintained as a museum.

45 MEDIA

The Dominican Telephone Co. operates the domestic telephone system, and the government controls domestic telegraph service. The larger cities have automatic telephone exchanges, and most of the telephones are on an automatic dial system. In 2003, there were an estimated 115 mainline telephones for every 1,000 people. The same year, there were approximately 271 mobile phones in use for every 1,000 people.

In 1998 there were 120 AM and 56 FM radio stations as well as about 25 television stations, of which the government-owned Radio-Televisión Dominicana is the most important. Many privately owned radio and TV stations broadcast differing political points of view, as do the many independent newspapers and periodicals. In 2000 there were 97 television sets for every 1,000 people. In 2003, there were about 181 radios for every 1,000 people. About 64 of every 1,000 people have access to the Internet as of 2003.

The newspapers of the Dominican Republic are rated by the Inter-American Press Association as among the freest in Latin America. The leading daily is *Listín Diario* (circulation 88,000 in 2004). Other papers of importance also published in the capital are *El Nacional* (circulation 45,000 in 2002), *Hoy* (40,000 in 2004), *Ultima Hora* (40,000 in 2004), and *El Caribe*, an independent morning daily (circulation 10,000 in 2004). Of the dailies published outside the capital, *La Información of Santiago* (circulation 15,000 in 2004) is the best known.

The legally provided freedom of speech and the press are said to be generally supported in practice by the government.

46 ORGANIZATIONS

Consumer associations, mainly for low-income groups, deal in basic foods such as rice, plantains, potatoes, and beans. The Confederation of Employers of the Dominican Republic and the National Council of Businessmen are the principal employers' organizations. There are chambers of commerce in Santo Domingo and other large towns. There are a couple of teachers' unions/associations as well as associations for a number of other professions.

The Asociación Médica Dominicana promotes research and education on health issues and works to establish common policies and standards in healthcare. There are also several associations dedicated to research and education for specific fields of medicine and particular diseases and conditions.

The Dominican Revolutionary Youth, with membership of about 150,000, is the youth wing of the Dominican Revolutionary Party (PRD), which is affiliated to the Socialist International. The Federation of Dominican Students is the national students' union. The Dominican Scout Associations and the Girl Guides have active youth programs. There are also number of youth or-

ganizations with religious affiliations. Sports associations promote competition in a number of favorite pastimes, including squash, tennis, and taekwondo. National women's organizations include the Research Center for Feminist Action and You, Woman.

Volunteer service organizations, such as the Lions Clubs International, are also present. There are national chapters of the Red Cross Society, UNICEF, Habitat for Humanity, and Caritas.

47 TOURISM, TRAVEL, AND RECREATION

Although the Dominican Republic offers fine beaches and historical sites as well as quality hotel facilities, it had no organized tourist industry to speak of until 1967, and received no more than 45,000 visitors per year. Increased political stability made the country more attractive to tourists, and by 1973 the number of foreign visitors had grown to 182,036. By 1997 the Dominican Republic had 38,585 hotel rooms with an occupancy rate of 76%, and tourism was a mainstay of its economy. In 2003 approximately 3,268,182 tourists arrived in the Dominican Republic. There were 56,378 hotel rooms with 140,945 beds and a 72% occupancy rate. The average length of stay was 9.5 nights.

Resort centers—La Romana, Puerto Plata, Samaná, and Playa Grande—are the main attraction. Baseball is the national sport. Other popular pastimes include basketball, boxing, tennis, golf, hunting, fishing, and scuba diving. The Juan Pablo Duarte Olympic Center is one of the best-equipped sports facilities in the Caribbean. Citizens of the United States and Canada are not required to carry a passport; they may purchase a tourist card upon entering the country. Other visitors require a valid passport, and may require visitor visas.

In 2004, the US Department of State estimated the daily cost of staying in Santo Domingo was \$189. Daily expenses in La Romana were \$267.

48 FAMOUS DOMINICANS

Juan Pablo Duarte (1813–76), national hero of the Dominican Republic, was the leader of the famous “La Trinitaria,” along with Francisco del Rosario Sánchez (1817–61) and Ramón Matías Mella (1816–64), which proclaimed and won independence from Haiti in 1844. Emiliano Tejera (1841–1923) and Fernando Arturo de Merino (1833–1906), first archbishop of the Dominican Republic, were noted statesmen.

Rafael Leonidas Trujillo Molina (1891–1961) was the dominant figure in the political life of the country from 1930 until his assassination on 30 May 1961. He served four times as president and was commander-in-chief of the armed forces. Joaquín Balaguer

(1909–2002) was a prominent political figure in the Dominican Republic. Juan Bosch (1909–2001), founder of the leftist PRD and later of the PLD, served for seven months as president in 1963.

Juan Bautista Alfonseca (1810–75), the father of Dominican music, was the first composer to make use of Dominican folklore. José Reyes (1835–1905), musician and soldier, wrote the music for the national anthem. José de Jesús Ravelo (1876–1954) composed the oratorio *La Muerte de Cristo*, which has been performed yearly since 7 April 1939 at the Basílica de Santa María la Menor on Good Friday. Other prominent Dominican musicians are Juan Francisco García (1892–1974), Luis Emilio Mena (1895–1964), and Enrique de Marchena (1908–1988).

In sports, Juan Marichal (b.1937) achieved fame in the United States as a baseball pitcher, as has Pedro Martínez (b.1971). Sammy Sosa (b.1968), a star home-run hitter, won the National League Most Valuable Player Award in 1998. Outfielder and slugger Manny Ramírez (b.1972) won the 2004 World Series Most Valuable Player Award for leading the Boston Red Sox to its first World Series victory in 86 years.

49 DEPENDENCIES

The Dominican Republic has no territories or colonies.

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ECUADOR

Republic of Ecuador
República del Ecuador



CAPITAL: Quito

FLAG: The flag consists of three horizontal stripes, the yellow uppermost stripe being equal to the combined widths of the blue center stripe and the red lower stripe; coat of arms superimposed at center of the flag.

ANTHEM: *Salve, O Patria (Hail, O Fatherland).*

MONETARY UNIT: The sucre was replaced by the US dollar as the official currency as of March 2000 at a rate of 25,000 sucres for us\$1. The dollar (\$) of 100 cents is a paper currency with a floating rate. There are coins of 1, 5, 10, 25, and 50 cents and 1 dollar, and notes of 1, 2, 5, 10, 20, 50, and 100 dollars. Although issuance of higher notes ceased in 1969, a limited number of notes of 500, 1,000, 5,000, and 10,000 dollars remain in circulation. SUCRE1 = us\$0.00004 (or us\$1 = SUCRE25,000) as of 2005.

WEIGHTS AND MEASURES: The metric system is the legal standard, but local and old Spanish units also are used.

HOLIDAYS: New Year's Day, 1 January; Epiphany, 6 January; Labor Day, 1 May; Battle of Pichincha, 24 May; Simón Bolívar's Birthday, 24 July; Quito's Independence Day, 10 August; Guayaquil's Independence Day, 9 October; Columbus Day, 12 October; All Saints' Day, 1 November; All Souls' Day, 2 November; Cuenca's Independence Day, 3 November; Foundation of Quito, 6 December; Christmas Day, 25 December. Movable holidays include Carnival and Holy Week.

TIME: Mainland, 7 AM = noon GMT; Galápagos Islands, 6 AM = noon GMT.

¹LOCATION, SIZE, AND EXTENT

The fourth-smallest country in South America, Ecuador is located on the west coast of the continent and is crossed by the equator (the country gets its name from the Spanish word for "equator"). It has a length of 714 km (444 mi) N–S and a width of 658 km (409 mi) E–W. Ecuador borders Colombia on the N, Peru on the E and S, and the Pacific Ocean on the W, with a total boundary length of 4,247 km (2,639 mi), of which 2,237 km (1,398 mi) is coastline. (Ecuador has lost about two-thirds of the territory it once claimed to Colombia and Peru.)

The Galápagos Islands, a province of Ecuador with an area totaling 8,010 sq km (3,093 sq mi), are approximately 1,130 km (700 mi) off the coast on the equator at 89° to 92°W. The total area of the republic and its territory is estimated at 283,560 sq km (109,483 sq mi). Comparatively, the area occupied by Ecuador is slightly smaller than the state of Nevada. Ecuador also claims about 200,000 sq km (77,000 sq mi) of land awarded to Peru under the 1942 Protocol of Río de Janeiro. Armed hostilities flared along a still undemarcated stretch of the border in January 1981, but by 20 February, a 14-km (9-mi) demilitarized zone had been arranged along the disputed line. Official maps of Ecuador show the entire region as Ecuadoran territory. Ecuador's capital city, Quito, is located in the north central part of the country.

²TOPOGRAPHY

Ecuador is characterized by three distinct regions: the coast; the highlands, or Sierra; and the eastern interior lowlands, or Oriente. The coast, except for a hilly area west of Guayaquil, is a low al-

luvial plain from 32 to 185 km (20 to 115 mi) wide, comprising about one-quarter of the national territory. It extends from sea level to the base of the Cordillera Real of the Andes, at an elevation of about 460 m (1,500 ft). The Guayas in the southwest and the Esmeraldas in the northwest form the principal river systems and serve as important arteries of transportation in their respective regions.

The highlands constitute another fourth of the country. This region is formed by two parallel ranges of the Andes, from 110 to 290 km (70 to 180 mi) wide, and the intervening narrow central plateau, nearly 640 km (400 mi) long. This inter-Andean plateau is divided into 10 basins at altitudes from 2,400 to 2,900 m (7,800 to 9,500 ft), some draining east and some west. The Andes are studded with massive snow-capped volcanoes, the highest of which are Chimborazo, 6,267 m (20,561 ft); Cotopaxi, 5,897 m (19,347 ft), the world's third-highest active volcano; Cayambe, 5,790 m (18,996 ft); Antisana, 5,705 m (18,717 ft); Altar, 5,320 m (17,454 ft); Iliniza, 5,266 m (17,277 ft); Sangay, 5,230 m (17,159 ft); and Tungurahua, 5,016 m (16,457 ft).

The Oriente, forming part of the upper Amazon Basin, begins at the base of the Andes at about 1,200 m (4,000 ft). The land at first drops quickly and is segmented by rushing torrents escaping from the cold highlands. At about 260 m (850 ft), the forests become almost level, and the streams suddenly widen into sluggish, meandering rivers as they begin their journey down the Amazon system to the Atlantic.

Ecuador is located on the South American Tectonic Plate, near the Nazca Plate that is off the western coast. As such, it is an area

of frequent, though usually moderate, seismic activity. One of the worst earthquakes in history occurred off the coast of Ecuador on 31 January 1906. An 8.8 magnitude quake triggered a tsunami that reached as far north as San Francisco and as far west as Japan. Between 500 and 1500 people were killed by the event. More recent quakes have been significantly less destructive. An earthquake of 5.7 magnitude occurred east of Quito on 9 November 2005.

3 CLIMATE

The climate varies with the region. Most of the coast consists of wet, tropical forest, increasingly humid toward the north. The cold Humboldt Current (also called the Peruvian Current), which flows northward along the coast of Peru and then heads out into the Pacific off the coast of central Ecuador, limits the rainfall on a strip of the coast extending from as far north as the Bay of Caráquez and widening to include most of the coastal lowlands south of Guayaquil. In the Guayaquil area there are two seasons: a hot rainy period, lasting from January to May; and a cooler dry season, during the rest of the year, when sea breezes modify the equatorial heat. The tropical forests of the Oriente, east of the Andes, are more humid than the coast; there, temperatures are high, and rain falls all year round.

The climate of the central plateau is governed mainly by the altitude. The capital, Quito, at 2,850 m (9,350 ft), has perpetual spring, with an average temperature of 13°C (55°F) and about 127 cm (50 in) of rainfall annually. The highlands are cut by numerous deep valleys, which bring subtropical climates to within a few miles of the more temperate areas. Cold and wind increase as the slopes surrounding the central plateau ascend to form the páramo, or highland meadow. The higher areas rise to peaks above 5,200 m (17,000 ft) that are perpetually covered with snow.

4 FLORA AND FAUNA

The arid savanna strip along about half of Ecuador's coast, with occasional low shrubs and isolated ceiba trees, contrasts sharply with the northern coast and the inner portion of the southern coast. In these humid regions, the typical dense growth of the tropical jungle abounds, extending as wet mossy forests up the Andean slopes to over 2,400 m (8,000 ft) in some places. Beyond the moisture barrier formed by the Western Cordillera, the high mountain slopes above 3,000 m (10,000 ft) are covered with wiry páramo grass and, in the northern province of Carchi, with a mulleinlike plant, the fraylejón (*espeletia*).

The highland valleys, at an altitude between 2,400 and 3,000 m (8,000 and 10,000 ft), support most of the temperate-zone plants; potatoes and corn, for example, have been raised there for thousands of years. There are few native trees in the highlands; eucalyptus was introduced in the 1860s and has been widely planted. The Oriente has little that is unique to tropical flora except for the delicious naranjilla, a small green orange used in making a conserve.

Ecuadoran forests support the usual smaller mammals, reptiles, and birds. In the highlands, the condor and a few other species of birds are found. There is relatively little wild game because of the density of the population and the intensive use of the land. The Amerindians still make some use of the llama in southern Ecuador. Throughout the highlands, Amerindians and some mestizos

raise cavies (guinea pigs) in their homes as an important source of meat.

As of 2002, there were at least 302 species of mammals, 640 species of birds, and over 19,300 species of plants throughout the country.

5 ENVIRONMENT

Ecuador's major environmental problems are erosion in the highland areas; deforestation, especially in the Oriente; and water pollution. The Ecuadoran Institute of Water Resources estimated that the amount of arid land increased by 31.5% between 1954 and 1979, when 7.5% of the coastal lowland and Sierra were classified as arid. Between 1981 and 1985, 340,000 hectares (840,000 acres) of land were deforested annually. By the 1990s, Ecuador had lost over 30% of the original mangrove area, which covered over 117,000 hectares. From 1990–2000, the annual rate of deforestation was about 1.2%. In 2000, about 38% of the total land area was forested. It was estimated that, at current deforestation rates, coastal forests will be completely eliminated within 10 years and the Amazon forests will be gone within 40 years. Traditional farming practices have been blamed for most of these problems, but oil development has also played a role in the clearing of forests. A program for reforestation and maintenance of existing forests was initiated in 1979, but only 4,000 hectares (10,000 acres) were reforested annually during the early 1980s. Ecuador's principal environmental agency is the Ministry of Natural Resources and Energy. Land erosion is accelerated by deforestation.

Flooding and desertification are related problems which have damaged or eliminated valuable soil, particularly in the western coastal region. Water pollution is a problem due to the influx of domestic, industrial, and agricultural contaminants. The nation has 432 cu km of renewable water resources with 82% used for agricultural purposes. Some 92% of all urban dwellers and 77% of the rural population have access to pure drinking water.

In 2003, about 18% of the land area was legally protected. The Galápagos Islands and Sangay National Park are natural UNESCO World Heritage Sites. There are 11 Ramsar wetland sites. The expansion of Ecuador's population centers threatens its wildlife. Endangered species on the Ecuadoran mainland include the tundra peregrine falcon, yellow-tailed woolly monkey, five species of turtle (green sea, hawksbill, olive ridley, leatherback, and South American river), and three species of crocodile (spectacled caiman, black caiman, and American).

According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 34 types of mammals, 69 species of birds, 10 types of reptiles, 163 species of amphibians, 12 species of fish, 48 types of mollusks, and 1,815 species of plants. Endangered species in the Galápagos Islands include the dark-rumped petrel, Galápagos dark-rumped petrel (a subspecies), black petrel, African ass, two species of turtle (green sea and hawksbill), and the Galápagos giant tortoise and 11 of its subspecies. A subspecies of Galápagos giant tortoise is extinct, and another may be. Darwin's Galápagos mouse, the Fernandina Galapagos mouse, Charles Island tortoise, and the Duncan Island tortoise have become extinct.

Ecuador's natural attractions could lead to increased tourism, benefiting the economy. However, environmental problems, including further endangerment of native plants and animals, could

be exacerbated without careful management of the areas attractive to tourists.

6 POPULATION

The population of Ecuador in 2005 was estimated by the United Nations (UN) at 13,032,000, which placed it at number 67 in population among the 193 nations of the world. In 2005, approximately 7% of the population was over 65 years of age, with another 33% of the population under 15 years of age. There were 101 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 2.1%, a rate the government viewed as too high. The government incorporated family life education into the school curriculum in an attempt to address the high adolescent fertility rate. The projected population for the year 2025 was 17,473,000. The population density was 46 per sq km (119 per sq mi).

The UN estimated that 61% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 2.05%. The capital city, Quito, had a population of 1,451,000 in that year. Guayaquil, the major port, had 2,387,000 metropolitan inhabitants. Other large cities and their estimated populations were Cuenca (285,700), Machala (204,400), and Portoviejo (175,700).

7 MIGRATION

Ecuador has had no large-scale immigration since the colonial period, and emigrants have generally outnumbered newcomers. There was an influx of European refugees in the late 1930s. In 1959, a modest attempt was made to colonize the northern coastal province of Esmeraldas with Italian families. Within Ecuador, the largest migration is from rural areas to the cities, as urban employment opportunities widen. There is also a growing movement from the overpopulated highlands to the virgin lands of the Oriente and the coast.

At the end of 2004, there were around 16,281 persons who concerned the United Nations High Commissioner for Refugees (UNHCR) in Ecuador. Most of these people were living and working in the capital, Quito. Also in 2004, there were 8,450 refugees under UNHCR's program in Ecuador, mostly from Colombia and Peru; there were also 1,660 asylum seekers, also mainly from Colombia and Peru. The net migration rate estimated for Ecuador in 2005 was -6.07 migrants per 1,000 population. In 2003 worker remittances totaled \$1.5 billion. By 2005 about 12% of Ecuador's population had emigrated abroad, remitting almost \$2 billion year. About one-third emigrated to Spain and over 600,000 Ecuadorians were in the United States, most in the New York City area and many from Azuay and Canar provinces. The government views the migration rates as satisfactory.

8 ETHNIC GROUPS

The population of Ecuador is about 65% mestizo (mixed Amerindian and Spanish). About 25% are Amerindian, 7% are Spanish or others, and another 3% are black. There are only a few groups of unassimilated Amerindians on the coast, notably the Colorados and Cayapas. The blacks live mainly in the northern coastal province of Esmeraldas. The Amazon Basin is inhabited by many primitive tribes, including the Jívaros, once famous for their shrunken-



LOCATION: 1°26'30" N to 5°1' S; 75°11'44" to 81°1' W. BOUNDARY LENGTHS: Colombia, 590 kilometers (368 miles); Peru, 1,420 kilometers (887 miles); Pacific coastline, 2,237 kilometers (1,398 miles). TERRITORIAL SEA LIMIT: 200 miles.

head war trophies, and the Záparos, Aucas, Secoyas, and Cofanes. In the early 1980s, the tribes were organized in the Federación Shuar, which seeks to preserve their cultural identities.

9 LANGUAGES

The official language of Ecuador is Spanish, spoken by over 90% of the population. The Spanish of the coastal areas is similar to that of the other lowland areas of Latin America, maintaining something of the Andalusian characteristics, especially the dropping or slurring of the consonants represented by *s* and *d*. In the isolated highlands, a more precise Castilian pronunciation is found, but many words and even some of the singsong intonations of Quechua, the Amerindian language, have crept into the Spanish.

A small percentage of the total population speak only Quichua, a dialect of the Quechua language. Some speak Quichua in addition to Spanish. Quechua was imposed on the Amerindians of Ecuador by the conquering Incas in the 15th century, supplanting a number of unrelated languages. Remnants of these forgotten languages are retained in many modern place names. There has been little detailed study of the languages of the tribes of the Oriente.

¹⁰RELIGIONS

Introduced by the Spaniards with the conquest in 1540, Roman Catholicism is by far the dominant religion. In fact, the Roman Catholic Church is considered to be one of the three pillars of society, along with the government and the military. According to 2005 estimates, over 95% of the population identified themselves as Roman Catholics. Some individuals combine customs and beliefs of traditional indigenous religions with their practice of Catholicism. Protestants, including Anglicans, Baptists, and Methodists, make up about 2% of the population. Other denominations include Lutherans, Jehovah's Witnesses, Mormons, Episcopalians, Presbyterians, Eastern Orthodox, and Rosicrucians. Buddhists, Baha'is, Hindus, Jews, Muslims, Scientologists, and the Unification Church have small communities. Animistic religions survive among the Amerindians of the Oriente. Itzachilatan is one Amerindian church. Some natives are followers of Inti, the Incan sun god. Freedom of worship is guaranteed by the constitution and this right is generally respected in practice.

¹¹TRANSPORTATION

The topography and climate of Ecuador have greatly hindered the development of adequate means of land transportation. In 2003 there were 43,197 km (26,843 mi) of highways, including 7,287 km (4,533 mi) of paved roads. The Pan American Highway (1,076 km/669 mi in Ecuador) extends the length of the highlands from Tulcán on the Colombian border to Loja in the south and on to Peru. In 1970, the five-nation Bolivarian Highway was undertaken, as were east-west routes linking the Oriente with the Sierra, and Guayaquil with its hinterland. The most important lateral route connecting the highlands and the coast runs from Latacunga, crossing a pass in the Cordillera Real over 3,650 m (12,000 ft) high, to Quevedo in the lowlands. In 2003, there were 529,359 passenger cars and 269,248 commercial vehicles.

Modern port facilities to serve Guayaquil were opened in 1963 on an estuary 10 km (6 mi) from the Guayas River. The Guayas River basin is important for transportation in the coastal provinces. Other international ports are Esmeraldas, Puerto Bolívar, and Manta; La Libertad and Balao can accommodate oil tankers. In 2005, Ecuador's merchant marine consisted of 31 ships of at least 1,000 GRT, with a total gross registered tonnage (GRT) of 241,403. As of 2003, Ecuador had 1,500 km (933 mi) of internal navigable waterways, but most are inaccessible.

Railways, all government owned, are of decreasing importance because of their poor condition and competition from highways. As of 2004, the nation's three railroad networks totaled 965 km (600 mi) of narrow gauge track, of which the most important line ran between Guayaquil and Quito. Floods in 1983 damaged much of the system, and by 1986 service had been restored on only some of the sections. The railway system has been largely inoperative for the last decade, following damage by a major earthquake.

Ecuador's rugged topography has hastened the growth of air travel. There were an estimated 205 airports and airfields in 2004. In 2005 a total of 85 had paved runways, and there was also one heliport. Those airports at Guayaquil (Simon Bolivar) and Quito (Mariscal Sucre) provide international service. In 2003, total scheduled airline traffic amounted to 8 million freight ton-km and around 1.123 million passengers were carried on scheduled do-

mestic and international airline flights. The government-run Ecuatoriana de Aviación provides service between Ecuador and the rest of Latin America.

¹²HISTORY

Archaeological explorations indicate that the coastal regions of present-day Ecuador supported corn-cultivating communities as early as 4500 BC. In the first few centuries AD, the population was divided into dozens of small isolated tribes. By AD 1000, the highland groups had formed a loose federation, the Kingdom of Quito, but they were absorbed into the Inca Empire in the late 15th century. Atahualpa, son of the conquering Inca Huayna Capac and a Quito princess, later became emperor, but by then the Spanish forces under Francisco Pizarro were gaining a foothold on the coast.

Pizarro's pilot, Bartolomé Ruiz, the first European to see the Ecuadorian coast, arrived in 1526 on a scouting expedition. The actual conquest reached Ecuador in 1531. Except for a few emeralds, from which their first landing place took its name (the city and province of Esmeraldas), the Spanish found those shores valuable only as a stopping place on their way to the riches of the Incas in Peru. Sebastian de Belacázar, a lieutenant of Pizarro, extended Spanish dominion northward from Peru after the conquest of the Incas. He found the northern capital of the Inca Empire left in ashes by the retreating Amerindians, and on that site in 1534, he founded the city of San Francisco de Quito, later to become the capital of the republic.

The Spanish governed the region as the Audiencia of Quito, part of the Viceroyalty of Peru. Quito, in the cool highlands, was soon steeped in culture and rich in ornately decorated churches and monasteries. Guayaquil, the principal seaport, grew slowly because of its unhealthy tropical climate, and would not become a major city until much later. The Spanish colonial period was a time of ruthless exploitation of the Amerindians and bickering and bloodshed among the Spanish in the struggle for power and riches.

Republic of Ecuador

The early stirrings of Ecuadorian independence were spread, in part, through the writings of the 18th-century satirist Francisco Javier Eugenio de Santa Cruz y Espejo. Abortive revolts against Spanish rule came in 1809 and in 1811. The decisive struggle began on 9 October 1820, with the proclamation of an independent Guayaquil. Finally, on 24 May 1822, with the Battle of Pinchincha, the Spanish were defeated. This victory unified the liberation movements of the continent. Simón Bolívar and José de San Martín met in Guayaquil in 1822 to consider the future of newly freed areas. Liberated Ecuador became part of Bolívar's dream, the Republic of Gran Colombia, consisting of modern Ecuador, Colombia, Venezuela, and Panama. In 1830, when this union collapsed, the traditional name Quito was dropped in favor of La República del Ecuador, "The Republic of the Equator."

The Republic's first president was Juan José Flores, one of Bolívar's aides. The 15-year period of Flores's domination was noted for iron-handed conservative rule. In 1832, he occupied the Galápagos Islands in a comic-opera invasion witnessed only by the giant tortoises native to the islands. Then, from 1845-60, Ecuador went through 11 presidents and juntas. The nation was split

between pro-clerical Conservatives and the more secular Liberals, and regional strongmen vied for power.

From 1860 to 1875, Ecuador was ruled by the fervently religious Conservative Gabriel García Moreno, Ecuador's first great statesman. He sought peace and consolidation for his torn country through a rigid, theocratic government. His administration granted special privileges to the Roman Catholic Church, even dedicating the Republic to "The Sacred Heart of Jesus" by act of congress in 1873. Beyond his religious zeal, García Moreno was also known for developing roads and public education, beginning the Guayaquil-Quito railway, and putting Ecuador on a firm financial footing. However, his relentless conservatism caused bitter strife, culminating in the dictator's assassination in 1875. In the ensuing period of confusion, the Conservatives were not able to carry on the program of García, nor could the opposition take command until the emergence of Gen. Eloy Alfaro, who ushered in the Radical Liberal era with the revolution of 1895. He and the succeeding Liberal presidents were able to counteract much of García's program. Church and state were carefully separated, and liberty of thought, worship, and the press was established. The Guayaquil-Quito railway was completed, uniting the coast and the highlands commercially.

The Liberal era continued until 1944, with numerous interludes of violence and crisis. The economy rose and fell with world prices on such commodities as cocoa. Territory was lost to Brazil in 1904, Colombia in 1916, and finally Peru in 1942. The border dispute with Peru, originating in the colonial period, came to a climax when Peru invaded Ecuador's southern and Oriente (Amazon Basin) provinces. The Río de Janeiro Protocol awarded to Peru the greater part of the Amazon Basin territory claimed by Ecuador.

In 1944 José María Velasco Ibarra came to power as a nationalist denouncing the Río agreement. Velasco, who had served as president during 1934–35, ruled for three years until he was sent into exile. After three ineffective presidents in less than one year, Galo Plaza Lasso (1948–52) was elected to the presidency. Plaza, later chief of the OAS, ruled for four years. In 1952, Velasco Ibarra returned to office for four years, and was again elected in 1960. In his inaugural address, Velasco formally renounced the Treaty of 1942, and embarked on an economic program of "growth through inflation."

By 1961, with Ecuadorian currency in a slump and consumers heavily taxed, the air force revolted and sent Velasco into exile, thus ending Ecuador's unprecedented streak of elected governments. Vice President Carlos Julio Arosemena Monroy assumed the presidency on 7 November 1961. Arosemena lasted less than two years, and in July 1963, he was arrested by the military for "drunkenness" (a charge that could have been substantiated throughout his presidency) and sent into exile.

Military governments

A four-man military junta headed by Capt. Ramón Castro Jijón took over and ruled until March 1966. Elections were scheduled and held in October 1966 for a constitutional assembly. Otto Arosemena Gómez, cousin of Arosemena Monroy, became provisional president. In 1968, new elections were held for the presidency, won yet again by Velasco. On 22 June 1970, following a fiscal crisis, Velasco suspended the 1967 constitution and assumed

dictatorial power. He dissolved Congress, reorganized the Supreme Court, and proceeded to rule by executive decree.

In June 1971, Velasco promised new presidential and congressional elections, which were scheduled for the following June. However, on 15 February 1972, Velasco was overthrown in a bloodless coup after he refused demands by senior army officers to postpone the elections. On the following day, Gen. Guillermo Rodríguez Lara was installed as head of a new military government. Velasco, deported to Panama, was granted asylum by Venezuela.

Return to elected government

The regime of General Rodríguez lasted for four years, and then he was ousted on 12 January 1976. A three-member Supreme Council assumed power and presidential elections took place in July 1978, but because none of the candidates received the required majority, a runoff election was held in April 1979. The winner was Jaime Roldós Aguilera, a populist running under the banner of the Concentration of Popular Forces. Christian Democrat Osvaldo Hurtado was made vice president. Both were inaugurated on 10 August 1979, the day Ecuador's current constitution went into effect. Roldós was killed in a plane crash on 24 May 1981, whereupon Hurtado became president until 1984.

Hurtado's term was marked by modest gains in the economy, but by 1984, a flagging economy, caused in part by widespread flooding, led to calls for change. The 1984 election was won by León Febres Cordero Rivadeneira, a conservative Social Christian who advocated a free-enterprise economic policy. Febres formed a coalition government and pressed his platform of reducing state intervention in the economy and making it more responsive to market forces. Just as it appeared that Febres's fiscal policies were about to bring widespread benefits to the populace, Ecuador was dealt two staggering blows: the 1986 plunge in world oil prices and a devastating earthquake in March 1987.

In presidential elections held 31 January 1988, Rodrigo Borja Cevallos of the Democratic Left (ID) Party and Abdalá Bucaram Ortiz of the Roldista Party (honoring ex-president Jaime Roldós) won the most votes in a field of 10 candidates. Borja won the runoff election, and took office along with a strong contingent in congress. The government made improvements in Ecuador's human rights record; however, economic troubles, particularly inflation, continued, and the ID lost half its congressional seats in midterm elections in 1990. In 1992, voters elected a conservative government, headed by President Sixto Durán-Ballén of the Republican Unity Party (PUR) and Vice President Alberto Dahik of the Conservative Party (CP). Durán-Ballén imposed severe economic measures to try to improve Ecuador's situation. These measures proved economically successful, but socially unpopular.

On 26 January 1995, the longstanding border dispute with Peru sprang to life once again when Ecuadorian troops attacked a Peruvian post. A full-fledged war began, which lasted until March 1, causing some 80 casualties and leaving 200 wounded. Although the war created further economic difficulties for Ecuador, it also stirred national pride and Durán-Ballén's popularity rose on the tide of fervent patriotism. By the fall of 1995, however, Durán-Ballén had once again fallen from favor due to charges of political corruption against himself and Vice President Alberto Dahik. Dahik fled the country, and Durán-Ballén served the remainder of his presidential term with little support.

In July 1996, Abdalá Bucaram was elected president. A showy and eccentric populist, Bucaram quickly alienated most of the political establishment. Bucaram had come to describe himself as “El Loco,” or the madman, and citizens began to believe that he was indeed crazy. On February 6, Congress declared Bucaram mentally incompetent, charged him with corruption, and ousted him from office. Bucaram was accused of absconding with \$100 million to \$300 million in public funds during his brief presidency. Vice President Rosalia Arteaga and Fabian Alarcon, leader of Congress, claimed the presidency. Bucaram finally fled to Panama, while Arteaga agreed to briefly become president until Congress could establish right of succession. Alarcon emerged as interim president, and held office until the next presidential election in 1998. Through most of the 1990s, Ecuador suffered double-digit inflation as high as 50–60% a year. By 1999, the economy had contracted by 7.5%, and over 62% of Ecuadorians lived in poverty. Many of the country’s Pacific Coast communities were battered by El Niño storms during early 1998, causing millions of dollars in damage.

Presidential elections were held in May 1998, with Harvard-educated Jamil Mahuad facing Alvaro Noboa, a banana tycoon and reputedly the richest man in the country. With promises for political stability and economic recovery, Mahuad prevailed at the polls and took office in July 1998. The next month, extensive constitutional reforms approved by a National Constituent Assembly took effect. Reforms gave unprecedented new rights to the country’s indigenous peoples, who had become more vocal about their rights during the 1990s.

In 1996, the leaders of 11 indigenous groups joined with women, ecologists, and human rights workers to found the Pachakutik (“change” or “revolution” in Quichua) political movement. Under this new political umbrella, native peoples urged massive social changes, and won several seats in Congress by 2000. By late 1999, native peoples had grown disenchanted with Mahuad. Amerindian leaders accused him of lacking sympathy for native peoples’ economic problems. Mahuad also had overseen a \$1.2 billion bailout of 18 corrupt banks. The financial scandal only widened after a jailed banker claimed he had given \$3.1 million to Mahuad’s presidential campaign. In the meantime, Mahuad was unable to bring the economy under control and was making political enemies. In May 1999, Mahuad and Peruvian president Alberto Fujimori formally ended their border dispute. Ecuador gained a small sliver of land and navigation rights on some Peruvian rivers. The peace accord was seen as a defeat within Ecuador, where the military resented its loss of power and resources and was embarrassed by territorial concessions to Peru.

In January 2000, Mahuad announced plans to replace the sucre, the national currency, with the US dollar to stabilize the economy and end chronic inflation. Indigenous groups grew angry at the plan because they believed they would lose their savings. The sucre had been pegged at about 8,000 per dollar only a year earlier, but now stood at 25,000 per dollar. On 21 January, thousands of indigenous peoples marched to protest “dollarization” of the economy and called for Mahuad’s ouster. With the aid of the military, they occupied the empty Congress building and Supreme Court. Mahuad fled the government palace. Gen. Carlos Mendoza took power and declared that a three-man junta would lead the country. The junta was composed of Antonio Vargas, leader of the

Confederation of Indigenous Nationalities of Ecuador, Carlos Solorzano, a former Supreme Court justice, and Col. Lucio Gutierrez. The junta only lasted a few hours. Under intense international pressure, the junta was dissolved. Congress named the 62-year-old vice president, Gustavo Noboa Bejarano, as president. Noboa, a respected former academic carried out the dollarization of the economy. By giving up its currency, Ecuador turned its monetary policy to the US Federal Reserve seeking to stabilize its economy.

In the October 2002 presidential elections, newcomer Lucio Gutiérrez ended first with slightly over 20% of the vote in a field of 11 presidential candidates. He went on to win the runoff election with 58.7%, easily defeating Alvaro Noboa, the candidate favored by the outgoing president. Gutiérrez had entered politics after he led a coup attempt in 2000 to oust president Mahuad. Gutiérrez assembled a loose coalition of smaller parties and indigenous groups and campaigned against established parties. Although he used a populist rhetoric to win the election, after his inauguration he has sought to reassure foreign investors and international lending institutions. He has maintained the economic policies of his predecessors and has softened his criticism of the dollarization initiative. After years of economic stagnation, the economy began to show signs of recovery in 2001 and continued during the first years of the Gutiérrez government. Yet, more than 70% of the population lived in poverty in 2002.

Political tensions increased in 2004 and Gutiérrez showed signs of losing control. Despite strong economic growth, unemployment and underemployment remained high and the cost of living, exacerbated by the dollarization scheme, continued to hurt the poor. Because political parties have focused on obstructing the president’s legislative initiatives and because Gutiérrez alienated support from former friendly legislators, the Gutiérrez government was widely deemed as ineffective. The failed effort by Gutiérrez to replace Supreme Court justices with friendlier faces was used by opponents to denounce Gutiérrez authoritarian tendencies. A former military coup plotter, Gutiérrez was often authoritarian and disrespectful of political opponents. Opposition against his government, fueled by opposition parties and built on popular discontent with economic policies, combined with Gutiérrez’s effort to undermine the Supreme Court were sufficient to provoke new protests against the government. Gutiérrez was forced to resign on 20 April 2005. Vice President Luis Alfredo Palacio, who had fallen out with Gutiérrez shortly after taking office, was appointed president. New presidential and parliamentary elections were scheduled for 26 November 2006.

The political challenges Ecuador faces are complex. The last three democratically elected presidents were forced to resign due to social protests or were removed from office by the legislature. The legislature became specialized on blocking presidential initiatives and weakening the executive. Yet, fragmented political parties failed to constitute themselves into a positive and constructive force. The political instability that has characterized Ecuador, even in good economic years, rendered the country’s democracy as ineffectual.

13 GOVERNMENT

Since 1860, Ecuador has had 17 different constitutions. The most recent constitution came into force in August 1998. The previous constitution was approved on 10 August 1979, in preparation for a

return from military to civilian rule. That document was amended in 1984 and again in 1996, but many Ecuadorians believed their needs were not reflected by that document. In 1998, a 70-member elected National Constituent Assembly rewrote the constitution. Unprecedented rights granted to native populations and blacks were among key reforms. The constitution gave them equal rights, additional rights that guaranteed their lands, protected their culture and customs. Native peoples were allowed to use their own languages and teach their children in their native languages at schools, although Spanish remained the official language of the nation. The constitution also emphasized unity in diversity. Eradicating poverty was a key component written into the new constitution, which also prohibits granting amnesty to human rights violators. The constitution also prohibits the death penalty.

The unicameral Chamber of Representatives (or Congress) consists of 100 members chosen for five-year terms by proportional representation from each of the country's 22 provinces. The chamber meets in full session for two months a year, leaving the rest of its business to four permanent committees. The president and vice president are elected for a four-year term, and are not allowed to seek consecutive terms. As is traditional in Ecuador, the president initiates the budget and appoints the cabinet, as well as provincial governors, many administrative employees, and diplomatic representatives. Under the 1998 constitutional reforms, the chamber may no longer remove cabinet ministers (it forced the finance minister out of office late in 1986, and ousted the president of Ecuador in February 1997), although the parliament has managed to oust two presidents since the constitution came into effect. The president also controls the armed forces and can declare a state of siege. Voting is compulsory for literate people aged 18 to 65, and optional for illiterates.

14 POLITICAL PARTIES

The constitution guarantees the right of democratic activities of political parties. A party must gain a minimum of 5% of the vote to remain in the electoral registry and retain its legal standing. The 1998 constitution also allows candidates without party affiliation or party backing to run for office. It also makes it the responsibility of the government to promote equal participation of men and women in politics. There are currently some 25 parties with parliamentary representation in Ecuador.

Two major parties played dominant roles prior to the 1960s. The Conservative Party (Partido Conservador—PC), which held sway during the first half of the republic's history, was the political representative for the Roman Catholic Church, and its support came from the large landowners of the highlands. The principal opposition, the Radical Liberal Party (Partido Liberal Radical—PLR), which rose to power in the revolution of 1895, was supported by businessmen and the newer city elite. It sought scrupulous separation of church and state, especially in public education, and called for the development of industry and the attraction of foreign capital.

Modern parties on the right include the Social Christian Party (PSC), the Republican Unity Party (PUR), and the Ecuadorian Conservative Party (PCE). On the left are the Democratic Left (ID), linked to the Social Democratic Movement; the Popular Democracy Party (DP) of former President Hurtado; the traditional

Ecuadorian Radical Liberal Party (PLRE); and the Radical Alfarista Front (FRA).

Ecuador's populist tradition has given rise to many parties, organized along highly personalist lines, such as the Roldista Party (PRE), formerly headed by Abdalá Bucaram, the Popular Revolutionary Action (APRE), and the Concentration of Popular Forces (CFP).

The far left in Ecuador has been beset by factionalism and governmental intrusion. In the 1920s, the original Socialist Party of Ecuador split into the Socialist Party and the Communist Party. Further splits occurred with the advent of the Cuban revolution. Currently, the Popular Democratic Movement (MPD), the Ecuadorian Socialist Party (PSE), and other parties vie for the non-Communist vote. Communists are divided between the Communist Party of Ecuador (PCE), which is identified as a pro-North Korean faction, and the Communist Party of Ecuador/Marxist-Leninist (PCMLE), which is identified as Maoist.

In the 1996 national elections, an indigenous electoral movement called Pachakutik (Quichua for "change") sponsored candidates for offices on the national, provincial, and local levels. Pachakutik candidates won eight seats in Congress as well as several mayoral positions in cities throughout the country. Their successes, although small on the overall national scale, increased the voice of indigenous peoples in Ecuadorian politics and prodded the traditional political parties to give more attention to long-neglected indigenous concerns. Lucio Gutiérrez allied with Pachakutik for the 2002 election and appointed some of that party's leaders to his cabinet. But the influence of the indigenous movement has been limited by Gutiérrez's personalist leadership and the party's limited political power resulting from its small parliamentary delegation. In fact, Gutiérrez's demise began when Pachakutik legislators withdrew their support from the government in 2004.

In the October 2002 elections, 14 different parties won seats in the legislature. The PSC remained as the largest party, but it only captured 24 seats in the 100-member chamber. Lucio Gutiérrez's parties captured less than 10 seats. The persistent problem of weak political parties and personalist leadership by populist politicians has worsened. Since 1996, three presidents could not finish their constitutional terms. Political parties are widely seen as fractional and obstructionist with little intraparty discipline and unpredicted interparty alliances. The next legislative elections were scheduled for October 2006.

15 LOCAL GOVERNMENT

The three levels of local government—province, canton, and parish—are controlled by the central government in a fundamentally unitary system. Ecuador has 20 continental provinces, plus the insular Galápagos Islands. The provincial governors, who are appointed by the president, are responsible to the interior ministry. Each province is divided into cantons, which in urban areas are administratively subordinate to the municipality with which they coincide. A municipal council is popularly elected and in turn elects its officers. In the larger towns, a mayor is popularly elected. The municipality is unique in that it lies somewhat outside the unitary pattern and is less subject to national control than are the other units of local government. The rural canton, of little importance in the sparsely populated Oriente and northern coast, is significant in the more developed regions of the highlands and

the coastal provinces of Guayas and Manabí. The highest official of the canton, the political chief, is appointed by the president on the recommendation of the provincial governor.

16 JUDICIAL SYSTEM

Traditionally, the judicial function has been carried out by five levels of tribunals. The parochial judge, the political lieutenant appointed by the president to supervise the affairs of the parish, handles only minor civil cases. Cantonal courts, at least one in each canton, try minor civil and criminal actions. Provincial courts handle all but a few of the criminal cases and the more serious civil and commercial suits. Superior courts handle appeals from the lower courts and have other administrative duties in the district; they may try original cases only if these relate to the affairs of their district. The Supreme Court has 31 justices and 3 alternates chosen by the National Chamber of Representatives for six-year periods.

Although citizens are afforded a wide range of freedoms and individual rights, there remain some shortcomings in the functioning of the judicial system, which is susceptible to political pressure. Police officers are tried only in closed session before police courts so that convictions for abuse or other violations are rare. Despite laws restricting arbitrary arrest and detention, such violations continue to occur in practice. Modernization of the court system began in 1993. In 1998, a new Judicial Council, with the power to administer the court system and discipline judges, began operations. In November of that year, the council's disciplinary committee fired two judges and two court employees for improperly releasing suspected drug traffickers. Because Ecuadorians continued to distrust the judicial system, reports of citizens taking the law into the own hands by lynching or burning criminal suspects continued into the year 2000.

Discontent with the judicial system, President Gutiérrez used repeated accusations of corruption to try to intervene with the Supreme Court. So far, efforts at reforming the judicial system have been primarily motivated by political short-term gains.

17 ARMED FORCES

In 2005 Ecuador's active armed forces personnel numbered 46,500, which were supported by 118,000 reservists. The Army numbered 50,000 personnel whose equipment included over 30 main battle tanks and 150 light tanks, over 90 reconnaissance vehicles, 130 armored personnel carriers, and more than 156 artillery pieces. The Navy consisted of 5,500 personnel including 1,700 Marines and 250 naval aviation personnel. Major naval units included 2 tactical submarines, 2 frigates, and 6 corvettes. The Air Force had 4,000 members and 22 combat capable aircraft that were made up of fighter ground attack aircraft. Paramilitary forces consisted of a 270-member Coast Guard. In 2005, Ecuador's defense budget totaled \$593 million.

18 INTERNATIONAL COOPERATION

Ecuador is a charter member of the United Nations, having joined on 21 October 1945; it belongs to ECLAC and several specialized agencies. Ecuador is also a member of the Inter-American Development Bank, G-77, the Latin American Economic System (LAES), the Latin American Integration Association (LAIA), Latin American Energy Organization, the Andean Community

of Nations, the OAS, and the Río Group. Ecuador received full membership in OPEC in 1973. The country holds associate status in Mercosur.

The country is part of the Nonaligned Movement and a signatory of the 1947 Río Treaty. Ecuador is also a part of the Agency for the Prohibition of Nuclear Weapons in Latin America and the Caribbean (OPANAL). In environmental cooperation, Ecuador is part of the Antarctic Treaty, the Basel Convention, the Convention on Biological Diversity, Ramsar, CITES, International Tropical Timber Agreements, the Kyoto Protocol, the Montréal Protocol, MARPOL, the Nuclear Test Ban Treaty, and the UN Conventions on the Law on Climate Change and Desertification.

19 ECONOMY

Ecuador is the world's leading exporter of bananas, and it also exports flowers, cocoa, coffee, tuna, and shrimp, and is developing export markets for other tropical fruits and vegetables. Tourism has become the country's third-largest earner of foreign exchange, after oil and remittances from expatriates. Since the 1970s Ecuador's economy has been dominated by oil, and vexed by indigenous opposition to the impacts of oil exploration and development. Ecuador's average annual GDP growth rate exceeded 9% in the 1970s, due largely to high oil prices. As oil prices fell in the early 1980s, debt began to increase. Furthermore, a major earthquake in 1987 interrupted oil production and exports. The average annual GDP growth rate between 1988 and 1998 was 2.9%. Growth stemmed mainly from increased petroleum production and expansionary fiscal policy.

The administration of President Ballén, elected in July 1992, raised petroleum derivatives taxes and electricity tariffs, while cutting public expenditures and freezing public sector employment. As a result, the 1992 public sector deficit fell from 7% to 2.8% in 1995. The inflation rate, which stood at 60% at the end of 1992, fell to 25% by 1995. Although the Ballén administration's reforms were relatively successful in stabilizing the economy and encouraging foreign investment, key sectors like petroleum, utilities, and aviation still experienced heavy government involvement.

The late 1990s brought a border dispute with Peru, shortages of electric power, and high interest rates that combined to restrain growth in the GDP. Large parastatals put off the interest of foreign investment. The growth rate was only 1% in 1998, the inflation rate soared to 43%, and government corruption was rampant. In 1999, the economy experienced a currency and banking crisis, a default on public debt, and soaring inflation, which reached 60% for the end of the year. Real GDP declined 6.3%, falling 8.2% on a per capita basis. In January 2000 the US dollar was adopted as legal tender, and in April the US dollar was adopted as Ecuador's legal currency in an effort to control inflation which soared to over 100%, ending the year at about 80%. Real GDP increased 2.8% in 2000 although only 0.9% on a per capita basis. In 2001 real GDP growth increased to 5.2% (3.2% on a per capita basis) and the inflation rate moderated to 22.4%. However, economic growth slowed again in 2002, a reflection mainly of internal inefficiencies in public administration and in the running of the state oil corporation. Real GDP grew an estimated 3% and only 1.1% on a per capita basis. End of period inflation, however, fell to 9%, the lowest level in decades. In March 2003 the IMF agreed to a one-year standby arrangement with Ecuador's new government designed to sup-

port measures to bring about macroeconomic stability beginning with a freeze on public sector wages. In December 2003 Ecuador's second pipeline, the \$1.3-billion, 500-km (312-mi) Oleoducto de Crudos Pesador (OCP) pipeline opened. The OCP pipeline when it reaches full capacity will about double Ecuador's oil transporting capacity, which is 400,000 barrels per day, the capacity of the country's only other oil pipeline. In June 2003 the old pipeline was ruptured briefly by mud slides caused by heavy rains mixed with ash from the volcanic eruption of El Reventador. The participants in the OCP consortium include EnCana (Canada, 31.4%); Repsol-YPF (Spain, 25.6%); Pecom Energia (Argentina, 4.1%), Occidental Petroleum (United States, 12.2%); and AGIP (Italy, 7.5%), with construction by the Ecuador company Techint. The project implies increased exploration and development of Ecuador's oil reserves in order to fill the new pipeline. A substantial portion of increased oil revenues were then slated to be applied to paying down the country's \$15 billion foreign debt.

While GDP growth in 2003 decreased to 2.7%, it jumped again to 6.9% in 2004, only to fall back to an estimated (Economist Intelligence Unit) 3% in 2005. However, since 2001 inflation has been steadily decreasing from a recorded 37.7% in 2001 to 2.4% in 2005.

20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 Ecuador's gross domestic product (GDP) was estimated at \$52.7 billion. 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 based on current dollars. The per capita GDP was estimated at \$3,900. The annual growth rate of GDP was estimated at 3%. The average inflation rate in 2005 was 2%. It was estimated that agriculture accounted for 7.4% of GDP, industry 31.8%, and services 60.8%.

According to the World Bank, in 2003 remittances from citizens working abroad totaled \$1.545 billion or about \$119 per capita and accounted for approximately 5.7% of GDP. Foreign aid receipts amounted to \$176 million or about \$14 per capita and accounted for approximately 0.7% of the gross national income (GNI).

The World Bank reports that in 2003 household consumption in Ecuador totaled \$18.47 billion or about \$1,421 per capita based on a GDP of \$27.2 billion, measured in current dollars rather than PPP. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the period 1990 to 2003 household consumption grew at an average annual rate of 2.3%. In 2001 it was estimated that approximately 26% of household consumption was spent on food, 15% on fuel, 13% on health care, and 10% on education. It was estimated that in 2001 about 45% of the population had incomes below the poverty line.

21 LABOR

In 2005, there were an estimated 4.6 million employed wage earners in urban areas. As of 2003, agriculture accounted for 9.1%, followed by 21.7% in industry, and 69.2% in services. The unem-

ployment rate in 2005 officially stood at 11.2%, although the underemployment rate was estimated at 47%.

Although most workers in Ecuador have the right to organize and join a union, legal protections have been insufficient. In addition, members of the armed forces, the police, and most public sector employees are prevented from joining a union, engaging in collective bargaining, or striking. In 2005, only 2–3% of the nation's labor force was affiliated with a labor union. Of those, 25% were covered by a collective bargaining agreement. The right to strike is protected by law after a mandatory 10-day cooling off period.

The labor code provides for a 40-hour workweek and two consecutive rest days each week. Overtime is limited to 12 hours per week at premium pay rates. The legal minimum working age was set at 15 years for all types of work. Also, minors are limited to working six hours per day and five days per week. Minors are also prevented from working in environments where there are hazardous conditions (mines), among dangerous machinery, and where there are toxic or dangerous substances. In spite of these laws, child labor remains a significant problem as of 2005. The minimum monthly wage plus mandatory bonuses equaled about \$166 per month in 2005. However, this wage does not provide a satisfactory standard of living for a family, but most earn more than this proscribed amount. Health and safety standards are generally protected by the Labor Code.

22 AGRICULTURE

Although Ecuador's main economic activity has long been agriculture, only about 11% of the land is arable or under permanent crops, and another 18% is permanent pasture. Throughout the 1970s, agricultural development was neglected because of the emphasis on oil exploitation, and the sector showed negative rates of growth, declining by 5.4% in 1978, 2.8% in 1979, and 2% in 1980. During 1985–90, however, agriculture (along with fishing and forestry) showed an average annual increase of 4.8%. Agricultural production had an average annual growth of 1.7% during 1990–2000. But during 2002–04, crop production was down 2.8% from 1999–2001. Agriculture employed 25.9% of the labor force in 2000 and contributed 8% to GDP in 2003.

The land census of 1974, which covered a much larger area than the previous census of 1954, showed that during the intervening period the number of agricultural units had grown by 172,810. This increase was the result of agrarian reform and colonization, initiated in 1964. Ceilings imposed on the maximum size of holdings ranged from 800 hectares (2,000 acres) of arable land plus 1,000 hectares (2,500 acres) for pasture in the Sierra region to 2,500 hectares (6,200 acres) plus 1,000 hectares (2,500 acres) of pasture in the coastal region. The 1975 plans of the Ecuadorian Land Reform and Colonization Institute called for the redistribution of 80,000 hectares (198,000 acres) of land in the coastal region.

Traditionally, agricultural products have included bananas, coffee, tea, rice, sugar, beans, corn, potatoes, and tropical fruit. Exported products of more recent prominence include roses and carnations, strawberries, melons, asparagus, heart of palm, and tomatoes. The major crops of the highlands are corn, barley, wheat, kidney beans, potatoes, horsebeans, peas, and soybeans, all for domestic consumption. Agriculture on the coast is large-

ly oriented toward the export market. Increased acreage and improved yields, as well as the government's price-support program, have caused rapid growth in agriculture. Most of the cacao crop is produced on plantations of 60 hectares (150 acres) or larger, but the more important banana and coffee crops are grown mainly on small landholdings by independent farmers. Banana exports rose from less than 5% of total exports after World War II (1939–45) to 62.2% in 1958; in 1974, they were 10.8%, and in 2004, 13.3%. Ecuador is the world's leading banana exporter, selling almost 4.7 million tons abroad in 2004. Cacao became a valuable export in the mid-1970s, but low prices and declining harvests had a negative impact on revenues until the early 1980s, when they began to rise again. In 1978 and 1979, coffee brought high export earnings (\$281.2 million and \$263.1 million, respectively), but with lower world prices, coffee export earnings fell to \$106 million in 1981, despite an increase in production. Revenues rose steadily during the 1980s, reaching \$290 million in 1986, but fell to \$75 million in 1992. Coffee revenues in 2004 amounted to \$14.6 million.

Principal commodities in 2004 (in tons) were sugar, 5,400,000; bananas, 5,900,000; corn, 651,000; plantains, 652,000; palm oil, 261,000; potatoes, 400,000; cocoa beans, 88,000; and coffee, 83,000. The production of paddy rice reached one million tons in 2004.

The agricultural sector of the economy presents potential for further development and growth. Crops for domestic consumption, particularly rice, barley, maize, African palm, and potatoes, continue to show growth due to increased area planted and improved yields. Other segments likely to experience growth are nontraditional agricultural products such as flowers, fresh fruit, vegetables, and processed foods. The government's agricultural policy focuses on integration into the World Trade Organization, import tariffs, and the lack of credit in the agricultural sector.

23 ANIMAL HUSBANDRY

The dairy industry is located in the most fertile valleys of the highland plateau from Ibarra to Riobamba, where irrigation is available. The beef cattle industry is an important part of the agricultural economy, as exports to Colombia and Peru have become more profitable; there were 4,951,300 head of cattle in 2005. Nearly all the sheep (2,550,000 in 2005) are in the highlands; most are raised by Amerindians and are pastured at over 2,700 m (9,000 ft). The wool is of poor quality. Hogs and goats, found throughout the country, are frequently diseased and poorly fed; in 2005 there were an estimated 1,949,000 hogs and 250,000 goats. The use of bananas as hog feed has made hog farming more attractive economically. Poultry production has been steadily growing—208,870 tons in 2005, up from an annual average of 69,000 tons during 1989–91. Beef production totaled 206,500 tons in 2005. Milk production in 2005 totaled 2,546,000 tons, and eggs, 75,000 tons.

24 FISHING

In the waters around the Galápagos Islands, Ecuador has some of the world's richest fishing grounds, particularly for tuna. In the past, these waters were exploited mainly by foreign companies, but in recent years, Ecuadoran enterprises have participated more fully. Shifts in ocean currents can cause great variance in the annual catch. Ecuador is a leading producer of canned tuna. Shrimp farming occupies some 110,000 hectares (over 270,000 acres). Ec-

uador produces more shrimp than any other nation in the Americas, and exports more than 35,000 tons annually, mostly to the United States. Rainbow trout aquaculture is being developed in the Andean highlands. The total catch in 2003 was 465,084 tons, down from 1,003,380 tons in 1986. Exports of fish and fish products in 2005 totaled \$780.5 million.

Ecuador proclaimed sovereignty over its coastal waters to a limit of 200 km. In 1952, along with Peru and Chile, Ecuador signed the Declaration of Santiago (joined later by Colombia) to enforce these rights.

25 FORESTRY

One of Ecuador's vast untapped resources is its forestland. Forests, half of which are government owned, cover 10,557,000 hectares (26,086,000 acres), or 38.1% of the total mainland area. During 1990–2000, the annual average rate of deforestation was 1.2%. The tropical forests contain more than 2,240 known species of trees. Some of the denuded highlands have been planted with eucalyptus trees, which prevent soil erosion and provide both fuel and rough lumber. Total roundwood production in 2003 was 6.3 million cu m (221 million cu ft). About 50% of the wood cut was burned as fuel.

Ecuador is the world's largest producer and exporter of balsa. Several varieties of hardwoods, including species of mahogany, are used in cabinetmaking. Other forest products having some importance are the fiber for Panama hats (toquilla palm), vegetable ivory (tagua palm), kapok (ceiba tree), quinine (cinchona bark), and rubber.

26 MINING

Ecuador was heavily dependent on petroleum production, its leading industry and export commodity in 2003. The country had extensive but underdeveloped gold resources and other minerals. In 2001, Ecuador produced cadmium, copper, gold, lead, silver, zinc, cement, bentonite, common clay, kaolin, feldspar, crude gypsum, silica (glass sand), ferruginous sand, stone, sand and gravel (limestone, marble, pozzolan, pumice), salt, and sulfur. The country also contained known mineral resources of bismuth and tin. Production totals for 2003 included: gold, estimated at 3,020 kg, up from 2,750 kg in 2002; silver, 100 kg, up from 96 kg in 2002; kaolin, 9,330 metric tons, up from 8,483 metric tons in 2002; limestone, 6.28 million tons, down from 6.699 million tons in 2002; and marble, 292 metric tons, up from 265 metric tons in 2002. The slow pace of exploration and mining activities reflected low metal prices and recent political and economic uncertainties and disappointments.

27 ENERGY AND POWER

In recent years, an increasingly important percentage of Ecuador's national income has come from the petroleum industry. With estimated proven oil reserves of 4.6 billion barrels, as of 1 January 2005, Ecuador has the third-largest oil reserves in South America, and is the continent's fifth-largest oil producer. Initially, this industry was slow in developing, and production actually declined from 2,849,000 barrels of crude oil in 1965 to a low of 1,354,000 barrels in 1971. Starting in the 1970s, however, output increased dramatically, from 28,579,000 barrels in 1972 to 77,052,000 barrels in 1981, and to 109,400,000 barrels in 1991. After Ecuador

withdrew from the Organization of the Petroleum Exporting Countries (OPEC) in 1992, the country's daily crude oil production rose from 321,000 barrels in 1992 to nearly 400,000 barrels by the end of 1995. Production in 2004 was estimated at 534,800 barrels per day, of which crude oil accounted for 528,200 barrels per day. Net oil exports in 2004 were estimated at 390,800 barrels per day. During the first 11 months of that year, oil exports to the United States totaled 226,000 barrels per day. Ecuador is only second to Venezuela as a source of oil imports for the United States. Petroecuador, the state oil agency, is the largest oil producer in Ecuador, controlling around 37% of the country's output.

The most productive oil fields are located in the northeast corner of Ecuador, with Occidental's Eden Yuturi the nation's largest oil field, which in the first half of 2004, produced more than 75,500 barrels per day. Ecuador has two major oil pipelines: the first, the 310-mile Sistema Oleducto Trans-Ecuatoriano (SOTE); and the 300-mile Oleducto de Crudos Pesados (OCP). The two pipelines can transport 400,000 barrels per day and 450,000 barrels per day, respectively. SOTE is frequently affected by natural disasters. In March 2004 oil shipments via SOTE were halted due to a landslide and in 1987, a large section of the pipeline was taken out by an earthquake, which cut Ecuador's oil output by more than 50% in that year. Ecuador has three oil refineries, with a combined capacity of 176,000 barrels per day, the largest of which, is the 100,000 barrel per day, Esmeraldas facility that is located on the Pacific coast.

Ecuador's proven reserves of natural gas are relatively small, estimated at 345 billion cu ft, as of 1 January 2005. Production and consumption of natural gas in 2002, is each estimated at 3.5 billion cu ft.

Although it is estimated that Ecuador had no consumption of coal in 2002, the country does have 26 million short tons of recoverable coal reserves.

Ecuador gets approximately 63% of its electric power from hydropower sources, with conventional thermal plants providing the remainder. However, the country's heavy reliance upon hydroelectric power has resulted in periodic power shortages during the dry season, which runs from October to March. In 1995, a serious drought affected hydroelectric generating capacity and daily blackouts became common. When drought struck again in 2001, the government declared an energy emergency, urging the public to conserve energy. More than 60% of the country's hydroelectric generating capacity comes from the Paute plant, located in the eastern part of the nation. In 2002, it is estimated that Ecuador had an installed generating capacity, electric power output, and consumption of: 3.3 GW; 11.5 billion kWh; and 10.8 billion kWh, respectively.

28 INDUSTRY

Ecuador enjoyed a period of prosperity in the 1970s, due in large part to a boom in oil. A decline in international oil prices, an earthquake in 1987, and political difficulties hampered industrial development during the 1980s. During 1988–98, manufacturing output increased by an annual average of 2.5% per year. According to official estimates, in 1998 manufacturing contributed an estimated 22% GDP, but achieved only minimal growth during that year, and negative growth in 1999. A default on external debt in 1999 resulted in a 70% depreciation of the currency which nega-

tively impacted the industrial sector. The subsequent dollarization and rise in oil prices in the early 2000s caused a rise in export revenue.

Ecuador had three oil refineries in 2002, with a production capacity of 176,000 barrels per day. The construction of the new Transandean Heavy Oil Pipeline (OCP, in Spanish) due for completion in 2003 slated the petroleum industry for further growth. The most promising sectors, outside of oil, are linked to agriculture and natural resources. In the agricultural sector, expansion has come from processed foods and nontraditional agricultural products, such as flowers and fresh tropical fruits (mango, babaco, and passion fruit) and vegetables (asparagus and heart of palm). Other major manufactured items include canned seafood, automobiles, processed coffee, and cocoa. In the early part of the decade, Ecuador was also increasing its production of automobiles. Other industries include textiles, chemicals, wood products, metal work, paper products, and plastics.

29 SCIENCE AND TECHNOLOGY

In 1996, Ecuador had 20 agricultural, medical, scientific, and technical learned societies and research institutes, most notably the General Directorate of Hydrocarbons, the Institute of Nuclear Sciences, the Ecuadoran Institute of Natural Sciences, and the National Institute of Agricultural Research, all in Quito; the Charles Darwin Research Station in the Galápagos Islands; and the Naval Oceanographic Institute in Guayaquil. Ecuador has 19 colleges and universities offering degrees in basic and applied sciences. In 1987–97, science and engineering students accounted for 27% of college and university enrollments.

In 1998 (the latest year for which the following data is available) Ecuador had 84 researchers and 73 technicians per million people engaged in research and development (R&D). In that same year, R&D spending totaled \$31.485 million, or 0.08% of GDP, of which 90.6% came from the government, with 8.9% and 0.5% coming from foreign sources and private nonprofit institutions, respectively. In 2002, high technology exports were valued at \$34 million, accounting for 7% of all manufactured exports.

30 DOMESTIC TRADE

The major commercial centers are Quito, Guayaquil, Cuenca, and Santo Domingo de los Colorados. Importers may have headquarters in these locations, with retail branches and warehouses throughout the country. Most buyers prefer to make retail purchases directly from the manufacturers.

Rural domestic trade among the *campesinos* (indigenous peoples) is limited by frequent deep levels of poverty and underdevelopment. The (mostly urban) middle class is relatively moderate in size, and suffered major declines in purchasing power during the 1980s and 1990s, when economic growth faltered. Unemployment and underemployment have stimulated the growth of informal domestic economic activity.

The nation's economy is primarily based on petroleum and agricultural exports. The industrial segment, including petroleum, food processing, textiles, paper and wood products, plastics, lumber, chemicals, and fishing, primarily supplies the domestic market.

In the mountains, businesses are generally open from 8 AM to 6 PM, with a two-hour midday break; lunch hours are longer along

the coast during the hottest months (December–April). Banks are usually open from 9 AM to 1:30 PM and from 2 to 6 PM during the week. Urban and suburban factories typically operated from 7 AM to 4 PM.

3¹ FOREIGN TRADE

Ecuador's trade balance is generally positive, due overwhelmingly to its oil exports. Ecuador's oil reserves and refineries account for slightly over half of the country's commodity exports. Agricultural exports include bananas and plantains, shellfish, coffee and cocoa, and fish. In 2000, the government raised the price of Ecuadorian petrol by 60% in order to forge an economic recovery. Ecuador exports about half of its petroleum to the United States, while the United States supplied 24.3% of Ecuador's imports in 2005. Ecuador's exports in 2005 were destined for the United States (55%), Colombia (6.3%), Germany (5.3%), Russia (4%), and South Korea (4%). Imports came from the United States, Colombia (13%), Brazil (6.9%), Venezuela (5.9%), and Japan (5.2%). Principal imports include raw materials, consumption goods, capital goods, fuel, and lubricants.

3² BALANCE OF PAYMENTS

Ecuador's balance of payments showed repeated deficits on current accounts until the vast increases in petroleum exports during the 1970s; only in 1974 did the net balance finally register a surplus of \$26.7 million. International reserves rose steadily from \$57.3 million in 1967 to \$64.7 million in 1971, increased dramatically (with the rise in oil exports) from \$143.4 million in 1972 to \$1 billion by December 1980, and then dropped (as the oil market softened) to \$304 million at the end of 1982, but were up to \$500 million by 1987. In 1992, currency appreciation caused a narrowing in the trade surplus, which pushed down international reserves. In 1994, increased production in the petroleum, banana, construction, and manufacturing sectors generated growth of 4%, up from 3% the

year before, helping Ecuador post a merchandise trade surplus of \$435 million. The surplus, however, was offset by a deficit on the services account resulting in a current account deficit of \$807 million. Increased exports in 1995 were partially offset by increased military imports due to the conflict with Peru. The current account deficit in 1997 also showed an increase of military imports with a deficit of \$734 million (according to the US embassy in Ecuador). The 1998 peace agreement with Peru assuaged the balance of payments deficit, but by that time the flight of private capital due to the unstable political situation had precipitated a negative turn in the economy. Capital flight still remained a problem in the early 2000s, due to a difficult investment climate, a fragile banking system, and continued economic and political uncertainty.

External debt was approximately 80% of GDP in 2000 (at approximately \$14 billion in debt), an improvement over 1999 when the debt-to-GDP ratio was 100%, due in large measure to the depreciation of the sucre prior to dollarization. Though Ecuador's debt had risen to \$18.1 billion by 2005, the debt-to-GDP ratio had dropped to roughly 60%.

The International Monetary Fund (IMF) reported that in 2003 Ecuador had exports of goods totaling roughly \$6.2 billion and imports totaling roughly \$6.3 billion, making for a trade deficit of approximately \$72 million. The services credit totaled \$900 million and debit \$1.6 billion.

3³ BANKING AND SECURITIES

The Central Bank of Ecuador, founded as a private bank in 1927, was declared an organ of the state in 1948 by the Monetary Board. The Central Bank issues and stabilizes currency, holds and manages foreign-exchange reserves, issues import and export permits, and regulates international transactions. The Monetary Board supervises government monetary, financial, and exchange policies. In 2002, there were 22 private banks operating in Ecuador. The five largest banks included Banco Popular, Filanbanco, Banco del Progreso, Banco del Pichincha, and Banco del Pacifico.

The government-owned National Development Bank (BNF) was founded in 1928 to provide credit for agricultural and industrial development. Other major government-owned financial institutions are the Bank of the State (BEDE), the National Finance Corporation (CFN), the Ecuadorian Housing Bank (BEV), and the Development Bank of Ecuador (BEDE).

On 1 December 1996, President Abdalá Bucaram anchored the fully convertible sucre to the dollar. In July 1997 the sucre was pegged at a fixed exchange rate of 4 new sucres (4,000 old sucres) per dollar. Bucaram was dismissed from the government for incompetence, and his plan was abandoned by the Alarcon government, which introduced a currency auction system to minimize fluctuations between the sucre and the dollar. The sucre depreciated by almost 200% in 1999. In 2000, President Mahuad decided to dollarize the economy at 25,000 sucres per dollar. He was also ousted in a coup d'état on an anti-dollarization platform, but the incumbent President Naboia went ahead with the plan anyway. IMF-backed recovery plans for 2001 included massive amounts of foreign assistance. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$1.9 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$4.9 billion. The

Balance of Payments – Ecuador (2003)

(In millions of US dollars)

Current Account		-455.0
Balance on goods	-71.0	
Imports	-6,268.0	
Exports	6,197.0	
Balance on services	-692.0	
Balance on income	-1,465.0	
Current transfers	1,772.0	
Capital Account		25.0
Financial Account		316.0
Direct investment abroad	...	
Direct investment in Ecuador	1,555.0	
Portfolio investment assets	...	
Portfolio investment liabilities	8.0	
Financial derivatives	...	
Other investment assets	-904.0	
Other investment liabilities	-343.0	
Net Errors and Omissions		184.0
Reserves and Related Items		-70.0

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 16.44%.

Trading in securities is relatively minor. Ecuador has two stock exchanges, one in Quito and the other in Guayaquil, both established in 1969. Market capitalization of the Guayaquil Stock Exchange was \$2.581 billion in 2004, with a trading value of \$99 million. As of that same year, a total of 30 companies were listed on the Guayaquil Stock Exchange. Purchase and sale of government and some private securities are functions of the National Financial Corp., which, along with several hundred business people, owns the two stock exchanges. This autonomous agency, founded in 1964, deals in mortgage bonds issued by banks for agricultural and industrial development and in general seeks to mobilize funds for technical assistance to industry.

34 INSURANCE

The principal branches of insurance are fire, marine, and vehicular, with some growth in aviation and aircraft. Other branches, including life, are still undeveloped. Work-related injuries and imports are required to be insured.

Insurance is closely governed by legal provisions determining necessary reserves and security funds and requiring a percentage of investments in government securities. The Superintendency of Banks periodically examines insurance operations and authorizes the formation of new companies. In accordance with the General Insurance Law of 1965, all insurance companies must apply to the Bank Superintendency for authority to operate.

It has been proposed to privatize the management of pension funds in the state security system, the Instituto Ecuatoriano de Seguridad Social (IESS). This will be made possible by separating the IESS into three sectors: health, pensions, and rural social security. In 2003, the value of all direct premiums written totaled \$458 million, of which \$412 million were nonlife. Colonial was the country's top nonlife insurer, in 2003 with \$56.6 million gross premiums written. Pan American Life was the country's leading life insurer, with \$12.8 million of gross life premiums written in that same year.

35 PUBLIC FINANCE

The central government, 20 provincial and some 100 municipal governments, and a large number of decentralized autonomous agencies constitute the public sector of the Ecuadoran economy. Central government budgets in the late 1970s and early 1980s grew expansively from one year to the next, with oil being the key source of income. Economic reforms instituted in 1992 rose domestic fuel prices and utility rates, eliminated subsidies, and brought the government budget into balance. These changes helped eliminate the budget deficit by 1994. The government was able to maintain budgetary control in 1995 when faced with increased military expenditures because of the border conflict with Peru, with a deficit of only 1.4% of GDP. However, the 1996 balance ran a deficit of 3% due to increased public spending. A growing fiscal deficit in the late 1990s due to declining oil prices, El Niño damage, and the inefficiencies of the public sector, caused the removal of several political leaders. The extreme financial cri-

sis during 1999 and 2000 caused the total public debt to rise from 64% of GDP in 1997 to 116% of GDP in 1999.

The US Central Intelligence Agency (CIA) estimated that in 2005 Ecuador's central government took in revenues of approximately \$8.8 billion and had expenditures of \$8.1 billion. Revenues minus expenditures totaled approximately \$669 million. Public debt in 2005 amounted to 44.9% of GDP. Total external debt was \$17.01 billion.

36 TAXATION

Ecuador's tax structure includes an income tax, a 12% value-added tax (VAT), a stamp tax, a real estate tax, a transfer tax, municipal taxes, and inheritance and gift taxes.

As of 2005, the basic tax on corporate income was 25%. A reduced rate of 15% is available on the amount of profits that are reinvested. A withholding tax of 25% is also imposed upon certain payments made abroad. These include: royalty payments for technical assistance to nondomiciled companies and nonresident persons; payments to nonresident persons for services performed; payments made to nondomiciled firms for professional services performed abroad or occasional services performed in Ecuador. Dividends received as well as certain capital gains are not taxed. Personal income tax is assessed according to a progressive schedule ranging from 5–25%, up from a range of 0–15% in 2000. Additional rates and surcharges are applicable to certain classes of income. A stamp tax is levied on almost all commercial and legal documents. Estate, inheritance, and gift taxes vary according to the amount involved and the closeness of family relationship between donor and recipient. Municipal real estate taxes range from 0.3–2%. A special consumption tax is imposed on cigarettes, alcoholic beverages, soft drinks, motor vehicles, aircraft, helicopters, and ships.

37 CUSTOMS AND DUTIES

Import duties range from 0–20%, although there is a 35% duty applied to automobile imports. The average tariff rate is 13% ad valorem, as a result of Ecuador's accession to the World Trade Organization in 1996. Ecuador has a common external tariff (CET) with Colombia and Venezuela, ranging from 5% on raw materials and capital goods, 10% or 15% for intermediate goods, and 20% for consumer goods. A 12% VAT on imports based on CIF plus duty and all other taxes is placed on imports, with exemptions for agricultural inputs, petroleum development equipment, medicines, and books.

Ecuador is a member of the Andean Pact and the Latin American Integration Association (LAIA). Ecuador also has bilateral free trade agreements with Colombia, Bolivia, Venezuela, and Chile. All accord preferential duty treatment. Five free trade zones were established in 1991, including the Zona Franca de Esmeraldas, Zona Franca del Pacifico S.A., Zona Franca Centro Ecuatoriana CA, Zona Franca Manabi, and Parque Industrial de Cuenca CEM.

38 FOREIGN INVESTMENT

The government welcomes foreign investment and has substantially decreased regulatory barriers in recent years, though Ecuador's economy retains a considerable statist and protectionist orientation. As a member of the Andean Pact, Ecuador's foreign

investment policy is governed largely by the parameters of Andean Pact Decisions 291 and 292 of May 1991, which provide for equal treatment of foreign and domestic investors, and unrestricted remittance of profits overseas. As of 8 January 1993, foreign investment was allowed without previous authorization in virtually all sectors of the economy that were open to domestic private investment, with total repatriation permitted.

In 1997 the government passed a law on promoting foreign investment. Investment in telecommunications and electricity were opened in 2000, when the government announced plans to sell half of the rights in each sector. In 2001 a new mining law went into effect designed to spur increased foreign investment in Ecuador's considerable untapped mineral reserves. The law provides for 30-year, renewable concessions of up to 5,000 hectares (with no limit on the number of concessions per investor), with exploration and production covered by a single license and environmental regulation under a single, central authority. Licensing fees are called "conservation patents" and increase over the life of the concession. Concessions can be both transmitted (passed on to heirs) and transferred (rented, leased, or sold.) Four major mining companies were awarded concessions in 2002.

Foreign oil companies still have to work with PetroEcuador, the state oil company, which is judged to be sorely in need of foreign investment funds, particularly after the government default in 1999 and near-collapse of domestic banking system. In 2003, PetroEcuador's problems—production was 35% below the level in 1990—were under study by an international financial group headed by the IMF, which will doubtless prescribe more openness to foreign investment in the sector.

The annual average inflow of foreign direct investment (FDI) in Ecuador amounted to \$740.5 million in 1997 to 2000. In 2001 and 2002, the annual FDI inflow rose over 75% (to \$1.33 billion and \$1.28 billion, respectively), contrary to the worldwide trend of sharp decreases in inward FDI. Flows increased further in 2003, with the vast majority going to petroleum and mining. Major investors include the United States, Italy, Spain, and Argentina. Ecuador's good relations with the United States, plentiful natural resources, low wages and property costs, and membership in the Andean Community all serve to attract FDI. Detracting from these advantages, however, are the skills shortage, legal insecurity, and a small, infrastructurally underdeveloped business sector.

39 ECONOMIC DEVELOPMENT

In 1992–93, a major macroeconomic adjustment program was introduced, featuring a sizable currency devaluation (35%) and substantial increases in domestic fuel and electricity prices. Free trade agreements with Colombia, Venezuela, and Bolivia were signed, and new investment regulations were adopted to open up the economy to foreign investment and eliminate previous bureaucratic impediments. In April 1993, Ecuador qualified for Andean Trade Preference Act benefits, and became a member of the WTO in 1996.

High debt service obligations and external payments arrears to commercial banks impaired Ecuador's economic growth during the rest of the 1990s. The economy basically fell apart in 1999, despite aid throughout the decade from multilateral donors. In 2000, Ecuador accepted a \$600 million loan from the International Monetary Fund (IMF), IBRD, and the Andean Development

Corporation; while it rescheduled loan payments on \$600 million with the Paris Club. This was part of a total \$2 billion package from multilateral aid agencies to take place over a period of three years. In order to receive the money, the government was required to undertake a privatization program, and increase the price of petrol by 60%. Total external debt in 2001 reached \$14 billion, most of which was in default. The country adopted the US dollar as legal tender in 2000.

In March 2003, Ecuador negotiated a 13-month, \$205-million standby arrangement with the IMF. In 2002, economic growth was slow, due in part to tax cuts, a drop in oil output, large increases in a public wage bill, and a high-level corruption scandal. The government that took office in 2003 pledged to eliminate arrears, resolve remaining problems with closed banks, and modernize state-owned enterprises. Completion of a new Transandean Oil Pipeline was seen as a sign of potential output growth.

In 2004, Ecuador engaged in talks with Peru, Colombia, and the United States regarding a new free-trade agreement (to replace the 2002 Andean Trade Promotion and Drug Eradication Act—AT-PDEA—that was scheduled to expire in December 2006). As opposed to other nations in the region, the emphasis of economic policy in Ecuador continues to be on primary goods, and less on diversification of trade, making it vulnerable to terms-of-trade shocks. A lack of support for the proposed Hydrocarbons Law (concerning the privatization of the state-owned oil sector) led to its demise in July 2004, in general leading to one more failure to implement privatization fully in Ecuador. In the meantime, the high oil prices have helped Ecuador to accumulate foreign currency reserves from \$545 million in 2000 to \$849 in 2004.

40 SOCIAL DEVELOPMENT

Ecuador's social security program is administered through the Ecuadorian Social Security Institute. A 2001 law to overhaul the system has not yet been implemented. The government funds the Bono de Desarrollo Humano program, which provides assistance to the elderly and disabled. Old age pensions, disability and survivorship benefits are funded through employee and employer contributions, depending on the type of occupation. Unemployment benefits for public and private employees are provided by individual severance accounts and a social insurance program. There is a minimal family allowance for impoverished mothers with at least one child under 18 years of age.

Despite equal legal status, women have fewer educational and employment opportunities than men. There are fewer women in the professions, and salary discrimination is common. Social, economic, and cultural change is promoted by the Ecuadorian Women's Permanent National Forum. The Law Against Violence Affecting Women and Children criminalized domestic abused including psychological abuse. It also created family courts and gave authorities the power to remove an abusive spouse from the home. However, domestic abuse remained widespread in 2004.

Indigenous peoples in the Amazon area are increasingly demanding that the government take into account their interests before making decisions that affect their land. Human rights organizations reported cases of mistreatment of detainees and incommunicado detention. The judicial system is slow and pretrial detention may be lengthy.

41 HEALTH

Health facilities are largely concentrated in the towns and are both too expensive and too distant to be used by most of the highland Amerindian population. Hospitals are operated by agencies of the national government, the municipalities, and private organizations or persons. As of 2004, there were an estimated 148 physicians, 157 nurses, and 17 dentists per 100,000 people. Health care expenditure was estimated at 3.6% of GDP.

In 2002, the birthrate was an estimated 25.5 per 1,000 people. As of 2000, 66% of married women (ages 15 to 49) used contraception. The infant mortality rate in 2005 was 23.66 per 1,000 live births. Life expectancy that year was 76.21 years. In 1997, Ecuador immunized large numbers of children up to one year old as follows: tuberculosis, 99%; diphtheria, pertussis, and tetanus, 76%; polio, 77%; and measles, 75%. The overall death rate was an estimated 5.4 per 1,000 people.

Malnutrition and infant mortality are the country's two basic health problems. Malaria is still a problem; 12,011 cases were reported in 1996. In 1999, there were 172 cases of tuberculosis per 100,000 people. In 1996, 40 cases of measles were reported. Cholera still persists; however, less than 1% of the 1,060 cases accounted for died of cholera in 1996. Other health problems are largely being controlled. Yellow fever was eliminated by the efforts of the Rockefeller Foundation. Two antituberculosis organizations have helped reduce the mortality from that disease, which earlier was responsible for one-fifth of the nation's deaths. In 2000, 71% of the population had access to safe drinking water and 59% had adequate sanitation.

The HIV/AIDS prevalence was 0.30 per 100 adults in 2003. As of 2004, there were approximately 21,000 people living with HIV/AIDS in the country. There were an estimated 1,700 deaths from AIDS in 2003.

42 HOUSING

In 2001, there were about 3,456,103 housing units in the country. About 72% of all housing units were detached, single-family homes, 9% were apartments, and 4% were *ranchos* or *covachas*, dwellings of wood, stone, or brick covered with palm leaves, straw or other vegetation. About 20,085 dwellings were *choza*, temporary shacks or huts. Owners occupied 67%. About 18% of the population live in inadequate housing structures. Almost all rural homes and many city dwellings on the coast are made with split bamboo siding and a palm thatch or corrugated iron roof.

Over the past decade, the government has received substantial amounts of money from international organizations for projects focusing on low-income housing. A housing development bank, Banco de la Vivienda, was established in 1961.

43 EDUCATION

Education is free and compulsory from ages 6 to 15. Primary education is six years, followed by three years of basic secondary school. This is followed by a diversified secondary program with students opting for two or three years of study in humanities, science, or technology. A two year vocational program is also offered.

The academic year runs from October to July. The primary language of instruction is Spanish.

In 2001, about 73% of children were enrolled in some type of preschool program at age five. Primary school enrollment in 2003 was estimated at about 100% of age-eligible students. The same year, secondary school enrollment was about 50% of age-eligible students. It is estimated that about 99% of all students complete their primary education. The student-to-teacher ratio for primary school was at about 23:1 in 2000; the ratio for secondary school was about 12:1. In 2000, private schools accounted for about 22.7% of primary school enrollment and 24.6% of secondary enrollment.

The Central University of Ecuador dates from 1594. There are three Catholic universities, in Quito, Guayaquil, and Cuenca. The National Polytechnical School in Quito offers degrees in industrial science and mechanical engineering, while the Polytechnical School of the Littoral in Guayaquil provides training in naval and petroleum engineering and in the natural sciences. The adult literacy rate for 2004 was estimated at about 91%, with 92.3% for men and 89.7% for women.

The Ministry of Education is the principal authority for all educational programs except higher education, which is supervised by a national technical council. As of 2003, public expenditure on education was estimated at 1% of GDP, or 8% of total government expenditures.

44 LIBRARIES AND MUSEUMS

The oldest and most important library in Ecuador is the Central University Library in Quito. It was founded in 1586 and has 170,000 volumes. Other important collections are maintained at the Cuenca University Library (more than 63,000 volumes) and at the National Library in Quito (over 70,000 volumes). Libraries are also maintained by the other universities; the municipalities of Quito, Guayaquil, Cuenca, and Riobamba; the Ecuadoran Culture House; the Central Bank of Ecuador (48,000 volumes); and other organizations, including the Ecuadoran Culture House, which holds the Laura de Crespo room of National Authors. The library of the Pontificia Universidad Católica del Ecuador in Quito contains about 119,854 books and serves as a depository library of the United Nations.

A number of museums in Ecuador preserve and display paintings, sculpture, coins, records, and artifacts of historic and scientific interest. One of Ecuador's best collections of Inca and pre-Inca objects is found in a privately owned museum near Cuenca. Quito has the National Museum and Archives, the Museum of Modern Art, the Archaeological Museum and Art Galleries of the Central Bank of Ecuador, the Jijón and Caamaño Archaeological and Historical Museum, and the museum of the Ecuadoran Culture House, as well as other smaller collections in schools and government agencies. There are municipal museums in many smaller cities, as well as ethnographic and historical museums.

45 MEDIA

Between the main cities and towns there are radiotelephone links. Quito is connected by telegraph with Colombia and Peru, and there are telephone and cable connections with all parts of the world. In 2003, there were an estimated 122 mainline telephones for every 1,000 people; about 14,500 people were on a waiting list

for telephone service installation. The same year, there were approximately 189 mobile phones in use for every 1,000 people.

Ecuador had 392 AM and 35 FM radio stations and 7 television stations as of 2001. In addition to the numerous local stations, there was one central government network, Radio Nacional del Ecuador. In 2003, there were an estimated 422 radios and 252 television sets for every 1,000 people. About 13.9 of every 1,000 people were cable subscribers. Also in 2003, there were 31.1 personal computers for every 1,000 people and 46 of every 1,000 people had access to the Internet. There were 38 secure Internet servers in the country in 2004.

In Quito, the leading newspapers, with their political tendencies and estimated daily circulations in 2004 as available, were: *El Comercio*, independent; *Hoy*, independent; *Últimas Noticias*, independent, 60,000; and *La Hora*, independent, 12,000. In Guayaquil, leading papers include *El Extra*, 380,000 (in 2004); *El Universo*, independent, 143,000; *La Segunda*, independent, 60,000; *Expreso*, independent, 60,000; and *El Telegrafo*, independent. In Cuenca, the conservative daily *El Mercurio* had a circulation of 18,000 in 2004.

The government requires all mass periodicals to participate in literacy and adult education campaigns. There is no censorship of newspapers or of radio and television stations, as ensured by Ecuador's constitution.

46 ORGANIZATIONS

There are about seven chambers of commerce and industry and at least 10 employers' organizations. Workers' and business organizations include the National Association of Cocoa Exporters, Textile Industry Association of Ecuador, and the National Association of Coffee Exporters. Trade unions are not common.

The outstanding contemporary learned society is the Ecuadorian Academy, founded in 1875, and the second academy in Spanish America. It is a correspondent of the Royal Spanish Academy. The Ecuadorian Culture House prints works of contemporary Ecuadorian writers, encourages the investigation of scientific and social problems, and conducts discussions on cultural matters. The Andean Institute of Popular Arts, based in Ecuador, is a multinational organization that promotes interest and study in the arts through special programs and scholarships.

The Federacion Medica Ecuatoriana (Medical Federation of Ecuador) promotes research and education on health issues and works to establish common policies and standards in healthcare. There are also a number of associations dedicated to research and education for specific fields of medicine and particular diseases and conditions. Professional networking and educational associations exist for many other fields as well.

Fraternal organizations and service clubs in Ecuador include the Masons, Rotary clubs, and Lions clubs. The Scout Association of Ecuador and the Girl Guides have active programs. There is a Junior Chamber Program promoting leadership development for youth. Sports associations are active in supporting amateur competitions in a number of pastimes. Many social and charitable organizations are sponsored by the Roman Catholic Church.

The Charles Darwin Foundation for the Galápagos Isles, with multinational interest and membership, is based in Quito. Golondrinas Foundation is another environmental conservation organiza-

tion. The World Conservation Union has a regional office in Quito.

An organization called Ecuador Volunteer supports a number of service organizations throughout the country. The International Red Cross, Caritas, UNICEF, Habitat for Humanity, the Society of St. Vincent de Paul, and Amnesty International are active in the country.

47 TOURISM, TRAVEL, AND RECREATION

Ecuador's highlands, reached by air, by the spectacular railroad, or highway, are rich in natural beauty. Quito, the second-highest capital in the world, has modern hotels and transportation. Its churches and monasteries, with their delicately carved doors and altars, and an abundance of exquisite paintings and sculptures, make Quito, in the words of a 1979 UNESCO citation, a "cultural patrimony of mankind."

An important part of Ecuador's cultural life is the feria, or market day, which takes place weekly in many towns. The town of Otavalo, about 56 km (35 mi) north of Quito, is well-known for its colorful Saturday fairs. The Galápagos Islands, world-famous for their unusual wildlife, have become a popular site for ecotourism.

Tourism has experienced significant growth in Ecuador due to the natural attractions and architectural and historical sights. Further development of ecotourism must be carefully managed to avoid a negative impact on Ecuador's environment.

Tourists need a valid passport. Visas are only required for stays of over 90 days. Visitors need a yellow fever vaccination certificate if arriving from an infected area. Tourist facilities on the coast include modern resort hotels and fine beaches.

There were 760,766 tourists who arrived in Ecuador in 2003, about 55% from other countries in South America. That same year there were 38,237 hotel rooms with 86,466 beds. Tourism receipts totaled us\$408 million.

In 2005, the US Department of State estimated the daily cost of staying in Quito was us\$222. Expenses in Guayaquil were us\$172 per day.

48 FAMOUS ECUADORANS

Ecuadorians claim Atahualpa (1500?-33), the last emperor of the Incas, as the first renowned figure in their country's history; during the civil war between him and his half-brother, Huáscar, his administration of the Inca empire was based in what is now Ecuador. The 16th-century Amerindian general Rumiñahui is remembered for his heroic resistance to Spanish conquest. During the colonial period, Quito produced notable artists and sculptors. Among these were Miguel de Santiago (d.1673) and the Amerindians Manuel Chile (Caspicara) and Pampite. Francisco Javier Eugenio de Santa Cruz y Espejo (1747-95), the national hero of Ecuador, inspired much of the independence movement through his political writings. Espejo advocated complete emancipation from Spain, autonomous government for each colony, and nationalization of the clergy. Although he did not live to take part in the War of Independence (he died in prison for his political activities), he was an important figure in its philosophical development.

Vicente Rocafuerte (1783-1847), an early president, made significant contributions to the development of the republic. Another president, Gabriel García Moreno (1821-75), was the first to achieve national consolidation; he also contributed to the literary

development of the nation. Juan Montalvo (1823–89) bitterly and brilliantly opposed conservatism in his essays and other works. Eloy Alfaro (1841–1912), another outstanding president, was noted for the honesty of his administration.

Among Ecuador's literary figures were Numa Pompilio Llona (1832–1907), a poet-philosopher, and Juan de León Mera (1832–94), a poet and novelist. Outstanding Ecuadorans of the 20th century include the poets Gonzalo Escudero (1903–71), Jorge Carrera Andrade (1903–78), César Dávila Andrade (1918–67), and Benjamín Carrión (1897–1979); the novelist Jorge Icaza (1906–78); the painter Oswaldo Guayasamin Calero (b.1919); José María Velasco Ibarra (1893–1979), who served five times as president of his country; and Galo Plaza Lasso (1906–87), a former president of Ecuador and of the OAS. Mike Judge (b.1962) is an animator, voice actor, writer, and producer for such US television series as *Beavis and Butt-head* and *King of the Hill*.

49 DEPENDENCIES

Ecuador's only territory, administered as a province since 1973, is the Archipelago of Columbus (Archipiélago de Colón), more commonly known as the Galápagos Islands, after the Spanish name for the large land tortoise found there. The six largest islands of the group (with their earlier names in parentheses) are Isabela (Albemarle), Santa Cruz (Indefatigable), Santiago (San Salvador or James), Fernandina (Narborough), Floreana (Santa María or Charles), and San Cristóbal (Chatham). Lying on the equator, this cluster of 60-odd islands is scattered over nearly 60,000 sq km (23,000 sq mi) of ocean and has a total land area of 8,010 sq km (3,093 sq mi). The center of the group lies at about 90°w, some 1,130 km (700 mi) from the coast of Ecuador and about 1,600 km (1,000 mi) southwest of Panama.

Most of the islands are small and barren. The largest, Isabela, which is 121 km (75 mi) long and makes up half the land area of the group, has the highest volcano (now only slightly active), reaching 1,689 m (5,541 ft). The climate of these tropical islands is modified by the cold Humboldt Current, which keeps the mean annual temperature as low as 21°C (70°F). Desertlike low-lying areas contrast with mist-shrouded heights at 240 m (800 ft) and higher elevations that have considerable rainfall.

Charles Darwin visited the islands in 1835 during his voyage on the *Beagle*, and his observations there made an important contribution to the development of his theories of evolution and natural selection. The unique forms of plant and animal life found on the

various islands include 15 species of giant tortoise, considered to be the longest-lived creatures on earth, with a life span of about 150 years and a maximum weight of more than 225 kg (500 lb). In the mid-1980s, their number was estimated at 10,000. The Galápagos have 85 species of birds. In 1959, Ecuador declared the Galápagos a national park to prevent the extinction of the wildlife. The islands have since become one of the world's most noted focal points for naturalist studies and observations. About 21,000 visitors come to the islands each year.

Early Amerindian navigators, traveling on balsa rafts, frequently went to the Galápagos for the excellent fishing, but there is no evidence of any permanent settlement. Bishop Tomás de Berlanga of Panama landed at the Galápagos in 1535; he was the first of a series of Spaniards to visit the islands. In 1832, the first president of Ecuador, Juan José Flores, declared the islands a national territory. Several were used from time to time for penal colonies, but the practice was discontinued in 1959. The administrative seat is San Cristóbal. Only four of the islands are inhabited, and the estimated population numbers 6,000.

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EL SALVADOR

Republic of El Salvador
República de El Salvador

CAPITAL: San Salvador

FLAG: The national flag consists of a white stripe between two horizontal blue stripes. The national coat of arms is centered in the white band.

ANTHEM: *Saludemos la Patria Orgullosos* (*Let us Proudly Hail the Fatherland*).

MONETARY UNIT: The US dollar became El Salvador's currency in 2001 replacing the colón.

WEIGHTS AND MEASURES: The metric system is the legal standard, but some old Spanish measures also are used.

HOLIDAYS: New Year's Day, 1 January; Labor Day, 1 May; Independence Day, 15 September; Columbus Day, 12 October; All Souls' Day, 2 November; First Call for Independence, 5 November; Christmas, 25 December. Movable religious holidays include Good Friday, Holy Saturday, Easter Monday, and Corpus Christi; there is a movable secular holiday, the Festival (1st week in August).

TIME: 6 AM = noon GMT.

¹ LOCATION, SIZE, AND EXTENT

El Salvador, the smallest Central American country, has an area of 21,040 sq km (8,124 sq mi), extending 270 km (168 mi) WNW-ESE and 142 km (88 mi) N-S. Comparatively, the area occupied by El Salvador is slightly smaller than the state of Massachusetts. Bounded on the N and E by Honduras, on the S and SW by the Pacific Ocean, and on the NW by Guatemala, El Salvador has a total boundary length of 852 km (529 mi), of which 307 km (191 mi) is coastline. It is the only Central American country without a Caribbean coastline.

El Salvador's capital city, San Salvador, is located in the west central part of the country.

² TOPOGRAPHY

El Salvador is a land of mountains and once-fertile upland plains. It is divided into three general topographic regions: (1) the hot, narrow Pacific coastal belt, 260 km (160 mi) long and 16–24 km (10–15 mi) wide; (2) the central plateau, at an altitude of about 610 m (2,000 ft), crossing from east to west, between two mountain ranges; and (3) the northern lowlands, formed by the wide Lempa River Valley, bounded by a high mountain range ascending to the Honduran border.

The central plateau, north of the Pacific coastal belt, is an area of valleys endowed with rich volcanic soil. This is the agricultural, industrial, and population center of the country; the capital, San Salvador (682 m/2,237 ft above sea level), is in this region. Almost surrounded by active volcanoes—Santa Ana (2,381 m/7,812 ft), San Vicente (2,173 m/7,129 ft), San Miguel (2,132 m/6,995 ft), San Salvador (1,967 m/6,453 ft), and Izalco (1,965 m/6,447 ft)—the region is a zone of recurrent earthquakes and volcanic activity; Izalco is known as the Lighthouse of the Pacific. El Salvador has sev-

eral lakes, the largest being Ilopango, Güija, and Coatepeque. The Lempa, the most important of some 150 rivers, rises in Guatemala and runs south into El Salvador, eventually reaching the Pacific.

³ CLIMATE

Located in the tropical zone, El Salvador has two distinct seasons: the dry season, from November to April, when light rains occur, and the wet season, from May to October, when the temporales, or heavy rains, fall. The coastal plain receives the heaviest rainfall. Some interior areas are relatively dry most of the year, necessitating irrigation and a selection of crops suited for arid land cultivation. The average annual rainfall is 182 cm (72 in). Temperatures vary with altitude, from the hot coastal lowlands to the semitropical central plateau; in general, the climate is warm, with an annual average maximum of 32°C (90°F) and an average minimum of 18°C (64°F). The average temperature at San Salvador is 22°C (72°F) in January and 23°C (73°F) in July.

⁴ FLORA AND FAUNA

Indigenous trees include the mangrove, rubber, dogwood, mahogany, cedar, and walnut; pine and oak are found in the northern mountainous region. Varieties of tropical fruit, numerous medicinal plants, and balsam, a medicinal gum, grow in the country. Native fauna (greatly reduced in past decades) includes varieties of monkey, jaguar, coyote, tapir, and armadillo, along with several kinds of parrots and various migratory birds. Fish, both freshwater and saltwater, turtles, iguanas, crocodiles, and alligators abound. Both venomous and nonvenomous snakes, the latter including the boa constrictor, are common in El Salvador.

As of 2002, there were at least 135 species of mammals, 141 species of birds, and over 2,900 species of plants throughout the country.

5 ENVIRONMENT

Because of heavy cutting, the forest resources of El Salvador had been reduced to about 5.8% of the total area by 2000. Forty-five percent of the wood taken from the forests has been used for fuel. Peasant farmers burn the small trees and other growth on the hillsides to plant corn and beans, thus hastening the erosion of the topsoil. Seventy-five percent of the land area in El Salvador is threatened by erosion and desertification at a rate of 20 tons per hectare per year. The government enacted forestry conservation measures in 1973, but they have had little effect on the rate of deforestation. Among the environmental consequences of forest depletion, in addition to loss of soil fertility, are diminution of groundwater resources and drastic loss of native flora and fauna.

Pollution is widespread and restrictions on waste disposal, including disposal of toxic waste, are lax. By 1993, 90% of El Salvador's rivers were polluted. Safe drinking water is available to 91% of the urban population and 68% of the rural dwellers. Forty-six percent of the nation's 18 cu km of renewable water sources is used for agricultural purposes.

There is no comprehensive national law controlling environmental protection, and the legislation that is on the books is poorly enforced. The National Environmental Protection Committee, established by decree in 1974, has had little impact. In 2003, about 0.4% of the total land area was legally protected. There are two Ramsar wetland sites.

The pollution of the environment in El Salvador is a serious threat to the survival of its plants and wildlife. According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 2 types of mammals, 3 species of birds, 5 types of reptiles, 8 species of amphibians, 5 species of fish, 1 species of invertebrate, and 25 species of plants. Endangered species in El Salvador included the tundra peregrine falcon, four species of turtle (green sea, hawksbill, leatherback, and olive ridley), American crocodile, ocelot, spectacled caiman, jaguar, giant anteater, and Central American tapir.

6 POPULATION

The population of El Salvador in 2005 was estimated by the United Nations (UN) at 6,881,000, which placed it at number 98 in population among the 193 nations of the world. In 2005, approximately 5% of the population was over 65 years of age, with another 33% of the population under 15 years of age. There were 97 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 2.0%, a rate the government viewed as too high. The projected population for the year 2025 was 9,052,000. The population density was 327 per sq km (847 per sq mi), which makes it the most densely populated country in Central America. Overpopulation is considered a major problem in El Salvador. A majority of the people live in the central plateau.

The UN estimated that 59% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 2.7% for 2000–2005. The capital city, San Salvador, had a population of 1,424,000 in that year. Other major cities and their estimated populations are Santa Ana (250,000) and San Miguel (245,428).

7 MIGRATION

Until the early 1980s, emigration and immigration were negligible in El Salvador, except for migration of Salvadorans seeking economic advantages in Honduras, a trend that inflamed tensions between the two nations and was an underlying cause of their 1969 war. At that time, 300,000 Salvadorans were estimated to have settled in Honduras; following the war, as many as 130,000 Salvadorans may have returned from Honduras. An estimated 550,000 people were displaced from their homes by warfare between 1979 and 1992.

While the United States granted temporary asylum to thousands of Salvadoran refugees under the administration of President Jimmy Carter (1977–81), the administration of President Ronald Reagan began returning them to El Salvador in 1981. Of the one million Salvadorans estimated to be in the United States in 1988, an estimated 550,000 had entered the country illegally, about 500,000 of them since 1979. Their remittances to their families in El Salvador were an important component of the stagnant economy, and their absence from the Salvadoran labor force kept local unemployment lower than it would otherwise have been. In 2002 worker remittances were 13.5% of GDP; in 2003 remittances amounted to \$2.2 billion. Where migration from rural to urban areas was once heavy, the pattern has changed as rural migrants bypass urban centers and migrate directly to the United States and Canada. Internal migration had also shifted significantly by 2004. The population of the peri-urban area around San Salvador more than doubled, while the population of the northern third of the country remained stagnant and the southeastern portion of El Salvador's population increased by more than 20%.

In 1989, Belize, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, and Nicaragua adopted a five-year plan called CIREFCA to solve the problems of uprooted people. Between 1989 and 1994, this plan helped repatriate 30,000 Salvadorians to their homeland. Thousands more Salvadorans who decided not to go home were integrated into asylum countries. In 2000 there were 24,000 migrants living in El Salvador, including 100 refugees. By the end of 2004 only 1 person sought asylum in El Salvador, while 235 sought refuge. However, in that same year 127,941 Salvadorans applied for asylum in the United States and 415 in Canada. The net migration rate estimated for El Salvador in 2005 was -3.67 migrants per 1,000 population. The government views the migration levels as satisfactory.

8 ETHNIC GROUPS

The population of El Salvador is racially and culturally homogeneous, with about 90% mestizo (mixed European and Amerindian), 1% Amerindian (mainly the Pipil tribes), and 9% European.

9 LANGUAGES

The official language of the country is Spanish. A few Amerindians continue to speak Nahua.

10 RELIGIONS

About 57.1% of the population identify themselves as Roman Catholic; San Salvador is an archbishopric. About 21.2% of the population are members of various Protestant churches, with the



LOCATION: 13°9' to 14°26' N; 87°41' to 90°08' W. BOUNDARY LENGTHS: Honduras, 342 kilometers (212 miles); Pacific coastline, 307 kilometers (191 miles); Guatemala, 203 kilometers (126 miles). TERRITORIAL SEA LIMIT: 200 miles.

largest denominations being Baptists and Assemblies of God. There are also many active Protestant missions throughout the country. Approximately 2.3% of the populace are associated with other churches and religious groups, including the Church of Jesus Christ of Latter-Day Saints (Mormons), Seventh-Day Adventists, Jews, Muslims, and Amerindian tribal religionists, among others. As many as 16.8% of inhabitants have no religious affiliation whatsoever.

The constitution of 1962 guarantees religious freedom and exempts churches from property taxes. The constitution specifically recognizes the Roman Catholic Church, granting it legal status; however, it also provides that other churches may register for such status according to the Non-Profit Organizations and Foundations law. Certain Christian holidays are celebrated as public holidays.

¹¹TRANSPORTATION

As of 2002 there were 1,986 km (1,234 mi) of paved highways out of 10,029 km (6,232 mi) of roadway in El Salvador. The Pan American Highway links El Salvador with Guatemala in the northwest and Honduras in the southeast. The Cuscatlán Bridge, where the Pan American Highway crosses the Lempa River, was the main thoroughfare for travel between eastern and western El Salvador at the time of its destruction by guerrillas in January 1984. In

2003, registered passenger vehicles numbered about 67,500, and commercial vehicles numbered 98,250.

As of 2004, El Salvador's railroad mileage totaled 283 km (176 mi), down from 562 km (349 mi) in 2002, due to a lack of maintenance and general disuse. The entire rail system is narrow gauge and single track.

The country's three ports—La Unión/Cutuco, La Libertad, and Acajutla—are located on the Pacific coast. Acajutla was the only port in service and it only receives bulk goods. Finished goods arrive at Guatemalan or Honduran ports and are trucked into El Salvador. In 2002, El Salvador had no registered cargo ships. Inland waterway traffic is negligible, with only the Río Lempa partially navigable, as of 2004.

In 2004 there were an estimated 73 airports. In 2005 only four had paved runways, and there was also one heliport. El Salvador is linked with the entire Western Hemisphere, Europe, and the Far East through international air services provided by Transportes Aéreos Centroamericanos (TACA) and other transportation companies. The principal airport, El Salvador International, is near San Salvador. In 2003, about 2.966 million passengers were carried on scheduled domestic and international airline flights.

¹²HISTORY

The Pipil Amerindians, a subgroup of the nomadic Nahuatl Amerindians, migrated from present-day Mexico to Central America

in about 3000 BC. The Pipil are believed to have organized their nation into two federated states comprised of smaller principalities in the 11th century, after the Mayan Empire that had held sway over the Nahuatl declined in the 9th century. They were an agricultural people, with a civilization comparable to the Aztecs, except that the Pipil had abolished human sacrifice. The Pipil also succeeded in building lasting urban centers that grew into current cities, such as Sonsonate and Ahuachapan. This fierce people—as well as two smaller groups, the Pocomans and the Lenca—lived in the area of present-day El Salvador met the Spanish conquistadors with significant resistance.

In 1524, Pedro de Alvarado, a Spanish conquistador sent by Hernán Cortés from Mexico, invaded El Salvador but was forced by Pipil resistance to retreat. After two additional attempts in 1525 and 1528, the Spanish eventually brought the Pipil under their control. When the conquistadors discovered the area's relative lack of precious metals, the Spanish monarch appropriated to Spanish settlers large tracts of land and the ability to collect tribute (forced payments) from the Amerindians under the terms of the *encomienda* system.

During the Spanish colonial period, San Salvador—founded by Alvarado—was one of six administrative regions of the captaincy general of Guatemala. This collective of Central American colonies declared their independence from Spain in 1821, but the first calls for liberation far preceded that date. At the La Merced church in San Salvador, Father José Matías Delgado cried out for independence on 5 November 1811, a day still commemorated as a national holiday in El Salvador. Following successful independence from Spain in 1821, Central America was annexed by the Mexican emperor, Agustín de Iturbide in 1822. When Iturbide was deposed a year later, the Central American states broke from Mexico to form a federation of El Salvador, Guatemala, Honduras, Nicaragua, and Costa Rica, which they named the United Provinces of Central America.

Perpetual conflict between liberals and conservatives forestalled any unification of the United Provinces of Central America into a national unit, as it crippled the legitimacy of the government and its capability to enact political, economic, and social reforms. El Salvador was particularly supportive of the liberals and the rule of liberal Honduran Francisco Morazan, as opposed to the conservative Guatemalan Rafael Carrera. Thus, when liberal forces fell to Carrera in March 1840, El Salvador declared its independence from the United Provinces of Central America shortly thereafter, in January 1841.

The republic of El Salvador was formally proclaimed on 25 January 1859. Turbulence, political instability, and frequent presidential changes characterized Salvadoran history during the second half of the 19th century. This period also saw the growth of coffee as El Salvador's leading product. The Salvadoran elite, known as the "14 families" or simply "the 14," created large coffee plantations, often on the land of displaced Indians. There followed a period of relative stability during 1900–30, but the seizure of power in 1931 by Gen. Maximiliano Hernández Martínez brought a period of constant military rule for almost 50 years. Hernández ruled for 13 years and presided over *la matanza*, a brutal suppression of a peasant uprising known in 1932, killing about 30,000 people. Few of the governments after Hernández tried to reduce the gap

between the landowners and the landless classes, and those that did were doomed to failure.

Landless Salvadorans found land available in neighboring Honduras. During the 1960s the influx of Salvadorans increased, provoking countermeasures from the Honduran government. Tensions rose between the two nations, and on 14 July 1969, they went to war for four days. The immediate occasion of the conflict was the Central American soccer championship between the two states, in which El Salvador won on a disputed referee's call, leading US journalists to dub it the "Soccer War." A total of 3,000–4,000 people on both sides were killed. After an OAS-sponsored cease-fire, the two sides worked out a peace settlement, which was signed on 30 October 1980. A leftover border dispute was settled by the International Court of Justice (ICJ) in 1992.

In 1972, the military candidate for president was opposed by José Napoleón Duarte of the Christian Democratic Party (PDC). Duarte was denied election by fraud and sent into exile. Pressure for reform came from the armed resistance from several leftist factions. In response, the right unleashed "death squads" to intimidate and eliminate any who attempted to introduce change to the country.

By the late 1970s, the situation had erupted into civil war. The guerrillas consolidated under the Farabundo Martí National Liberation Front (FMLN), and right-wing violence escalated. The military had not distinguished itself in its response to the violence, having engaged in widespread repression against suspected rebels. In 1979, a coup brought to power a set of reformist officers, who found common cause with such civilian leaders as Duarte. The junta liberalized the political system, setting legislative elections for 1982. It also nationalized banks and the coffee export trade, while launching an ambitious and controversial land-reform program. Attacked by both left and right, the junta was unable either to suppress left-wing guerrillas or to control its own security forces, which began their own vigilante campaigns even as the angry landowners hired "death squads" to suppress opposition among peasants, students, clergy, and other groups.

In December 1980, José Napoleón Duarte of the Christian Democratic Party was installed by the junta as president. Though he was El Salvador's first civilian head of state since 1931, human rights abuses and bloodshed persisted throughout his administration. In 1980, Archbishop Romero was assassinated while celebrating mass, spurring the guerrilla's launch of their unsuccessful "final offensive," in 1981. It is estimated that at least 62,000 people died between October 1979 and April 1987, most of whom were civilian noncombatants murdered by death squads and government security forces.

The junta headed by Duarte oversaw the drafting of a new constitution, adopted on 20 December 1983 by interim president Álvaro Alfredo Magaña and a constituent assembly that had been elected in March 1982. Following the 1984 election, Duarte became the first constitutionally elected president in over 50 years, after defeating Roberto D'Aubuisson of the National Republican Alliance (ARENA). D'Aubuisson was an extreme anticommunist accused of plotting against the government and supporting the death squads.

Despite Duarte's attempts at reform, charges of corruption, the ongoing civil war, and the economic dislocation brought on by his austerity measures, all led to Duarte's defeat by Alfredo Félix

Christiani Burkard in the 1989 elections. Many were concerned because Christiani's ARENA party was tied to former candidate D'Aubuisson.

Christiani allayed these fears, calling for direct dialogue between the government and the guerrillas. Despite a rocky negotiations process punctuated by military escalations, on 31 December 1991 the government and the FMLN signed the Chapultepec Accord formally ending the civil war. The accord called for reforms throughout the military, including the purge of officers linked to human rights abuses, and a reduction by 50% of the force. While the former has been a slow process, the latter goal was achieved ahead of schedule. A cease-fire took effect 1 February 1992, and held until 15 December 1992, when the FMLN officially laid down its arms.

ARENA was returned to power again when Calderón Sol won the presidential runoff election in 1994. Calderón's ambitious economic liberalization plan, his cutting tariffs, his privatizing of banks and pensions, and his attracting foreign investment resulted in healthy economic growth of 4–5% a year. Yet underemployment and low wages were persistent and were accompanied by an upswing in violent crime—from marauding bands robbing agricultural workers to organized gang activity preying on urban dwellers. Even the 1996 12-point government plan, which included investment in infrastructure and social services, couldn't convince the electorate to maintain its support of ARENA in the March 1997 parliamentary and local elections. FMLN significantly increased its share of seats in the legislature, as well as in local elections.

The ruling ARENA party managed to retain control of the presidency in the 1999 elections, with Francisco Flores winning 51.4% of the vote. In the March 2000 parliamentary election, however, FMLN became the strongest party in the Assembly, with more seats than ARENA. The FMLN maintained these seats in the March 2003 elections, but ARENA maintained its hold on the presidency when Elias Antonio Saca won the March 2004 presidential election. Despite a public outcry, Saca upheld amnesty laws protecting former officials, like himself, from prosecution for involvement in death-squad murders during the civil war.

Though the peace agreement officially ended the civil war in 1992, the country was still trying to grapple with justice in the region as of 2006. El Salvador has not been able to cope fully with the effects of the civil war; this process has been further hindered by a series of natural disasters that contributed to the socio-political and economic instability.

Hurricane Mitch struck in 1998, and a number of earthquakes occurred in 2001, leaving at least 1,200 people dead and more than one million others homeless. The financial toll, furthermore, was in the billions. In October 2005, the Ilimatepec (Santa Ana) volcano erupted, forcing thousands of people from their homes only days before Hurricane Stan hit, with its consequent flooding and deadly landslides.

13 GOVERNMENT

The constitution adopted on 20 November 1983 defines El Salvador as a republic. The constitution vests executive power in the president, who is to be elected by direct popular vote for a term of five years. The president, who must be native-born, over 30 years of age, the offspring of native-born parents, and a layperson, is not

eligible for immediate reelection. The president is commander-in-chief of the armed forces, enforces the laws, formulates an annual budget, draws up international treaties and conventions (which must be ratified by the National Assembly), appoints diplomatic and consular officials, and supervises the police. Every two years, the National Assembly elects three substitutes (*designados*), who can, in order of designation, assume the presidency when the president and vice president are not available.

Legislative power is exercised by a unicameral National Assembly composed of 84 deputies apportioned among the various departments according to population. Deputies are elected for a three-year term and must be at least 25 years of age. The Assembly levies taxes, contracts loans and arranges for their payment, regulates the money supply, approves the executive budget, ratifies treaties and conventions, declares war, and suspends or reestablishes constitutional guarantees in national emergencies. The deputies, the president's ministers, and the Supreme Court all may propose legislation. The Assembly approves legislation and is technically empowered to override a presidential veto by a two-thirds vote.

Universal male and female suffrage (over the age of 18) was inaugurated in 1950. However, voting in El Salvador has been a source of controversy. During the 1980s, the government made voting compulsory, while the guerrillas insisted the citizens should not collaborate with the system. Thus, the Salvadorans were confronted with a dilemma: vote, and face the wrath of the guerrillas, or refuse to vote, and immediately become suspected of leftist sympathy. At times, voting was not secret. Current practices include a more confidential and voluntary system.

14 POLITICAL PARTIES

The leading party of the right in El Salvador is the National Republican Alliance (Alianza Republicana Nacionalista—ARENA), organized in 1982 by Roberto D'Aubuisson. ARENA controlled the National Assembly until 1985, and its next leader, Alfredo Christiani, was elected to the presidency in 1989. Five years later, ARENA candidate Armando Calderón Sol became president. In the March 1997 parliamentary elections, ARENA's representation was reduced from 42 seats in the 84-member legislature to 28. In 1999, ARENA recovered and won the presidency again with 51.4% of the vote, but a year later its support fell to 36% in the National Assembly elections of March 2000. In March 2003, ARENA plummeted even further with 28% of the vote. However, in 2004, ARENA scored a victory when Elias Antonio Saca Gonzalez captured 57.7% of the vote, securing the fourth consecutive ARENA presidential win and extending his term for five years, until 2009. During the campaign, Saca stated his desire to work with other parties to tackle the violent street gangs, known as *maras*, and to make government more transparent. As one of the most pro-US governments in the hemisphere, Saca worked to promote economic ties with the United States through CAFTA and other similar free trade arrangements.

The Chapultepec Accords introduced a new force into El Salvador's electoral system: the Farabundo Martí National Liberation Front (Frente Farabundo Martí de Liberación Nacional—FMLN). Named for an insurgent leader of the 1930s, the FMLN was originally a paramilitary group in armed rebellion against the government. As part of the 1992 accords, the FMLN is now a legal par-

ty after having ceased its military operations. The FMLN-backed candidate, Ruben Zamora, was the runner-up in the 1994 presidential election, winning 24% of the vote. In the March 1997 legislative elections, the FMLN made significant gains, nearly doubling its representation in the Legislative Assembly, from 14 to 27 seats, and winning municipal elections in half the departmental capitals. In the March 2000 elections, the FMLN won 31 seats, shy of a majority but more than any other political party. In 2003, the FMLN increased its share of the vote to 34%, but did not win any additional seats in parliament. Expectations ran high that FMLN might secure the presidency in the 2004 elections, but its candidate, Schafik Handa, secured just 35.6% of the vote, more than 20% less than Saca.

The moderate Christian Democratic Party (Partido Demócrata Cristiano—PDC) was formed in 1960. For three decades, it was associated with its leader and founder, José Napoleón Duarte. Damaged by many splits over the years, and suffering after Duarte's unsuccessful presidency (1984–1989), the centrist PDC lost strength among the electorate. In the March 2000 National Assembly elections, it obtained 7.2% of the votes and 6 seats in the 84-member Assembly. In 2003, its share of the vote fell to 7.3% and it lost one seat. The National Conciliation Party (PCN), which was founded by the military in 1961, obtained 8.8% of the votes in the 2000 election and secured 13 seats, enough to give a majority to either ARENA or the FMLN. In 2003, it increased its vote to 13% and it secured 16 seats. Because of its ability to break the tie between the FMLN and ARENA, the PCN has gained an important negotiating role in Salvadorian politics.

In March 2003, the Centro Democrático Unido (United Democratic Centre, social-democratic) secured five seats in the National Assembly. The PDC and UDC's mutually endorsed presidential candidate, Hector Silva, secured only 3.9% of the vote in the March 2004 elections.

15 LOCAL GOVERNMENT

El Salvador is divided into 14 departments (*departamentos*), including Ahuachapan, Cabanas, Chalatenango, Cuscatlan, La Libertad, La Paz, La Union, Morazan, San Miguel, San Salvador, Santa Ana, San Vicente, Sonsonate, and Usulután. Each *departamento* has its own governor and alternate governor appointed by the executive power through the corresponding ministry. The country's 262 municipalities (cities, towns, and villages) are administered by mayors and municipal councils elected by popular vote. Traditionally independent in their local functions, municipalities may be limited in their activities by the departmental governor.

16 JUDICIAL SYSTEM

The court system includes justices of the peace, courts of the first instance, intermediate level appellate courts, and the Supreme Court (*Corte Suprema*) made up of 13 justices selected by the National Assembly. With the exception of justices of the peace, judges are appointed to renewable three-year terms. An 11-member National Council of the Judiciary, appointed by the National Assembly, is an independent body charged with screening judicial candidates for nomination.

According to the constitution, the Supreme Court is the court of last appeal; it passes on writs of habeas corpus, constitutionality of the laws, jurisdiction and administration of lower courts, and

appointment of justices below the appellate level. There are also special courts, appointed by the National Assembly, and military tribunals, selected by the Supreme Court. The 1995 legislation provides for oral trials and establishes family and juvenile courts. The 1996 criminal procedure code replaces a criminal system based on civil law with one in which oral argument is the norm.

Under the constitution, defendants have the right to a presumption of innocence, to representation by legal counsel, to be present in court, and to confront witnesses.

Foreign and international judicial systems also mattered to the future of justice in El Salvador. El Salvador accepts compulsory jurisdiction of the International Court of Justice with reservations. In 2002, US courts held two former Salvadoran army generals on trial for civil war atrocities and ordered them to pay the victims. Additionally, in March 2005, an OAS human rights court reopened an investigation into one of the worst massacres of the civil war—the 1981 massacre in El Mozote.

17 ARMED FORCES

In 2005, there were a total of 15,500 active personnel in El Salvador's armed forces, supported by 9,900 reservists. Military numbers had been reduced as prescribed by the peace accord ending the country's civil war. There were 13,850 members in the Army, 700 in the Navy, and an Air Force estimated at 950 personnel. The Army's primary equipment included 10 reconnaissance vehicles, 51 armored personnel carriers and over 600 artillery pieces. The Navy's major units consisted of 38 patrol/coastal vessels. The Air Force had 21 combat capable aircraft, including 5 fighter ground attack aircraft. Paramilitary forces consisted of the National Civilian Police, which numbered over 12,000. In 2005, the defense budget totaled \$106 million.

18 INTERNATIONAL COOPERATION

El Salvador is a founding member of the United Nations, having joined on 24 October 1945; it is part of the ECLAC and several specialized agencies, such as the FAO, IAEA, IFAD, IFC, ILO, IMF, UNESCO, UNIDO, WHO, and the World Bank. El Salvador is one of five members of the Central American Bank for Economic Integration (BCIE) and the Central American Common Market (CACM). It is also a member of the WTO, the Latin American Economic System (LAES), G-77, the Río Group, the Association of Caribbean States (ACS), and the OAS. The country has observer status in the Latin American Integration Association (LAIA). In 2004, El Salvador, the United States, Costa Rica, Guatemala, Honduras, Nicaragua, and the Dominican Republic signed the US–Central America Free Trade Agreement (CAFTA). The agreement must be ratified by all participating countries before it enters into force.

The country is a signatory of the 1947 Río Treaty, an inter-American security agreement. In environmental cooperation, El Salvador is part of the Basel Convention, the Convention on Biological Diversity, Ramsar, CITES, the Kyoto Protocol, the Montréal Protocol, the Nuclear Test Ban Treaty, and the UN Conventions on Climate Change, and Desertification. El Salvador is also signatory to the Central American-US Joint Declaration (CONCAUSA).

19 ECONOMY

Traditionally, the Salvadoran economy depended on a single agricultural export commodity. Shortly after independence, this product was indigo. When the market for indigo declined (due to replacement with artificial dyes), El Salvador moved to the cultivation and export of coffee in the mid-1800s. Earnings from coffee spurred cultivation of cotton and sugar, and later financed light manufacturing. The Central American Common Market (CACM) provided a previously absent market for the light manufactures and thus prompted that industry's growth throughout the 1960s. Coffee and sugar remained two of the four principal exports in 2005.

By the 1970s, El Salvador was the most industrialized nation in Central America, although the breakdown of CACM and a dozen years of civil war eroded that position. The change in GDP growth over the years from 1965–1978 and 1979–1982 illustrate the effects of civil conflict and disruption of coffee, sugar, and cotton production during the 1980s. From 1965–1978, GDP growth averaged about 4.3% annually. However, from 1979 to 1982, it declined by 23%. From 1983–1986, growth recovered modestly at an average annual rate of 1.5%.

The economy largely recovered from the civil strife of the 1980s. Agriculture (mostly coffee) is the foundation of El Salvador's economy, providing about two-thirds of the nation's exports and employing nearly one-third of its labor force. El Salvador enjoys one of the lowest levels of indebtedness in the region, with the bulk of foreign financing provided on a concessional basis.

The Crisitani administration, which came into power in 1989, began a comprehensive economic reform plan oriented toward a free market economy. A market-based currency exchange rate was adopted. Price controls were eliminated, as were the sugar, coffee, and cotton marketing monopolies. The nationalized banking system was largely privatized beginning in 1989. However, due to increased credit availability and public services prices, inflation doubled to around 20% in 1992.

Bolstered by peace, El Salvador's economy experienced brisk growth, with yearly GDP growth averaging 6.5% from 1990 to 1995. Inflation remained a problem, however, falling to 12% in 1993 and 8.9% in 1994, but rising to 11.4% in 1995. The latter increase was due in part to an increase in the VAT rate and one-off increases in charges for telephone, electricity, and water services. Unlike most of the Latin American economies, El Salvador was largely unaffected by the "Tequila Effect" following the Mexican peso devaluation in 1995 because of the government's solid macro-economic management and the economy's low external debt.

In 1996 economic growth slowed to 2.1% as the government sought to rein in inflation, which, through tight monetary and fiscal policies, achieved a then-record low for El Salvador of 7.4% for the year. Higher interest rates resulting in very expensive borrowing costs and pessimistic expectations combined to drive down domestic investment. Yet this did not hold back growth. In 1997, GDP growth rose to 4%, and inflation dipped to the low level of 2% where it stayed through 2000. The growth rate gravitated around that level, with a rate of 3.4% in 1998 and 4.9% in 1999. In 1999, inflation remained at 2%.

In 2000, however, the growth rate was reduced to 2% by the destructive impact of Hurricane Mitch. Inflation rose to 4.3%. Growth was further dampened (1.4%) in 2001 due to two earth-

quakes, as well as the US recession, global slowdown, and reduced investment activity following the 11 September 2001 terrorist attacks. Inflation declined to 3% in 2001. According to the Economist Intelligence Unit, real GDP growth in El Salvador averaged 1.9% from 2000 to 2004, and inflation averaged 2.9%.

By 2005, El Salvador had become one of the strongest economies in Central America, with a steady growth in GDP, an environment of macroeconomic stability, falling inflation rates, and increased exports from involvement in several free trade arrangements.

The Economist Intelligence Unit projected that GDP growth would remain positive (at approximately 2.5%) in 2006 due to increased consumption, investment and exports due to the launching of the Dominican Republic-Central American Free-Trade Agreement (DR-CAFTA). Inflation was projected to average 4.7%, accompanied by a worsening current-account deficit.

Despite these advances, GDP per capita was only half that of Brazil, Argentina, and Chile. A historic inequality in income distribution plagued the country wherein 45% of the income accrued by the richest fifth of the population and 5.6% by the poorest. In 2003, 36.1% of the population lived below the poverty line. Further, though the dollarization in 2001 made for some increased trade and investment opportunities, it also created an increase in prices without increases in wages, which eroded individuals' purchasing power (GDP per capital was \$4,900 in 2004). Natural disaster struck El Salvador once again at the end of 2005, as Tropical Storm Stan acted as another weight on the economy.

20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 El Salvador's gross domestic product (GDP) was estimated at \$33.9 billion. 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 based on current dollars. The per capita GDP was estimated at \$5,100. The annual growth rate of GDP was estimated at 2%. The average inflation rate in 2005 was 4.7%. It was estimated that agriculture accounted for 9.8% of GDP, industry 30.3%, and services 60%.

According to the World Bank, in 2003 remittances from citizens working abroad totaled \$2.122 billion or about \$325 per capita and accounted for approximately 14.2% of GDP. Foreign aid receipts amounted to \$192 million or about \$29 per capita and accounted for approximately 1.3% of the gross national income (GNI).

The World Bank reports that in 2003 household consumption in El Salvador totaled \$13.31 billion or about \$2,037 per capita based on a GDP of \$14.9 billion, measured in current dollars rather than PPP. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the period 1990 to 2003 household consumption grew at an average annual rate of 4.5%. It was estimated that in 2003 about 36.1% of the population had incomes below the poverty line.

21 LABOR

The civilian labor force was estimated at 2.81 million in 2005. As of 2003, agriculture accounted for 17.1% of the workforce, with 65.8% in services, and 17.1% in industry. Although unemploy-

ment in 2005 was estimated at 6.5%, much of the nation's workforce is underemployed.

Although workers have the right to organize a union without gaining prior authorization, the government and the courts continued to deny union applications for legal standing through the excessive use of formalities, effectively blocking union formation. Collective bargaining is limited to private sector employees and to those public employees in autonomous government agencies, such as the port authority and utilities. Technically, only private sector workers may strike, nevertheless, many public sector workers carry out strikes that are treated as legitimate. However, unions wishing to call a strike must meet a number of conditions if that strike is to be considered legal. These include: the collective bargaining agreement has to have expired; attempts at resolving differences must first go through a process of direct negotiations, mediation, and arbitration; and at least 51% of the affected workers must support the strike, including those who are not represented by the union. According to the Ministry of Labor, as of end 2005, only 9.1% of El Salvador's workforce were unionized.

The workweek is set at a maximum of 44 hours and six days. Bonus pay is required for overtime, and all full-time employees are required to get a weekly, paid eight-hour day of rest. Minimum pay rates are set by executive decree, and are based on recommendations from a committee made up of labor, business and government representatives. As of 2005, minimum daily wage rates were \$5.28 for service employees, \$5.16 for industrial workers, and \$5.04 for workers in the maquila plants. Those rates were set in 2003. Although the law prohibits employment for those under age 14, child labor remains a problem. Minors between the ages of 14 and 16 years are limited to six hours per day, with a maximum normal workweek at 34 hours. Workers in hazardous occupations must be at least 18 years of age.

2² AGRICULTURE

Arable land in 2003 consisted of 910,000 hectares (2,249,000 acres) planted with annual and permanent crops. Irrigation covered 4.9% of this area in 2003, half of it in the Sonsonate and Sensunapan region. In 2003, agriculture represented 9.8% of GDP and 17.1% of employment.

Coffee, El Salvador's major crop (30% of total agricultural output), is grown principally in the west and northwest at elevations of 460 to 1,520 m (1,500 to 5,000 ft). Primarily as a result of the civil war, coffee production declined in the 1980s. In June 1993, the Ministry of Economy certified the first shipment of organic coffee; the agrarian reform cooperative that produced the coffee had not used chemicals or pesticides for over four years. Production in 2004 amounted to 83,000 tons (down from 156,000 tons in 1990). Exports of coffee in 2004 amounted 80,744 tons, valued at \$123.4 million. The coffee industry is a major employer in El Salvador, generating about 82,000 jobs.

Sugar production fell between 1979 and 1981 but later recovered; cane production in 2004 was 5.3 million tons, and the sugar industry contributed \$37.6 million to the country's foreign exchange earnings in 2004. Sugar is the most important agricultural product after coffee, and is grown mostly by independent producers. Investment has increased, as has the area under cultivation (in contrast to the other two major export crops). The world price has, however, been in decline for several years, and this decline has

cut export earnings; the government secured a \$30.4 million loan from Venezuela to divert some production to gasohol.

Traditional grains grown in El Salvador include white corn, sorghum, rice, and edible beans. These crops make up the fundamental diet for most Salvadorans and are produced on virtually all small farms. Production amounts in 2004 included corn, 648,000 tons; sorghum, 148,000 tons; rice, 26,500 tons; and beans, 72,000 tons. An additional 441,660 tons of corn were imported in 2004 to meet local demand.

Land that was originally planted for cotton is now being used for sugarcane, pasture, and nontraditional crops. El Salvador has steadily shifted agricultural exports towards nontraditional items such as jalapeño peppers, marigold flowers, okra, and pineapples. Traditional coffee areas are also being absorbed by urbanization projects.

2³ ANIMAL HUSBANDRY

Cattle and hogs are the predominant livestock in El Salvador. Cattle are of the "criollo" type and are used for production of both meat and milk. The dairy sector continued to suffer from inefficient production methods, poor animal genetic quality, and diseases. There are over 100 slaughterhouses operating illegally and without sanitary control. The government has planned to rebuild the livestock sector through financial and technological assistance.

The poultry industry is one of El Salvador's most organized and efficient agri-businesses, divided into smaller family farms and large commercial operations. The poultry industry directly generates roughly 6,000 jobs (60% of which are in rural areas), with an additional 20,000 secondary jobs. Commercial production accounts for 80% of poultry meat and about 75% of egg production.

In 2005 there were 1,259,000 head of cattle. The hog population rose from 390,000 in 1950 to 560,000 in 1979 but then declined to 188,000 in 2005. Other livestock included 96,000 horses, 24,000 mules, 10,800 goats, and 13,209,000 chickens. In 2005, milk production was 412,602 tons. A total of 63,649 tons of eggs were produced during the same year.

2⁴ FISHING

The fishing industry, which centers on shrimp, has undergone significant development since it first gained commercial importance in 1957. The best coastal fishing grounds are off the southeastern sector. Scaled fish include freshwater robalo, sea bass, mullet, mackerel, swordfish, and redmouth; a tuna industry has been operating since 1963. Total fish production was 36,541 tons in 2003, including 1,131 tons from aquaculture.

2⁵ FORESTRY

Forests and woodlands covered 121,000 hectares (299,000 acres) in 2000, representing only 6% of the total land area. Virgin forests once covered 90% of El Salvador. Almost all of the lumber used in building and in other Salvadoran industries must be imported, mainly coming from neighboring Guatemala, Honduras, and Nicaragua. Roundwood production in 2003 was 4.5 million cu m (170 million cu ft). Forest products include dye woods and lumber, such as mahogany, walnut, and cedar, for furniture and cabinet work. El Salvador is the world's main source of balsam, a me-

dicinal gum; between Acajutla and La Libertad in the southwest is the so-called Balsam Coast, which supports a species of balsam tree unique to El Salvador. Imports of forest products in 2003 exceeded exports by \$148.3 million.

26 MINING

El Salvador, 90% of which is of volcanic origin geologically, is less well endowed with mineral resources than other Central American country. Mineral production contributed less than 1% to the GDP. The country has produced gold and silver in the past. As of 2003, there had been no recorded production of gold or silver since 2000. Recent activity has been limited to exploration, including at El Dorado, whose indicated resources were estimated at 25,536 kg of gold and 164,849 kg of silver. A 1,050 m diamond drill program on the Aldea Zapote project was completed in 2001. Industrial minerals, especially limestone mined for domestic cement plants, were the primary commodities of the industry. Marine salt output rose in 2003 totaling 31,366 metric tons, down from 31,552 metric tons in 2002. Gypsum output in 2003 was estimated at 5,600 metric tons, unchanged from 1999 through 2002. Copper, lead, zinc, and sands containing titanium and ilmenite were also found in El Salvador.

27 ENERGY AND POWER

El Salvador has no known exploitable reserves of fossil fuels. Thus, it must rely upon imports to meet its fossil fuel needs. However, El Salvador is the largest producer of geothermal generated energy in Central America, with two geothermal facilities, the 95 MW Ahuachapan and the 66 MW Berlin facilities, in operation as of October 2005. According to government statistics, in 2003, geothermal sources produced 0.97 billion kWh of electricity, or about 21.9% of the total amount of the electricity generated. In that same year, thermal and hydropower sources accounted for 37.5% and 33.1%, respectively of all power generated. In 2004, a total of 4.158 billion kWh of electricity was produced, with consumption at 4.45 billion kWh. Imports and exports of electricity in that year totaled 473 million kWh and 91 million kWh, respectively. In 2002, electric power generating capacity stood at 1.133 million kW.

Although El Salvador has no known reserves of oil, it is one of only three countries in Central America to operate a refinery. Located at Acajutla on the Pacific coast, the facility has a capacity of 22,000 barrels per day, according to the Oil and Gas Journal. In 2002, refinery output totaled 18,840 barrels per day. Oil product consumption for that year came to 39,010 barrels per day, with total petroleum imports at 45,710 barrels per day.

28 INDUSTRY

The leading industrial region is the department of San Salvador. Other industrial centers are La Libertad, Santa Ana, San Miguel, Usulután, and San Vicente. The industrial sector has been oriented largely to the domestic and Central American markets, though this is changing in light of recent free trade arrangements. There are coffee-processing plants, sugar mills, bakeries, plants making petroleum products, vegetable oils, fats, confectioneries, dairy products, tobacco, soap, candles, matches, shoes, furniture, light metals, cement, and organic fertilizers.

Manufacturing got a foothold in the economy in the 1950s and further grew as the CACM opened up regional markets in the

1960s. Large-scale industry was then introduced, relying mostly on imports of crude materials. In 1963, an oil refinery at Acajutla began processing Venezuelan crude oil; most of the output is consumed locally (in 2002, production capacity was 22,000 barrels per day). During the early 1970s, the greatest increase in value of manufacturing occurred in chemicals and textiles. Civil war during the 1980s hurt industrial production, with an average annual decline of 6% between 1977 and 1987.

Following the attainment of civil peace in the 1990s, the Salvadoran economy boomed. This growth was sustained by the recovery of the agricultural sector, and expansion of the construction and manufacturing sectors. Boosted by the rapid growth and development of its *maquila* (offshore assembly for re-export) zones, the economy became the most industrialized and best-performing in the Central American region. Maquila exports, as the primary export, are more important to El Salvador's economy than local manufactures. However, reliance on maquilas may prove to be a short-term growth prospect as lower production costs in China and Asia attract maquilas elsewhere. Where growth rates in the 1990s were around 45%, they fell to an average of 7% in 2000–04, and a 3% drop is expected for 2005. In May 2005, the garment-producer Charles Products transferred operations from El Salvador to Sri Lanka to take advantage of cheaper production costs that would make its products more competitive with those produced in China.

Growing at a rate of 4.5% in 2000, the manufacturing sector as a whole was one of the largest contributors to GDP, and, along with construction (which accounted for 4% of the GDP in 2004), led the economy in past years. Though growth in the sector slowed to 2.3% and 0.7% in 2003 and 2004 respectively, it still remained an important motor for economic growth from 2000–04. By 2004, manufactures accounted for 27% of El Salvador's total output.

Despite the growth in manufactures, the same basic problems persisted from decade to decade: the low purchasing power of the local population and the difficult financial and political situation of other Central American countries on which El Salvador depends for export markets. Nevertheless, El Salvador received substantial amounts of foreign direct investments in the industrial sector in 2001.

29 SCIENCE AND TECHNOLOGY

El Salvador has research institutes devoted to the study of seismology and geology, meteorology and hydrology, agriculture (including the Salvadoran Institute for the Study of Coffee), and medicine. The principal learned society in the country is the El Salvador Academy, headquartered in San Salvador. In the same city are museums devoted to natural history and zoology. Nine colleges and universities offer degrees in basic and applied sciences. In 1987–97, science and engineering students accounted for 59% of college and university enrollments.

In 1998, (the latest year for which the following data was available) research and development (R&D) expenditures totaled \$21.280 million, or 0.08% of GDP. Of that total, 51.9% came from the government, followed by foreign sources at 23.4%, higher education at 13.2%, private nonprofit institutions at 10.4%, and business at 1.2%. In 1998, El Salvador had 33 researchers per million people actively engaged in R&D. In 2002, high technology exports

were valued at \$44 million, accounting for 6% of manufactured exports.

3⁰ DOMESTIC TRADE

San Salvador is the chief commercial and marketing center. However, following the end of the civil war, thousands of Salvadorans returned from the United States and made San Miguel and Santa Ana two of the most industrialized cities in Central America.

Food is generally produced in small, scattered plots in the vicinity of urban areas and taken to market by traders (mostly women), either on their heads or by pack animals. Residents of remote rural areas usually consume most of what they produce exchanging the remainder for other commodities. In urban areas, the business units are mainly small shops, while in rural regions, individual traders conduct their business at town marketplaces, where agricultural produce, meats, fruit, handicrafts, ceramics, and flowers are sold.

A 10% value added tax was established in 1992 and raised to 13% in 1995. This tax made up 52.3% of the governments total tax revenues in 2004.

The central bank estimated that nearly \$150 million per month, over \$1.9 billion per year (2001 est.) is added to the economy through remittances of expatriates, primarily those living in the United States. Such remittances reached a record high of \$2.5 billion in 2004 and accounted for 17.1% of GDP.

The usual business hours in the major cities are from 8 AM to noon and from 2 to 6 PM on weekdays and from 8 AM to noon on Saturday. Banking hours are from 9 to 11:30 AM and from 2:30 to 4 PM on weekdays, with a half day on Saturday.

3¹ FOREIGN TRADE

While coffee remains one of the four main exports, it has gone from making up one-half of the country's exports in 1988 to 3.8% in 2004. Maquilas and nontraditional goods comprised, respectively, 55.3% and 39.8% of the \$3.249 billion in exports in 2004. Sugar, shrimp, textiles, chemicals, and electricity comprised a portion of the remaining exports. The United States, Guatemala, and

Honduras absorbed, respectively, 65.5%, 11.8%, and 6.3% of El Salvador's exports in 2004.

El Salvador imports raw materials, consumer goods, capital goods, fuels, foodstuffs, petroleum, and electricity. In 2004, imports totaled \$5.968 billion. Imports emanated from the United States (46.3%), Guatemala (8.1%), and Mexico (6%).

One of the El Salvador's greatest weaknesses remained its trade deficit. In 2000, the value of imports was almost three times that of exports. In 2004, the current account balance was -\$880.5 million. The deficit is sustained in part by huge inflows of remittances from Salvadoran workers in the United States, estimated at 2.5 billion, 16% of the 2004 GDP.

El Salvador has sought to shrink its trade deficit and increase exports, especially of manufactured and nontraditional products, by creating new export industries through free trade zones. Fifteen of these zones already exist in El Salvador. Maquila industries have thus far been the largest beneficiaries, and have employed approximately 90,000. The Caribbean Basin Trade Partnership Act allows these goods to be sold duty-free in the United States.

Additionally, El Salvador has negotiated agreements to reduce trade and investment barriers through CAFTA. It has increased its exports to those countries with which it already has signed agreements—Mexico, Chile, the Dominican Republic, and Panama. Along with the other five Central American states, El Salvador is pushing for a customs union and the harmonization of customs duties.

3² BALANCE OF PAYMENTS

El Salvador's positive trade balances in the late 1970s changed into deficits after 1980. The main reasons for this development were declines in cotton, sugar, and coffee export earnings, civil war, and the virtual collapse of the CACM market. The US Central Intelligence Agency (CIA) reported that in 2004 El Salvador's exports were \$3.249 billion while imports totaled \$5.968 billion, resulting

Principal Trading Partners – El Salvador (2003)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	1,255.0	4,381.8	-3,126.8
Guatemala	361.2	463.6	-102.4
United States	243.8	1,500.0	-1,256.2
Honduras	184.9	134.9	50.0
Costa Rica	102.0	157.4	-55.4
Nicaragua	98.1	111.6	-13.5
Panama	46.3	126.0	-79.7
Mexico	37.4	315.6	-278.2
Russia	25.9	21.5	4.4
Areas nes	25.7	...	25.7
Spain	14.6	66.5	-51.9

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

Balance of Payments – El Salvador (2003)

(In millions of US dollars)

Current Account			-733.6
Balance on goods		-2,273.6	
Imports	-5,436.0		
Exports	3,162.4		
Balance on services		-169.4	
Balance on income		-407.7	
Current transfers		2,117.1	
Capital Account			112.9
Financial Account			1,089.5
Direct investment abroad		-18.6	
Direct investment in El Salvador		103.7	
Portfolio investment assets		-263.7	
Portfolio investment liabilities		452.7	
Financial derivatives		...	
Other investment assets		19.8	
Other investment liabilities		795.6	
Net Errors and Omissions			-152.6
Reserves and Related Items			-316.2

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

in a trade deficit of \$880.5 million. Though the deficit was down from figures reported in 2001, it still remained uncomfortably high.

Capital inflow, principally in the form of remittances, transfers, donations, and credits from the United States, has helped cover the deficit. The government in 2000 expected remittances to grow at a rate of 5–6% from 2000 to 2002–04. However, with a low tax base and national savings, the economy can become vulnerable to fluctuations in such flows.

Though nontraditional and maquila exports were expected to grow by more than 15% each, maquila exports declined due to more competitive production conditions in China and other regions. This engendered, in part, projections that the current-account deficit would worsen in 2005–06.

33 BANKING AND SECURITIES

The Central Reserve Bank of El Salvador, established in 1934, was nationalized in 1961. It is the sole bank of issue and the fiscal agent for the government. The entire banking system was nationalized in March 1980, but was later privatized. By 1989, the financial system was practically broke; destroyed by mismanagement and political conflict. In 1991, as part of economic reforms, the government privatized six commercial banks and seven savings and loan institutions. In 1994, the government created the Banco Multisectorial de Inversiones (BMI) to promote private sector development. The Banking Law was modified in 1995 to encourage foreign banks to enter the country. There were 12 commercial banks in 2002. The International Monetary Fund reports that in 2000, currency and demand deposits—an aggregate commonly known as M1—were equal to \$1.1 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 6.93%.

A stock exchange was established in San Salvador in 1993, with five government issues of long-term bonds. In the first 12 months of activity, stock market transactions were nearly \$100 million; the rate of growth in 1993–95 was rapid, and by the end of 1995 transactions reached an estimated \$2.4 billion. The market trades almost exclusively in government bonds and short-term commercial paper, but private companies put shares on the market in the late 1990s.

34 INSURANCE

By 2000, El Salvador had at least 19 insurance companies in operation. The 1995 Insurance Law provided national treatment for foreign insurance firms. In 2003, there was \$350 million worth of direct premiums written, with nonlife premiums accounting for \$246 million. The country's top insurer in that same year was SISA Vida, with written premiums (life and nonlife) of \$44.4 million.

35 PUBLIC FINANCE

Most public revenues come from taxes, fees, and fines. Municipal taxes and fees are subject to approval by the Ministry of the Interior. Until the early 1980s, government fiscal operations had generally shown surpluses; these enabled the government to sustain a growing volume of capital expenditures, resulting in a higher

Public Finance – El Salvador (2003)

(In millions of colones, central government figures)

Revenue and Grants	2,312.8	100.0%
Tax revenue	1,679.1	72.6%
Social contributions	344.6	14.9%
Grants	17.9	0.8%
Other revenue	271.2	11.7%
Expenditures	2,688.7	100.0%
General public services	471.9	17.6%
Defense	91.1	3.4%
Public order and safety	306.6	11.4%
Economic affairs	273.7	10.2%
Environmental protection	5.4	0.2%
Housing and community amenities	213.2	7.9%
Health	358.1	13.3%
Recreational, culture, and religion	31.7	1.2%
Education	404.5	15.0%
Social protection	381	14.2%

(...) data not available or not significant.

SOURCE: *Government Finance Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

government share in total investments. Improved tax collection in 1998 resulted in approximately 56% of government revenues being attributed to the VAT. The use of the colón was phased out and the Central Bank was dissolved in 2003.

The US Central Intelligence Agency (CIA) estimated that in 2005 El Salvador's central government took in revenues of approximately \$2.8 billion and had expenditures of \$3.1 billion. Revenues minus expenditures totaled approximately -\$28.8 billion. Public debt in 2005 amounted to 45.8% of GDP. Total external debt was \$8.273 billion.

The International Monetary Fund (IMF) reported that in 2003, the most recent year for which it had data, central government revenues in millions of colones were 2,312.8 and expenditures were 2,688.7. The value of revenues in millions of US dollars was \$264 and expenditures \$289, based on a market exchange rate for 2003 of 8.750 as reported by the IMF. Government outlays by function were as follows: general public services, 17.6%; defense, 3.4%; public order and safety, 11.4%; economic affairs, 10.2%; environmental protection, 0.2%; housing and community amenities, 7.9%; health, 13.3%; recreation, culture, and religion, 1.2%; education, 15.0%; and social protection, 14.2%.

36 TAXATION

Residents of El Salvador, whether citizens or not, are subject to progressive taxation on both domestic and foreign income ranging from 10–30%. Amounts received from insurance policies, interest on savings accounts, gifts, and inheritances are tax exempt. Taxes on corporate income are levied at 25% for amounts over the first \$75,000, which are exempt. Dividends are not taxable. The main indirect tax is the value-added tax (VAT) introduced in September 1992 at a standard rate of 10%. In 2003, the standard VAT rate was 13%. Excise taxes are assessed on alcoholic beverages and tobacco products. A 3% real estate transfer tax is imposed when

the real estate involved has a market value above \$250,000. There are no local taxes.

37 CUSTOMS AND DUTIES

According to the Heritage Foundation in 2000, El Salvador had the most open trade environment in Central America. El Salvador completed a tariff reduction program in 1999 and as a result has tariffs of 0% on capital goods, 0–5% on raw materials, 5–10% on intermediate goods, and up to 15% on final products. Some items, such as textiles, agricultural products, and vehicles receive higher tariffs of up to 40%.

38 FOREIGN INVESTMENT

The Salvadoran government has fostered foreign investment since the 1988 Foreign Investment and Promotion Law came into force. Incentives included unrestricted remittance and reinvestment of profits and, for firms located in the free zones, the government offers up to a 20-year income tax holiday and duty-free importation of materials needed for production.

The inflow of foreign direct investment (FDI) spiked in 1998 to over \$1 billion (up from only \$59 million in 1997), but then averaged about \$219 million a year 1999 to 2001. Contrary to the global trend, and due primarily to the international relief effort following the earthquake of January 2001, FDI inflow increased to El Salvador in 2001 and in 2002 rose to an estimated \$277.8 million, \$10 million above the year before. Major foreign investors included Coastal Technologies (power generation), Kimberly Clark (paper products), Texaco (fuel storage and distribution), Esso and Shell (petroleum refining), Bayer (pharmaceuticals), Sara Lee (clothing assembly), Xerox (sales), AIG (insurance), and British American Tobacco. El Salvador received approximately \$250 million in direct investments in 1999, the majority from the United States.

Over 300 US companies have a commercial presence or financial investment in El Salvador. Such opportunities came about through the US-supported privatization of the electrical and telecommunications markets.

PROESA, the national agency promoting foreign investment in El Salvador, has been boosted by the Multilateral Investment Guarantee Agency (MIGA). The guarantees that MIGA makes of Salvadoran manufacturing and financial sectors helps those sectors attract further investment.

39 ECONOMIC DEVELOPMENT

Prior to 1950, the government, with moderate success, followed a policy of stimulating national economic development indirectly by building roads, developing power facilities, establishing credit facilities, and extending tariff protection to some industries. The prosperity and advantageous international position of Salvadoran coffee masked the long-term need for further diversification.

During the 1950s, it became apparent that El Salvador's primary problems were the growing population and lack of uncultivated arable land. The government therefore embarked on a program to encourage intensification of agriculture and expansion of small industry. The National Council for Economic Planning and Coordination (CONAPLAN), established in 1962, drafted a comprehensive five year plan (1965–69) embodying general objectives

proclaimed by the government in line with the aims of the US-inspired Alliance for Progress. The objectives included an increase of the GNP; decrease in illiteracy; expansion of education, health, and housing programs; extension of social security benefits to areas not yet covered; and implementation of an integrated program of agrarian reform. The stimulus for the development program was to be provided by a small group of wealthy Salvadorans, with a minimum of government participation.

In early 1973, CONAPLAN drafted a development plan for 1973–77, concentrating on production, labor, and social welfare. The basic objectives of the plan were improvement in income distribution, employment, health, nutrition, housing, and education; stimulation of the agricultural, industrial, and construction sectors; acceleration of regional development; and export diversification. The plan called for adoption of a government-sponsored investment and financing program, institutional and financial reforms, and policies to stimulate private investment.

The economic reforms adopted in 1980 included a land redistribution program and nationalization of the banking system. After the civil war was over, the country received substantial influx of economic aid and private remittances. As part of the economic reform program, initiated in 1989 by newly elected President Christiani, the country's economy recuperated at a fair pace. After the signing of the Chapultepec Peace Accords in January 1992, El Salvador boosted business confidence and stimulated private investment.

In January 1986, a comprehensive stabilization program was announced. Among its most important measures were unification of the exchange rate at C5=\$1 (a 50% devaluation), raising of fuel prices and public transportation fares, imposition of price controls on consumer staples (food, medical supplies, and clothing), tariff hikes on nonessential imports, and a rise in commercial interest rates. Because of the continuing costs from the civil war, and also from a drought the program fell short of its objectives. Approximately \$2.2 billion were lost to infrastructure damage and foregone production opportunities from 1979–90 due to the civil war. However, since attacks ended and the peace accords were signed in 1992, investor confidence improved and foreign direct investment (FDI) increased.

In 1990, the International Monetary Fund (IMF) approved a standby agreement, which was followed by another one in January 1992 and another one in May 1993. The World Bank extended a \$75 million structural adjustment loan in 1991, and the Inter-American Development Bank provided additional sectoral adjustment financing. Aided by the government's economic reforms and the IMF and World Bank supported macroeconomic programs, the country's economy continued to prosper. The rising influx of private remittances, official transfer, and the return of local capital boosted domestic demand as well as construction activity, especially in transportation infrastructure and other public projects. The industrial sector also benefited from this upturn.

El Salvador's external debt decreased sharply in 1993, chiefly as a result of an agreement under which the United States forgave about \$461 million of official debt. Debt still stood at around \$2.4 billion in 1999, despite US forgiveness. In 1998, significant aid came from the World Bank for agricultural reform (\$40 million) and structural adjustment (\$52.5); from the Central American Bank for Economic Development (\$20 million) for road repair;

and from the Inter-American Development Bank (\$60 million) for poverty alleviation. Total non-US government aid reached \$600 million in 1998.

In 2001, El Salvador's external debt stood at \$4.9 billion. A damaging hurricane, earthquakes, and a decline in world coffee prices in the late 1990s and early 2000s slowed economic growth. The country adopted the US dollar as legal tender in 2001 upon approval of the "Monetary Integration." Colónes were no longer printed, and the Central Bank was dissolved in 2003. This meant that the government could no longer use monetary policy and had to focus attention on maintaining a disciplined fiscal policy. The government broadened the income tax base, by introducing a new tax code, and implemented new banking reform legislation. El Salvador still faced the difficult challenge of reducing poverty, in part by investing in infrastructure and social programs.

In 2004, El Salvador ratified the US-Central American Free Trade Agreement (CAFTA) that it had signed the previous year. It was the first Central American country to do so. El Salvador worked to encourage foreign investment, modernize tax systems and fiscal policies, and to pursue liberalization policies in an effort to open new export markets and balance its trade deficits. Once in place, CAFTA was expected to increase GDP of the signatories by 0.6% annually.

It was projected that the Salvadoran government would implement further tax reforms to raise fiscal revenue after the 2006 elections, to be implemented prior to the legislative elections in 2009.

40 SOCIAL DEVELOPMENT

A mandatory private social insurance program replaced the government-sponsored program. Employees and employers each must contribute 7% of payroll for social insurance, and there is also a private insurance scheme. Old age, disability and survivorship is covered. Maternity and sickness benefits are provided by a social insurance program that is funded by employee and employer contributions, as well as a subsidy from the government. Maternity benefits are equal to 75% of wages for up to 12 weeks. Work injury insurance covers those in industry, commerce and public service; casual workers, domestic workers, and teachers are not covered.

Women have the same legal rights as men, but in practice they face discrimination in employment, salaries, education, and access to credit. Men often receive priority in hiring, and there have been reports of pregnancy tests for female job applicants. Domestic violence against women is pervasive. The incidence of child abandonment and abuse and the use of child labor appear to be on the increase. The government was working with the United Nations Children's Fund to improve the welfare of children.

Human rights violations include use of excessive force and extrajudicial killings by police. New criminal and sentencing codes decreased violations of due process. Lengthy pretrial detentions are common, and prison conditions remain harsh. Very few Salvadorians claim indigenous status; most have been assimilated into the general population. Indigenous groups live in poor rural areas. Most lack titles to their land and therefore lack the collateral necessary to access credit from a bank.

41 HEALTH

Health standards have improved considerably since 1930. Average life expectancy in 2005 was 71.22 years. The infant mortality rate, 139.4 per 1,000 live births in 1930 to 1934, declined to 25.10 by 2005. The crude death rate, 23 per 1,000 in 1930 to 1934, dropped to an estimated 6.1 as of 2002. The fertility rate has dropped from 5.3 in 1980 to 3.1 in 2000. Malnutrition persisted in an estimated 23% of children under five as of 2000. However, immunization rates for children up to one year old were quite high in 1997: tuberculosis, 93%; diphtheria, pertussis, and tetanus, 97%; polio, 96%; and measles, 97%. The contraceptive prevalence for women was 60% as of 2000.

As of 2004, El Salvador had 127 physicians, 184 nurses, 56 dentists, and 31 pharmacists per 100,000 people. The Ministry of Public Health and Social Welfare coordinates mobile health brigades, professional medical delegations, field offices, clinics, laboratories, and dispensaries. UNICEF, the US Institute of Inter-American Affairs, the Rockefeller Foundation, and other foreign organizations assisted health campaigns. Health care expenditure was estimated at 7.2% of GDP.

The principal causes of death remain gastroenteritis, influenza, malaria, measles, pneumonia, and bronchitis, caused or complicated by malnutrition, bad sanitation, and poor housing. Major causes of death were noted as communicable diseases and maternal/perinatal cause, noncommunicable diseases, and injuries. In 2000, 74% of the population had access to safe drinking water and 83% had adequate sanitation. In 1999, there were 67 cases of tuberculosis per 100,000 people. There were 1,416 new cases of AIDS reported in 1996 and 2,798 cases of malaria in 1994. The HIV/AIDS prevalence was 0.70 per 100 adults in 2003. As of 2004, there were approximately 29,000 people living with HIV/AIDS in the country. There were an estimated 2,200 deaths from AIDS in 2003.

Much of the progress since the 1930s was undermined by the country's civil war, which overtaxed health care facilities while, in real terms, expenditures on health care declined. The National Medical School was shut down in 1980.

42 HOUSING

Inadequate housing, most critically felt in cities and towns, is endemic throughout El Salvador. A 2005 report from Habitat for Humanity indicated a housing deficit of 630,000 homes. Housing problems have been exacerbated by the civil war, which has created hundreds of thousands of refugees. Earthquakes in 2001 damaged nearly 335,000 homes, about 25% of the total housing stock. In 2002, there were about 1,491,588 dwellings in the country. About 90% were single-family, detached homes.

More than half of all urban dwellings have earthen floors and adobe walls and many have straw roofs. Concrete and adobe are preferred building materials. In 2000, only about 74% of households had access to improved water sources and 83% had access to improved sanitation systems.

The government has received financial assistance from international and foreign organizations, such as USAID and the Inter-American Development Bank, for projects focused on repair and reconstruction of damaged housing, as well as new housing development. The Salvadorian Foundation for Development and Basic

Housing (FUNDASAL), which was established in 1968, continued to work on projects to improve the living conditions of low-income and poverty stricken residents. FUNDASAL has sponsored over 200 improvement projects and built over 25,000 homes.

4³ EDUCATION

Primary education is free and compulsory through elementary school, and the public school system is government controlled. Enforcement of primary-school attendance is difficult, however, and truancy is high in rural areas. Primary education lasts for nine years, followed by three years of secondary education, with student choosing either a general studies or technical/vocational track. In 2000, an institutional reform process for education was initiated under a Basic Education Modernization Project, and the government was seeking international funding support for improvements in the quality and coverage of secondary education. The academic year runs from February to December. The primary language of instruction is Spanish.

In 2001, about 46% of children between the ages of four and six were enrolled in some type of preschool program. Primary school enrollment in 2003 was estimated at about 90% of age-eligible students. The same year, secondary school enrollment was about 49% of age-eligible students. It is estimated that about 88.6% of all students complete their primary education. The student-to-teacher ratio for primary school was at about 28:1 in 1995.

Twelve private and three public universities offer higher education. The University of El Salvador in San Salvador, authorized in 1841 and with enrollments averaging 30,000, was a base for antigovernment agitation during the 1970s. The university was stormed and ransacked by government troops on 26 June 1980; at least 50 students and the rector were killed; the university did not reopen for several years. In 2003, about 17% of the tertiary age population were enrolled in some type of higher education program. The adult literacy rate for 2004 was estimated at about 79.7%, with 82.4% for men and 77.1% for women.

As of 2003, public expenditure on education was estimated at 2.9% of GDP, or 20% of total government expenditures.

4⁴ LIBRARIES AND MUSEUMS

The National Library in San Salvador is the largest in the country, with 150,000 volumes. The library at the University of El Salvador has 34,000 volumes. The Central American University José Simeón Cañas in San Salvador has 150,000 volumes. In addition, there are three governmental libraries attached to the ministries of Education, Economics, and Foreign Affairs and a few small private and college libraries. The Ministry of Education maintains a mobile library with a total of 25,000 volumes.

The David J. Guzmán National Museum in San Salvador, founded in 1883, is a general museum housing historical documents and pre-Columbian artifacts. The Natural History Museum of El Salvador was founded in 1976. The National Zoological Park in San Salvador, established in 1961, maintains a natural science museum. The Anthropological Museum of El Salvador and the Museum of Word and Image are also in San Salvador.

4⁵ MEDIA

Ownership of domestic telephone and telegraph services has been transferred from the government to a semiautonomous agency.

In 2003, there were an estimated 116 mainline telephones for every 1,000 people; about 38,200 people were on a waiting list for telephone service installation. The same year, there were approximately 176 mobile phones in use for every 1,000 people.

As of 2001 there were 150 licensed radio stations and at least 11 commercial television stations, including the government-owned Radio Nacional. Radios in use increased from 398,000 in 1968 to about 2.75 million in 1995. In 2003, there were an estimated 481 radios and 233 television sets for every 1,000 people. The same year, there were 25.2 personal computers for every 1,000 people and 84 of every 1,000 people had access to the Internet. There were 35 secure Internet servers in the country in 2004.

The principal newspapers are published in San Salvador. They are, with 2004 circulations, *El Diario de Hoy*, 115,000; *La Prensa Gráfica*, 112,800; *El Mundo*, 58,000 (in 2002); and *Co Latino*, 15,000.

The constitution of El Salvador provides for freedom of expression, including that of speech and press, and the government is said to respect these rights in practice. Print and broadcast journalists are said to freely and regularly criticize the government without censure.

4⁶ ORGANIZATIONS

Of prime importance is the Salvadoran Coffee Association, founded in 1930 to promote coffee production, distribution, and consumption; to improve quality; and to provide information and advice to growers. Its membership includes all native and foreign coffee growers in El Salvador, and it receives financial support from the government export tax on coffee. Other prominent management organizations include the National Coffee Institute, Chamber of Commerce and Industry, Salvadoran Association of Industrialists, Cattle Raisers' Association, El Salvador Sugar Cooperative, National Sugar Institute, Salvadoran Cotton Growers' Cooperative, and National Federation of Small Salvadoran Enterprises. In the early 1970s, the Salvadoran Communal Union was formed to improve peasant farming methods and to campaign for agrarian reform. In 1986, the union claimed 100,000 members.

There are youth organizations affiliated with religious institutions and political movements, as well as student unions at major universities. Scouting and Girl Guide programs are also active. There are several sports associations promoting amateur competitions in a variety of pastimes, such as tennis, badminton, taekwondo, squash, and baseball. The country also has an active program of the Special Olympics.

Volunteer service organizations, such as the Lions Clubs and Kiwanis International, are also present. There are national chapters of the Red Cross, Habitat for Humanity, the Society of St. Vincent de Paul, and Caritas.

4⁷ TOURISM, TRAVEL, AND RECREATION

El Salvador's best-known natural wonder is Izalco, an active volcano often referred to as the Lighthouse of the Pacific because its smoke and flames are a guide to ships. Noteworthy are the cathedrals and churches of San Salvador, Santa Ana, and Sonsonate; the parks, gardens, and architecture of San Miguel; and the colonial atmosphere of San Vicente. Archaeological ruins of pre-Columbian origin are found in many parts of the country. Among the most striking are those at Tazumal, near Santa Ana, which include

large pyramids and buildings with ancient carvings and inscriptions; there are more than 100 pyramid sites in El Salvador, many still unexcavated. The Pacific coast contains excellent beaches, and there is large-game fishing in the Gulf of Fonseca and in the ocean. Football (soccer) is the national sport. A valid passport is required for entry into El Salvador as well as a visa or a tourist card.

In 2003, there were 857,378 foreign visitors. The 4,578 hotel rooms with 9,156 beds had an occupancy rate of 51%. Visitors stayed an average of five nights. Tourism receipts totaled us \$514 million.

In 2005, the US Department of State estimated the cost of staying in San Salvador at us\$191 per day. Outside the capital, daily expenses were an estimated us\$91.

48 FAMOUS SALVADORANS

The national hero of El Salvador is Father José Matías Delgado (1768–1833), who raised the first call for independence. A renowned political leader was Manuel José Arce (1786–1847), who fought against the Mexican empire of Iturbide and was the first president of the United Provinces of Central America. Gerardo Barrios Espinosa (1809–65) was a liberal president during the 19th century.

Prominent Salvadoran literary figures of the 19th century were Juan José Cañas (1826–1912), a poet and diplomat and the author of the Salvadoran national anthem, and Francisco E. Galindo (1850–1900), a poet and dramatist.

Writers of note in the 20th century included Alberto Masferrer (1865–1932), an essayist and poet; poet Roque Dalton (1935–1975); Juan Ramón Uriarte (1875–1927), an essayist and educator; and Salvador Salazar Arrué (1899–1975). Juan Francisco Cisneros (1823–78) was a nationally recognized painter.

Key figures in Salvadoran politics of the 1970s and 1980s were José Napoleón Duarte (1926–90) and Roberto D'Aubuisson Arrieta (1943–92). The assassinated Roman Catholic Archbishop Oscar Arnulfo Romero y Galdames (1917–80) was well known as a defender of human rights.

49 DEPENDENCIES

El Salvador has no territories or colonies.

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FRENCH AMERICAN DEPENDENCIES

FRENCH GUIANA

Located on the northeast coast of South America, and extending from 1°30' to 5°30' N and from 51°4' to 54°3' W, French Guiana (Guyane Française) has an Atlantic shoreline of about 320 km (200 mi) and a total area of some 91,000 sq km (35,000 sq mi). It is separated from Brazil by the Oyapock River in the E and the Tumuc-Humac Mountains in the S (440 km/273 mi); and from Suriname by the Maroni River (398 km/247 mi) on the W. Its length is about 400 km (250 mi) N-S, and its width is 300 km (190 mi) E-W. Several islands offshore are part of French Guiana including: the Îles du Salut (Devil's Island, Royale, and Saint-Joseph).

French Guiana consists of a small, low swampy coast called "terres basses," varying from 10 to 30 km (6-19 mi) in width, and a vast, partly unexplored interior, the "terres hautes," with grassy plateaus, equatorial forests (which cover 90% of the land area), and mountains. The mean annual temperature along the coast is 26°C (80°F) year-round. There is a rainy season from January to June; annual rainfall has a range of 350-400 cm (140-160 in). Average humidity is 85%. Endangered species in 2002 included the small-footed water rat, giant armadillo, giant otter, three species of turtle (South American river, olive ridley, and leatherback), and the black caiman.

The population was estimated at 195,506 in mid-2005. Four-fifths of the inhabitants live in the coastal lowlands, and about 55% of the total live in Cayenne, the capital city. About 66% of the population is either black or mixed-raced, 12% is white, 12% is either of East Indian, Chinese, or Amerindian origin, and 10% belongs to other ethnic origins. In the interior are six tribes of aboriginal Indians; descendants of fugitive black slaves from Dutch Guiana (now Suriname) have settled along the rivers. Roman Catholicism is the dominant religion. The official language is French.

Amerindian tribes inhabited the region from ancient times, but their numbers probably did not exceed 25,000 on the eve of European colonization. The land now known as French Guiana was first settled by Frenchmen in 1604 and was awarded to France by the Peace of Breda in 1667. Since 1946, it has been an overseas department, sending, in 1986, two deputies and one senator to the French parliament and one representative to the French Economic and Social Council. The old penal settlements to which French prisoners were once deported have been completely liquidated. Devil's Island, the most famous of the offshore penal colonies, operated from 1851 until 1951. French Guiana consists of Cayenne and St.-Laurent-du-Maroni, each of which has the status of an arrondissement. The French commissioner is assisted by a popularly elected 19-member general council and a 31-member regional council.

Arable land and labor both being scarce, agriculture in French Guiana is still in a primitive state. Trade is mainly with France. The territory's exports, mainly shrimp, timber, gold, rosewood essence, and clothing, totaled us\$155 million in 2002; imports to-

taled us\$625 million. Gold, which has been mined since 1853, and large deposits of bauxite are the chief mineral resources. The European Space Agency launches communications satellites from Kourou.

Education for French Guiana's children is compulsory and provided by the government. The Pasteur Institute, five hospitals, and other health units provide public health services. The infant mortality rate in 2005 was 12.07 deaths per 1,000 live births, down from 13.22 deaths per 1,000 live births in 2002.

GUADELOUPE

The French overseas department of Guadeloupe, situated among the Lesser Antilles, extends 15°52' to 18°7' N, and 61° to 63°5' W. The length of Guadeloupe proper is 67 km (42 mi) E-W, and its width is 60 km (37 mi) N-S; its total coastline amounts to 656 km (408 mi). A narrow channel, Rivière Salée, divides Guadeloupe proper into two islands: Basse-Terre (848 sq km/327 sq mi) and Grande-Terre (585 sq km/226 sq mi). Outlying islands include Marie-Galante and La Désirade, and the Les Saintes and Petite Terre island groups, near the main islands; St. Barthélémy, about 120 km (75 mi) to the NW; and St. Martin, about 175 km (110 mi) to the NW, the northern two-thirds of it French, the southern third Dutch. Total area, including the outlying islands, is 1,780 sq km (687 sq mi). Basse-Terre is volcanic; its highest peak, La Soufrière (1,484 m/4,869 ft), erupted in the 18th and 19th centuries, and is still active. Annual rainfall ranges from 99 cm (39 in) on La Désirade to between 500 and 1,000 cm (200-400 in) on the mountains of Basse-Terre. Ferns, bamboo, mangrove, and tropical hardwoods are abundant. Endangered species include the Guadeloupe wren, green sea turtle, and leatherback turtle.

The estimated population in mid-2005 was 448,713. About 90% of the inhabitants are blacks or a mixture of blacks and descendants of Normans and Bretons who first settled the island in the 17th century. Some 95% of the people are Roman Catholic. French is the official language, but a Creole dialect is widely spoken.

Guadeloupe was first settled by Arawak Indians from Venezuela about AD 200. Carib Indians, also from Venezuela, overran this agricultural and fishing community around AD 1000. Discovered by Columbus in 1493 and occupied by the French in 1635, Guadeloupe has, except for short periods during the Napoleonic wars, been French ever since. In 1648, St. Martin was shared with the Dutch. Guadeloupe became an overseas department in 1946. It is represented in the French parliament by four deputies and two senators. Local administration is similar to that of regions and departments in metropolitan France. The appointed commissioner is assisted by a 42-member general council, elected by universal suffrage, and by a newly created regional council.

There are about 2,082 km (1,300 mi) of highways, of which about 1,752 km (1,089 mi) are paved. There are no railways except for privately owned plantation lines. Marine traffic is concen-



trated at Pointe-à-Pitre and Basse-Terre. Steamships connect Guadeloupe with other West Indian islands, with North and South America, and with France. Air France and other airlines serve the international airport at Pointe-à-Pitre.

Sugar has been replaced by bananas as the principal agricultural product. Other products include other tropical fruits and vegetables. About 63% of import and 60% of export trade is with France. In 1997, exports yielded us\$140 million; imports totaled us\$1.7 billion (the last figures available). Sugar refining and rum distilling are the traditional industries.

About 90% of the population is literate. Four teaching and research units—one for law and economics, one for liberal arts and the sciences, one for medicine, and one for the science and technology of physical and sporting activities—provide higher education at the Université Antilles-Guyane in Pointe-à-Pitre. Several hundred scholarship-holders study in French universities. The infant mortality rate was an estimated 8.6 deaths per 1,000 live births in 2005, down from 9.3 in 2002 and 17 in 1985.

MARTINIQUE

The island of Martinique is situated from 14°26' to 14°53' N and 61° W among the Lesser Antilles in the Caribbean Sea, between the islands of Dominica and St. Lucia. It has an area of 1,110 sq km (429 sq mi), with a length of 75 km (47 mi) SE-NW and a maximum width of 34 km (21 mi) NE-SW. Its total coastline is about 350 km (220 mi). Most of the island is mountainous. The two highest peaks, Pelée (1,397 m/4,583 ft) and Carbet (1,196 m/3,923 ft), are volcanoes. On 8 May 1902, Mt. Pelée erupted, completely destroying the city of St. Pierre and killing 30,000 inhabitants. About 25% of the land is wooded, with both European and tropical trees represented. Average temperature is about 26°C (80°F) and average annual rainfall about 190 cm (75 in).

The mid-2005 estimated population was 432,900. The population, composed mostly of descendants of black Africans, Carib Indians, and Europeans, is predominantly Roman Catholic. French is the official language, but a Creole dialect is widely spoken and English is understood in tourist areas.

There were reportedly 2,105 km (1,314 mi) of highway in 2000, and no railways. Steamer service connects Martinique with North and South America and France. Air France and other airlines provide air service from Lamentin Airport near Fort-de-France.

First inhabited by Carib Indians, Martinique was discovered by Columbus in 1502, and colonized by the French in 1635. Except for the periods 1762-63, 1793-1802, and 1809-15, the island has remained in French hands ever since. It is represented in the French parliament by four deputies and two senators.

Martinique's economy is agricultural. Sugarcane and bananas are the leading crops; pineapples, citrus fruit, mangoes, avocados, coffee, and cacao are also grown. Sugar refining, rum distilling, and fruit processing are the chief industries. Bananas, petroleum products, and rum are the principal exports; foodstuffs and oil are the main imports. In 1997, exports totaled us\$250 million; imports totaled us\$2 billion (the last figures available). Trade is mainly with France, which heavily subsidizes the budget. Tourism has become more important than agriculture as a source of foreign exchange.

Education is compulsory through the primary and secondary levels. There is a branch of the Universitaire Antilles- Guyana.

Martinique has 13 hospitals. The infant mortality rate in 2005 was estimated at 7.09 deaths per 1,000 live births, up from 6.76 per 1,000 live births in 1999, but down significantly from 14 in 1985. Life expectancy was 79.04 years in 2005, up from 78.56 years in 2002.

ST. PIERRE AND MIQUELON

The French territorial collectivity of St. Pierre and Miquelon (Territoire des Îles Saint-Pierre et Miquelon) is an archipelago in the North Atlantic Ocean, between 46°45' and 47°10' N and 56°5' and 56°25' W, located about 24 km (15 mi) W of Burin Peninsula on the south coast of Newfoundland. It consists of three main islands, St. Pierre, Miquelon, and Langlade—the two latter linked by a low, sandy isthmus—and several small ones. The length of the group is 43 km (27 mi) N–S, and it measures 22 km (14 mi) E–W at its widest extent. The total area is 242 sq km (93 sq mi). The islands were the focus of a maritime boundary dispute between Canada and France, but in 1992 an arbitration panel awarded the islands an exclusive economic zone area of 12,348 sq km (4,768 sq mi) as a settlement. Although the archipelago is volcanic in origin, the highest point, Morne de la Grande Montagne, is only 393 m (1,289

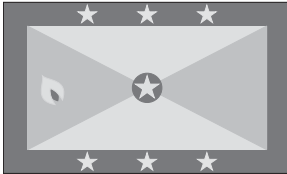
ft). The temperature varies between an average daily low of –15°C (5°F) in winter and an average daily high of 22°C (72°F) in summer. The spring and autumn are very windy, and fogs are frequent throughout the year; annual precipitation averages 130 cm (51 in). Vegetation is scanty, except on Langlade, where several species of trees are found. Animal life includes seabirds, foxes, rabbits, and deer. The population in mid-2005 was estimated to be 7,012. Most of the people are descendants of Basque, Breton, and Norman settlers and are Roman Catholics.

The first permanent French settlement dates from 1604, and, except for several periods of British rule, the islands have remained French ever since. They became a French overseas territory in 1946, an overseas department in 1976, and a territorial collectivity in 1985. The economy has traditionally centered around fishing and by servicing the fishing fleets operating off the coast of Newfoundland, but the number of ships stopping at St. Pierre has been declining in recent years. Also affecting the economy are disputes with Canada over fishing quotas. The islands receive significant subsidies from France. Total exports in 2004 amounted to US\$7 million, while imports totaled US\$70 million, requiring heavy subsidies from France.



GRENADA

Grenada



CAPITAL: St. George's

FLAG: The national flag consists of a red border surrounding a rectangle divided into two gold and two green triangles. There are seven yellow stars—three on the upper and three on the lower red border, and one large star at the apex of the four triangles—representing the six parishes and the island of Carriacou. A yellow nutmeg is represented on the hoist triangle.

ANTHEM: National anthem beginning "Hail Grenada, land of ours, we pledge ourselves to thee."

MONETARY UNIT: The East Caribbean dollar (EC\$) is a paper currency of 100 cents. There are coins of 1, 2, 5, 10, 25, and 50 cents, and 1 dollar, and notes of 5, 10, 20, and 100 East Caribbean dollars. EC\$1 = US\$0.37037 (or US\$1 = EC\$2.7; as of 2004).

WEIGHTS AND MEASURES: The metric system is in use.

HOLIDAYS: New Year, 1–2 January; Independence Day, 7 February; Labor Day, 1 May; Thanksgiving, 25 October; Christmas, 25 December; Boxing Day, 26 December. Movable holidays include Good Friday, Easter Monday, and Emancipation Day, 1st Monday in August.

TIME: 8 AM = noon GMT.

¹ LOCATION, SIZE, AND EXTENT

Located about 160 km (100 mi) N of Trinidad and 109 km (68 mi) ssw of St. Vincent, Grenada, which includes the inhabited islands of Grenada, Carriacou, and Petite Martinique, has an area of 340 sq km (131 sq mi). Comparatively, the area occupied by Grenada is slightly less than twice the size of Washington, DC. Grenada island extends 34 km (21 mi) NE–SW and 19 km (12 mi) SE–NW, and has a coastline of 121 km (75 mi).

Grenada's capital city, Saint George's, is located on the island's southwestern coast.

² TOPOGRAPHY

Volcanic in origin, Grenada is very hilly, with the highest peak, Mt. St. Catherine, in the Central Highlands, rising to 840 m (2,756 ft). The coastline is indented with many beaches and small bays. Several short streams cross the terrain. Lake Grand Etang is formed in the crater of a volcano at 530 m (1,740 ft) above sea level.

³ CLIMATE

The tropical climate is tempered by almost constant sea breezes; the prevailing wind is from the northeast. Temperatures range from 24–30°C (75–87°F). Annual rainfall varies from about 150 cm (60 in) in the northern and southern coastal belts to as much as 380 cm (150 in) in the Central Highlands. There is a wet season from June to December, but rain falls periodically throughout the year. Hurricanes are a natural hazard, particularly between June and November.

⁴ FLORA AND FAUNA

The Central Highlands support a wide variety of forest trees and many types of tropical flowers and shrubs grow throughout the

island. Characteristic wildlife includes the hummingbird, egret, dove, and wild pigeon; also to be found are armadillo, agouti, and monkeys.

⁵ ENVIRONMENT

As a member of the Organization of Eastern Caribbean States (OECS) formed in 1981, Grenada shares the advantages and disadvantages of island nations in the area. Water supply is limited and, in some areas, polluted by agricultural chemicals and sewage. Forests are threatened by the expansion of farming activities and the use of wood for fuel. The nation's coasts are affected by industrial pollution which threatens the nation's tourist trade. Environmental responsibilities are vested in the Ministry of Health and Housing.

According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 1 type of mammal, 2 species of birds, 4 types of reptiles, 1 species of amphibian, 12 species of fish, and 3 species of plants. Endangered species included the Grenada hook-billed kite, tundra peregrine falcon, the green sea and hawksbill turtles, the spectacled caiman, and the Orinoco crocodile.

⁶ POPULATION

The population of Grenada in 2005 was estimated by the United Nations (UN) at 101,000, which placed it at number 179 in population among the 193 nations of the world. In 2005, approximately 8% of the population was over 65 years of age, with another 35% of the population under 15 years of age. According to the UN, the annual population rate of change for 2005–10 was expected to be 1.2%, a rate the government viewed as too high. The projected

population for the year 2025 was 96,000. The population density was 297 per sq km (769 per sq mi).

In 2005, the UN estimated that 39% of the population lived in urban areas, principally St. George's, where the annual population growth rate was 1.34%. St. George's, which is the capital, had a population of 33,000 in that year.

7 MIGRATION

Grenadians have always emigrated, mainly to the United Kingdom and Canada. Emigration increased after the 1979 coup. As of 2004, Grenada hosted no refugees or asylum seekers. However, the country's lack of a national refugee law is a cause for concern as Grenada is likely to see an increase in the number of asylum seekers due to escalating extra-regional migration and migrant trafficking through the Caribbean. The total number of migrants in Grenada in 2000 was 8,000. However, after the terrorist attacks on the United States on 11 September 2001, Grenada and St. Vincent terminated their programs to sell passports to nonnationals. In 2005, the net migration rate was -13.25 migrants per 1,000 population. The government views the immigration level as satisfactory, but the emigration level as too high.

8 ETHNIC GROUPS

About 82% of the population are black, primarily the descendants of former African slaves. Those of mixed African and European origin account for about 13% of the population. Europeans and Asian Indians account for about 5%. A small number are Arawak/Carib Amerindians.

9 LANGUAGES

English is the official and common language. A French-African patois also is spoken.

10 RELIGIONS

According to 2004 reports, about 64% of the population were Roman Catholic. Other main groups included Anglicans (22%), Methodists (3%), and Seventh-Day Adventists (3%). Other Protestant denominations included Presbyterians, Church of God, Baptists, and Pentecostals. The Church of Jesus Christ of Latter-Day Saints (Mormons) and the Mennonites have small congregations. Minority religions are Islam and Baha'i. There were about 5,000 Rastafarians.

The constitution provides for freedom of religion and this right is generally respected in practice. Religious groups are required to register with the government. The Ministry of Ecclesiastical Relations, established in 2004, meets monthly to provide an open forum for leaders of all faiths. The Conference of Churches Grenada also serves as a forum for mutual understanding between religious organizations. The Christian Forum for Social Action is a group that addresses issues such as HIV/AIDS and drug use.

11 TRANSPORTATION

In 2002, Grenada's road system of 1,040 km (646 mi) included 638 km (396 mi) of paved roads. The country's major port is St. George's. A new international airport, Point Salines, built largely with Cuban assistance, and scheduled for completion in 1984, was repeatedly cited by the United States as posing a possible military threat to the Caribbean region. After the US-led invasion in 1983,

the airport was completed with funding mainly from the United States. Airline flights began in October 1984, and in 2001, the airport served 322,000 arriving and departing passengers. In 2004 there were three airports, all of which had paved runways. The smaller airports are at Pearls and on Carriacou.

12 HISTORY

Grenada was inhabited by Arawak Indians when first discovered on 15 August 1498 by Christopher Columbus, who named it *Concepción*. By the 18th century, the island was known as Grenada. The origin of that name is unknown, possibly a corruption of the Spanish city of Granada. A secure harbor (at St. George's) attracted traders and some French settlers during the 16th century. After a few failed French private ventures in 1650 and 1657, the French government annexed Grenada in 1674. The island remained under French control until 1762, when Admiral George Rodney captured it for Great Britain. The French regained Grenada in 1779, but the Versailles treaty of 1783 returned Grenada to Britain.

Sugar was Grenada's main product until the 19th century. At that time, the development of spices, especially nutmeg, coupled with the emancipation of slaves in 1834, led to a new economic base for the island. The economy flourished during the second half of the 19th century, and the cultivation of nutmeg, cloves, ginger, and cinnamon, earned Grenada the name *Isle of Spice*. Grenada's colonial status ended in 1958 when it joined the ill-fated Federation of the West Indies. In 1962, the federation dissolved, and in 1967, Grenada became an associated state of the United Kingdom.

On 28 February 1972, general elections resulted in the victory of Eric Matthew Gairy, who ran under the banner of the pro-independence Grenada United Labour Party (GULP). A constitutional conference was held in London during May 1973, and independence was set for the following February. Independence came on 7 February 1974, in spite of widespread strikes and demonstrations protesting Gairy's secret police force, actions that were supported by trade unions in neighboring Barbados and Trinidad and Tobago. Prime Minister Gairy ruled for five years.

On 13 March 1979, the opposition party, the New Jewel Movement, seized power, and Maurice Bishop became prime minister of the People's Revolutionary Government (PRG). Bishop suspended the constitution, jailed opposition leaders, and shut down independent newspapers. The PRG was drawn toward Cuba and its allies in the Caribbean region, as relations with the United States and some of Grenada's more conservative Caribbean neighbors deteriorated.

On 19 October 1983, in the course of a power struggle within the PRG, Bishop and several followers were shot to death, and a hard-line Marxist military council, headed by Gen. Hudson Austin, took over. Six days later, 6,000 US troops, accompanied by token forces from seven other Caribbean nations, invaded the island, ostensibly to protect the lives of American students there. Nearly all of the 700 Cubans then in Grenada were captured and expelled. In spite of the UN General Assembly's condemnation of the invasion, Gen. Austin was placed in detention, and the governor-general, Sir Paul Scoon, formed an interim government to prepare for elections. US combat troops were withdrawn in December 1983, but 300 support troops and 430 members of Caribbean forces remained on the island until September 1985.

Elections were held in December 1984, and Herbert Blaize and his New National Party (NNP) won 59% of the popular vote and 14 of the 15 House of Representatives seats. Prime Minister Blaize died in December 1989, and Ben Jones formed a government until the elections of 1990. Those elections elevated the National Democratic Congress (NDC) to majority status and Nicholas Brathwaite became prime minister. By 1993, ten years after the US invasion, tourist arrivals in Grenada had more than tripled, and the Point Salines airport, begun by the ousted Cubans and completed in 1984, was a modern facility servicing international flights.

In his 1994 budget, Brathwaite reintroduced the personal income tax, which had been abolished in 1986. Controversy over the tax helped carry the NNP to victory in the June 1995 election, and Keith Mitchell, who had promised to rescind the tax once again, became the new prime minister.

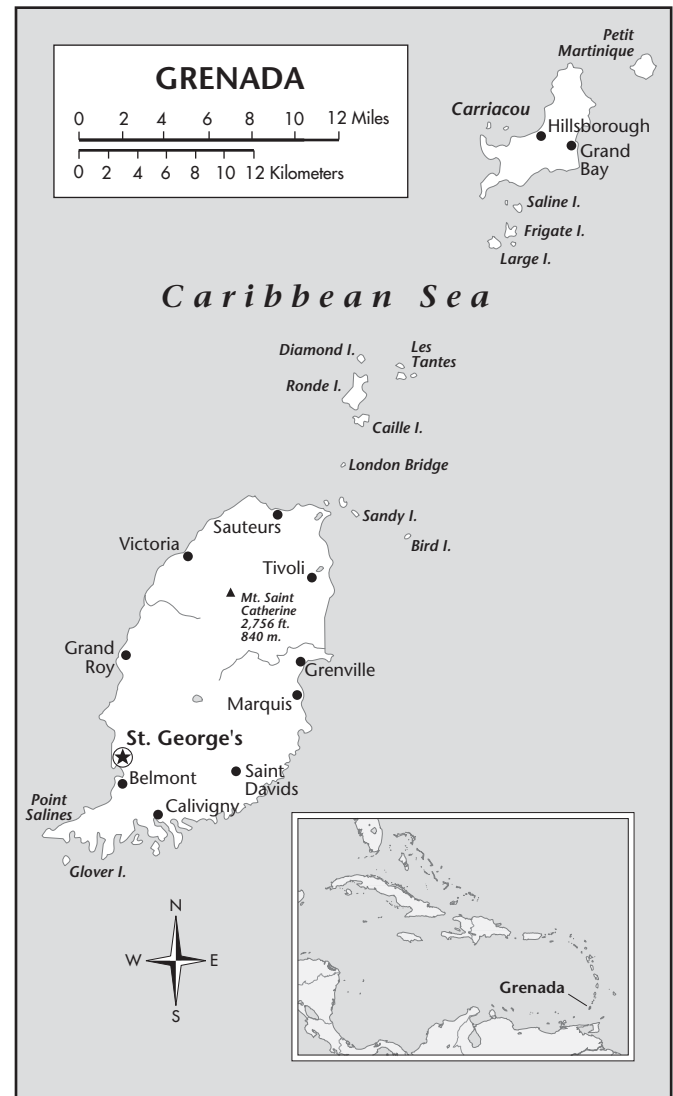
In November 1998, Mitchell's government lost its parliamentary majority when two members crossed over to the opposition, forcing early elections. In spite of allegations of government corruption, Mitchell's NNP swept the polling, winning all 15 seats in the House of Representatives in the January 1999 elections—the fourth peaceful electoral contest since the 1983 US intervention. Mitchell received credit for bolstering the country's economy and increasing foreign investment. In August 1998, Fidel Castro arrived in Grenada for his first state visit since 1983. Mitchell's government has pursued economic cooperation with Cuba, and Mitchell had visited Cuba the previous year. During the Castro visit, an economic agreement was signed by the two countries. In spite of steady economic growth and low inflation, the IMF issued a warning in 1999 about the state of Grenada's public finances, especially the nation's growing budget deficit, which was partially caused by tax cuts.

In the election of January 1999, the NNP once again won with an overwhelming 62.4% of the vote. Mitchell remained as prime minister and the NNP won all 15 seats in the parliament. In November 2003, the NNP narrowly edged out the National Democratic Congress (NDC), taking 8 seats in the House of Representatives to the NDC's 7. Mitchell remained prime minister.

In 2002, the country engaged in a major organic banana project in an effort to promote the industry; 150 acres were set aside for organic farming.

Hurricane Ivan devastated the island of Grenada in September 2004. Prime Minister Mitchell declared a national emergency; 90% of the country's buildings were damaged and the nutmeg crop was devastated. It was Grenada's worst hurricane in living memory. In July 2005, as Grenada was still recovering from Hurricane Ivan, Hurricane Emily destroyed crops and damaged homes across the island.

Grenada has taken serious steps to tackle the problem of money laundering, after reviewing its offshore banking sector. In 2001 Grenada was blacklisted by the Paris-based Financial Action Task Force for not doing enough to prevent money laundering, but in 2002 the group removed Grenada from its blacklist. In 2003, the US Treasury Department's financial crimes agency withdrew an advisory on Grenada as the country made efforts to clean up offshore banking.



LOCATION: 12°7' N and 61°40' W. COASTLINE: 121 kilometers (75 miles).
TERRITORIAL SEA LIMIT: 12 miles.

13 GOVERNMENT

The independence constitution, effective in 1974 but suspended after the 1979 coup, was reinstated after the US invasion. It provides for a governor-general appointed by the British crown and for a parliamentary government comprising independent executive, legislative, and judicial branches. Under this constitution, the bicameral legislature consists of a Senate of 13 members, 10 of whom are appointed by the government and 3 by the leader of the opposition, and a 15-seat House of Representatives, members of which are popularly elected for five-year terms. The governor-general appoints as prime minister the majority leader of the House. The cabinet, which comprises the prime minister, four senior ministers, and four ministers of state, is the executive arm of the government and is responsible for making policy. In 1996, a portfolio for women's affairs was created.

14 POLITICAL PARTIES

The New National Party (NNP), formed from a coalition of moderate parties and headed by Prime Minister Keith Mitchell, has been the majority party since the 1995 elections when it won 8 out of 15 seats in the House. In early elections called in January 1999, the party won 62% of the vote and all 15 House seats. The National Democratic Congress (NDC), a moderate party, took 5 of 15 seats in the House of Representatives in the 1995 elections but won no seats in 1999 (although garnering 25% of the vote).

The Grenada United Labour Party (GULP) was under the leadership of Sir Eric Gairy, who founded it in 1950, until Gairy's death in 1997. Right wing and populist in its approach, the group won no seats, but 12% of the vote, in the 1999 elections. The moderate National Party (NP), organized in 1989 by former Prime Minister Ben Jones, did not sponsor any candidates in 1999. On the left, the Maurice Bishop Patriotic Movement (MBPM) never won legislative representation, and it no longer exists as a party. Another party in existence as of 2005 was the People's Labor Movement (PLM), which is a combination of members of the original NDC and members of the MBPM.

Following the November 2003 elections, the NNP won 8 seats to the NDC's 7 seats.

15 LOCAL GOVERNMENT

For administrative purposes, the main island is divided into six parishes and one dependency.

16 JUDICIAL SYSTEM

Until it joined the Eastern Caribbean Supreme Court, the Grenada Supreme Court, in St. George's, consisted of a High Court of Justice and a two-tier Court of Appeals. The Court of Magisterial Appeals heard appeals from magistrates' courts, which exercised summary jurisdiction; the Itinerant Court of Appeal heard appeals from the High Court.

On joining the Organization of Eastern Caribbean States (OECS) in 1991, Grenada became subject to the jurisdiction of the Eastern Caribbean Supreme Court. Under the OECS system, until 2003 appeals were taken from this court to the Judicial Committee of Her Majesty's Privy Council in the United Kingdom. Grenada was among the eight nations (Barbados, Belize, Dominica, Guyana, Jamaica, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago) whose leaders met in Kingston on 9 June 2003 to ratify a treaty to establish the Caribbean Court of Justice (CCJ) to hear cases formerly taken to the Privy Council. The CCJ was officially inaugurated in April 2005, in Port-of-Spain, Trinidad and Tobago. As of 2005, however, the court's jurisdiction was limited to the CARICOM states of Barbados and Guyana. The CCJ heard its first case in August 2005.

The judiciary is independent. There are no military or political courts. The law provides for the right to a fair public trial, to a presumption of innocence, to remain silent, and to seek the advice of an attorney.

17 ARMED FORCES

The Royal Grenada Police Force (RGPF), numbering 650 members, provides internal defense in Grenada. A special service unit of 80 and a 30-member coast guard is included in this security

force. The US Army and Coast Guard provide training and support to Grenada.

18 INTERNATIONAL COOPERATION

Grenada became a member of the United Nations on 17 September 1974; it participates in the ECLAC and several UN specialized agencies, such as FAO, IFC, UNESCO, UNIDO, WHO, and the World Bank. Grenada is also a member of the ACP Group, the Commonwealth of Nations, the Caribbean Development Bank, G-77, the Latin American Economic System (LAES), the Alliance of Small Island States (AOSIS), OECS, the OAS, the Association of Caribbean States (ACS), and CARICOM.

Grenada is part of the Nonaligned Movement and the Agency for the Prohibition of Nuclear Weapons in Latin America and the Caribbean (OPANAL). The nation is part of the Eastern Caribbean's Regional Security System (RSS). In environmental cooperation, Grenada is part of the Convention on Biological Diversity, CITES, the Kyoto Protocol, the Montréal Protocol, and the UN Conventions on the Law of the Sea, Climate Change, and Desertification.

19 ECONOMY

Grenada's economy is highly dependent on international trade and finance for its development. The economy is essentially agricultural and is centered on the traditional production of spices and tropical plants. Agriculture accounts for about 7.7% of GDP and 80% of exports and employs 24% of the labor force. Tourism is the leading foreign exchange earner (especially since the construction of the international airport in 1985) followed by agricultural exports. Manufacturing remains relatively undeveloped, but is growing due to a favorable private investment climate. The economy achieved an impressive average annual growth rate of 5.5% in 1986–91 but has slowed since 1992. In the late 1990s the offshore financial industry, begun to help develop Grenada's economy, grew by approximately 6.5% in 2001 despite the worldwide slowdown in tourism, while inflation remained under control at 2.8%.

The economy of Grenada, based primarily on services (tourism and education) and agricultural production (nutmeg and cocoa), was brought to a near standstill by Hurricane Ivan on 7 September 2004. Thirty-seven people were killed by the hurricane, and approximately 8,000–10,000 left homeless. Hurricane Ivan damaged or destroyed 90% of the buildings on the island, including some tourist facilities. Overall damage totaled as much as 2.5 times annual GDP. Reconstruction has proceeded quickly, but much work remains.

Despite initial high unemployment in the tourist and other sectors, urban Grenadines have benefited from post-hurricane job opportunities in the surging construction sector. Agricultural workers have not fared as well. Hurricane Ivan destroyed or significantly damaged a large percentage of Grenada's tree crops, and Hurricane Emily (14 July 2005) further damaged the sector. Thus, reconstruction from the devastation wreaked by Hurricane Ivan in September 2004 and Hurricane Emily in July 2005 is a major political issue for the present government.

20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 Grenada's gross domestic product (GDP) was estimated at \$440.0 million. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange based on current dollars. The per capita GDP was estimated at \$5,000. The annual growth rate of GDP was estimated at 2.5%. The average inflation rate in 2002 was 2.8%. It was estimated that agriculture accounted for 7.7% of GDP, industry 23.9%, and services 68.4%.

It was estimated that in 2000 about 32% of the population had incomes below the poverty line.

21 LABOR

In the latest years for which data was available, Grenada's labor force was estimated at 42,300 in 1996, and was distributed in 1999 as follows: agriculture 24%; industry 14%; and services 62%. In 2000 unemployment was estimated at 12.5%.

Approximately 25% of the labor force is unionized. There are several major trade unions in the country, including civil service unions. All major unions belong to one major federation, the Grenada Trade Unions Council (GTUC). The GTUC is somewhat connected to the government organizationally and receives subsidies from the government for its operating budget. Workers are free to strike and employees who claim to have been dismissed for union activism may seek redress through formal governmental procedures. Workers engage in collective bargaining.

In 2002, there were no minimum wage laws in effect. In general, wages do not provide a decent living for a family. The minimum working age is 18. This minimum age is respected and enforced in the formal economy, but enforcement is somewhat lax in the informal economy and agriculture. The constitution sets the maximum workweek at 40 hours. Health and safety standards are not regularly enforced.

22 AGRICULTURE

Numerous spices, fruits, and vegetables are grown in Grenada. The principal crops for export are nutmeg and mace, bananas, cocoa beans, and other fresh fruits and vegetables. Production in 2004 included bananas, 4,000 tons; cocoa, 1,000 tons; and avocados, 1,500 tons. Banana production decreased in the 1980s due to the appearance of Moko disease. There are small scattered plots of cotton, cloves, limes, nutmeg, cinnamon, and coffee. Both cotton and lime oil are produced on Carriacou. Food crops consist of yams, sweet potatoes, corn, peas, and beans. Grenada is especially known for its nutmeg production, earning it the nickname "Spice Island." In 1991, Grenada and Indonesia (the world's largest nutmeg producer) signed a cartel agreement which aims to constrict production, thereby driving up world prices for the spice. Nutmeg production in 2004 totaled 2,747 tons. In 2003, exports of agricultural products amounted to us\$12.9 million.

23 ANIMAL HUSBANDRY

There is very little dairy farming in Grenada. Most livestock is raised by individuals for their own use. In 2005 there were an esti-

mated 4,450 head of cattle, 20,400 sheep and goats, and 660 donkeys. Some 268,000 poultry were raised to supply local needs.

24 FISHING

Fishing is mostly coastal. The 2003 catch was 2,544 tons, predominantly tuna and scad.

25 FORESTRY

There are approximately 5,000 hectares (12,300 acres) of forest, about 75% of which is government owned. Since 1957, some 320 hectares (800 acres) of forest, primarily of Honduras mahogany, blue mahoe, and teak, have been introduced. The Forestry Development Corp. was established in 1979 to develop forest resources and woodworking industries. Imports of forestry products totaled \$5.2 million in 2004.

26 MINING

There were no reported mining operations in Grenada except for limestone, sand and gravel, and open-face red gravel deposits for the local construction industry.

27 ENERGY AND POWER

Grenada has no known reserves of oil, natural gas, or coal, and is thus dependent upon imports to supply its fossil fuel needs. In 2002, imports and consumption of refined petroleum oil products each totaled 1,740 barrels per day. There were no imports of natural gas or coal in 2002.

The government and the Commonwealth Development Corp. jointly operate a private company, Grenada Electricity Services, Ltd., for the supply and distribution of electricity throughout the island. In 2002, total electric generating plants capacity was placed at 0.042 million kW, with output that year at 0.149 billion kWh, all of which came from fossil fuels. Consumption of electricity that same year came to 0.139 billion kWh.

28 INDUSTRY

Industry is small scale, mainly producing consumer products for local use. Local firms produce food and beer, oils, soap (from copra), furniture, mattresses, clothing, and a number of other items. In 1996, Grenada expanded its production of flour, animal feed, chemicals, paints, and tobacco. Construction, textile production, and light assembly operations are other industrial sectors.

In 2003, industry accounted for 23.6% of GDP, while services accounted for 66.7% of GDP and agriculture for 9.7%.

Grenada's nutmeg industry, a major income earner for the country, was devastated in 2004 by Hurricane Ivan. The Commonwealth action plan has covered replanting, processing and development of nutmeg-based products, market and export promotion activities, and institutional changes; aid has focused on reviving the country's affected industry.

29 SCIENCE AND TECHNOLOGY

St. George's University School of Medicine was founded in 1976. A school of agriculture is located in Mirabeau. The Grenada Na-

tional Museum, at St. George's, maintains exhibits on technology and native fauna and flora.

3⁰ DOMESTIC TRADE

There are meat, fish, fruit, and vegetable markets, in addition to other types of small retail shops, all over the island. St. George's is the import and merchandising center. A widespread network of cooperatives exists for the local distribution and sale of agricultural products. The nation relies heavily on imports for food and manufactured goods.

Firms in textile and garments industries, which have one of the lowest capital intensities among all types of companies, are large employers and foreign exchange earners due to their export-orientation. By contrast, firms in the ICT-enabled services bring in much more capital on average, but do not provide as much employment and are much more geared towards serving the domestic market.

3¹ FOREIGN TRADE

The Grenadian economy is highly import dependent, with imports accounting for 49% of GDP. The United States is the main source of imports (44%), followed by countries of the Caribbean Community (CARICOM) (20%). Virtually all exports are agricultural products, while the large flow of imports include motor vehicles and other consumer goods, fuels, and fertilizer. The spice trade supports Grenada with the largest percentage of commodity exports, including nutmeg, mace, and cardamom (47%). Other important exports include cocoa (4%), paper (11%), fish (10%), and flour (10%). Grenada's main exports go to Saint Lucia 12.7%, United States 12.2%, Antigua and Barbuda 8.7%, Netherlands 7.9%, Saint Kitts and Nevis 7.8%, Dominica 7.8%, Germany 7.1% and France 4.6%.

Grenada is a member of the Eastern Caribbean Currency Union (ECCU). The Eastern Caribbean Central Bank (ECCB) issues a common currency for all members of the ECCU. The ECCB also manages monetary policy, and regulates and supervises commercial banking activities in its member countries.

Grenada is also a member of the Caribbean Community and Common Market (CARICOM). Most goods can be imported into

Grenada under open general license, but some goods require specific licenses. Goods that are produced in the Eastern Caribbean receive additional protection; in May 1991, the CARICOM common external tariff (CET) was implemented. The CET aims to facilitate economic growth through intra-regional trade by offering duty-free trade among CARICOM members and duties on goods imported from outside CARICOM.

3² BALANCE OF PAYMENTS

The adverse trade balance is generally offset by a flow of remittances from migrant groups abroad and by tourism. To illustrate, in 2005, Grenada received \$108.2 million in transfers (including remittances) compared to the \$30.4 million it exported (while it imported \$276 million worth of goods).

The US Department of State reported that in 2004 the total external debt outstanding was of \$415 million. The trade deficit grows yearly. In 2002, based on these figures, the debt to GDP ratio stood at 103% of GDP in 2002, climbing dramatically from the 2001 debt to GDP ratio of 67%. The 2002 ratios are very high both in relation to Grenada's economic history and in comparison to the debt-to-GDP ratios in other countries.

3³ BANKING AND SECURITIES

Local financial institutions include the National Commercial Bank of Grenada, the Grenada Bank of Commerce, the Grenada Development Bank, and the Grenada Cooperative Bank. Foreign banks include Barclays Bank and the Bank of Nova Scotia. In 1992, Republic Bank Limited of Trinidad and Tobago bought 51% of the National Commercial Bank. There is no stock exchange.

Grenada is a member of the Organization of Eastern Caribbean States (OECS), and a member of the Eastern Caribbean Central Bank (ECCB), which is headquartered in St. Christopher and Nevis. Grenada's finances are bound by the ECCB's general guidelines on money supply and bank regulation and the currency is the Eastern Caribbean dollar, which is pegged to the US dollar at a constant exchange rate of EC\$2.70:\$1. The country is considered a tax haven for many US companies. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$78.9 million. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$430.6 million.

3⁴ INSURANCE

There are a number of international firms (mainly UK, US, and Canadian) and some local interests doing business in Grenada. A full range of life and nonlife insurance is available. There were at least nine insurance companies operating in Grenada in 2000.

3⁵ PUBLIC FINANCE

Main sources of revenue are export and import duties, income tax, estate duties, and various internal rates, licenses, and taxes. The 1986 Fiscal Reform Program replaced a number of taxes, including a personal income tax, with a VAT of 20% on certain consumer goods. In 1999, the government decided to double its expendi-

Principal Trading Partners – Grenada (2003)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	38.0	253.2	-215.2
United States	11.0	106.9	-95.9
Netherlands	3.8	4.6	-0.8
Sweden	3.5	5.2	-1.7
Saint Lucia	2.9	2.0	0.9
Germany	2.4	8.0	-5.6
Belgium	2.0	0.4	1.6
Saint Kitts and Nevis	1.9	...	1.9
Trinidad and Tobago	1.6	46.6	-45.0
Barbados	1.5	5.2	-3.7
Antigua and Barbuda	1.1	...	1.1

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

tures on infrastructure projects, including airport expansion, the creation of a new port, and road construction.

The US Central Intelligence Agency (CIA) estimated that in 1997 Grenada's central government took in revenues of approximately \$85.8 million and had expenditures of \$102.1 million. Revenues minus expenditures totaled approximately -\$16.3 million. Total external debt was \$196 million.

36 TAXATION

Corporate taxes are levied on net profits at a rate of 30% on the first us\$50,000 and 40% on the remainder. A debt service levy is payable on salaries over us\$12,000 per year at a rate of 10%. VAT ranges from 5% on most services to 15% on locally manufactured products.

37 CUSTOMS AND DUTIES

All imports are subject to a general or preferential tariff, as well as a fixed package tax. Although Grenada is a member of the CARI-COM community, it does not apply the group's common external tariff (CET). A 5% customs fee based on the value of cost, insurance, and freight (CIF) is applied to most goods. Import restrictions cover 45 product categories, including certain consumer goods, vehicles, and foods. Import licenses are required for 16 product categories that include appliances, foods, and beverages. A 20% consumption tax is levied on new cars. Capital equipment is exempt from tariffs.

38 FOREIGN INVESTMENT

Since independence, the government has sought to attract foreign investment for industrial development, especially the processing of local agricultural commodities for export. Grenada offers incentives competitive with other Caribbean nations and gives high priority to foreign investment that is either 100% foreign owned or joint venture with nationals.

There are no free trade zones in the country, but generous investment incentive packages are available, including a tax holiday of up to 15 years. There has been a considerable amount of foreign investment in the country's hotel sector. Most foreign investment during the 1990s came in the form of infrastructure construction projects related to the tourism industry.

In September 2001, Grenada was placed on the list of noncooperative countries in preventing money laundering by the OECD's Financial Action Task Force (FATF). After strengthening its anti-money laundering legislation and closing a number of banks, Grenada was removed from the list in February 2003.

In the period 1980–2000, FDI inflows as a percentage of GDP more than doubled, and registered an 11% annualized growth rate between 1997 and 1999. Since then, however, there has been virtually no growth in FDI inflows into Grenada. In 1998, the foreign direct investment (FDI) inflow into Grenada rose to \$48.7 million, up from \$33.5 million in 1996. Yearly FDI inflows stayed within this range from 1998 to 2001. FDI inflow in 2001 was \$34.2 million. As a result of the global economic downturn, the worldwide FDI flows halved between 2000–02. The most significant uncontrollable challenge relates to its small market size, with a population in the vicinity of 100,000, Grenada is unlikely to attract any foreign investment that is oriented to its domestic market.

39 ECONOMIC DEVELOPMENT

Increasing indebtedness threatens Grenada's macro-stability; foreign direct investment (FDI) inflows have stagnated in the last couple of years, and it continues to be constrained by the host issues related to the small size of its economy.

Import substitution was the focal point of the agricultural development plan. The PRG was committed to nationalizing agriculture and turned the large estates that had belonged to former Prime Minister Gairy into cooperative farms. Following the 1984 election, the Blaize government reversed the trend toward state control and embarked on an economic policy that encouraged private sector participation and modified the fiscal system to encourage economic growth. The establishment of the Industrial Development Corporation, and of the National Economic Council early in 1985, were essential components of the new policy, as was the privatization of 18 state enterprises. The tax structure was modified in 1986 to offer incentives to the private sector.

Tourism, the main foreign exchange earner, was adversely affected by the 11 September 2001 terrorist attacks on the United States. Large expenditures for infrastructure and tourism projects, and the global economic downturn in 2001, led to a decline in GDP by 3% in 2001. The government tried to expand its cargo ports to handle the growing volume of cargo, but in 2002 tropical storm Lili damaged crops and infrastructure. The International Monetary Fund (IMF) approved \$4 million in emergency assistance to Grenada.

The country took an even more serious blow in 2004 when Hurricane Ivan swept through, killing dozens of people, damaging 90% of the island's buildings, and devastating the nutmeg crop. After the extent of destruction by Hurricane Ivan was assessed in 2004, the UK Secretariat put together a three-year assistance package valued at ec\$5 million (almost \$2 million) from 2004 to 2007, aimed at helping Grenada rebuild its shattered economy. The package included technical support for rehabilitating infrastructure, principally in planning for and implementing the reconstruction of schools, public and historic buildings, and roads. Assistance was also provided to strengthen institutional support for the Ministry of Works, Communications, and Transport and capacity-building for national and external debt management. The development of a national export strategy to promote economic diversification and an emergency post-disaster scholarship and skills development program were also part of the assistance program.

The United States has been the leading donor since the hurricane, with an emergency program of about \$45 million aimed at repairing and rebuilding schools, health clinics, community centers, and housing; training several thousand Grenadines in construction and other fields; providing grants to private businesses to speed their recovery; and providing a variety of aid to help Grenada diversify its agriculture and tourism sectors. Other practical help has been the launching of a Trade Reference Center in 2005; the Center is sponsored by the Canada International Development Agency and has technical assistance from the OAS. This center is aimed at providing simple and friendly user access to regional and country specific information related to trade and trade negotiations.

Government policy has aimed toward sustained development of agriculture and tourism as the prime sectors of the economy,

with respect to both employment and foreign exchange earnings. The last decade has been a period of considerable development in Grenada. While the expansion of the tourist industry has proceeded rapidly, the island nation has taken great care to protect their magnificent natural environment. National Parks have been developed, and the protection of both the rain forest and the coral reefs continues to be a high priority. In 2003 a major organic banana project launched an effort to boost the industry; 150 acres were set aside for organic cultivation. Due to the hurricane devastation however, further assessment of the economy will be needed in the years to come.

40 SOCIAL DEVELOPMENT

A Social Insurance System provides old age, disability, survivor, health, and maternity benefits to all workers aged 16 to 59, including public employees. It is financed by wage contributions of 5% from employers and 4% from workers. The retirement age is 60 for both men and women, and pensions equal 30% of average earnings. Maternity benefits are payable for 12 weeks. Survivor pensions total 75% of the pension of the insured. A funeral grant is also provided. Workers' medical benefits are comprehensive, and include travel overseas if necessary.

Women often earn less than men, especially in lower paying jobs, although there is no official discrimination. Sexual harassment in the workplace is common. Domestic violence is addressed with laws carrying penalties including jail time, community service, fines, and restraining orders for perpetrators. Child abuse is also prevalent. Most cases of abuse, domestic violence, and rape go unreported.

Human rights organizations operate freely in Grenada. Flogging is a legal form of punishment, although it is rarely used in practice.

41 HEALTH

Grenada is divided into seven medical districts, each headed by a medical officer. Grenada General Hospital in St. George's and two other general hospitals (one on Carriacou and one in St. Andrews) have a combined total of 340 beds. Other hospital facilities include an 80-bed mental hospital (rebuilt after being severely damaged in the 1983 invasion) and a nursing home with 120 beds. There are 36 health centers, which provide primary care. In 2004, it was estimated that Grenada had 50 physicians, 368 nurses, and 20 midwives per 100,000 people.

As of 2005, the infant mortality rate was 14.62 per 1,000 live births, and life expectancy averaged 64.53 years. The total fertility rate was an estimated 2.5 children per woman during her childbearing years. Respective 2002 estimates for overall birth and death rates were 23 and 7.6 per 1,000 people. Approximately 92% of the country's children were immunized against measles. Malaria has virtually been eradicated and a program to eradicate yellow fever mosquito is making progress.

In 1996, there were 76 new cases of AIDS reported.

42 HOUSING

The housing situation in Grenada has been difficult to track for the past few years due to a cycle of losses, reconstructions, and new losses caused by severe hurricanes to the region. In 2004, Hurricane Ivan caused some type of damage to about 90% of the hous-

ing stock. Ten months later in 2005, Hurricane Emily, though less severe, caused damage to about 2,641 homes. A variety of international groups have offered assistance to the country in rebuilding and maintaining housing and infrastructure.

In the early 1980s, the latest point for which statistical information was available, some 90% of all dwellings were detached houses. Nearly 75% of all housing units were owner occupied, 14% were rented, and 9% were occupied rent free. The most common construction material for homes was wood (70%), followed by concrete (12%), and wood and brick combined (7%).

The Grenada Housing Authority is a government agency empowered to acquire land and construct low-income housing projects. All main population centers have generally been supplied with sewerage and piped-water facilities.

43 EDUCATION

Grenada's educational system is modeled largely on the British educational system. Education is free and compulsory for children between the ages of 5 and 16. Primary education lasts for seven years and secondary education for five years. In 2001, about 68% of children between the ages of three and four were enrolled in some type of preschool program. Primary school enrollment in 2001 was estimated at about 84% of age-eligible students; 89% for boys and 80% for girls. In 2003, secondary school enrollment was about 99% of age-eligible students. It is estimated that about 80% of all students complete their primary education. The student-to-teacher ratio for primary school was at about 19:1 in 2003; the ratio for secondary school was about 20:1.

Postsecondary institutions include T.A. Marryshow Community College, Grenada National College, Technical and Vocational Institute, the Teacher Training College, and the Institute for Further Education. St. George's University Medical School, a private US institution founded in 1977, provides medical training for students from other countries, the majority from the United States. The adult literacy rate has been estimated at about 98%.

As of 2003, public expenditure on education was estimated at 5.1% of GDP, or 12.9% of total government expenditures.

44 LIBRARIES AND MUSEUMS

The Grenada Public Library system encompasses about 11 community branches. The main branch (also known as the Sheila Buckmire Memorial Library) serves as the national library and the national archives center; it is also the site of the administrative offices of the Department of Library Services, Ministry of Education. The St. George's University Medical School maintains a collection of 13,000 volumes. There is also a mobile library that visits the island's schools. The Grenada National Museum, founded in 1976, is located in St. George's and focuses on the history and archeology of the island.

45 MEDIA

A local automatic telephone system covers the island, with connections to Carriacou. In 2002, there were 33,500 mainline telephones and 7,600 mobile phones in use throughout the country.

Radio and television services are provided primarily by Radio Grenada and Grenada television. In 2004, there were seven radio stations and one television station. The Grenada Broadcasting Network (GBN) operates the primary stations. GBN is a privately

owned organization, but the government holds minority shares in the group. In 1997, there were 817 radios and 306 television sets in use per 1,000 population. In 2002, there were 15,000 Internet subscribers.

As of 2005, there were at least five weekly newspapers and several other newspapers published on an irregular schedule. The most popular weeklies are *The Grenada Informer* (1995 circulation, 5,000), *The Grenadian Voice* (3,500), and *The Grenada Guardian* (published by the United Labour Party).

The constitution provides for free speech and press, and the government is said to uphold these rights.

46 ORGANIZATIONS

The Grenada Chamber of Industry and Commerce is in St. George's. The Grenada Employers' Federation assists in strengthening relations between business owners and employee unions. Other labor unions and organizations exist, such as the Grenada Co-operative Nutmeg Association and the Grenada Union of Teachers.

National youth organizations include the National Student Council of Grenada, The Scout Association of Grenada, and the Girl Guides Association. YMCA and YWCA organizations are also active. There are several sports associations promoting amateur competition in various pastimes. Volunteer service organizations, such as the Lions Clubs International and the Rotary Club, are also present. There are national chapters of the Red Cross Society and Amnesty International.

47 TOURISM, TRAVEL, AND RECREATION

Tourism, although modest in relation to that of other Caribbean islands, was a major enterprise for Grenada before the 1979 coup and 1983 invasion. Since 1984, it has recovered rapidly, and the government is emphasizing development of the tourist infrastructure. There has also been substantial foreign investment in the hotel sector. Since 1989, American Airlines nonstop service to Grenada has boosted tourism significantly. In 2003, tourist arrivals numbered 142,355, a 7% increase from 2002. There were 1,758 hotel rooms with 3,844 beds that same year. The average length of stay was seven nights.

Tourism in Grenada offers the visitor a wide array of white sand beaches and excellent sailing. Two yacht harbors provide port and customs facilities. A valid passport is required for entry into Grenada, except for citizens of the United Kingdom, the United

States, and Canada, who only need two documents proving citizenship. Visas are not required by visitors from the United States, the United Kingdom, Canada, the British Commonwealth, Caribbean countries (except Cuba), most European countries, South Korea, and Japan. Evidence of vaccination against yellow fever is required if traveling from an infected country.

In 2005, the US Department of State estimated the daily cost of staying in Grenada at \$261 from April through December. The rest of the year was estimated at \$300 per day.

48 FAMOUS GRENADIANS

Theophilus Albert Marryshow (1889–1958) is known throughout the British Caribbean as “the Father of Federation.” Eric Matthew Gairy (1922–1997), a labor leader, became the first prime minister of independent Grenada in 1974. Maurice Bishop (1944–83) ousted Gairy in 1979 and held power as prime minister until his assassination. After the US-led invasion, the task of choosing an interim government fell to the governor-general, Sir Paul Scoon (b.1935). Herbert A. Blaize (1919–89) was elected prime minister in 1984; he was Grenada's first chief minister (1957) and its first premier (1967). Keith Mitchell (b.1946) won election as prime minister in 1994, and was reelected in 1999 and 2003.

49 DEPENDENCIES

Carriacou (34 sq km/13 sq mi), Petit Martinique, and several other islands of the Grenadines group are dependencies of Grenada.

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GUATEMALA

Republic of Guatemala
República de Guatemala

CAPITAL: Guatemala City

FLAG: The national flag consists of a white vertical stripe between two blue vertical stripes with the coat of arms centered in the white band.

ANTHEM: *Himno Nacional*, beginning “Guatemala feliz” (“Happy Guatemala”).

MONETARY UNIT: The quetzal (Q) is a paper currency of 100 centavos. There are coins of 1, 5, 10, and 25 centavos, and notes of 50 centavos and 1, 5, 10, 20, 50, and 100 quetzales. Q1 = \$0.13072 (or \$1 = Q7.65) as of 2005. US notes are widely accepted.

WEIGHTS AND MEASURES: The metric system is the legal standard, but some imperial and old Spanish units also are used.

HOLIDAYS: New Year’s Day, 1 January; Epiphany, 6 January; Labor Day, 1 May; Anniversary of the Revolution of 1871, 30 June; Independence Day, 15 September; Columbus Day, 12 October; Revolution Day, 20 October; All Saints’ Day, 1 November; Christmas, 25 December. Movable religious holidays include Holy Thursday, Good Friday, and Holy Saturday.

TIME: 6 AM = noon GMT.

¹LOCATION, SIZE, AND EXTENT

Situated in Central America, Guatemala has an area of 108,890 sq km (42,043 sq mi), with a maximum length of 457 km (284 mi) NNW–SSE and a maximum width of 428 km (266 mi) ENE–WSW. Comparatively, the area occupied by Guatemala is slightly smaller than the state of Tennessee. It is bounded on the E by Belize, Amatique Bay, and the Caribbean Sea, on the SE by Honduras and El Salvador, on the S by the Pacific Ocean, and on the W and N by Mexico, with a total boundary length of 2,087 km (1,297 mi).

Guatemala has long laid claim to territory held by Belize (formerly known as British Honduras). In 1821, upon achieving independence, Guatemala considered itself the rightful inheritor of this former Spanish possession and continued to regard Belize as an administrative adjunct of Guatemala. In 1859, British rights to the area were defined in a treaty with Guatemala, but, alleging that the United Kingdom had not fulfilled its obligations, Guatemala subsequently refused to recognize the British title. In mid-1975, Guatemala demanded the cession of one-fourth of the territory of Belize as a condition for recognizing that country’s sovereignty.

When Belize did become independent in September 1981, Guatemala refused to recognize the new nation. In January 1983, the Guatemalan government announced that it would drop its sovereignty claim and would press instead for the cession of the southernmost fifth of Belize’s territory. Guatemala’s claim has been rejected not only by the United Kingdom and Belize but also by the UN General Assembly and, in November 1982, at the CARICOM heads of government conference. In mid-1986, Guatemala and the United Kingdom reestablished consular and commercial relations.

Guatemala’s capital city, Guatemala City, is located in the south central part of the country.

²TOPOGRAPHY

A tropical plain averaging 48 km (30 mi) in width parallels the Pacific Ocean. From it, a piedmont region rises to altitudes from 90 to 1,370 m (300 to 4,500 ft). Above this region lies nearly two-thirds of the country, in an area stretching northwest and southwest and containing volcanic mountains, the highest of which is Mt. Tajumulco (4,211 m/13,816 ft). The larger towns and Lake Atitlán are located in basins at elevations of about 1,500 to 2,400 m (5,000 to 8,000 ft). To the north of the volcanic belt lie the continental divide and, still farther north, the Atlantic lowlands. Three deep river valleys—the Motagua, the Polochic, and the Sarstún—form the Caribbean lowlands and banana plantation area. North of it, occupying part of the peninsula of Yucatán, is the lowland forest of Petén, once the home of the Mayas. The largest lakes are Izabal, Petén Itza, and Atitlán.

Near the boundaries of the Cocos and Caribbean plates, Guatemala is in a geologically active region with frequent earthquakes and volcanic activity. Of some 30 volcanoes in Guatemala, six have erupted or been otherwise active in recent years. A catastrophic earthquake in February 1976 left nearly 23,000 dead, 70,000 injured, and 1 million people whose homes were partially or completely destroyed.

³CLIMATE

Temperature varies with altitude. The average annual temperature on the coast ranges from 25 to 30°C (77 to 86°F); in the central highlands the average is 20°C (68°F), and in the higher mountains 15°C (59°F). In Guatemala City, the average January minimum is 11°C (52°F) and the maximum 23°C (73°F); the average minimum and maximum temperatures in July are, respectively, 16°C (61°F)

and 26°C (79°F). The rainy season extends from May to October inland and to December along the coast, and the dry season from November (or January) to April. Because of its consistently temperate climate, Guatemala has been called the “Land of Eternal Spring.”

On 4 October 2005, Hurricane Stan, a Category 1 hurricane, struck Guatemala's Pacific coastal region, sending winds of 128 km/h (80 mi/h) along the coast below Guatemala City. The disaster caused landslides and mudslides, which destroyed many towns. Villages near the popular tourist area of Lake Atitlán suffered damage. Almost 1,000 died and hundreds lost their homes.

4 FLORA AND FAUNA

Flowers of the temperate zone are found in great numbers. Of particular interest is the orchid family, which includes the white nun (*monja blanca*), the national flower. There is also an abundance of medicinal, industrial, and fibrous plants. Overall, there are more than 8,600 plant species throughout the country.

Indigenous fauna includes the armadillo, bear, coyote, deer, fox, jaguar, monkey, puma, tapir, and manatee. The national bird is the highland quetzal, the symbol of love of liberty, which reputedly dies in captivity. Lake Atitlán is the only place in the world where a rare flightless waterbird, the Atitlán (giant pied-billed) grebe, is found; this species, classified as endangered, has been protected by law since 1970. There are more than 900 other species of native and migratory birds. Reptiles, present in more than 204 species, include the bushmaster, fer-de-lance, water moccasin, and iguana.

5 ENVIRONMENT

Guatemala's main environmental problems are deforestation—over 50% of the nation's forests have been destroyed since 1890—and consequent soil erosion. As recently as 1993, the nation obtained 90% of its energy from wood, losing 40,000–60,000 hectares of forest per year. Between 1965 and 1990, Guatemala also lost over 30% of its mangrove area, which totaled 16,000 hectares in the early 1990. From 1990–2000 the rate of deforestation was about 1.7% per year. In 2000, about 26.3% of the total land area was forested.

The nation's water supply is at risk due to industrial and agricultural toxins. Guatemala has 27.8 cu mi of water with 74% used for agriculture and 17% used in farming activity.

United Nations sources show that environmental contamination is responsible for a significant number of deaths due to respiratory and digestive illnesses. Despite the establishment in 1975 of a ministerial commission charged with conserving and improving the human environment, coordination of antipollution efforts remains inadequate, and Guatemala still suffers from a lack of financial resources and well-trained personnel to implement environmental control programs.

In 2003, 20% of Guatemala's total land area was protected. Tikal National Park is a UNESCO World Heritage Site and there are four Ramsar wetland sites. According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 7 types of mammals, 10 species of birds, 10 types of reptiles, 74 species of amphibians, 14 species of fish, 2 species of invertebrates, and 85 species of plants. Endangered or extinct species in Guatemala included the

horned guan, Eskimo curlew, California least tern, green sea turtle, hawksbill turtle, olive ridley turtle, spectacled caiman, American crocodile, and Morelet's crocodile.

6 POPULATION

The population of Guatemala in 2005 was estimated by the United Nations (UN) at 12,701,000, which placed it at number 69 in population among the 193 nations of the world. In 2005, approximately 4% of the population was over 65 years of age, with another 42% of the population under 15 years of age. There were 95 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 2.8%, a rate the government viewed as too high. Although the government implemented programs that provide access to subsidized contraception, only 31% of women used modern contraception and the fertility rate remained high at 4.9 births per woman. The projected population for the year 2025 was 19,962,000. The population density was 117 per sq km (302 per sq mi). Most of the population is concentrated in the southern third of the country.

The UN estimated that 39% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 3.27%. The capital city, Guatemala City, had a population of 951,000 in that year. Other large cities and their estimated populations are Quezaltenango, 250,000, and Escuintla, 68,000.

7 MIGRATION

Because of persecution and civil war, Amerindian peasants began emigrating across the Mexican border in 1981. Under the CIRE-FCA plan (International Conference on Central American Refugees), 18,000 Guatemalans repatriated between 1989 and 1994. In 1995, 9,500 repatriated from Mexico, and in 1996, another 3,974 repatriated from Mexico. In 1997, there were still 40,000 in Mexico and Belize. Between 1984, when the first repatriation movements took place, and 1999, a total of 43,663 refugees had returned to more than 160 communities throughout Guatemala. The Guatemalan government spent some \$30 million on 36 farms purchased for collective returns. In 2004 there were 656 refugees, 4 asylum seekers, and 8 returned refugees. A population that remained of concern to the United Nations High Commissioner for Refugees (UNHCR) at the end of 2004 was 660 persons in Guatemala City.

In 2003 remittances were \$2 billion. In 2005, the net migration rate was -1.63 migrants per 1,000 population, down from 4.3 per 1,000 in 1990. The government views the migration levels as satisfactory.

8 ETHNIC GROUPS

Guatemala has a larger proportion of Amerindians in its total population than any other country in Central America. In 2004, persons of mixed Amerindian and Spanish ancestry, called mestizos, constituted about 59.4% of the national total. Amerindians who have become assimilated and no longer adhere to a traditional Amerindian life-style are also called ladinos, but this term is sometimes used to refer to mestizos. There are at least 22 separate Mayan groups, each with its own language. The largest minority groups include the Quiché (9.1%), the Cakchiquel (8.4%), the Mam (7.9%), and the Q'equchi (6.3%). Other Mayan groups account for about 8.6% of the population. The Garifuna are de-



LOCATION: 13°42' to 18°30' N; 87°30' to 92°13' W. BOUNDARY LENGTHS: Belize, 266 kilometers (166 miles); Honduras, 256 kilometers (160 miles); El Salvador, 203 kilometers (126 miles); total coastline, 400 kilometers (250 miles); Mexico, 962 kilometers (595 miles). TERRITORIAL SEA LIMIT: 12 miles.

scendants of African slaves. The white population is estimated at less than 1% of the total.

⁹ LANGUAGES

Spanish, spoken by about 60% of the population, is the official and commercial language. Amerindians speak some 28 dialects in five main language groups: Quiché, Mam, Pocomam, and Chol—all of the Mayan language family—and Carib, Kekchi, Garifuna, Cakchiquel, and Xinca. Amerindian languages are spoken by about

40% of the populace. A 2003 Law of Languages mandates the use of Mayan languages in public sectors such as health, education, and justice.

¹⁰ RELIGIONS

Historically, Roman Catholicism is the predominant religion (between 50–60%), with an archbishopric at Guatemala City and bishoprics at Quetzaltenango, Verapaz, and Huehuetenango. Many inhabitants combine Catholic beliefs with traditional Mayan rites.

Protestants account for about 40% of the population. The largest Protestant denominations are the Full Gospel Church, the Assembly of God, the Church of God of the Central American Church, and the Prince of Peace Church. Other denominations represented are Presbyterians, Baptists, Lutherans, Episcopalians, the Church of Jesus Christ of Latter-Day Saints, and Jehovah's Witnesses. Minority groups and religions with small communities include Jews, Muslims, and followers of the Indian spiritual leader Sri Sathya Sai Baba.

A 1995 Agreement on the Identity and Rights of Indigenous Peoples was approved to provide freedom of practice and promote respect for the forms of spirituality practiced by the Maya, Garifuna, and Xinka groups. As of 2005, however, very little had been done to implement the agreement. Though there is no official religion, the constitution recognizes the Catholic Church as a distinct legal personality. Other religious groups must register with the government in order to make legal business transactions. Some tension exists between Christian groups and the indigenous Mayan religious groups. The Interreligious Dialogue and Foro Guatemala are groups that encourage tolerance and cooperation between indigenous and Christian faiths. The Ecumenical Forum for Peace and Reconciliation is a group of primarily Christian leaders who conduct public conferences and debates on a variety of social and political topics.

¹¹TRANSPORTATION

In 2002, the total length of Guatemala's road system was estimated at 13,856 km (8,610 mi), of which 4,370 km (2,715 mi) was paved, including 140 km (87 mi) of expressways. In 2003, there were approximately 127,800 passenger cars and 145,900 commercial vehicles registered. Two international highways cross Guatemala: the 824-km (512-mi) Franklin D. Roosevelt Highway (part of the Pan American Highway system) and the Pacific Highway. Guatemala Railways operates 90% of the nation's 884 km (549 mi) railroad system, all of it narrow-gauge.

Few of the rivers and lakes are important to commercial navigation. Of the 990 km (615 mi) only 260 km (161 mi) are navigable year round, an additional 730 km (454 mi) are only navigable during high water. Puerto Barrios and Santo Tomás on the Caribbean coast are Guatemala's chief ports. The Pacific coast ports are Champerico and San José. In 2002, Guatemala had no registered cargo ships.

There were an estimated 452 airports in 2004, but only 11 had paved runways as of 2005. La Aurora International Airport at Guatemala City, the first air terminal in Central America, serves aircraft of all sizes, including jumbo jets. The government-owned Aviateca has a monopoly on scheduled domestic service and also flies to other Central American countries, Jamaica, Mexico, and the United States. In 1998, (the latest year for which data was available) 508,000 passengers were carried on scheduled domestic and international flights.

¹²HISTORY

Three distinct stages—Mayan indigenous, Spanish colonial, and modern republican—have left their mark on the history of Guatemala.

Guatemala includes much of the old Mayan civilization, which may date back as early as 300 BC. The classical Mayan period last-

ed from about AD 300 to 900 and featured highly developed architecture, painting, sculpture, music, mathematics (including the use of zero), a 365-day calendar, roads, and extensive trade. This great pre-Columbian civilization seems to have collapsed around AD 900, and by the 12th century, the Mayas had disintegrated into a number of separate Amerindian groups. The Amerindians offered resistance to the Spanish expedition sent by Hernán Cortés from Mexico and led by Pedro de Alvarado during 1523–24, but by the end of that time, their subjugation to Spain was virtually complete.

Alvarado founded the first Guatemalan capital, Santiago de los Caballeros de Guatemala, in 1524. Because of several earthquakes, the capital was moved a number of times until it became permanently established at Guatemala City in 1776. From 1524 until 1821, Guatemala (City and province) was the center of government for the captaincy-general of Guatemala, whose jurisdiction extended from Yucatán to Panama. Economically, this was mainly an agricultural and pastoral area in which Amerindian labor served a colonial landed aristocracy. The Roman Catholic religion and education regulated the social life of the capital. Spanish political and social institutions were added to Amerindian village life and customs, producing a hybrid culture.

In 1821, the captaincy-general won its independence from Spain. After a brief inclusion within the Mexican Empire of Agustín de Iturbide (1822–23), Guatemala, along with present-day Costa Rica, El Salvador, Honduras, and Nicaragua, formed the United Provinces of Central America in 1824. This federation endured until 1838–39, but was fragmented by liberal and conservative divides. Guatemala proclaimed its independence in 1839 under the military rule of the conservative Rafael Carrera, an illiterate dictator with imperial designs. Though the people went through three different pushes for independence, representative democracy was the exception from the mid-19th century until the mid-1980s. The country passed through dictatorships, military rule, insurgencies (in the 1960s), and coups.

After Carrera died (without reaching his dictatorial goals), Guatemala fell under a number of military governments. These included three notable administrations: Justo Rufino Barrios (1871–85), the "Reformer," who ruled through the transition from the colonial to the modern era; Manuel Estrada Cabrera (1898–1920), whose early encouragement of reform developed later into a push for increased power; and Jorge Ubico (1931–44), who continued, and elaborated upon, the programs begun by Barrios.

Guatemalan politics changed with the election of reform candidate Juan José Arévalo Bermejo in 1945. Arévalo's popularity marked one of the first mass-based movements in Guatemalan politics. In 1951, Jacobo Árbenz Guzmán was elected. Following Arévalo's approach to land reform, Árbenz expropriated holdings of the United Fruit Co., a US firm. The United States alleged communist influence within the Árbenz government, and began mobilizing opposition against him. In the summer of 1954, Col. Carlos Castillo Armas and an army of Guatemalan exiles, backed by the CIA, invaded Guatemala from Honduras and toppled Árbenz. Castillo took over, restored expropriated properties, and ruled by decree until he was assassinated by a presidential palace guard in July 1957.

After a period of confusion, Gen. Miguel Ydígoras Fuentes became president in January 1958. His administration was essential-

ly a military dictatorship, even though he claimed to follow democratic principles. He was particularly hard on his domestic critics, denouncing them as communists. He was equally bombastic on the international stage, denouncing the United States, quarreling with Mexico over fishing rights, and challenging the United Kingdom over Belize. He was also contemptuous of Fidel Castro, and allowed Guatemala to be a training area for the exiles in the abortive US invasion of the Bay of Pigs in April 1961.

In March 1963, Ydígoras was overthrown by Defense Minister Col. Enrique Peralta Azurdia, who declared a state of siege. For two years, Peralta ruled dictatorially, and continued to assert Guatemala's claims on Belize. In September 1965, the Peralta regime announced a new constitution and elections, and in March 1966, Dr. Julio César Méndez Montenegro was elected president. He was the first civilian president since Árbenz, and would be the last for some time. During his term, the army and right wing counter-terrorists proceeded to kill hundreds of guerrillas, who were believed to be sponsored by Cuba, and claimed destruction of the guerrilla organization by the end of 1967. Uprooted from the countryside, the guerrillas concentrated their efforts on the capital, where, in 1968, guerrillas assassinated US Ambassador John G. Mein.

Guatemala returned to military rule as Col. Carlos Arana Osorio was elected president in 1970. He instituted the country's first comprehensive development plan, but the plan was upset by guerrilla violence, which now engulfed the country. Ambassador Karl von Spreti of the Federal Republic of Germany (FRG) was murdered in April 1970 by leftists. Many prominent Guatemalans were killed or held for ransom. In response to the violence, Arana suspended civil liberties from November 1970 to November 1971. In 1974, Arana's candidate, Gen. Kjell Laugerud García, was confirmed by Congress as president, after an election marred by charges of fraud. Laugerud followed a centrist policy and obtained a measure of popular support. During his tenure, guerrilla violence decreased, and some political liberties were restored. The principal challenge to Laugerud's administration was the need to rebuild Guatemala after the catastrophic earthquake of February 1976.

A militant rightist, Gen. Fernando Romeo Lucas García, was elected president in 1978. As guerrilla violence continued, there was also an upsurge of activity by right wing "death squads," which, according to unofficial Guatemalan sources, committed over 3,250 murders in 1979 and even more during 1980. In addition, hundreds of Amerindians were reportedly massacred during antiguerrilla operations. The Carter administration objected to Guatemala's deteriorating human rights record, whereupon the military charged that communist influence had reached the White House.

In January 1981, the main guerrilla groups united and escalated while the government went into crisis. The elections of March 1982 were won by Laugerud's handpicked candidate, Gen. Angel Anibal Guevara. Three weeks later, a coup placed in power a "born-again" Protestant, Gen. José Efraín Ríos Montt. After his month-long amnesty offer to the guerrillas was rejected, he declared a state of siege in July, and the antiguerrilla campaign intensified. The government's counter-insurgency killed between 2,600 and 6,000 in 1982, and drove up to a million Guatemalans from their homes by the end of 1983. In March 1983, Ríos lifted the state of siege and announced that elections for a constituent

assembly would be held in July 1984. But Ríos, who had fought off some 10 coup attempts during his administration, was overthrown in August 1983.

The new government of Brig. Gen. Oscar Humberto Mejía Victores declared that the coup was undertaken to end "abuses by religious fanatics" and pledged continued efforts to eradicate the "virus of Marxism-Leninism." Elections for a constituent assembly were held, as promised, in July 1984. In May 1985, the assembly promulgated a constitution for a new government with an elected Congress. The general elections of November 1985 were followed by a runoff election in December. The overwhelming winner was Mario Vicio Cerezo Arévalo of the Guatemalan Christian Democratic Party (DCG). He also brought a majority into Congress. Political violence decreased under Cerezo, who withstood two attempted coups. But he was unable to make any progress on human rights in Guatemala, and was unwilling to risk prosecution of military personnel who had been the most serious violators. As the economy worsened, political instability increased, including violence.

The elections of 11 November 1990 necessitated a runoff election, which was won by Jorge Serrano of the Movement for Solidarity and Action (Movimiento para Acción y Solidaridad—MAS). Serrano's inauguration in January 1991 marked the first transition in memory from one elected civilian government to another. Serrano promised to negotiate with insurgents and bring to justice both corrupt former officials and human rights violators, but was deposed by the military after he declared a state of emergency and suspended the constitution on 25 May 1993. The military, in unusual service in defense of democracy, then allowed Congress to name Ramior de Serrano's successor. This unusual service of the military in defense of democracy led to the naming of Ramior de León Carpio as president on 5 June. De León, a human rights advocate, promised to bring to justice those responsible for the dismal state of human rights in Guatemala. He also proposed reductions in the military, which predictably were not well-received by the officer corps.

On 29 December 1996, under the government of Alvaro Arzu, the Guatemalan government signed a peace accord with the guerrilla Guatemalan National Revolutionary Unity. This signaled the end of Central America's longest-running guerrilla war, beginning with an informal cease-fire in March 1996, and the signing of the socioeconomic accord (which called for the government to raise its tax revenues from 8% to 12% of GDP and increase its spending in health, education, and housing). The last accord, signed in Mexico City in September 1996, called for legislative and judicial reforms. It also included a reassessment of the military's role, as the parties agreed to remove the army from public security functions and to annul the law that provided for the Civil Defense Patrols established in the 1980s to fight guerrillas in the highland villages.

In February 1999, the country's Historical Clarification Commission blamed the army for more than 90% of the deaths or disappearances of more than 200,000 Guatemalans during the 36-year civil war. In many instances, the army committed genocide against entire Mayan villages, the report concluded. The three-member commission blamed the United States government for supporting right wing regimes even though it knew about the atrocities being committed by the army. An earlier report by the Catholic

Church revealed similar findings. During a short visit to Guatemala in March 1999, US president Bill Clinton said his country had been wrong for supporting the Guatemalan army. He pledged to support the peace process. In May, the peace process suffered a setback when Guatemalans rejected 50 key constitutional reforms that would have diminished the role of the army and given protection and recognition to Amerindian languages and traditional customs, in a vote in which only about 20% of Guatemalans took part.

In November of 1999, a populist lawyer named Alfonso Portillo captured 47.8% of the vote in the presidential election. This vote was not enough to prevent a runoff election (held a month later), which was unsurprising as Portillo was a very controversial candidate. Portillo had fled Mexico in 1982 to avoid what he termed unfair prosecution for the killing (in self-defense) of two men in Guerrero. Further, he was also associated with former dictator Ríos Montt (whose 17-month regime in 1982–83 committed some of the worst atrocities against Amerindians) through membership in the conservative Guatemalan Republican Front (FRG). Ríos Montt, who had his eye set on the presidency in 2003, worked closely with Portillo as FRG's secretary general. Portillo built support with promises to reduce crime, one of the worst problems facing the nation after the war. Crime was rampant throughout the nation, with dramatic increases in murders, kidnappings, and armed robbery. Portillo also promised to aid the poor and curb unemployment, a message that did not go unheard in a nation where 64% of Guatemalans are unemployed or underemployed. In the December runoff election, Portillo captured 68.3% of the vote to win the presidency. His party captured 63 of 113 seats in Congress, while the conservative PAN won 37 seats. A leftist coalition captured nine seats.

Montt attempted to overturn a constitutional ban preventing former coup plotters from running for public office, but he failed to overturn the ban in 1999. It was widely speculated that, in the midst of meager economic growth, a 60% poverty rate, and increasing levels of crime and violence, Montt's tough-on-crime stance would be able to convince the Guatemalans to give him a second chance. However, Montt was defeated in the first round of voting, as he was only able to win 19.3% of the vote. The former Guatemala City mayor, Oscar Berger Perdomo won 54.1% of the vote as the Grand National Alliance (GAN) candidate. Alvarado Colom Caballeros, a center-left candidate of the National Unity for Hope (UNE) party, garnered 49.1% of the vote. Though there were fears that violence and fraud might mar the election, those fears were not realized. Berger Perdomo, a conservative backed by the business class, assumed office on 14 January 2004. Portillo, however, quickly fled Guatemala as news of a corruption scandal in the presidency grew. In October 2005, Guatemala requested that Mexico send Portillo back to face accusations of public funds misuse—specifically, a diversion of about \$16 million in military funds.

In his inaugural speech, Oscar Berger Perdomo committed to adherence to the 1996 Peace Accords. However, the UN Verification Mission in Guatemala (MINUGUA) reported that many of the fundamental reforms of the 1996 Peace Accords were not being realized due to persistent racism and social inequality. MINUGUA predicted that the persistence would lead to an engendered future social conflict, stunted economic development, and corro-

sion of democratic government. Violence against women, femicide, was also a growing problem in Guatemala, where 527 women, mostly poor, were reportedly raped and murdered in 2004.

Civil war, corruption, and instability are among the reported reasons that Guatemala maintained a 75% poverty rate in 2005. The effects of Hurricane Stan and its concomitant flooding and landslides, claimed thousands of lives in October 2005.

13 GOVERNMENT

Constitutionally, the Guatemalan government is defined as democratic and representative, and the new constitution that took effect on 14 January 1986 reaffirms that definition. Since the 1950s, however, civil disorder has often prompted the suspension of constitutional guarantees. In October, 1999, Congress approved constitutional reforms that ended the military's constitutional role in internal security except for limited periods and under civilian control.

Guatemala is a republic. The president, who must be a native-born lay person at least 40 years old, is elected by direct vote for a four-year term and may not be reelected. The constitution calls for a popularly elected vice president. The office of vice president provides a guarantee of presidential succession in case of the death or disability of the chief executive. There is a five-member court of constitutionality, which officially advises the president. Its members are appointed, one each by the Supreme Court, Congress, the president, the University of San Carlos, and the bar association. The president, who has broad powers, appoints and is assisted by a cabinet. The cabinet members traditionally resign at the end of each year so that the president may choose a new cabinet. The president, who is also commander-in-chief of the armed forces, appoints most military officers, the 22 governors, and other important public and diplomatic officials. Presidential duties include preserving public order, proposing laws, and making an annual presentation of the budget.

The unicameral National Congress has 113 members elected to four-year terms. Ninety-one members are elected from departmental constituencies, while 22 are elected by proportional representation. In districts with a population over 200,000, an additional deputy is elected to represent each additional 100,000 inhabitants or fraction exceeding 50,000. In addition, at-large representatives are elected by proportional representation from lists submitted by each political party. Under the constitution, Congress imposes taxes, enacts the national budget, declares war and makes peace, and ratifies treaties and conventions proposed by the president. Congress elects the president of the judiciary and judges of the Supreme Court and courts of appeals. The president may veto congressional bills, but Congress may override by a two-thirds vote. All public officials must declare the amount of their incomes and property holdings before assuming their posts and after they leave office.

Citizenship is acquired at the age of 18. Voting is obligatory for literate men and women 18 years of age and older and optional for nonliterate citizens.

14 POLITICAL PARTIES

Political power in Guatemala has been largely a matter of personal, rather than party, influence. Although parties have generally

developed along conservative or liberal lines, political periods are commonly identified with the names of important leaders.

Under President Carlos Castillo Armas (1954–57), the Guatemalan Communist Party and other leftist parties were dissolved, and all other parties were temporarily suspended. To prevent further party proliferation, the membership necessary for party certification was raised from 10,000 to 50,000 in 1963. Only three parties were able to meet this requirement in time for the March 1966 elections: the Revolutionary Party (Partido Revolucionario—PR), a center-left party, the conservative Institutional Democracy Party (Partido Institucional Democrático—PID), formed in 1965, and the militantly anticommunist National Liberation Movement (Movimiento de Liberación Nacional—MLN).

During the 1970s, these parties remained dominant. The MLN won the presidency in 1970, and an MLD-PID coalition took the 1974 election (which was ultimately decided in Congress), defeating Gen. José Efraín Ríos Montt, representing the leftist National Opposition Front, a coalition of the several parties, including the Christian Democrats (Partido de Democracia Cristiana Guatemalteca—DCG). In 1978, the PR and PID formed a center-right coalition. In the congressional voting, the MLN won 20 seats, the PID 17, the PR 14, the DCG 7, and other parties 3. In the presidential elections of March 1982, a coalition of the PR, PID, and the National Unity Front (Frente de Unidad Nacional—FUN), an extreme right wing party formed in 1977, won a plurality of 38.9% of the vote. Congress endorsed the PR-PID-FUN candidate, Gen. Ángel Aníbal Guevara, as president, but he was deposed in a coup later in March. All parties were suspended by the new ruler, Gen. Ríos, but political activity resumed in March 1983. In the 1980s, the Christian Democrats grew significantly, winning the 1985 presidential and congressional elections. In addition, a host of new parties entered the political arena. Many had hopeful names suggesting national reconciliation, moderation, and solutions to Guatemala's problems. Among these were the National Union of the Center (Unión del Centro Nacional—UCN), the Democratic Party for National Cooperation (Partido Democrático de Cooperación Nacional—PDCN), the Solidarity Action Movement (Movimiento para Acción y Solidaridad—MAS), the National Advancement Plan (Plan por el Adelantamiento Nacional), and the National Authentic Center (Centro Auténtico Nacional).

The left wing guerrilla movement is represented by the Guatemalan National Revolutionary Unity (Unidad Revolucionaria Nacional Guatemalteca—URNG). Founded in 1982, these groups consist of the Guerrilla Army of the Poor (Ejército Guerrillero de los Pobres—EGP), the Guatemalan Workers' (Communist) Party (Partido Guatemalteco del Trabajo—PGT), the Rebel Armed Forces (Fuerzas Armadas Rebeldes—FAR), and the Organization of the People in Arms (Organización del Pueblo en Armas—ORPA). During the 1999 elections, the leftists won nine seats in Congress. The main political parties in 1999 were the conservative Frente Republicano Guatemalteco and Partido de Avanzada Nacional; Frente had 63 seats in Congress and PAN had 37 seats.

In the November 2003 elections, the Grand National Alliance (GANA) won 49 of the 140 seats in Congress; the FRG won 42 seats; the National Unity for Hope (UNE) won 33 seats; and PAN took 16. In the November and December 2003 presidential elections, Óscar Berger Perdomo of the Grand National Alliance won both the first and second rounds of voting to become president.

His opponent, Caballeros, won 49.1% of the vote. The next legislative and presidential elections were scheduled for November 2007.

¹⁵ LOCAL GOVERNMENT

Guatemala is divided into 22 departments, plus Guatemala City, each with a governor appointed by the president. Municipalities are governed by a mayor and independent municipal councils whose officials are popularly elected for two-year terms.

¹⁶ JUDICIAL SYSTEM

The Constitution of 1985 established an independent judiciary and a human rights ombudsman. Courts of ordinary jurisdiction are the nine-member Supreme Court, 10 courts of appeals, 33 civil courts of first instance, and 10 penal courts of first instance. There is also a Constitutional Court. Judges of the Supreme Court and courts of appeals are elected for four-year terms by the National Congress from lists prepared by active magistrates, the Bar Association, and law school deans. Judges of first instance are appointed by the Supreme Court. Courts of private jurisdiction deal separately with questions involving labor, administrative litigation, conflicts of jurisdiction, military affairs, and other matters. An independent tribunal and office of accounts supervises financial matters of the nation, the municipalities, and state-supported institutions, such as the National University.

In 1986, under Cerezo's civilian government, reforms were added in the effort to end political violence and establish rule of law. These included *amparo* (court ordered protection), new laws of habeas corpus, and a series of Supreme Court reforms to fight corruption and make the legal system more efficient. However, the government was criticized for still failing to investigate and prosecute human rights violations throughout the rest of Cerezo's term.

A new criminal procedural code affording stronger due process protections took effect in July 1994. Trials are public. Defendants have the rights to counsel, to be presumed innocent, and to be released on bail.

In 2001, there was some concern that intimidation would stop justice, specifically in regards to the prosecution of the Bishop Gerardi murder. In this trial, retired army and foreign intelligence chief Col. Disrael Lima and his son Capt. Byron Lima were charged for murder along with former member of the Presidential Guard (EMP) Ogdulio Villanueva, among others. Archbishop Gerardi was beat to death two days after the Restoration of Historical Memory (REMHI) report was released by the human rights office (ODHA) that he headed. The report blamed the military and paramilitary for Guatemala's 36-year long civil war and the majority of deaths that occurred during that time. The reopening of the trial in 2001 was met by a bomb attack against Judge Iris Yassmin Barrios the night before the reopening of the Gerardi trial. Several witnesses died suspiciously, and judicial officials, judges, and prosecutors backed out of participation in the case due to threats and surveillance.

In 2004, Guatemala's judiciary was still said to suffer from corruption, inefficiency, intimidation, and the de facto doling out of impunity, despite its legal independence. Furthermore, military courts retain control of military personnel who commit crimes

while on official business, thus disallowing civil courts to try human rights abuses by the military.

The consequently incomplete justice under the formal judicial system has been a reason that some citizens have taken justice into their own hands through the carrying out of *linchamientos* in vigilante groups that attack war criminals and others accused of war crimes. According to MINUGUA, an average of one lynching per week was carried out between April 1997 and May 1998, usually in rural areas lacking substantive police presence and where civil patrols had once been prevalent. Former patrollers, ironically, were often involved in the instigation of attacks.

Some outside courts have attempted to give justice where Guatemalan courts have had less progress. The Inter-American Court of Human Rights ordered that the state pay compensation to victims of human rights abuses committed by the state. In December, 2004, \$3.5 million was paid. The court found the state specifically responsible for the 1982 massacre of 268 people in Plan de Sanchez, Rabinal, and Baja Verapaz. The Constitutional Court, in 2005, also rejected the proposal to create a UN Commission for the Investigation of Illegal Bodies and Clandestine Security Apparatus, saying it would be unconstitutional and that alternative methods of protecting human rights from state aggression would be carried out. It also questioned the legality of Guatemala's accepting the jurisdiction of the Inter-American Court of Human Rights. An attorney with close ties to the military sought this ruling. Incidentally, Guatemala had not accepted compulsory ICJ jurisdiction, either, as of 2004.

The World Bank invested in a Judicial Reform Project aiming to create a more effective, accessible and credible judicial system that would improve consistency, equity, public trust, and confidence in its judging of the law.

17 ARMED FORCES

The Guatemalan national armed forces (29,200 active and 35,200 reservists in 2005) are combined for administrative purposes, with the Army providing logistical support to the Navy and Air Force. In 2005 the Army had 27,000 active personnel, while there were 1,500 in the Navy, and 700 in the Air Force. The Army's primary armament included 12 light tanks, 57 reconnaissance vehicles, and over 118 artillery pieces. The Navy's major units consisted of 31 coastal patrol craft and 1 amphibious landing craft. The Air Force had 10 combat capable aircraft, including 4 fighter ground attack aircraft, in addition to 21 utility helicopters. Paramilitary forces included a 19,000 member national police force, in addition to a 2,500 member Treasury Police force. The defense budget in 2005 totaled \$101 million. A decree promulgated in December 1983 authorized military service for women.

18 INTERNATIONAL COOPERATION

Guatemala is a charter member of the United Nations, having joined on 21 November 1945; it participates in ECLAC and several other UN specialized agencies, such as the FAO, ILO, IMF, UNESCO, UNIDO, WHO, and the World Bank. It is one of five members of the Central American Bank for Economic Integration (BCIE) and the Central American Common Market (CACM). The country also belongs to G-24, G-77, the Latin American Economic System (LAES), OAS, the Association of Caribbean States (ACS), and the Río Group. In 2004, Guatemala, the United States,

Costa Rica, El Salvador, Honduras, Nicaragua, and the Dominican Republic signed the US Central America Free Trade Agreement (CAFTA). The agreement must be ratified by all participating countries before it enters into force. Guatemala has observer status in the Latin American Integration Association (LAIA). Guatemala was a founding member of the Central American Parliament (PARLACEN).

Guatemala is part of the Nonaligned Movement and is a signatory of the 1947 Río Treaty, an inter-American security agreement. The country is also part of the Agency for the Prohibition of Nuclear Weapons in Latin America and the Caribbean (OPANAL). In environmental cooperation, Guatemala is part of the Antarctic Treaty, the Basel Convention, the Convention on Biological Diversity, Ramsar, CITES, the London Convention, the Kyoto Protocol, the Montréal Protocol, MARPOL, the Nuclear Test Ban Treaty, and the UN Conventions on the Law of the Sea, Climate Change, and Desertification. Guatemala is also signatory to the Central American-US Joint Declaration (CONCAUSA).

19 ECONOMY

Since the Spanish conquest, the economy of Guatemala has depended on the export of one or two agricultural products. During the colonial period, indigo and cochineal were the principal exports, but the market for them was wiped out by synthetic dyes in the 1860s. Cocoa and essential oils quickly filled the void. Coffee and bananas were introduced later, and in 1999, the chief exports were coffee, sugar, and bananas. Guatemala's economy, the largest in Central America, is dominated by the private sector, which generates nearly 90% of GDP. Since World War II, the government has encouraged light industrial production (such as tires, clothing, and pharmaceuticals). Nevertheless, in 1995, agricultural pursuits occupied 58% of the national labor force and accounted for some two-thirds of Guatemalan foreign exchange earnings. Living standards and personal income remain low, and no significant domestic market exists, except for subsistence crops. However, the agricultural-based structure of the economy has been changing slowly since about 1980, morphing into a country that is more services-based and focused on commerce and financial services. As of 2004, commerce was the largest sector in the economy, accounting for approximately 25% of GDP; agriculture comprised 22.8% of GDP. Manufacturing accounted for 12.6% of the GDP.

The economy boomed from 1971 through early 1974. Then, as a result of inflation (21.2% in 1973), the world energy crisis, and an annual population growth of 2.9%, the economic growth rate slowed from 7.6% for 1973 to 4.6% for 1974. During the second half of the 1970s, Guatemala's economic performance slowed further; during 1974–80, the average annual growth rate was 4.3%. By the early 1980s, the civil war, coupled with depressed world commodity prices, had led to decreases in export earnings and to foreign exchange shortages. The GDP dropped by 3.5% in 1982, the first decline in decades, and the GDP declined or was stagnant through 1986. The annual inflation rate, which averaged 11% during 1979–81, dropped to no more than 2% in 1982. It rose thereafter, reaching 31.5% in 1985 and about 40% in the first half of 1986.

In the 1990s the Guatemalan economy grew at a healthy pace, propelled by nontraditional exports and investment. Inflation was reduced through fiscal and monetary policies to an average of

12% in 1993. Economic growth accelerated to an estimated 5.0% in 1993 compared with 4.6% in 1992. In a sudden shift that was perceived as a recession by the private sector, GDP growth decelerated in 1996 to 3.1%. The slowdown reflected a combination of factors: windfall profits from coffee exports, a slowdown in most Central American countries causing a significant decline in Guatemalan exports, and a severe competition of domestic products by Mexican imports. In addition, domestic demand cooled off as private sector credit demand ran out of steam, and tax increases were designed to strengthen the fiscal situation ahead of the signing of the peace accords. Growth for 1997 had improved to 4% thanks to greater domestic and trade liberalization; despite Hurricane Mitch, which destroyed a large portion of the country's agricultural produce for the year, GDP growth reached 5% in 1998.

Real GDP growth remained steady throughout 2001–05, between 2–3%. Additionally, inflation remained under 10% for the 5-year period.

The US Central Intelligence Agency reported that Guatemala was still struggling with an appalling poverty rate—75% of the population lived beneath the poverty line as of 2004. The unemployment rate was estimated at 7.5% in 2003, and GDP per capita was estimated at \$4,200 in 2004. In 2004, there remained an estimated 250,000 internally displaced persons, indicative of the continued negative influence of prior conflict on the current economy.

20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 Guatemala's gross domestic product (GDP) was estimated at \$62.8 billion. 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 based on current dollars. The per capita GDP was estimated at \$4,300. The annual growth rate of GDP was estimated at 3.1%. The average inflation rate in 2005 was 9.1%. It was estimated that agriculture accounted for 22.8% of GDP, industry 19.1%, and services 58.1%.

According to the World Bank, in 2003 remittances from citizens working abroad totaled \$2.147 billion or about \$175 per capita and accounted for approximately 8.7% of GDP. Foreign aid receipts amounted to \$247 million or about \$20 per capita and accounted for approximately 1.0% of the gross national income (GNI).

The World Bank reports that in 2003 household consumption in Guatemala totaled \$22.25 billion or about \$1,809 per capita based on a GDP of \$24.7 billion, measured in current dollars rather than PPP. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the period 1990 to 2003 household consumption grew at an average annual rate of 4.0%. It was estimated that in 2004 about 75% of the population had incomes below the poverty line.

21 LABOR

In 2005 Guatemala's labor force was estimated at 3.76 million. As of 2002, it was divided among the following sectors: agriculture 38.7%; industry 20%; services 37.5%; with 3.9% in other unde-

financed occupations. As of 2003, the unemployment rate was estimated at 7.5%.

The trade union movement was born at the end of World War II. Directed in part by foreign communist labor leaders and cultivated by a sympathetic administration, the labor movement grew in the next 10 years to a force claiming nearly 500 unions with 100,000 members. With the overthrow of the Árbenz government in 1954, however, the unions were dissolved. After slow reorganization, the trade unions numbered about 110 by 1974, but in 1979 and 1980, trade union activity was severely restricted. In 1992, the Labor Code of 1947 was amended to facilitate freedom of association, to strengthen the rights of working women, to increase penalties for violations of labor laws, and to enhance the role of the Labor Ministry and the courts in enforcement. Approximately 2% of the workforce were union members in 2002. Unions are independent of government and political party domination, however retaliation against union participation is common. Workers dismissed for union activity have little legal or administrative redress. Workers have the right to strike, but it is weakened by legal restrictions and the force of tradition in a country where strikes were illegal until recently.

The workweek is statutorily recognized as being 44 hours long, but most workers work longer hours out of economic necessity. The minimum legal age to work is 14 but child labor remains a huge problem particularly in agriculture and in the informal economy. Hazardous conditions for child laborers are common especially in the fireworks industry. The minimum wage as of 2002 was \$3.57 per eight-hour day for industrial workers and \$3.24 per day for agricultural workers. There is routine noncompliance of the minimum wage law in the rural areas.

22 AGRICULTURE

In 2003, only about 18.9% of the total land area of Guatemala was used for the production of annual or perennial crops, although almost two-thirds is suitable for crop or pasture use. Agriculture contributes about 23% to GDP, makes up 48% of export earnings, and employs 46% of the labor force. The principal cash crops are coffee, sugar, bananas, and cotton, followed by hemp, essential oils, and cacao. Coffee is grown on highland plantations; most of the bananas are produced along the Atlantic coastal plain. Cash crop output in 2004 included 18,000,000 tons of sugarcane, 216,000 tons of coffee, 1,000 tons of cotton, and 1,000,000 tons of bananas. Subsistence crop production included 1,072,000 tons of corn and 97,000 tons of dry beans, along with rice, wheat, and fruits and vegetables. Nontraditional agricultural exports have greatly increased in recent years; such products include: lychee, rambutan, melon, papaya, mango, pineapple, broccoli, okra, snow peas, celery, cauliflower, asparagus, garlic, spices and nuts, and ornamental plants. Guatemala's trade deficit in agricultural products was \$454.5 million in 2004.

An agrarian reform law of 1952 provided for government expropriation of unused privately owned agricultural lands, with the exception of farms of 91 hectares (225 acres) or less and those up to 273 hectares (675 acres) if two-thirds of the acreage was under cultivation. By 1954/55, 24,836 hectares (61,371 acres) had been distributed to 10,359 farmers. The law of 1952 was supplemented by an agrarian reform law of 1956, which aimed to distribute state-owned farms (*fincas nacionales*) to landless peasants. From

1954 to 1962, the government distributed 17,346 land titles. In 1962, the National Agrarian Improvement Institute was created to provide assistance to the new landowners and to improve their living standards. The government requires plantation owners to set aside land for the raising of subsistence crops for their tenants. An agrarian credit bank provides loans to small farmers. Some of the land farmed by Amerindians is held in common by groups of families and is never sold.

23 ANIMAL HUSBANDRY

Consumption of dairy products and meat is low, despite improvements in stock raising and dairying. The wool industry in the western highlands supplies the famed Guatemalan weavers. Hog and poultry production is ample for domestic consumption. In 2005, there were 2,540,000 head of cattle, 212,000 hogs, 260,000 sheep, 124,000 horses, and 27,000,000 chickens. Guatemala exports poultry, with 155,000 tons of poultry meat and 85,000 tons of eggs produced in 2005. Total cattle numbers continue to fall despite increased illegal imports from Honduras and a decline in illegal exports to Mexico. Depressed beef prices and rising production costs are the main causes of this trend.

24 FISHING

Guatemalan waters are rich in fish, including shrimp, snapper, and tuna. The total catch in 2003 was 30,480 tons (up from 6,513 tons in 1991), about 32% of which came from inland waters.

25 FORESTRY

Forests are among Guatemala's richest natural resources; they covered some 26% of the total land area in 2000. The forests in the Petén region yield cabinet woods, timber, extracts, oils, gums, and dyes. Mahogany, cedar, and balsam are important export products, and chicle for chewing gum is another important commodity. In 2004, 16.4 million cu m (579 million cu ft) of roundwood were produced, with 97% burned for fuel. Sawn wood production was 366,000 cu m (12.9 million cu ft) that year. Imports of forestry products exceeded exports by \$165.8 million in 2004.

26 MINING

The principal commercial minerals were gold, iron ore, and lead. Production of antimony fell to zero in 1999–2001, from a high of 1,020 tons in 1997, when Guatemala ranked third in Latin America, behind Bolivia and Mexico. Gold, which was mined from the colonial period until the early 20th century, was no longer a major export item. An estimated 4,550 kg was produced in 2003, up from an estimated 4,500 kg in 2002. Rough marble, which ranged in color from white through green, was exported to Mexico and other nearby countries. Deposits of nickel have also been found at Marichaj and Sechol. Barite, bentonite, kaolin, other clays, feldspar, gypsum, iron ore, lime, pumice, salt, limestone, sand and gravel, and silica sand were also produced, primarily for domestic use. Reported deposits of copper, quartz, manganese, uranium, mica, and asbestos awaited exploitation.

27 ENERGY AND POWER

Guatemala is the only oil producing country in Central America, but has no refining capacity. Therefore it must import all of its refined petroleum products. Most of the country's oil production

lies in its northern jungles along the Mexican border. According to the Oil and Gas Journal, Guatemala has proven oil reserves of 526 million barrels, as of October 2005. Since the end of the civil war in 1996, the government has been granting oil exploration concessions. In March of 2005, a new oil licensing round was initiated, the first since 1997. Two blocks, A6 and A7, with known proven reserves were offered, with two unexplored blocks, Piedras Blancas and Cotcal offered. Production averaged an estimated 19,800 barrels per day in 2004, of which almost all was exported to the United States. In 2002, oil exports totaled an estimated 3,104 barrels per day. Consumption of refined products totaled 64,560 barrels per day in that year. Guatemala has modest natural gas reserves of 1.543 billion cu m as of 1 January 2002, but no production.

Guatemala is Central America's largest producer and consumer of electricity. In 2002, electric power generating capacity came to 1.698 million kW, while total production in that year reached 6.808 billion kWh, of which: fossil fuels accounted for almost 60%; hydropower for 27%; and geothermal/other sources accounted for the rest. Electricity consumption in Guatemala grew at an annual rate of 8.1% from 1993 to 2003. In 2002, electric power demand totaled 5.76 billion kWh. The surplus power generated has made Guatemala a power exporter. In 2002, electric power exports totaled 4.40 million kWh, with imports at 55 million kWh.

28 INDUSTRY

Manufacturing and construction accounted for a growing proportion of GDP in 2004. In that year, agriculture accounted for 22.7% of the GDP while industry accounted for 19.5% and services accounted for 57.9%. Guatemalan factories produce beverages, candles, cement, pharmaceuticals, chemicals, cigarettes, foodstuffs, furniture, matches, molasses, rubber goods, shirts, shoes, soap, sugar, textiles, and apparel. More recently established firms produce electrical machinery, refined petroleum products, metal furniture, instant coffee, pasteurized milk, plastic, plywood, aluminum and tires. Handmade woven and leather goods are sold to tourists and exported.

Most of the country's industrial enterprises operate on a very small scale. A small domestic market has traditionally limited Guatemala's industrial potential, although the CACM temporarily broadened the market for the country's exported manufactures. The value of Guatemala's exports more than tripled between 1972 and 1978. During the 1980s, however, the industrial sector declined, partly because of the collapse of the CACM but also because of a shortage of the foreign exchange necessary to purchase basic materials. In the mid-1980s, Guatemalan firms turned to export production as internal demand contracted. The 1986 devaluation of the quetzal raised the cost of imported industrial inputs. During the 1990s, the value added by manufacturing remained at a steady pace, except for during 1996. The manufacturing sector suffered from increased competition from Mexico, often unregistered and untaxed, while export to major neighboring markets was hampered in 1996 by the slowdown in Costa Rica and El Salvador.

In 2002, major manufactures included sugar, clothing and textiles, furniture, chemicals, petroleum, metals, and rubber. Heavy industry included a small steel mill located in Escuintla, and an oil refinery that had a capacity of 16,000 barrels per day. The

pharmaceutical industry shrank by 53% in 1998 because several manufacturing companies had moved their businesses to Mexico. Construction, very dynamic during the first half of the 1990s, was affected by falling demand in 1996 and 1997, but grew by about 25% annually in 1998 and 1999. Electricity generation and telephone services continued to grow strongly, while oil production, thanks to a very active development policy, increased by 250% between 1992 and 1998.

Maquila plants have comprised a growing proportion of the manufacturing sector, though they are not as heavy of a proportion as in Mexico, Honduras, or El Salvador. In 1994, maquilas in Guatemala employed 70,000; this number grew to 113,200 in 2004. As of December 2004, 222 maquila plans operated in Guatemala—65.3% were Korean-owned, 27% Guatemalan-owned, and 59.9% US-owned.

29 SCIENCE AND TECHNOLOGY

In 1987–97, total Guatemalan expenditures on research and development amounted to 0.2% of GDP, with 112 technicians and 104 scientists and engineers per million people engaged in research and development. The Academy of Medical, Physical, and Natural Sciences, headquartered in Guatemala City, dates from 1945. In 1996, Guatemala had learned societies devoted to natural history, pediatrics, and engineering, and research institutes concerned with nuclear energy, industry, and earth sciences. The Institute of Nutrition of Central America and Panama founded in 1949 and administered by the Pan American Health Bureau Organization and the World Health Organization, conducts research and disseminates scientific and technical information. Five universities offer degrees in basic and applied sciences. The National Museum of Natural History is located in Guatemala City.

In 2002, high technology exports by Guatemala totaled \$55 million, or 7% of the country's manufactured exports.

30 DOMESTIC TRADE

Outside the capital city, markets are held on appointed days, and local fairs are held annually. Traders bring their wares on large racks atop buses or by mule, herding animals ahead of them. Prices are not fixed. Although there are some modern, tourist-oriented shops, traditional methods of commerce, with modifications, also prevail in Guatemala City. Franchise stores are beginning to gain acceptance. In 2002, there were about 150 franchising companies with around 450 outlets nationwide. Business hours are weekdays, 8 AM to 6 PM; shops also open on Saturday mornings. Normal banking hours in Guatemala City are weekdays, 9 AM to 3 PM.

31 FOREIGN TRADE

The Guatemalan commodity export market is dominated by coffee, sugar, bananas, and oil. Other main exports are medicinal and pharmaceutical products, vegetables, and cardamom. Nontraditional exports, such as cut flowers, fruits and berries, shrimp, and textile assembly, are of growing importance to the Guatemalan economy.

Most exports go to the United States (55.3% in 2003); they also have increasingly gone to other Central American countries. Guatemala runs a trade surplus with the region, exporting mainly to El Salvador (10.5% of exports), but also to Honduras (7.1%) and Mexico (4.1%). As of 2003, Guatemala imported primarily from

Principal Trading Partners – Guatemala (2003)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	2,634.7	6,718.7	-4,084.0
United States	790.9	2,944.1	-2,153.2
El Salvador	501.7	398.9	102.8
Honduras	281.2	101.5	179.7
Nicaragua	153.9	...	153.9
Costa Rica	152.6	302.1	-149.5
Mexico	106.9	561.9	-455.0
Panama	91.6	322.2	-230.6
Korea, Republic of	59.5	85.4	-25.9
Russia	46.7	5.0	41.7
Germany	46.3	159.0	-112.7

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

the United States (comprising 33.1% of imports), Mexico (9.1%), and South Korea (8.8%). In 2004 Guatemala imported 34% of its imports from the United States, 8.1% from Mexico, 6.8% from South Korea, 6.6% from China, and 4.4% from Japan. Guatemala typically imports fuels, machinery and transport equipment, construction materials, grain, fertilizers, and electricity.

Guatemala signed the Central American Free-Trade Agreement (DR-CAFTA) on 10 March 2005.

32 BALANCE OF PAYMENTS

Guatemala generally finances its trade deficit through capital inflows. Capital flight caused by regional instability during the 1980s led to large deficits on the overall payments balance and brought foreign exchange reserves down from \$709.6 million at the end of 1978 to \$112.2 million at the end of 1982. In 1991 and 1992,

Balance of Payments – Guatemala (2003)

(In millions of US dollars)

Current Account			-1,050.9
Balance on goods		-3,126.7	
Imports	-6,175.0		
Exports	3,048.3		
Balance on services		-68.0	
Balance on income		-318.1	
Current transfers		2,461.9	
Capital Account			133.8
Financial Account			1,155.9
Direct investment abroad		...	
Direct investment in Guatemala		115.8	
Portfolio investment assets		21.7	
Portfolio investment liabilities		-11.0	
Financial derivatives		...	
Other investment assets		116.0	
Other investment liabilities		913.4	
Net Errors and Omissions			311.4
Reserves and Related Items			-550.1

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

with inflation lowered, private capital inflows were large enough to offset public capital outflows and the current account deficit. As a result, foreign reserves expanded during the 1990s, growing by \$559 million. Foreign exchange reserves were over \$1 billion from 1997 into 1999. Exports increased by 7.2% in 1997 and by 20.7% in 1998. National income reports do not include the export value added by the textile assembly industry (as they are generally located in the Free Trade Zones), and remittances from Guatemalans living abroad, which help finance the trade deficit.

Guatemala's underdeveloped infrastructure is a hindrance to foreign investment and economic development. A disproportionate share of investment goes to the Guatemala City area, despite rehabilitation of the railway system and investment in highways, telephone service, and electricity.

The US Central Intelligence Agency (CIA) reported that in 2004 exports were approximately \$2.9 billion; imports were approximately \$7.1 billion, resulting in a trade deficit of approximately \$4.2 billion.

33 BANKING AND SECURITIES

The Bank of Guatemala (BANGUAT) is the central bank and the bank of issue. The Monetary Board, an independent body, determines the monetary policy of the country. Associated with the Bank of Guatemala are six other government institutions: The National Mortgage Credit Institute (the official government mortgage bank); two development banks, the National Bank of Agricultural Development and the National Housing Bank; and the National Finance Corp., organized in 1973 to lend funds to industry, tourism, and mining to provide technical assistance. BANGUAT intervenes in the foreign exchange market to prevent sharp deviation in the exchange rate. In 1998, the Central Bank spent over \$500 million to support the exchange rate, but the currency depreciated by 15% anyway that year.

As of 2002, the formal banking system consisted of 32 private commercial banks, three state banks, and several financial houses. Over 18 international banks are represented in one form or another. The five largest banks control approximately 45% of total assets. Several financial institutions collapsed in 1998 and 1999, prompting the government to bring banks into line with the Basel convention on minimum capital requirements. The government also hopes to make credit more available. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$2.7 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 10.6%.

When the Bank of Guatemala was established the Fund for the Regulation of the Bond Market was created to promote security issues. Nevertheless, Guatemalans still tend to prefer tangible investments, and there is no fully developed securities market. The National Stock Exchange of Guatemala (the Bolsa Nacional de Valores—BNV) opened in 1989 where shares from private companies in the country and other securities are traded. It is the largest of Guatemala's stock exchanges. The other two main exchanges, the Bolsa Nacional Global and the Bolsa Agrícola, merged to form the Corporación Bursatil in 1994. Three government bonds are

traded on the exchanges, including CENIVACUS, CERTIBONO, and CDP. The volume traded in 1999 was \$5.9 billion.

34 INSURANCE

In Guatemala, worker's compensation (the country's Social Security Plan) is compulsory, providing pension, disability pension, medical and hospital benefits, maternity benefits, and funeral expenses. In addition, the insurance market is entirely domestic, as foreign insurers are prohibited from issuing policies. Market rates, and the types of fire, auto, life, personal accident, and crime insurance are set by the superintendency. In 2003, the value of direct premiums written totaled \$271 million, with nonlife premiums accounting for \$222 million. The country's top nonlife insurer that same year was G&T, which had gross nonlife written premiums of \$55.2 million.

35 PUBLIC FINANCE

Fiscal policy loosened after the 1985 elections, but tax reforms in 1987 failed to generate additional income, and governmental expenditures continued to grow. By 1990, the public sector deficit was 4.7% of GDP. The Serrano administration transformed the deficit of 1990 to a slight surplus in 1991 and a virtually balanced budget in 1992. The consolidated public sector deficit amounted to 1.2% in 1991 and 1.0% in 1992. Guatemala's public sector is among Latin America's smallest, and the tax burden is one of the lightest, at about 8% of GDP. The budget deficit grew to 2.5% of GDP in 1998, from only 0.50% in 1997, forcing the government to reevaluate its taxation and customs practices. Continued privatization and trade liberalization should boost public finances.

The US Central Intelligence Agency (CIA) estimated that in 2005 Guatemala's central government took in revenues of approximately \$3.3 billion and had expenditures of \$4.0 billion. Revenues minus expenditures totaled approximately -\$667 million. Public debt in 2005 amounted to 26.9% of GDP. Total external debt was \$5.503 billion.

Public Finance – Guatemala (2003)

(In millions of quetzales, budgetary central government figures)

Revenue and Grants	21,694.4	100.0%
Tax revenue	20,317.7	93.7%
Social contributions	504.7	2.3%
Grants	377.1	1.7%
Other revenue	494.9	2.3%
Expenditures	26,210.9	100.0%
General public services	5,819.7	22.2%
Defense	1,235.1	4.7%
Public order and safety	2,725.1	10.4%
Economic affairs	6,265.3	23.9%
Environmental protection	204.7	0.8%
Housing and community amenities	2,948.3	11.2%
Health	1,830.4	7.0%
Recreational, culture, and religion	395.2	1.5%
Education	4,625.1	17.6%
Social protection	162	0.6%

(...) data not available or not significant.

SOURCE: *Government Finance Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

The International Monetary Fund (IMF) reported that in 2003, the most recent year for which it had data, budgetary central government revenues in millions of quetzales were 21,694.4 and expenditures were 26,210.9. The value of revenues in millions of US dollars was \$2,732 and expenditures \$3,275, based on a market exchange rate for 2003 of 7.9408 as reported by the IMF. Government outlays by function were as follows: general public services, 22.2%; defense, 4.7%; public order and safety, 10.4%; economic affairs, 23.9%; environmental protection, 0.8%; housing and community amenities, 11.2%; health, 7.0%; recreation, culture, and religion, 1.5%; education, 17.6%; and social protection, 0.6%.

36 TAXATION

The corporate income tax rate in Guatemala is 31% of net income. However, companies operating there have a choice between two payment regimes: a general withholding regime, and an optional tax regime. Under the General regime, a monthly 5% tax on gross income is made. Under the optional regime, a quarterly payment at the 31% corporate rate is made on net taxable income. In addition, there is a 2.5% asset tax that is applied to the previous year's income or net assets. The asset tax is credited against the corporate income tax. An industrial development law provides tax exemptions for new industries. There is also a 3.5% tax on all foreign exchange transactions. Only income earned from Guatemalan sources is taxed. Capital gains, like the corporate income tax, offer two payment regimes: a general withholding regime; and an optional tax regime. Under the first, a 10% monthly withholding rate is applied, while under the second, a quarterly 31% rate is used. Dividends from resident companies are exempt from tax if the income tax was paid out of the income that was distributed as dividends by the distributing company. Otherwise a 10% withholding tax is applied.

The progressive personal income tax schedule has a top rate of 31%. Nonresidents pay a flat 31% rate, while income from employment and professional services is charged at the progressive rate. Other taxes include property taxes, and inheritance and gift taxes. Excise taxes are levied on beverages, cigars, tobacco, gasoline, vehicles, and airline tickets. Royalties are taxed at 31%.

Guatemala's main indirect tax is a 12% value-added tax (VAT) that is applied to most transactions. However, basic foodstuffs, sales of some low-cost housing and certain financial services are exempt. Exports are zero-rated.

37 CUSTOMS AND DUTIES

Guatemala requires licenses for the importation of restricted goods, including pharmaceuticals, basic food grains, milk, coffee beans, and armaments. As a member of the Central American Common Market CACM, Guatemala adheres to a common tariff classification system as well as a common customs code and regulations. Duties are stated as both specific and ad valorem. Import duties are generally minimal, ranging from 5 to 15%. Imports of agricultural products that exceed the quota have higher rates. There is also a 12% value-added tax (VAT) that is collected at the port of entry.

38 FOREIGN INVESTMENT

There are no general requirements for local participation nor any restrictions on repatriation of capital. Guatemala's major diplo-

matic interests are regional security and, increasingly, regional development and economic integration. Guatemala participates in several regional groups, particularly those related to trade and environment. Foreign investor interest in Guatemala picked up with the signing of peace accords in 1996 and deregulation of the electric and telecommunications sectors. Structural reforms, such as the privatization program and trade liberalization measures, will add to investor appetite, but substantial investment in infrastructure and training the workforce is needed. As of the first quarter of 1997, the government had invited bids for 12 oil exploration and production contracts. Oil production increased by 250% between 1992 and 1998.

In 1998, Guatemala passed the Foreign Investment Law, reducing the barriers to foreign investment. But investment was still restricted to minority ownership of domestic airlines and ground transport. Incentives are available for the forestry, mining, tourism, and petroleum sectors. There are also eight free trade zones. The Foreign Investment Law had also removed limitations to foreign ownership of domestic airlines and ground transport companies in January 2004. There were also plans within the government to form mining legislation in 2005 that would encourage foreign investment.

39 ECONOMIC DEVELOPMENT

Guatemala's economic development policy is to create rural employment through the provision of investment incentives. Such enticements include inexpensive financing by government institutions, free assistance and technical support, and preferential treatment to use government facilities and institutions for guidance. The government has initiated a number of programs aimed at liberalizing the economy and improving the investment climate. After the signing of the final peace accord in December 1996, Guatemala was well-positioned for rapid economic growth. Growth in the late 1990s was led by development of petroleum mining and refining.

The country's economy is commanded by the private sector which generates about 85% of GDP. The public sector is small and shrinking, with its business activities limited to transportation, and several development oriented institutions. Problems hindering economic growth include illiteracy and low levels of education; inadequate and underdeveloped capital markets; and lack of infrastructure, particularly in the transportation, communications, and electricity sectors. The distribution of income and wealth remains unequal. The wealthiest 10% of the population receives almost one-half of all income; the top 20% receives two-thirds of all income.

Tax reform was one government objective in 2003, as was reform of the financial services sector, liberalizing trade, and overhauling public finances. Drought and low coffee prices harmed the economy in 2001-02, and caused malnutrition among the poor in rural areas. In 2003, the International Monetary Fund (IMF) approved a nine-month, \$120-million Stand-By Arrangement to support Guatemala's economic program through March 2004. In 2003, the government was targeting the fiscal deficit, aiming to control inflation, and working toward putting into place a new legal framework for the financial sector. The country was also improving transparency in government, and working to strengthen governing structures themselves.

A tax reform was passed in June 2004 to supplement the rolled-over 2003 budget. Corporate income tax was changed, and excise duties on alcohol were levied. Further, a new corporate tax (the Impuesto Temporal de Apoyo a los Acuerdos de Paz—IETAAP) was made to support peace agreements. This replaced the agricultural and mercantile business tax (Impuesto sobre Empresas Mercantiles y Agropecuarias—IEMA) that was rejected by the Constitutional Court in January 2004 and left the government vulnerable to a shortfall in tax revenue if tax reform were not carried out.

In 2005, the IMF supported President Berger's economic policy program and declared that Guatemala was capable of dealing with potential balance of payments without a new Stand-By Arrangement. The Stand-By Arrangement that gave Guatemala a \$120-million credit line ended in 2004.

40 SOCIAL DEVELOPMENT

A social insurance system covers all employees, including agricultural workers. Public employees are covered by a separate program. The pensions for old age, survivorship, and disability are funded by a small contribution from employees, larger contribution from employers, and 25% covered by the government. Retirement is set at age 60. Cash and medical benefits are provided for sickness and maternity for employees of firms with more than five workers. Free medical care is provided for those receiving pensions. A grant for funeral expenses is provided.

Despite legal equality, women are paid significantly less than their male counterparts and are generally employed in low-wage jobs. Some domestic laws also discriminate against women. Women can be charged with adultery, while men can only be charged with a lesser crime. Sexual violence, including domestic violence, is widespread, and most cases go unreported. However, the number of complaints for both rape and spousal abuse has risen in recent years due to the nationwide educational program that has encouraged women to seek help. The police have little training to assist victims of sexual crimes. Sexual harassment is not illegal.

The constitution provides that all persons are free and equal in dignity and rights, and that the government must protect the life, liberty, justice, security, and peace of all citizens. Due to inadequate resources and corruption, however, the government is unable to enforce these provisions.

41 HEALTH

Guatemala's health care system consists of three sectors: public, private nonprofit, and private for-profit. Health coverage has been estimated to be low, with more than 40% of the population receiving no access to health care services. As of 2004, there were an estimated 89 physicians, 404 nurses, and 18 dentists per 100,000 people. Approximately 4.3% of GDP went to health expenditures. Among the chief causes of death are heart disease, intestinal parasites, bronchitis, influenza, and tuberculosis. Other major causes of death were perinatal conditions, intestinal infectious diseases, and nutritional deficiencies. Malnutrition, alcoholism, and inadequate sanitation and housing also pose serious health problems. Approximately 92% of the population had access to safe drinking water and 85% had adequate sanitation. Malaria rates are high. Guatemala does attempt to vaccinate its children and all routine vaccinations are paid for by the government. It is estimated that the poorest half of the population gets only 60% of the minimum

daily caloric requirement. Some steps have been taken to fortify foods with daily vitamin requirements. Currently, sugar is being fortified with vitamin A and wheat flour will be fortified with iron.

The total fertility rate was 4.6 in 2000, a dramatic reduction from 6.5 in 1980. By 2000 the maternal mortality rate had fallen to 55 deaths per 1,000 live births, down from 200 in 1990. In 2005, the infant mortality rate was 32 per 1,000 live births and the overall mortality rate was an estimated 6.7 per 1,000 people as of 2002. The average life expectancy was 69.06 years in 2005. From 1966 to 1992 there were about 140,000 war-related deaths.

The HIV/AIDS prevalence was 1.10 per 100 adults in 2003. As of 2004, there were approximately 78,000 people living with HIV/AIDS in the country. There were an estimated 5,800 deaths from AIDS in 2003.

Political violence and problems associated with poverty have left more than 200,000 Guatemalan children orphaned. Many suffer from psychological problems and malnutrition.

42 HOUSING

Many of the nation's urban housing units and most of its rural dwellings have serious structural defects and lack electricity and potable water. In 2002, there were about 2,483,458 housing units in the country. Most dwellings were detached houses. Over 50% of all housing are owner occupied. About 24% of all houses are of adobe walls; 50% use concrete blocks. Metal sheeting is the most common material for roofing. Most apartment buildings are made of cement block. The housing need in 2005 stood at about 1.6 million houses and overcrowding, especially in rural area hut dwellings and urban rented rooms, was prevalent.

As of 1995, there were about 205 "squatter" settlements inhabited by homeless or displaced persons. In these settlements, shelters are made of wood, cardboard, or mud, with zinc sheet roofs. A public housing program is supervised by the National Housing Bank. The Ministry of Public Health and Welfare is charged with the improvement of rural dwellings.

43 EDUCATION

Elementary education is free and compulsory for nine years although enforcement is lax in rural areas. Primary school covers six years of study, followed by three years of basic secondary school. Students may then choose a two-year diversified secondary program or a three-year technical school program.

In 2001, about 55% of children between the ages of five and six were enrolled in some type of preschool program. Primary school enrollment in 2003 was estimated at about 87% of age-eligible students. The same year, secondary school enrollment was about 30% of age-eligible students. It is estimated that about 66.5% of all students complete their primary education. The student-to-teacher ratio for primary school was at about 30:1 in 2003; the ratio for secondary school was about 14:1. In 2003, private schools accounted for about 12% of primary school enrollment and 74% of secondary enrollment.

Among Guatemala's six main universities, the Universidad de San Carlos, in Guatemala City, is the most important center of higher learning. The others include Universidad del Valle de Guatemala, Universidad Francisco Marroquin, Universidad Mariano

Galvez, Universidad Rafael Landívar, and Universidad Rural. In 2003, about 9% of the tertiary age population were enrolled in some type of higher education program. The adult literacy rate for 2004 was estimated at about 69.1%, with 75.4% for men and 63.3% for women.

As of 1995, public expenditure on education was estimated at 1.7% of GDP.

44 LIBRARIES AND MUSEUMS

There are three notable libraries in Guatemala City. The National Library, with about over 350,000 volumes, has collections of Guatemalan and other Central American books and newspapers. The General Archives of Central America has a 100,000-item collection of documents for the three-century colonial period, when Guatemala was the administrative center for the Central American area. The library of the Geographical and Historical Academy of Guatemala (30,000 volumes) is of special value to researchers. The Central American Industrial Research Institute maintains the largest technical library in Central America (36,000 volumes). The Institute of Nutrition in Central American and Panama in Guatemala City maintains an important collection of public health documents. The University of San Carlos library has 205,000 volumes. There are about 64 public libraries that are supervised through the National Library. Another 29 public libraries are sponsored by the Bank of Guatemala.

The Museum of Archaeology and Ethnology (1948) in the capital has an excellent collection of Mayan artifacts, and the Colonial Museum in Antigua contains colonial paintings, woodcarvings, iron and leatherwork, and sculpture. Also in the capital are the National Museum of Fine Arts, the National Museum of History, the Museum of the National Palace, the Popol Vuh Archaeological Museum, and the Center for Conservation Studies, founded in 1981.

45 MEDIA

Except for a few privately controlled facilities, the government owns and operates the postal, telephone, and telegraph services. The Guatemalan Telecommunications Enterprise provides international radiotelegraph and radiotelephone service. In 2003, there were an estimated 71 mainline telephones for every 1,000 people. The same year, there were approximately 131 mobile phones in use for every 1,000 people.

As of 2000 there were 130 AM and 487 FM radio stations. In 2001, four of the most prominent television stations were all owned by the same Mexican citizen, who has a political preference for the FRG. In 2003, there were an estimated 79 radios and 145 television sets for every 1,000 people. The same year, there were 14.4 personal computers for every 1,000 people and 33 of every 1,000 people had access to the Internet. There were 50 secure Internet servers in the country in 2004.

There were three major daily newspapers in 2004, all published in Guatemala City. They were (with orientation and 2004 circulations): *Prensa Libre* (moderate liberal, 110,000), *Siglo Veintiuno* (moderate, 56,000), and *La Hora* (moderate liberal, 18,000).

The constitution provides for free speech and a free press, though journalists admit that in certain cases fear of reprisals or government pressure leads to self-censorship.

46 ORGANIZATIONS

Artisans', consumers', service, and savings and credit cooperatives are grouped in four federations. The major employers' organizations are the General Farmers' Association, the Chamber of Commerce, the Chamber of Industry, and the National Coffee Association.

The Academy of Geography and History of Guatemala promotes the study of Guatemalan history, geography, and culture. There are several associations dedicated to research and education for specific fields of medicine and particular diseases and conditions.

National youth organizations include the Association of University Students, associations of Boy Scouts and Girl Guides, youth rotary clubs, and Junior Achievement of Guatemala. Sports associations promote amateur competition in such pastimes as hiking, football (soccer), tae kwon do, and squash. Volunteer service organizations, such as the Lions Clubs and Kiwanis International, are also present. The Red Cross and Habitat for Humanity are active in Guatemala.

47 TOURISM, TRAVEL, AND RECREATION

All visitors need a passport and may need a visa depending on nationality. Tourism has rebounded since Guatemala's return to civilian rule in 1986. In 2003, approximately 880,223 tourists arrived in Guatemala. There were 17,519 hotel rooms in 2002 with 44,579 beds and an occupancy rate of 47%. Guatemala's main tourist attractions are the Mayan ruins, such as Tikal; the numerous colonial churches in Guatemala City, Antigua Guatemala, and other towns and villages; and the colorful markets and fiestas.

In 2005, the US Department of State estimated the daily expenses of staying in Guatemala City at \$200. Other areas were estimated at \$156 per day.

48 FAMOUS GUATEMALANS

The *Rusticatio Mexicana*, by Rafael Landívar (1731–93), represents the height of colonial Guatemalan poetry. Outstanding figures of the romantic period were philologist Antonio José de Iri-sarri (1786–1868); José Batres y Montúfar (1809–44), the author of *Tradiciones de Guatemala* and many poetical works; and José Milla y Vidaurre (1822–82), a historian and novelist and the creator of the national peasant prototype, Juan Chapin. Justo Rufino Barrios (1835–85) became a national hero for his liberal, far-reaching reforms between 1871 and 1885. Enrique Gómez Carillo (1873–1927), a novelist and essayist, was perhaps better known to non-Spanish readers during his lifetime than any other Guatemalan author. Twentieth-century novelists include Rafael Arévalo Martínez (1884–1975), Carlos Wyld Ospina (1891–1956), and Flavio Herrera (1895–1968). The novelist and diplomat Miguel Ángel Asturias (1899–1974) was awarded the Nobel Prize for literature in 1967.

Mario Cardinal Casariego (b.Spain, 1909–83) became the first Central American cardinal in 1969. Among the better-known Guatemalan political personalities of the 20th century are Col. Jacobo Árbenz Guzmán (1913–71), president during 1951–54, and Gen. Miguel Ydígoras Fuentes (1896–1982), president during 1958–63. Alfonso Portillo Cabrera (b.1951) served as president from 2000 to 2004. Óscar Berger (b.1946) succeeded him. Rigoberta Menchú (b.1959) won the 1992 Nobel Peace Prize for

her campaign against human rights violations and for the rights of indigenous peoples.

49 DEPENDENCIES

Guatemala has no territories or colonies.

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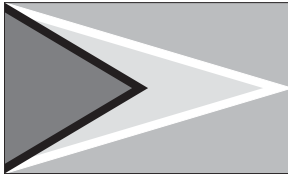
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GUYANA

Cooperative Republic of Guyana



CAPITAL: Georgetown

FLAG: A red triangle at the hoist extending to the flag's midpoint is bordered on two sides by a narrow black stripe; extending from this is a golden arrowhead pointing toward the fly and bordered on two sides by a narrow white stripe. Two green triangles make up the rest of the flag.

ANTHEM: Begins "Dear land of Guyana, of rivers and plains."

MONETARY UNIT: The Guyanese dollar (G\$) of 100 cents is a paper currency tied to the US dollar. There are coins of 1, 5, 10, 25, 50, and 100 cents, and notes of 1, 5, 10, 20, and 100 Guyanese dollars. G\$1 = US\$0.00498 (or US\$1 = G\$200.79) as of 2005.

WEIGHTS AND MEASURES: Guyana officially converted to the metric system in 1982, but imperial weights and measures are still in general use.

HOLIDAYS: New Year's Day, 1 January; Republic Day, 23 February; Labor Day, 1 May; Caribbean Day, 26 June; Freedom Day, 7 August; Christmas, 25 December; Boxing Day, 26 December. Movable religious holidays include Good Friday, Easter Monday, Phagwah, 'Id al-'Adha, Yaou-Mun-Nabi, and Dewali.

TIME: 9 AM = noon GMT.

¹ LOCATION, SIZE, AND EXTENT

Situated on the northeast coast of South America, Guyana is the third-smallest country on the continent, with an area of 214,970 sq km (83,000 sq mi), extending 807 km (501 mi) N-S and 436 km (271 mi) E-W, including disputed areas. Comparatively, the area occupied by Guyana is slightly smaller than the state of Idaho. Bounded on the N by the Atlantic Ocean, on the E by Suriname, on the S and SW by Brazil, and on the NW by Venezuela, Guyana has a total boundary length of 2,921 km (1,815 mi) of which 459 km (285 mi) is coastline.

Neither Guyana's western border with Venezuela nor its eastern border with Suriname has been resolved. Venezuela claims all territory west of the Essequibo River, an area of more than 130,000 sq km (50,000 sq mi), or over three-fifths of Guyana. Suriname claims a largely uninhabited area of 15,000 sq km (5,800 sq mi) in the southeast, between two tributaries of the Corentyne River.

Guyana's capital city, Georgetown, is located on the country's Atlantic coast.

² TOPOGRAPHY

Guyana has three main natural regions: a low-lying coastal plain, extending for about 435 km (270 mi) and ranging from 16 to 64 km (10–40 mi) in width, much of which is below high-tide level and must be protected by sea walls and drainage canals; a region of heavily forested, rolling, hilly land, about 160 km (100 mi) in width, which contains most of the mineral wealth and comprises almost five-sixths of Guyana's land area; and in the south and west, a region of mountains and savannas. There are several large rivers, including the Essequibo (the longest at 966 km/600 mi), Demer-

ara, and Berbice, but few are navigable for any distance above the plains because of rapids and falls.

³ CLIMATE

The climate is subtropical and rainy. The average temperature at Georgetown is 27°C (81°F); there is little seasonal variation in temperature or in humidity, which averages 80–85%. Rainfall averages 229 cm (90 in) a year along the coast, falling in two wet seasons—May to July and November to January—and 165 cm (65 in) in the southwest, where there is a single wet season, extending from April through August.

⁴ FLORA AND FAUNA

The flora varies with the rainfall and soil composition. The coastal area, originally swamp and marsh with mangrove and associated vegetation, has long been cleared for farming. In inland areas of heavy rainfall there are extensive equatorial forests, with greenheart a major species; varieties of trees may number as many as 1,000. Local fauna includes locusts, moth borers, acoushi ants, bats, and other small mammals. There may be more than 675 species of birds. Northwestern coastal beaches are an important breeding ground for sea turtles.

⁵ ENVIRONMENT

Because over 80% of Guyana is still wilderness, the country has so far sustained little serious environmental damage. The air is clean, but water supplies are threatened by sewage and by agricultural and industrial chemicals. One potential problem for the nation's water supply is the pollution of its wells by salt water from the ocean. Guyana has 241 cu km of renewable water resources with 98% used for farming purposes. About 98% of the nation's city

dwellers and 91% of people living in the rural areas have access to safe drinking water. Since 1985, the nation has experienced an increase in diseases related to water and food consumption.

Kaieteur National Park is the only specifically designated conservation area. According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 13 types of mammals, 3 species of birds, 6 types of reptiles, 6 species of amphibians, 13 species of fish, 1 species of invertebrate, and 23 species of plants. Endangered species in Guyana included the tundra peregrine falcon, the black caiman, and four species of turtle (green sea, hawksbill, olive ridley, and leatherback).

6 POPULATION

The population of Guyana in 2005 was estimated by the United Nations (UN) at 751,000, which placed it at number 157 in population among the 193 nations of the world. In 2005, approximately 5% of the population was over 65 years of age, with another 28% of the population under 15 years of age. There were 94 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 1.3%, a rate the government viewed as satisfactory. Since 1995, the Guyana Responsible Parenthood Association has promoted programs in schools to educate adolescents about reproduction in an attempt to address the high fertility rates. The projected population for the year 2025 was 703,000. The population density was 3 per sq km (9 per sq mi), but density varies dramatically. More than 90% of the people live on 5% of the land along the Atlantic coast; the interior of the country is practically uninhabited.

The UN estimated that 36% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 1.35%. The capital city, Georgetown, had a population of 231,000 in that year. Linden had an estimated 60,000 inhabitants, and New Amsterdam had about 33,000.

7 MIGRATION

Although specific figures were not available, there was significant outward migration in the 1980s, creating shortages of skilled workers and managers. Unofficial estimates put the number at 10,000 to 30,000 a year in the late 1980s, chiefly persons of Asian Indian extraction. Their destinations were chiefly the United States and Canada. The migration rate of tertiary educated individuals in 1990 was 77.3%. According to 1999 estimates, about 50,000 Guyanese citizens live in the Venezuelan territory that borders Guyana and are fully integrated into the local population. Remittances in 2002 were \$100 million, 14.3% of GDP. In 2003, the Guyana government threatened to deport 80% of the 2,000 Brazilians in the mining industry as illegal workers. However, Guyana allows cultural workers, such as musicians, to come and go.

Guyana has traditionally had only a very small number of asylum seekers, mainly from Cuba and Angola. In 2005 the net migration rate was estimated as -7.51 migrants per 1,000 population, compared to -13.6 per 1,000 in 1990. The total number of migrants in Guyana in 2000 was 2,000. The government views the emigration level as too high.

8 ETHNIC GROUPS

Guyana's population is made up of five main ethnic groups: East Indians, Africans, Amerindians, Chinese, and Portuguese. An estimated 50% of the population is of East Indian descent and 36% of African descent. Those of Amerindian ancestry constitute 7%; all others account for an additional 7% of the population.

9 LANGUAGES

English is the official language and is used in government, the schools, the press, and commerce. Also spoken are Chinese, Portuguese, Amerindian languages, Creole, Hindi, Urdu, and a patois used mainly by those of African descent.

10 RELIGIONS

Christians make up approximately 50% of the total population, of whom about 30% are Anglicans, 25% are Roman Catholics, 25% are Pentecostals and Baptists, and 20% are Seventh-Day Adventists. There are smaller groups of Methodists, Presbyterians, Lutherans, Mormons, and Jehovah's Witnesses. Hindus make up some 35% of the population, and Muslims (Sunni and Shia) about 10%. There are small communities of Baha'is and Jews. It is believed that many people practice Rastafarianism and the traditional Caribbean religion known as Obeah, either exclusively or in conjunction with the practice of other faiths.

The constitution provides for freedom of religion and this right is generally respected in practice. All religious groups must register with the government in order to be formally recognized, but there is no other official monitoring of religious groups. Certain Christian, Muslim, and Hindu holidays are celebrated as public holidays.

11 TRANSPORTATION

As of 2001, Guyana had an estimated 187 km (116 mi) of standard and narrow gauge railroad track in service. The standard gauge line is 139 km (86 mi) in length, while the narrow gauge line is 48 km (30 mi) in length. Both lines are dedicated to the transport of ore and were originally built for the government-owned mining companies. The two government-owned passenger railway systems, however, have been scrapped: the Georgetown to New Amsterdam line in 1972, and the Georgetown to Parika line in 1974. Waterborne passenger and cargo service between these cities is carried out by a government-owned transport service via the Essequibo and Berbice rivers. Georgetown is the main port, while New Amsterdam accommodates coastal and small oceangoing vessels. Springlands, on the Corentyne River, is the main port for service with Suriname. In 2005, the merchant fleet had six ships of 1,000 GRT or more for a total of 7,475 GRT. As of 2004, Guyana had 1,077 km (670 mi) of navigable inter-waterways. Three rivers, the Berbice, Demerara, and the Essequibo are navigable by oceangoing vessels for 150 km, 100 km, and 80 km, respectively.

Roadways measured an estimated 7,970 km (4,953 mi) in 2002, of which only 590 km (367 mi) were paved. As of 2003, Guyana had about 28,000 passenger cars, and 13,000 commercial taxis, trucks, and buses. There were an estimated 49 airports in 2004, only 8 of which had paved runways as of 2005. Georgetown's Timehri International Airport is served by several international carriers. Guyana Airways Corp., a government company, oper-

ates domestic and international air service. In 2001 (the latest year for which data was available), 47,800 passengers were carried on scheduled domestic and international flights.

12 HISTORY

The coastline was first charted by Spanish sailors in 1499, at which time the area was inhabited by Amerindians of the Arawak, Carib, and Warrau language groups. By 1746, the Dutch had established settlements on the Essequibo, Demerara, and Berbice rivers, and had withstood French and English attempts to capture and hold the area. The English occupied the settlements in 1796 and again in 1803, and gained formal possession at the Congress of Vienna in 1815. The three main settlements were united into the Colony of British Guiana in 1831. Slavery was abolished in 1834, and many blacks settled in cooperative villages or moved into the towns. Under pressure from planters, indentured servants were brought in from India to work on the sugar plantations. As a result, most of the sugar workers still are of Asian Indian origin, while the urban population is predominantly black. This division into ethnocultural groupings later became an important factor in Guyana's politics.

The change in British imperial policy after World War II was reflected in a new constitution introduced in 1953, providing for a bicameral legislature and universal adult suffrage. Elections were held in the same year. However, the British balked after the People's Progressive Party (PPP) captured 18 of the 24 elected seats. Six months after the elections, the United Kingdom suspended the constitution, charging Communist subversion of the British Guiana government. The colony was governed on an interim basis until 1957, when general elections again were held. Again, the PPP won, with 47.9% of the votes, and Cheddi Jagan, leader of the PPP, was named chief minister.

The colony was granted full internal self-government in 1961, following four years of continued economic and social progress. In elections held under a new constitution introduced that year, the PPP won 20 of the 35 seats in the newly established Legislative Assembly. In October 1961, Jagan, who had been named prime minister, went to Washington, DC, to ask US president John F. Kennedy for US aid. Classified documents released in the mid-1990s revealed that, following Jagan's visit, Kennedy gave the CIA orders to destabilize Jagan's government. Kennedy also urged Britain to withhold full independence from Guyana until Jagan was removed from power. Through covert operations, the CIA incited a general labor strike and racial violence between Jagan's Asian Indian followers and his opponents, mainly of African descent. British troops were called upon to restore order, but the situation did not calm until July.

In the elections of December 1964, the PPP again emerged as the strongest party, but due to US efforts to undermine its power, it was unable to form a government alone. As a result, the British governor called upon the leader of the People's National Congress (PNC), Forbes Burnham, to establish a government.

The following November, an independence conference held in London approved the present constitution, and on 26 May 1966, Guyana became a sovereign and independent nation. Guyana was proclaimed a cooperative republic on 23 February 1970, the 207th anniversary of a Guyanese slave revolt led by Cuffy, still a national



LOCATION: 1°12' to 8°34' N; 56°29' to 61°23' W. BOUNDARY LENGTHS: Atlantic coastline, 459 kilometers (285 miles); Suriname, 600 kilometers (372 miles); Brazil, 1,119 kilometers (694 miles); Venezuela, 743 kilometers (461 miles). TERRITORIAL SEA LIMIT: 12 miles.

hero. The PNC ruled as majority party between 1968 and 1992, although not without controversy.

Guyana became known to the US public in 1978 in the wake of the Jonestown massacre. The government of Guyana, in an attempt to colonize the nation's wilderness regions, had in 1977 allowed an American, James Warren "Jim" Jones, to establish the People's Temple commune at what became known as Jonestown, in the northwest. Many in the United States had become con-

cerned with developments in the commune, and US representative Leo J. Ryan had gone to Jonestown to investigate. He and four other US citizens were murdered at a nearby airstrip by Jones's followers. Then, on 18 November 1978, Jones and more than 900 of his followers committed suicide by drinking poisoned punch.

Between 1980 and 1985, relations between the PNC and opposition parties deteriorated sharply, as opposition parties charged harassment and fraud. The assassination in 1980 of Dr. Walter Rodney, a leading opposition figure, escalated the conflict. Under the administration of Forbes Burnham (1980–1985), human rights declined steadily. Burnham died in 1985 and was succeeded by first vice president and prime minister, Desmond Hoyte. The new president sought to improve Guyana's relations with non-Socialist nations, particularly the United States, and attempted the liberalization of the Guyanese economy.

However, by 1992 the country had grown tired of the PNC, and elected Cheddi Jagan of the PPP to the presidency in what was considered to be the first free and fair election since 1965. Jagan, who had been minority leader for years, received an impressive mandate with 53.4% of the vote, to 42.3% for the PNC. This translated to a solid 36 PPP seats in the National Assembly. Jagan had mellowed in the three decades since his ouster by the CIA, and in an ironic twist of history he was elected this time with the full support of the United States. Jagan served effectively as president until his death in March 1997 at age 78.

Under Jagan's administration, Guyana was able to consolidate its massive foreign debts and began to enjoy sustained economic growth. Jagan's widow, Janet Jagan, was elected to succeed him in general elections held on 15 December 1997, but the opposition PNC challenged the legitimacy of the election. In spite of a CARICOM audit that deemed the election fair, the opposition PNC, led by former prime minister, Hoyte, continued to protest the presidency of Jagan throughout the early months of 1998, and there were demonstrations and other forms of civil unrest, as well as a 55-day strike by civil servants. On 14 August, the 78-year-old, US-born Jagan, suffering from a heart condition, stepped down, naming as her successor finance minister Bharrat Jagdeo, who, at age 35, became one of the world's youngest heads of state. Jagdeo went on to lead the PPP into a new electoral victory in 1999 elections, with 53.1 % of the vote. Jagdeo was reelected as prime minister and his party commanded the support of 34 of the 65 elected members of the legislature.

Legislative elections were held in March 2001, and Jagdeo's PPP/C (People's Progressive Party/Civic) took 34 seats to the PNC's 27 (the remaining seats were won by smaller parties). Jagdeo was re-elected prime minister.

In 2000, Suriname gunboats evicted an oil exploration rig from the area; Guyana had approved the exploration in the oil-rich disputed region. In June 2004, the UN set up a tribunal to try to resolve the long-standing maritime border dispute between Guyana and Suriname.

In January 2005, the government declared the capital of Georgetown to be a disaster zone, as severe flooding followed days of continuous rain. More than 30 people were killed, and the UN estimated the loss to the economy to be approximately \$500 million.

13 GOVERNMENT

As of 23 February 1970, Guyana became a cooperative republic. Guyana's first president was elected by the National Assembly on 17 March 1970, and the post of governor-general was abolished. Proclamation of the cooperative republic also entailed the provision of mechanisms for the takeover of foreign enterprises. Guyana's basic parliamentary structure dates from the constitution negotiated prior to independence in 1966. Under a new constitution approved in 1980, the unicameral National Assembly consisted of 53 members elected by secret ballot under a system of proportional representation for a five-year term, plus 10 members elected by 10 regional councils, and 2 members elected by the National Congress of Democratic Organs. The latter, which was composed of deputies from local councils, together with the National Assembly, constituted the Supreme Congress of the People of Guyana, which could be summoned or dissolved by the executive president. This office, created by the 1980 constitution, was filled by the leader of the majority party as both chief of state and head of government.

Constitutional reform was undertaken after the 2001 elections. The National Congress of Democratic Organs was abolished. There are 65 elected members of parliament, 1 elected Speaker of the National Assembly, and 2 nonvoting members appointed by the president. Members serve five-year terms. The president appoints a cabinet including a prime minister.

The voting age and age of majority are 18 years, and suffrage is universal. However, electoral irregularity is the rule, rather than the exception. A British-led team of observers pronounced the 1980 vote "fraudulent in every respect." The 1992 election was considered by most observers to be the first fair poll since 1965. Boycotts both before and after elections have been frequent as a result of fraud charges, but the net effect of these boycotts has been to enhance the power of the majority party.

14 POLITICAL PARTIES

Guyana's political parties are generally committed to socialism or some variant of it, but differ in the groups they represent and especially the ethnic groups that support them. A schism between the black and Asian Indian communities defines the major political division in the country.

In 1950, Cheddi Jagan and his wife organized the People's Progressive Party (PPP), which was anticolonial in nature, claimed to speak for the lower social classes, and cut across racial lines. Early in 1955, Forbes Burnham, who had been minister of education in Jagan's government, led a dissident PPP wing in the formation of the People's National Congress (PNC), which became the predominant political vehicle of Guyanese blacks, with Asian Indians remaining in the PPP. Until 1992, the PNC had dominated Guyana's politics since independence. It drew its members primarily from urban blacks, and was in the majority from its first government, formed after the 1964 elections, until 1992 when the PPP returned to power. The PNC ideologically defines itself as socialist, but stresses the importance of a mixed economy in which the private sector is encouraged.

The PPP had been the opposition party since the 1960s, after dominating Guyanese politics in the 1950s. Appealing to Asian Indian rice farmers and sugar workers, the PPP nevertheless claims

to be primarily an ideological party. Over the years, the PPP has taken an orthodox socialist position along the lines of international Communism. However, Jagan at times called for increased foreign investment, and introduced conservative economic measures during his tenure as premier in the early 1960s. PPP opposition has been both loyal and otherwise. After the 1973 elections, the PPP boycotted the National Assembly, charging electoral fraud. In 1976 the representatives took their seats. In the 1980s the party appeared to be waning, but the 1992 elections gave a boost to this long-standing party.

Because Guyana uses a proportional representation system, small parties are accommodated within the system. In preparation for the 1992 elections, Guyanan citizens formed nearly 20 new parties. One such group is the Working People's Alliance (WPA), a multi-ethnic independent party professing its own brand of Marxism. The WPA, founded in 1979, boycotted the 1980 elections on the grounds that they were bound to be rigged. In June 1980, its leader, Walter Rodney, was killed in a bomb blast. The party took one seat in the 1985 elections, and 2 seats in the 1992 elections. The United Force (TUF) was organized by Peter D'Aguilar, a wealthy brewer of Portuguese extraction, in the early 1960s. Its program, called economic dynamism, was based principally on close ties with the West, encouragement of foreign enterprise, and the acquisition of foreign loans. It helped the PNC form the first non-PPP government in Guyana in 1964, but in 1968 the PNC formed a government by itself. In 1973, TUF lost the four seats it had won in 1968. In 1980, TUF won two seats, which it held until 1992, when it lost one of the two.

The 1992 elections brought the PPP and Cheddi Jagan back to power. Jagan served as president until his death in March 1997. In the general elections of December 1997, his widow, Janet Jagan, was elected to succeed him, and the PPP remained in power with 36 seats, while the PNC held 26; the Alliance for Guyana, 1; the TUF, 1; and the Guyana Democratic Party, 1. However, following extended challenges by the PNC over the validity of the election, Jagan resigned the following August, naming finance minister Bharrat Jagdeo to succeed her. Jagdeo has remained as PPP leader and prime minister since then.

In the March 2001 elections, the PPP/C won 34 seats to the PNC's 27. Smaller parties took the remaining seats.

15 LOCAL GOVERNMENT

Guyana's system of local government was restructured after independence. Guyana is divided into 10 regions, each of which is administered by a chairman and council. City and village councils administer the local communities.

16 JUDICIAL SYSTEM

The Supreme Court of Judicature has two divisions: the High Court, which consists of the chief justice of the Supreme Court and any number of puisne justices and has both original and appellate jurisdiction; and the Court of Appeal (established 30 July 1966), which consists of a chancellor, the chief justice of the Supreme Court, and as many justices as the National Assembly may prescribe. The chancellor of the Court of Appeal is the country's chief judicial officer. Magistrates' courts exercise summary jurisdiction in lesser civil and criminal matters. The constitution of 1980 provides for an ombudsman to investigate governmental

wrongdoing. English common law is followed. Although there is an ombudsman, he lacks the authority to investigate allegations of police misconduct. There is no independent body charged with responsibility for pursuing complaints of police brutality or abuse.

In 2003, Caribbean leaders met in Kingston, Jamaica, to ratify a treaty to establish the Caribbean Court of Justice (CCJ). Eight nations—Barbados, Belize, Dominica, Guyana, Jamaica, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago—officially approved the CCJ, although a total of 14 nations were planning to use the court for appeals. Haiti had agreed to use the CCJ for resolution of trade disputes. The court was officially inaugurated in April 2005, in Port-of-Spain, Trinidad and Tobago. As of 2005, however, the court's jurisdiction was limited to the CARICOM states of Barbados and Guyana. The CCJ heard its first case in August 2005.

The constitution provides for an independent judiciary. Delays in judicial proceedings are caused by shortages of trained personnel and inadequate resources.

17 ARMED FORCES

The Combined Guyana Defense Force numbered 1,100 full-time officers and troops in 2005. Reserves consisted of 670 reservists and a paramilitary force, the Guyana Peoples Militia, which numbered 1,500. Army personnel numbered 900. Equipment included 9 reconnaissance vehicles and 54 artillery pieces. The Navy and the Air Force numbered 100 each. Operable naval units consisted of three patrol/coastal craft. The Air Force's equipment consisted of three transport aircraft and two utility helicopters. Paramilitary forces consisted of the Guyana People's Militia which had more than 1,500 members. The defense budget in 2005 totaled \$5.92 million.

18 INTERNATIONAL COOPERATION

Guyana became a member of the United Nations on 20 September 1966; it belongs to ECLAC and several specialized agencies of the United Nations, such as the FAO, ICAO, ILO, IMF, UNESCO, UNIDO, WHO, and the World Bank. Guyana served on the UN Security Council in 1975–76 and 1982–83. General Mohamed Shahabuddeen, a former vice president and deputy prime minister of Guyana, served on the International Court of Justice from 1987–96. Guyana is a member of the ACP Group, the Commonwealth of Nations, the Caribbean Development Bank, G-77, the Latin American Economic System (LAES), the OAS, the Río Group, the Alliance of Small Island States (AOSIS), the Organization of the Islamic Conference (OIC), the Association of Caribbean States (ACS), and CARICOM. Georgetown is home to offices of the European Union, the Inter-American Development Bank, the UN Development Program (UNDP), the WHO, and the OAS. The CARICOM Secretariat is also headquartered in Georgetown.

The nation is also a member of the Nonaligned Movement and participates in the Organization for the Prohibition of Chemical Weapons and the Agency for the Prohibition of Nuclear Weapons in Latin America and the Caribbean (OPANAL). In environmental cooperation, Guyana is part of the Basel Convention, the Convention on Biological Diversity, CITES, International Tropical Timber Agreements, the Kyoto Protocol, the Montréal Protocol, MARPOL, and the UN Conventions on the Law of the Sea, Climate Change, and Desertification.

19 ECONOMY

Guyana's economy is dominated by the production and processing of primary commodities, of which sugar, gold, and bauxite are the most important. Much of the country is undeveloped, with more than 90% of the population and almost all of the agriculture concentrated in the narrow coastal plain. The interior is sparsely settled, and communications are poor. The bulk of the population is engaged in agriculture, either as laborers on sugar plantations or as peasant cultivators of rice. Although sugar and rice continued to be important export earners, bauxite and gold share comparable percentages of national exports. The government plays a direct role in the sugar industry; the nation's leading sugar producing company was nationalized in 1976.

Beginning in the late 1970s, Guyana's economy suffered a severe decline, attributable both to the increasingly high costs of imported oil and petroleum products (39% of Guyana's merchandise imports in 1983) and to sagging production and prices of Guyana's exports. In 1982 there were serious shortages of basic commodities, foreign exchange reserves dwindled, and Guyana was forced to reschedule its debts. In 1985, the IMF declared Guyana ineligible for further loans because of noncompliance with fund conditions and high arrears.

However, Guyana's economy improved dramatically under the Economic Recovery Program (ERP) launched by the government in April 1989. The program, which was designed with the assistance of International Monetary Fund (IMF) and World Bank officials; was supported by Canada, the United Kingdom, and the United States. It marked a drastic reversal in government policy away from a predominantly state-controlled, socialist economy towards a more open, free market system. The government reformed its monetary and fiscal policy establishing a free market in foreign currency, which was designed to stabilize the exchange rate and put an end to runaway inflation. The exchange rate remained stable at G\$125 to the dollar and inflation dropped from a 1989–91 annual average of 60–100% to only 14% in 1992. The growth rate reached 6% in 1991, after 15 years of decline. The government also eliminated price controls, removed import restrictions, promoted foreign investment, and divested itself of 15 of 41 state-owned enterprises by 1997.

Real GDP growth of 6.2% registered in 1997 marked the seventh consecutive year of strong recovery, with all of the key sectors demonstrating significant increases in production. Growth was particularly strong in the major export industries, including rice and sugar. Inflation had fallen to 4.2%. In July 1998, Guyana entered into a three-and-a-half-year arrangement with the IMF under a program which combined both the Enhanced Structural Adjustment Facility (ESAF) and the Poverty Reduction and Growth Facility (PRGF) with a credit line of about \$70 million. However, a severe drought and political turmoil due to the 1997 elections combined to produce a contraction of -1.7% in 1998. Real GDP grew a reported 3% in 1999, but as the pace of structural reform slackened, the currency appreciated, and the country's overall terms of trade weakened, inflation jumped to 8.7%, up from 4.7% in 1998. In May 1999 the country received some debt relief under the Highly Indebted Poor Country (HIPC) initiative mounting initially to \$92 million. In 2000, real GDP contracted 1.4% though inflation declined to 5.8%. In early 2001, the IMF suspended the ESAF/PRGF program with only 46% of the mon-

ey paid out due to slippages in the government's implementation of fiscal and structural reforms that sent the budget deficit soaring to 6.3% of GDP in 2000 and 7% of GDP in 2001, respectively, even after grants. Real GDP growth in 2001 was 1.4%, and inflation declined to 1.5%. In September 2002, Guyana entered into a new three-year arrangement under the IMF's PRGF supported by a credit line of \$73 million. The GDP was estimated to have grown 1.8% in 2002, with inflation at 4.3%.

In 2004, the GDP growth rate was 1.6%, up from -0.7% in the previous year; in 2005, the growth rate was expected to fall back, to 0.4%. The inflation rate, although fluctuating, remained under control—in 2004, it reached 4.6%, down from 6.0% in 2003. The growth in 2004 was mainly fueled by higher export earnings. The bauxite mining sector was scheduled for restructuring and privatization, which was expected to give an extra boost to the economy.

20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 Guyana's gross domestic product (GDP) was estimated at \$3.0 billion. 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 based on current dollars. The per capita GDP was estimated at \$3,900. The annual growth rate of GDP was estimated at 0.5%. The average inflation rate in 2005 was 5.5%. It was estimated that in 2005 agriculture accounted for 36.8% of GDP, industry 20.2%, and services 43%.

According to the World Bank, in 2003 remittances from citizens working abroad totaled \$64 million or about \$83 per capita and accounted for approximately 8.6% of GDP.

21 LABOR

In the latest years for which data was available, Guyana's workforce in 2001 was estimated at 418,000. In 1997, agriculture accounted for 27.8% of the workforce, with industry at 22.6%, services at 47.9%, and undefined occupations at 1.7%. The reported unemployment figure in 2000 was 9.1%, but this is considered vastly understated. There is a severe shortage of skilled labor.

Workers are legally entitled to form and join unions, although in practice this has been slow to materialize. Union membership accounts for approximately 32% of workers, primarily concentrated in the public sector and state-owned industry. Strikes are permitted provided they are approved by union leadership and meet the requirements of the collective bargaining agreement.

No person under 14 is legally permitted to work outside a family business. Child labor regulations are not effectively enforced and child labor remains a prevalent concern. The minimum public-sector wage was us\$104 per month in 2002; there is no legally set minimum wage in the private sector. Hours of employment are set by various industries. Health and safety standards are established by the Factories Act but are not enforced due to lack of resources.

22 AGRICULTURE

Agriculture, the main economic activity, provides nearly half the total value of exports and a large part of domestic food needs. Because the narrow strip of rich, alluvial soil along the coast lies

in part below the high-tide mark of the sea and rivers, and because of heavy seasonal rainfall, agricultural expansion requires heavy expenditures for flood control, drainage, and irrigation. About 2.5% of the land is used for temporary and permanent crop production.

Guyana has two sugarcane harvests per year, and there are currently eight sugar mills in operation. About 90% of all cane is grown on land owned or leased by Guysuco, the government-owned sugar monopoly. Guysuco is managed under contract by the British firm Booker Tate. Independent farmers contribute only about 8% to total cane production. Guyana is not an efficient producer of sugar and cannot compete on the world market; it depends on preferential export markets for its sugar trade. Sugar production in 2004 was 3,000,000 tons, up from the 395,000 tons produced in 1971; sugar accounted for 29% of exports in 1980 and about 19% in 2004. Rice production in 2004 (501,500 tons) had more than doubled since 1991. Agricultural exports in 2004 totaled us\$189.8 million. Other crops, grown for domestic consumption include bananas, citrus, cassava, and yams.

23 ANIMAL HUSBANDRY

Livestock in 2005 included 110,000 head of cattle, 130,000 sheep, 79,000 goats, 13,000 hogs, and 20,000,000 chickens. Other important domestic animals are horses, mules, and donkeys. Extensive work is carried on to improve cattle productivity by importing breeding stock and providing artificial insemination and veterinary services.

24 FISHING

Efforts are being made to increase the fish catch in order to improve the local diet and reduce imports of fish. The catch was 60,304 tons in 2003. The principal species caught that year were Atlantic seabob (19,205 tons) and whitebelly prawn (2,218 tons). Fish exports amounted to us\$54.2 million in 2003. The Demerara Fish Port Complex, built near Georgetown with Japanese aid, includes a fish-processing plant and office facilities.

25 FORESTRY

Forests cover about 16,879,000 hectares (41,708,000 acres), or 79% of the total land area. Commercial exploitation, however, is confined to a relatively small section in the northeast. The government-operated timber plant buys lumber from private sawmills and processes it with a view to standardizing and raising the quality of timber for export. Only about 20% of the forest area is reasonably accessible for timber exploitation. Green-heart is the most important timber produced and exported. Timber production was about 1,158,000 cu m (40,900,000 million cu ft) in 2004. Exports of forestry products amounted to us\$29.4 million that year.

26 MINING

Guyana's primary mineral industries in 2003, were centered on bauxite, gold, diamonds, sand, and crushed stone. In 2003, production of bauxite totaled 1.7 million metric tons, up from 1.69 million metric tons in 2002. Mined gold production in 2003 totaled 12,170 kg, down from 13,581 kg in 2002. In 2003 about 8,400 kg of gold were produced by the Omai Mine. However gold output at the mine has been falling and exploration has failed to find new reserves. The mine was slated to cease operations. Diamond pro-

duction in 2003 was estimated at 250,000 carats, up from 248,436 carats in the previous year. Diamond production since 1999 increased 450%, allegedly due to the breakup of a Brazilian smuggling ring. Sand and crushed stone were also mined in 2003. The Guiana Shield region was well known for its undeveloped resources of copper, gold, iron ore, manganese, nickel, platinum, and uranium, and undeveloped resources of columbite and tantalite were also being investigated in Guyana.

27 ENERGY AND POWER

Guyana has no known proven reserves of oil, natural gas, coal, or any oil refining capacity. As a result the country must import whatever refined petroleum products or other fossil fuels it consumes. In 2002, imports and consumption of refined petroleum products each averaged 11,270 barrels per day. There were no imports or consumption of natural gas or coal in that year.

Guyana's electric power sector in 2002, was marked by the near total use of fossil fuels to provide electric power, although there is a very small hydroelectric sector. In 2002, electric power generating capacity totaled 0.305 million kW, with conventional thermal plants accounting for 0.300 million kW and hydropower 0.005 million kW. Total electric energy produced in 2002 was 0.808 billion kWh, of which 0.800 billion kWh came from fossil fuels and the rest from hydropower. Consumption of electricity in 2002 was 0.751 billion kWh. Frequent power failures have hampered production and thus impeded economic growth. The lack of reliable electricity in and around Georgetown has prompted many businesses to utilize imported small diesel-operated generators, further increasing total fuel demand.

28 INDUSTRY

Industry is limited chiefly to processing gold, bauxite, sugar, and rice for export and food and beverages for the local market. Gourmet food processing is increasingly gaining in importance, including the production of certain jams, jellies, sauces, spices, and fruit purees. Manufacturing accounted for about 11% of GDP in 1998, when output decreased by 8.9% over the previous year. Industry as a whole accounted for 32% of GDP in 2000.

In 1993 the government announced a policy move toward total privatization, joint ventures, public share offers, employee and management buyouts, and leased management contracts. The government has followed a serious program of privatization of key state enterprises, such as the telephone utility—80% of which is owned by the US Virgin Islands firm Atlantic Telenetwork. In 1996, a number of companies were offered for privatization, including the state-owned Guyana Electricity Corporation (GEC), Guyana Airways Corporation, the Linmine and Bermine bauxite mines, Guyana National Printers, Guyana Stores, the Guyana Pharmaceutical Corporation, Versailles Dairy Complex, and the Wauna Oil Palm Estate. The GEC was privatized in 1999. The government continued its hold on the state monopoly Guyana Sugar Corporation (Guysuco). Following privatization of the government-owned rice mills and the transfer of rice transactions to the common market for foreign currency, the rice industry recovered and its production increased. In 1999, rice output increased 7.6% and sugar production increased 25.8% over 1998. Due to the fact that much development of infrastructure was needed, the construction sector realized significant growth in the early 2000s. In

2002, breakfast cereals manufactured through the processing of rice were seen as potential exports.

The share of the industry in the GDP was 19.9% in 2004; agriculture contributed with 38.3% and also was the main employer in the country; services came in first with a 41.8% share in the GDP. The oil industry was expected to be an important income earner in future years, although explorations in western Guyana proved unfruitful in the past.

2⁹ SCIENCE AND TECHNOLOGY

The University of Guyana, founded in 1963 at Georgetown, has faculties of agriculture, health sciences, technology, and natural sciences. The Guyana School of Agriculture Corporation was founded in 1963. The Inter-American Institute for Cooperation on Agriculture, founded in 1974 at Stabroek and operated by the Organization of American States, aims to stimulate and promote rural development as a means of achieving the general development and welfare of the population. The Pan-American Health Organization has maintained an office in Georgetown since 1949. The Guyana Zoo, an adjunct of the Guyana Museum in Georgetown, specializes in the display, care, and management of South American fauna.

3⁰ DOMESTIC TRADE

Domestic trade is conducted largely through small retail shops and kiosks scattered throughout the settled areas, and by cooperatives. Franchising began to show signs of growth potential, primarily in the fast-food industry. There are also traditional informal markets for the sale of agricultural products. One of the poorest countries in the Western Hemisphere, the economy relies heavily on foreign aid and investment. Normal business hours are 8 AM to 4:30 PM, Monday–Friday. Banks are open from 8 AM to 12:30 PM and 3 to 5 PM weekdays.

3¹ FOREIGN TRADE

Leading exports are bauxite, sugar, rice, gold, shrimp, rum, timber, and molasses. In 1968, bauxite replaced sugar as Guyana's single most important export. From the 1970s to mid-1980s, however, world markets for Guyana's export commodities weakened

while oil import costs rose, leading to chronic trade deficits. As a result of Guyana's economic reform program, import restrictions have been removed, and import licenses are granted routinely by the Ministry of Trade, Tourism, and Industry.

Guyana's biggest exports are sugar (25%) and gold (24%). The mining industry also produces a large amount of bauxite/alumina exports (16%). Foodstuffs account for substantial amounts of commodity export percentages, including rice (11%), shrimp (2.3%), and rum (2.0%).

In 2004, exports reached \$570 million (FOB—Free on Board), while imports grew to \$650 million (FOB). The bulk of exports went to Canada (23.2%), the United States (19.2%), the United Kingdom (10.9%), Portugal (9%), Belgium (6.4%), and Jamaica (5.2%). Imports included manufactures, machinery, petroleum, and food, and mainly came from Trinidad and Tobago (24.8%), the United States (24.5%), Cuba (6.8%), and the United Kingdom (5.4%).

3² BALANCE OF PAYMENTS

Guyana generally runs a deficit on current accounts, which became increasingly severe in the 1980s. Since 1989, the government has sought a policy of a free market in foreign currency and the removal of import prohibitions. Still, over half of the annual budget went to debt servicing during the 1990s and early 2000s. In 1996, Guyana's debt with Paris Club creditors was reduced by 67%; bringing total external debt to us\$1.5 billion, or, slightly less than 100% of GDP. Guyana qualified for \$590 million in debt service relief under the IMF/World Bank Heavily Indebted Poor Countries (HIPC) Initiative in 2000. As a result of its qualification for HIPC assistance, Guyana became eligible for a reduction of its multilateral debt for the first time. In 2002, Guyana negotiated a three-year \$73 million loan with the IMF.

The US Central Intelligence Agency (CIA) reported that in 2000 the purchasing power parity of Guyana's exports was \$505 million

Principal Trading Partners – Guyana (2003)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	472.1	556.8	-84.7
United Kingdom	105.1	35.7	69.4
Canada	94.4	8.1	86.3
United States	94.1	177.1	-83.0
Trinidad and Tobago	28.3	148.6	-120.3
Jamaica	26.5	4.4	22.1
Belgium	19.6	5.6	14.0
Barbados	19.2	6.4	12.8
Netherlands	15.7	14.2	1.5
Portugal	9.6	...	9.6
Antigua and Barbuda	7.1	...	7.1

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

Balance of Payments – Guyana (2003)

(In millions of US dollars)

Current Account		-90.6
Balance on goods		-58.9
Imports	-571.7	
Exports	512.8	
Balance on services		-19.9
Balance on income		-52.1
Current transfers		247.1
Capital Account		43.8
Financial Account		40.0
Direct investment abroad		...
Direct investment in Guyana		26.1
Portfolio investment assets		-22.1
Portfolio investment liabilities		4.5
Financial derivatives		...
Other investment assets		43.3
Other investment liabilities		-11.8
Net Errors and Omissions		16.6
Reserves and Related Items		-9.8

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

while imports totaled \$585 million resulting in a trade deficit of \$80 million.

The International Monetary Fund (IMF) reported that in 1995 Guyana had exports of goods totaling \$496 million and imports totaling \$537 million. The services credit totaled \$134 million and debit \$172 million.

Exports of goods reached \$589 million in 2004, up from \$513 million in 2003. Imports grew from \$571 million in 2003, to \$647 million in 2004. The resource balance was consequently negative, reaching -\$58 million in both years. The current account balance was also negative, improving from -\$91 million in 2003 to -\$62 million in 2004. Foreign exchange reserves (excluding gold) grew to \$232 million in 2004, covering more than four months of imports.

33 BANKING AND SECURITIES

The Bank of Guyana is the central bank. In addition to the Bank of Guyana, seven commercial banks operate in the country. Three of them are foreign-owned, namely, Bank of Baroda, Bank of Nova Scotia, and The National Bank for Industry and Commerce (NIBC). In April 1994, the government sold its shares in the Guyana Bank for Trade and Industry (GBTI). In November 1994 the Demerara Bank (a private, domestic bank) and the Citizen's Bank started operations. Further liberalization of the financial sector occurred in April 1995 when Parliament approved the Financial Institutions Act of 1995. The new legislation aimed to tighten the supervisory and regulatory framework of the financial system. The NIBIC, one of Guyana's largest banks, was offered for privatization in 1996. By 2002, only one state-owned bank remained: the Guyana National Cooperative Bank (GNCB). The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$139.3 million. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$513.2 million. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 8.8%.

While a number of firms with publicly issued share capital are active, no large-scale securities market has developed.

34 INSURANCE

As of 1995, there were at least eight insurance companies operating in Guyana.

35 PUBLIC FINANCE

The budget follows the calendar year. Taxes finance the current account budget, with net surpluses or deficits being added to or subtracted from a general revenue balance. Nearly half of government revenue is derived from customs and excise receipts. Divestment of state enterprises, elimination of price controls and subsidies, and a reform of fiscal and monetary policy have led to debt restructuring and forgiveness. Nevertheless, in 1998, government expenditures were about 40% of GDP, and Guyana's debt reached 44% of GDP in 2000.

The US Central Intelligence Agency (CIA) estimated that in 2005 Guyana's central government took in revenues of approximately \$320.1 million and had expenditures of \$362.6 million.

Revenues minus expenditures totaled approximately -\$42.5 million. Total external debt was \$1.2 billion.

36 TAXATION

Income taxes are the major source of direct tax revenue. Personal income taxes are levied at a rate of 0%, 20%, and 33.33%. The corporate tax rate is 45% for commercial companies (generally nonmanufacturing companies) and 35% for all other companies. Other taxes include property tax and consumption tax on locally manufactured goods, a withholding tax of 20% is placed on dividends, interest and royalties. There are also stamp taxes. Local government authorities derive their revenues primarily from land, building, and service taxes. Tax evasion is a constant problem.

37 CUSTOMS AND DUTIES

Customs revenues are traditionally a main source of government income. Guyana uses the common external tariffs (CETs) of CARICOM. Intra-CARICOM trade is free of tariffs. The CET on imports is 5–20%. However, customs duties of 10–75% are also applied. Consumption taxes are also levied on imports, based on CIF (cost, insurance, and freight) value, but some items are exempted to encourage development. Export taxes range from 0.5% of value to 10%. There is an 80-acre gold export processing zone in Linden.

38 FOREIGN INVESTMENT

Investment by foreign firms accounted for the bulk of capital formation prior to the establishment of Guyana's cooperative republic in 1970. After Guyana became a cooperative republic, the government did little to attract foreign private investment. The Hoyte government, however, began efforts to obtain foreign investments for the rehabilitation of the bauxite industry and for oil prospecting and gold mining. New legislation to simplify foreign investment procedures was written in 1987.

The implementation of the Economic Recovery Program and the strong interest of the government in privatization attracted many foreign investors. In 1988, the government permitted foreign ownership of businesses operating in Guyana. In addition, the government was prepared to implement arrangements designed to facilitate investors' derivation of tax benefits in their home territories as well as tax credits in Guyana. Other investment incentives include: tax holidays, export allowances, accelerated depreciation, an export processing zone, and special provisions for agribusiness, mining, and tourism.

From 1997 to 2001, annual foreign direct investment (FDI) inflows to Guyana averaged \$54 million, with a high of \$67 million reached in 2000. For the period 1998 to 2000, Guyana's share of world FDI inflows was 2.2 times its share in world GDP. This was a marked improvement over the period 1988 to 1990 when Guyana's share of world inward FDI flows had been only 70% of its share in world GDP.

In 2002, \$16.6 million were invested in a poultry farm—one of the few large investments in Guyana, in recent years. For 2005, the government planned to privatize the country's Linmine bauxite operations, which would have translated into a dramatic increase in capital inflows in that year.

39 ECONOMIC DEVELOPMENT

A continuing theme of Guyanese economic development policy has been the attempt, without great success, to expand agriculture and to diversify the economy. A seven-year development program (1966–72) aimed to move the country's economy away from its heavy dependence on sugar, rice, and bauxite and to increase funds for scientific, vocational, and technical training and agricultural education. A key feature of the 1972–76 development plan was its emphasis on improving Guyana's health and housing standards.

A decisive change in economic orientation was marked by the proclamation on 23 February 1970 of a cooperative republic. The government embarked on a policy of cooperative socialism by nationalizing the bauxite industry, seeking a redistribution of national wealth, and fostering the establishment of cooperative enterprises for agricultural production, marketing, transportation, housing and construction, labor contracting, services, and consumer purchases. Within a decade, about 80% of the economy was in the public sector.

As economic conditions declined in the late 1970s and early 1980s, the government instituted such austerity measures as import restrictions, foreign exchange controls, cutbacks in planned government spending, and layoffs of government employees.

From 1953 through 1986, Guyana received US\$115.5 million in nonmilitary loans and grants. Multilateral assistance during the same period equaled US\$265.4 million, of which 42% came from the IDB and 30% from the IBRD. The 1985 declaration by the International Monetary Fund (IMF) that Guyana was ineligible to receive further assistance until outstanding debts with the fund had been repaid was an indication of how severe the nation's financial crisis had become. In 1983, the United States had vetoed aid from US and IDB sources, and late in 1985 a barter agreement with Trinidad and Tobago was suspended because of Guyana's failure to repay outstanding loans. As a result, the Hoyte government sought a rapprochement with international lending agencies: a delegation from the IMF, the World Bank, and the IDB visited Guyana late in 1986, and early in 1987 the Guyana dollar was devalued by 56%.

In the late 1990s, primarily as a result of economic reforms, agricultural output grew at a stable rate. Manufacturing output also grew because of improvements in electricity generation and distribution and improved incentives for private investments. These factors combined made continued recovery with real growth rates in excess of 5% per year possible until 1997. Drought and political instability threatened a decade of economic development.

The continuation of sound macroeconomic policies and public sector reform, together with multilateral and bilateral assistance, is crucial to sustaining growth. The fiscal situation was expected to continue improving in the short and medium term, largely as a result of increased current revenues. The inflation rate was likely to stay low, while the medium-term external position of Guyana was expected to remain clouded by the large external debt outstanding, so that the search for debt relief and preferred lending from international donors remained essential.

In 2000, Guyana became eligible for \$590 million in debt service relief under the IMF/World Bank Heavily Indebted Poor Countries (HIPC) Initiative. In 2002, Guyana negotiated a three-year \$73 million Poverty Reduction and Growth Facility (PRGF)

Arrangement with the IMF, to support the government's economic reform program.

In 2005, the economy was expected to expand by only 2.5%, with most of the growth being fueled by higher investments in the public-works projects and in the sugar industry. The loss of gold production from the Omai gold mine was expected to be offset by a higher output in the bauxite-mining sector. Fisheries were expected to suffer as a result of rising fuel costs, and overfishing posed a series of problems for the future.

40 SOCIAL DEVELOPMENT

A social insurance system covers almost all employed and self-employed persons between the ages of 16 and 59. Social welfare benefits include workers' compensation, maternity and health insurance, death benefits, disability, and old age pensions. Workers contributed 4.8% of earnings, and employers made a 7.2% payroll contribution. Retirement pensions are 40% of average weekly earnings, disability pensions are 30%, and survivor benefits are 50% of the payable old age or disability pension. Maternity benefits are available for 13 weeks. Work injury laws have been in place since 1916.

Violence against women, including domestic violence, remained widespread in 2004, crossing socio-economic and racial lines. There is still social stigma attached to victims of rape, therefore the incidents largely go unreported. There is no legal protection against sexual harassment in the workplace. The law protects women's property rights in common law marriages and divorce, although divorce by mutual consent remained illegal.

Tensions between citizens of African descent and those of South Asian origin continued. Also, the land rights of the Amerindian population remained an issue. Guyana continued to have serious human rights problems, including police abuses, pretrial detention, and poor prison conditions.

41 HEALTH

In 2004, there were 48 doctors, 229 nurses, and 4 dentists per 100,000 people. Some 90% of the population of Guyana had adequate sanitation and 65% had access to safe water in 1994–95. In 2005 the average life expectancy was estimated at 65.50 years and the total fertility rate at 2.1. In the same year infant mortality was an estimated 33.26 deaths per 1,000 live births. A high incidence of malaria was present in 1997, with 34,075 new cases. That year, malaria was the country's second leading cause of death. Of the 6,506 cholera cases in 1995, 565 died. The incidences of filariasis, enteric fever, helminthiasis, nutritional deficiencies, and venereal diseases still were significant. Yellow fever remains a constant threat. In 1997, 82% of Guyana's children were vaccinated against measles, roughly a 28% increase from 1988.

The HIV/AIDS prevalence was 2.50 per 100 adults in 2003. As of 2004, there were approximately 11,000 people living with HIV/AIDS in the country. There were an estimated 1,100 deaths from AIDS in 2003.

42 HOUSING

Housing is a critical problem, as is the lack of adequate water supplies and of effective waste disposal and sewage systems. Overcrowding exists in many areas, with families of four or more members often living in one-room homes. Urban development plans

have been prepared for Georgetown and New Amsterdam and a number of schemes, including the construction of low-cost rental housing, have been inaugurated. Loans are made through the Guyana Cooperative Mortgage Finance Bank, founded in 1973. To spur housing development, the government established the Guyana Housing Corp. in 1974. The government provides supervision by trained personnel for those willing to build their own homes. Housing is provided by some firms for their employees. Even so, housing shortages are prevalent and overcrowding and homelessness in urban areas is a great problem.

In the period 1996–2001, the government worked on programs for low-income housing. The result was the construction of about 91 settlements providing 50,000 housing units. The government has estimated that it must build 5,200 homes per year for at least 10 years to meet the national housing need.

Most housing units in the country are detached houses. Owners occupy over half of all dwellings. Most dwellings are wooden, with a smaller proportion made either of wood and concrete or concrete.

43 EDUCATION

Although educational standards are high, educational development has suffered from shortages of teachers and materials. School attendance is free and compulsory for eight years for children between the ages of 5 and 14. All schools in Guyana are public, as church and private schools were taken over by the government in 1976. Primary education lasts for six years. General secondary education (community high school) usually covers four years of study. Students will take an additional year to prepare for senior secondary school, which offers a two-year program ending with the Caribbean Advanced Proficiency Exam. The academic year runs from September to July.

Most children between the ages of four and five attend some type of preschool program. Primary school enrollment in 2003 was estimated at about 99% of age-eligible students. The same year, secondary school enrollment was about 75% of age-eligible students, 58% for boys and 92% for girls. It is estimated that about 99% of all students complete their primary education. The student-to-teacher ratio for primary school was at about 27:1 in 2003; the ratio for secondary school was about 15:1.

The first students completed the one-year course at the Government Training College for Teachers in 1960. Teachers also are trained in the United Kingdom and at the University of the West Indies in Jamaica. The University of Guyana was established in 1963, and awarded its first degrees in 1967. The university has faculties in agriculture, the arts, health sciences, social sciences, education, and technology. The Kuru Kuru Cooperative College was established in 1970 to equip the Guyanese people both technically and philosophically for cooperative socialism and nation building. In 2003, about 6% of the tertiary age population were enrolled in some type of higher education program. The adult literacy rate for 2003 was estimated at about 98.8%.

As of 2003, public expenditure on education was estimated at 8.4% of GDP, or 18.4% of total government expenditures.

44 LIBRARIES AND MUSEUMS

The National Library in Georgetown, with holdings of more than 198,000 volumes, also functions as a public library and has

37 branches. The site of the National Library was originally built in 1909 as the Public Free Library, with funding in part from the American industrialist Andrew Carnegie. The Guyana Society Library (formerly the Library of the Royal Agricultural and Commercial Society) is the oldest in the country and has a collection of rare books dealing with the Amerindians of Guyana. Other important libraries include the British Council Library, the Caribbean Community Secretariat, and the library of the US Information Agency. The University of Guyana, founded in 1963, maintains a library which has holdings of over 200,000 volumes.

The Guyana Museum in Georgetown has a collection of flora and fauna, archaeological findings, and examples of Amerindian arts and crafts. It also has an aquarium and a zoological and botanical park. The Walter Roth Museum of Anthropology is also found in Georgetown.

45 MEDIA

In 2002 there were 80,400 mainline telephones in use throughout the country with an additional 87,300 mobile phones. A public corporation runs the postal system. An international telex service was inaugurated in 1967. Overseas radiotelephone and cable services are provided by Cable and Wireless (W.I.), a private firm.

Broadcasting is carried on by the government-owned Guyana Broadcasting Corp. As of 2004, there was only one radio station and it was operated by the government. There were 13 television stations (only one of which was government-owned). In 1997 there were 817 radios and 306 television sets in use for every 1,000 people. In 2002, there were 125,000 Internet subscribers served by about 613 Internet hosts.

In 2004, there were three daily newspapers in Guyana, the *Starbroek News* (circulation 23,500 in 2002), which is an independent newspaper, *Kaieteur News* (also independent), and the *Guyana Chronicle* (23,000). *The Mirror* (circulation 25,000) is published twice a week by the People's Progressive Party.

The government is said to generally respect the constitutional provisions for freedom of speech and the press.

46 ORGANIZATIONS

Cooperative societies cover virtually every aspect of the economy. There is a chamber of commerce in Georgetown. Labor and industry organizations include the Guyana Manufacturers' Association and the Guyana Rice Producers' Association. There is a Guyana Consumers Association. Professional associations exist for teachers and lawyers.

There are a number of national youth organizations, including National Association of Youth and Students, the Progressive Youth Organization, Student Christian Movement of Guyana, the Trade Union Youth Movement of Guyana, Working Peoples Alliance Youth, and the Guyana United Youth Society. Scouting programs and YMCA/YWCA chapters are also active. There are several sports associations promoting amateur competition in a variety of pastimes.

Amnesty International, Habitat for Humanity, the Society of St. Vincent de Paul, UNICEF, and the Red Cross have active chapters within the country.

47 TOURISM, TRAVEL, AND RECREATION

Guyana's scenery varies from the flat marshy coastal plain to the savannas, plateaus, and mountains of the interior; the 226-m (740-ft) Kaieteur Falls, four times as high as Niagara, is the country's most outstanding scenic attraction. Tourist facilities are not very developed in Guyana, although there are hotels in Georgetown. Other attractions are the eco-resorts. Riding, hunting, fishing, and swimming are available in the southern savanna of the Rupununi. Cricket is the national sport.

All visitors are required to have a passport and an onward/return ticket. Visas are issued upon arrival for 30 days. In 2003, there were 100,911 foreign arrivals in Guyana, of whom 49% came from the United States.

In 2004, the US Department of State estimated the daily expenses for staying in Guyana at us\$196.

48 FAMOUS GUYANESE

Citizens of Guyana who have established literary reputations abroad include the novelists Edgar Mittelholzer (1909–65), Edward Ricardo Braithwaite (b.1920?), and the poet and novelist Jan Carew (b.1925). Linden Forbes Sampson Burnham (1923–85), former leader of the PNC, dominated Guyanese politics from 1964 until his death. Cheddi Berret Jagan, Jr. (1918–97), founder of the PPP, was chief minister from 1957 to 1961 and premier from 1961 to 1964, and was the main opposition leader after returning to office in 1992. Hugh Desmond Hoyte (b.1930) served as president from 1985 to 1992. From 1997–99, Cheddi Jagan's wife Janet Jagan

(b.1920) served as president; she resigned due to health reasons and was succeeded by Bharrat Jagdeo (b.1964).

49 DEPENDENCIES

Guyana has no territories or colonies.

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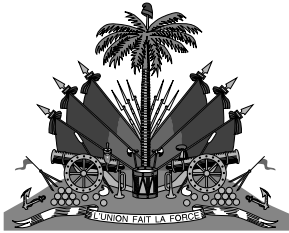
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HAITI

Republic of Haiti
République d'Haïti



CAPITAL: Port-au-Prince

FLAG: The upper half is blue, the lower half is red.

ANTHEM: *La Dessalinienne (Song of Dessalines)*.

MONETARY UNIT: The gourde (G) is a paper currency of 100 centimes. There are coins of 5, 10, 20, and 50 centimes and notes of 1, 2, 5, 10, 50, 100, 250, and 500 gourdes. Silver (5, 10, and 25 gourdes) and gold (20, 50, 100, 200, 1,000 gourdes) coins have also been minted. US paper currency also circulates freely throughout Haiti. G1 = \$0.02555 (or \$1 = G39.14) as of 2005.

WEIGHTS AND MEASURES: The metric system is official for customs purposes, but French colonial units and US weights also are used.

HOLIDAYS: Independence and New Year's Day, 1 January; Forefathers Day, 2 January; Pan American Day, 14 April; Labor Day, 1 May; Flag and University Day, 18 May; National Sovereignty Day, 22 May; Assumption, 15 August; Anniversary of the Death of Dessalines, 17 October; UN Day, 24 October; All Saints' Day, 1 November; Commemoration of the Battle of Vertières and Armed Forces Day, 18 November; Discovery of Haiti, 5 December; Christmas, 25 December. Movable religious holidays include Carnival (three days before Ash Wednesday) and Good Friday.

TIME: 7 AM = noon GMT.

¹LOCATION, SIZE, AND EXTENT

Occupying the western third of the island of Hispaniola, Haiti has an area of 27,750 sq km (10,714 sq mi) including the islands of Tortuga (La Tortue), Gonâve, Les Cayemites, and Vache. Comparatively, the area occupied by Haiti is slightly smaller than the state of Maryland. Extending roughly 485 km (300 mi) ENE–WSW and 385 km (240 mi) SSE–NNW, Haiti is bounded on the N by the Atlantic Ocean, on the E by the Dominican Republic, on the S by the Caribbean Sea, and on the W by the Windward Passage and the Gulf of Gonâve, with a total land boundary length of 360 km (224 mi) and a coastline of 1,771 km (1,100 mi). Haiti claims Navassa Island, an uninhabited US possession about 50 km (31 mi) west of Hispaniola.

Haiti's capital city, Port-au-Prince is located on Hispaniola's west coast.

²TOPOGRAPHY

The coastline of Haiti is irregular and forms a long southern peninsula and a shorter northern one, between which lies the Gulf of Gonâve. Rising from the coastal plains to a peak height at La Selle of 2,680 m (8,793 ft) and covering two-thirds of the interior, three principal mountain ranges stretch across the country; one runs east and west along the southern peninsula, while the others stretch northwestward across the mainland. Once-fertile plains run inland between the mountains: the Plaine du Nord, extending in the northeast to the Dominican border, and the Artibonite and Cul-de-Sac plains reaching west to the Gulf of Gonâve. Of the

many small rivers, the Artibonite, which empties into the Gulf of Gonâve, and L'Estère are navigable for some distance.

³CLIMATE

The climate is tropical, with some variation depending on altitude. Port-au-Prince ranges in January from an average minimum of 23°C (73°F) to an average maximum of 31°C (88°F); in July, from 25–35°C (77–95°F). The rainfall pattern is varied, with rain heavier in some of the lowlands and on the northern and eastern slopes of the mountains. Port-au-Prince receives an average annual rainfall of 137 cm (54 in). There are two rainy seasons, April–June and October–November. Haiti is subject to periodic droughts and floods, made more severe by deforestation. Hurricanes are also a menace.

⁴FLORA AND FAUNA

Tropical and semitropical plants and animals are characterized more by their variety than by their abundance. In the rain forest of the upper mountain ranges, pine and ferns as well as mahogany, cedar, rosewood, and sapin are found. Coffee, cacao, and coconut trees and native tropical fruits such as avocado, orange, lime, and mango grow wild.

Many species of insects abound, but there are no large mammals or poisonous snakes. Ducks, guinea hens, and four varieties of wild pigeons are plentiful. Egrets and flamingos live on the inland lakes. Reptile life includes three varieties of crocodile, numerous small lizards, and the rose boa. Tarpon, barracuda, kingfish, jack, and red snapper abound in the coastal waters.

As of 2002, there were at least 20 species of mammals, 62 species of birds, and over 5,200 species of plants throughout the country.

5 ENVIRONMENT

The virgin forests that once covered the entire country have now been reduced to 4% of the total land area. Deforestation has had a disastrous effect on soil fertility, because the steep hillsides on which so many Haitian farmers work are particularly susceptible to erosion. From 1990–2000, the rate of deforestation was about 5.7% per year. The nation loses 1.35 tons of soil per square kilometer yearly. Agricultural chemicals, such as DDT, are widely used in Haiti. These pollutants plus the use of oil with high lead content are a significant source of pollution. Not only has much of the topsoil been washed away, but the eroded slopes retain little rainfall and are vulnerable to flooding.

The chief impediment to reforestation is the fact that Haiti is so intensely cultivated that allocation of land for forests means a reduction in the land available for crop growing and grazing. Foreign organizations have attempted to alleviate these problems. In 1981, an \$8 million Agroforestry Outreach Project, funded primarily by the United States, helped farmers plant trees throughout Haiti—over 4.5 million seedlings by 1983. The government also agreed to set up the nation's first two national parks with funding from the US Agency for International Development. However, as of 2003, only 0.4% of Haiti's total land area was protected.

Water quality is also a serious environmental problem. Haiti has 13 cu km of renewable water resources with 94% used for farming activity. About 91% of the nation's city dwellers and 59% of the rural population have access to improved water sources.

According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 4 types of mammals, 15 species of birds, 9 types of reptiles, 46 species of amphibians, 12 species of fish, 5 species of invertebrates, and 208 species of plants. Endangered species in Haiti included the tundra peregrine falcon, Haitian solenodon, green sea turtle, hawksbill turtle, and American crocodile. At least 13 species have become extinct, including the Caribbean monk seal, impostor hutia, and the Haitian edible rat.

6 POPULATION

The population of Haiti in 2005 was estimated by the United Nations (UN) at 8,288,000, which placed it at number 91 in population among the 193 nations of the world. In 2005, approximately 3% of the population was over 65 years of age, with another 42% of the population under 15 years of age. There were 97 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 1.9%, a rate the government viewed as too high. The government reinstated the Population Secretariat in 1997, which attempted to address the high fertility rate (4.5 births per woman); however, as of 2005 little progress had been made. The projected population for the year 2025 was 12,887,000. The population density was 299 per sq km (774 per sq mi).

The UN estimated that 36% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 2.95%. The capital city, Port-au-Prince, had a population

of 1,961,000 in that year. Other major cities and their estimated populations are Jacmel (216,600) and Les Cayes (214,606).

The prevalence of HIV/AIDS has had a significant impact on the population of Haiti. The UN estimated that 7.7% of adults between the ages of 15–49 were living with HIV/AIDS in 2001. The AIDS epidemic causes higher death and infant mortality rates, and lowers life expectancy.

7 MIGRATION

Emigration from Haiti has been mainly to Cuba, other Caribbean states, Canada, and the United States; illegal emigration to the United States has been substantial since the 1960s. Between 1972 and 1981 more than 55,000 (perhaps as many as 100,000) Haitian “boat people” arrived in Florida. During 1981–85, some 43,312 Haitians were admitted legally to the United States. In September 1981, the US and Haitian governments agreed to work together to halt the flow of refugees, and these efforts apparently met with success. Over the next 10 years only 28 of the 22,716 Haitians intercepted at sea were admitted to the United States.

Several thousand Haitian migratory workers travel to the Dominican Republic each year during the cane-harvest season; many more change their residences permanently.

Following the 1991 coup (which overthrew President Jean-Bertrand Aristide) many Haitians left for the Dominican Republic, Jamaica, Suriname, Cuba, Panama, Honduras, Venezuela, Colombia, and Mexico. Between 1991–93, 43,000 Haitians tried to reach the United States by boat, but were interdicted and held at Guantanamo Bay, the US naval base in Cuba. In October 1994, soon after Aristide's return to power, Haitians began repatriating, and the United Nations High Commissioner for Refugees (UNHCR) helped repatriate 8,052 persons from various countries. From the United States, some 16,500 repatriated voluntarily. The UNHCR office in Haiti was closed in April 1996. After disputed legislative elections in 2000, Haiti was politically and economically paralyzed. In February 2004, Jean-Bertrand Aristide was forced to resign. Again, US troops arrived and the US warned Haitians that if intercepted on their way to Florida, they would be returned to Haiti, or be detained in Guantanamo. In 2004, 5,389 Haitians entered the United States as refugees.

In 2005, the net migration rate was estimated as -1.68 migrants per 1,000 population. The total number of migrants living in Haiti in 2000 was 26,000. The government viewed the emigration level as too high.

8 ETHNIC GROUPS

For the vast majority of Haiti's people, the African ethnic influence is dominant. About 95% of the inhabitants are of African descent; mulattos and whites make up the remaining 5% of the population.

9 LANGUAGES

The official languages of Haiti are French and Creole. French is only spoken by about 10–20% of the population. Virtually all the people speak Creole, a mixture of early 17th-century provincial French and African tongues, with infusions of English, Spanish, and Amerindian words. English is used in the capital and to a less-

er extent in the provincial cities, and along the Dominican border a Spanish Creole is spoken.

10 RELIGIONS

For many years Roman Catholicism was the official religion of Haiti. Its official status was repealed with the enactment of the 1987 constitution; however, neither the government nor the Vatican has renounced the 1860 Concordat that serves as a basis for relations between the two. Roman Catholicism retains a position of honor, but Haitians are guaranteed the freedom to practice all religions by the constitution.

Roman Catholics represent about 50–55% of the population. Most of the remainder belong to various Protestant denominations, the largest being the Baptist and Pentecostal churches. Other significant denominations include Methodists, Episcopalians, Jehovah's Witnesses, Mormons, Seventh-Day Adventists, and Orthodox Christians. Other religious groups include Jews, Muslims, Rastafarians, and Baha'is. Voodoo, a traditional religion that is partially derived from West African beliefs, is still widely practiced, often in tandem with Christianity. Voodoo became an officially recognized church in 2003 with the establishment of the *Eglise Voudou d'Ayiti* (the Voodoo Church of Haiti) and has had a growing attendance since then.

11 TRANSPORTATION

In 2002, Haiti had 4,160 km (2,585 mi) of roads, 1,011 km (628 mi) of which were paved. Farm-to-market roads are few, and most produce for the local market is transported by burro or carried on foot by women. In 1980, a new highway linking Port-au-Prince with Les Cayes was opened, and several road improvement projects have been completed; overall, however, road conditions continue to deteriorate because of flooding. There were some 34,800 passenger cars and 34,325 commercial vehicles in 2003. In that same year, Haiti had a ratio of 223.3 inhabitants per registered vehicle, the highest ratio of any country in the Western Hemisphere. Two railroad systems, the National Railroad of Haiti and the Cul-de-Sac Railroad, with a combined trackage of 301 km (187 mi), originally operated lines from Port-au-Prince to Verrettes and to Léogâne, and from Cap-Haïtien south to Bâton-Rouge. By 1982, however, most of the system had become inoperative; the 40 km (25 mi) of lines that remained in 1999 were being used only for sugarcane transport.

The commercial shipping fleet consists of a few hundred small sailing vessels engaged in coastal trade and a few motorized vessels of light tonnage. The island depends chiefly on foreign shipping. During the early 1980s, the IBRD sought to stimulate intercoastal trade by building port facilities at Jérémie, Port-au-Prince, and Port-de-Paix. Other ports and harbors include Cap-Haïtien, Gonaïves, Jacmel, Les Cayes, Miragoane, and Saint-Marc.

In 2004 there were an estimated 13 airports, of which 4 had paved runways as of 2005. Domestic air service is supplied by the privately owned Air Haiti, which connects principal cities on regular scheduled flights. An international airport at Port-au-Prince opened in 1965; the other international airport is at Cap-Haïtien. Carriers serving Port-au-Prince are ALM, American Airlines, Air Canada, Canada 3000, Caribintair, Tropical Airways, Haiti International airlines, Air France, and COPA.

12 HISTORY

In 1492, Christopher Columbus made the European discovery of the island of Hispaniola and established a settlement near the present city of Cap-Haïtien. Within 25 years, the native Arawak, a peace-loving, agricultural people, were virtually annihilated by the Spanish settlers. Bishop Bartolomé de las Casas, a missionary to the Amerindians, who had originally come to Hispaniola as a planter in 1502, proposed that African slaves be imported for plantation labor. Starting after 1517 a forced migration of Africans gave Haiti its black population.

About 1625, French and English privateers and buccaneers, preying on Spanish Caribbean shipping, made the small island of Tortuga their base. The French soon also established a colonial presence on nearby mainland coasts and competed with the Spaniards. In the Treaty of Ryswick (1697), Spain ceded the western third of the island (Haiti) to the French. Under French rule it became one of the wealthiest of the Caribbean communities. This prosperity, stemming from forestry and sugar-related industries, came at a heavy cost in human misery and environmental degradation.

The French Revolution in 1789 outlawed slavery in France, which inspired Haiti's nearly half million black slaves to revolt. In a series of violent uprisings, slaves killed white planters and razed estates. Although they suffered cruel reprisals, they fought on under the direction of Toussaint L'Ouverture, an ex-slave who had risen to the rank of general in the French army. By 1801 Toussaint controlled the entire island, and promulgated a constitution, which abolished slavery. The emperor Napoleon did not accept this move, and sent 70 warships and 25,000 men to suppress the movement. Toussaint was captured, and died in a French prison.

Jean Jacques Dessalines, another black general who rose from the ranks, continued the struggle, and in 1803 the disease-decimated French army surrendered. On 1 January 1804, Dessalines proclaimed Haiti's independence. Dessalines, after assuming the title of emperor in 1804, was assassinated in 1806, and Haiti was divided into a northern monarchy and a southern republic. Under both regimes, the plantations were distributed among former slaves, and Haiti became a nation of small farmers. Haiti was reunited by Jean Pierre Boyer in 1820, and in 1822 the Haitian army conquered Santo Domingo (now the Dominican Republic). For 22 years there was one republic for the entire island. In 1844, however, one year after Boyer was overthrown, the Dominican Republic proclaimed its independence from Haiti. In 1849, the president of Haiti, Faustin Elie Soulouque, proclaimed himself Emperor Faustin I. He was dethroned by a revolution headed by Nicholas Fabre Geffrard, who reestablished the republic and became president. In 1860, Geffrard negotiated a concordat with the Holy See that established Roman Catholicism as the national religion, although freedom of worship was retained.

A long period of political instability between 1843 and 1915, during which time Haiti had 22 dictators, culminated in the assassination of President Vilbrun Guillaume Sam and was followed by US military occupation. The occupation, which lasted 19 years, terminated in 1934 during the administration of President Sténio Vincent (1930–41), who in 1935 proclaimed a new constitution.

After World War II, another period of political instability reached a peak in a 1950 coup d'état that brought Gen. Paul Magloire to power. Magloire's economic policies led to a serious de-

pression. In December 1956 a national sit-down strike, organized jointly by business, labor, and professional leaders, forced Magloire into exile. A period of chaos ensued in which seven governments attempted to establish control.

In a September 1957 election filled with irregularities, François Duvalier, a middle-class black physician known to his followers as Papa Doc, became president. He began to rule by decree in 1958, and in May 1961, he had himself elected for another six years. On 22 June 1964, Duvalier was formally elected president for life. Despite several attempted revolts, he consolidated his position, ruling largely through his security force, the Tontons Macoutes (“bogeymen”). Political opposition was ruthlessly suppressed, and thousands of suspected dissidents “disappeared.” Also murdered were some 3,000 supporters of Daniel Fignolé, leader of the Peasant Workers Movement (Mouvement Ouvrier Paysan) and Duvalier’s most effective opponent.

Political life under the Papa Doc regime was characterized by plots against the government and governmental counterterrorism, the latter was entrusted to the Tontons Macoutes and to other thugs known as *cagouleurs*. Opposition leaders went into hiding or exile. The Haitian Revolutionary Movement (Mouvement Révolutionnaire Haïtien), led by Haitian exiles Luc B. Innocent and Paul G. Argelin, began operations in Colombia in February 1961.

The National Democratic Union (Union Démocratique Nationale) was founded in Puerto Rico in April 1962 by former Ambassador Pierre Rigaud, with a branch in Venezuela organized by Paul Verna and an underground movement operating in Haiti. Invasions in 1964, 1969, and 1970 met with no success. Haitian exiles in New York, Montréal, Chicago, and Washington mounted an influential anti-Duvalier campaign during the 1960s. Throughout this period, no party operated openly in Haiti except the Duvalierist Party of National Unity (Parti de l’Unité Nationale).

On 22 January 1971, Duvalier named his son Jean-Claude to be his successor. Papa Doc died on 21 April 1971, and Jean-Claude, at the age of 19, became president for life the following day. The younger Duvalier sought to ease political tensions, encouraged tourism and foreign investment, and contributed to the beginnings of an economic revival. However, political arrests did not wholly cease, and there were severe economic reversals in the mid- and late-1970s.

In February 1979, elections to the National Assembly took place amid allegations of government fraud. Opposition groups were then arrested, tried, and convicted of subversion, but later released. In January and March 1982, two small exile groups tried unsuccessfully to overthrow the government by staging armed invasions. The first municipal elections of the Duvalier period were held in spring 1983. The voting resulted, for the most part, in victories for the government, partly because several opposition figures had been arrested during the campaign.

Jean-Claude proved to be an ineffectual leader and tensions mounted as the economy stagnated after 1980. When civil disorder began to break out in the mid-1980s, the president became increasingly reclusive. In February 1986, following a series of demonstrations and protests, Jean-Claude and his family fled to France, and the National Governing Council (Conseil National de Gouvernement—CNG), led by Lt. Gen. Henri Namphy, seized power. Namphy’s declared purpose was to provide a transition to a

democratically elected government. A constituent assembly, convened in October 1986, drafted a new constitution that was approved by referendum in March 1987.

Hopes for the restoration of democracy soon faded. The presidential election scheduled for November 1987 was postponed as gangs of thugs and soldiers killed at least 34 persons. The CNG attempted new elections and a new government, but those governments had no legitimacy at home or abroad. In December 1990 a Roman Catholic priest, Jean-Bertrand Aristide, was elected with 67.5% of the votes cast. The immediate aftermath of the CNG’s takeover was euphoric. Political prisoners were released and the dreaded Tontons Macoute (Duvalier’s clandestine secret police) were disbanded.

Aristide had an ideology, a sort of egalitarian Catholic doctrine, and a political coalition of 15 parties, the National Front for Change and Democracy (FNCD). But, he did not have the confidence of the military. Upset by his popularity and his foreign policy, which favored stronger hemispheric relations at the expense of US-Haitian relations, the military under Gen. Raoul Cédras ousted him in October 1991. From exile, Aristide did not relent, and appealed to international organizations for help. The UN and OAS forged an agreement between Cédras and Aristide to return Aristide to the presidency in October 1993, but the military balked. Aristide promptly appealed to the Clinton administration, even as he criticized US policy, and the Clinton administration responded with sanctions against the Haitian regime in May and June of 1994. However, the impasse persisted.

In September 1994, as a last resort, the Clinton administration secured international support for a military invasion of Haiti to force Cédras from power. A US invasion force was assembled and war seemed imminent. However, in the 11th hour, Clinton sent a special delegation, headed by former US president Jimmy Carter, to negotiate a peaceful solution to the crisis. As US fighter planes were about to take off for Haiti, the Carter team reached an agreement with Cédras and war was diverted. American forces peacefully took control of the country and, in October 1994, restored Aristide to power.

Returning to the country after a three-year absence, Aristide faced two major challenges: rescuing the country’s economy, which was in dire straits following the international embargo that had been imposed on it, and curbing the rampant violent street crime, gang activity, and vigilantism that had developed in the absence of an adequate justice system. To cope with the security vacuum created by the departure of the military regime, UN peace-keeping forces arrived in March of 1995.

In June 1995 elections for local and legislative office, though marred by mismanagement and requiring additional rounds of voting, remained free of state-sponsored violence and were generally regarded as a sign of success for the nation’s fledgling democracy. Although there was strong sentiment among many Haitians in favor of having Aristide remain in office beyond the end of his designated single term as president (most of which had been usurped by military rule), US support remained contingent on adhering to the terms of the 1987 constitution, which barred the president from seeking a second consecutive term. Aristide himself wavered about honoring this provision but ultimately stepped down, endorsing a close associate, René Préval, to succeed him in office. Préval was elected on 17 December 1995, with 88% of



LOCATION: 18°1'42" to 20°5'44" N; 71°38' to 74°28'45" W. BOUNDARY LENGTHS: Dominican Republic, 275 kilometers (171 miles); total coastline, 1,771 kilometers (1,098 miles). TERRITORIAL SEA LIMIT: 12 miles.

the vote. In February 1996 he took office, becoming Haiti's second democratically elected president in the country's 191-year history as an independent nation. The presence of both a UN peacekeeping force of over 1,000 and several hundred US troops was extended through November 1997. In July 1997 Haiti became a member of the Caribbean Community (CARICOM).

Even under relatively stable political conditions, Haiti's economic and security problems proved intractable. Poverty and unemployment—estimated at 80%—remained endemic. In May 1996 Préval agreed to economic reforms demanded by the International Monetary Fund, including privatization of state-owned enterprises, a measure previously resisted by his government. However, former president Aristide opposed the privatization plans and in

1997 formed a new political grouping of his own. After failing to win parliamentary approval for three nominees for prime minister in 1998, President Préval dissolved parliament in January 1999 and unilaterally appointed a new prime minister, provoking civil unrest in the streets. Through the rest of 1999 and into early 2000, Préval repeatedly postponed promised legislative elections, leaving the country without a fully operating government. A wave of violence escalated and eventually claimed the life of the country's most prominent radio journalist, Jean Leopold Dominique, who was murdered in April 2000.

In the presidential election held in November 2000, former president Aristide easily won the election with 91.8% of the vote. His party, the Fanmi Lavalas (FL—Lavalas Family), won 83 of the

93 seats in the National Assembly. After taking office in early 2001, Aristide was accused of developing a highly personalist and authoritarian government. He concentrated power in his own hands and failed to build and consolidate democratic institutions. The economy continued its downward spiral, with negative growth in 2001 and 2002 and more than 80% of Haitians living in poverty. In addition, international organizations expressed concern over the growing violence in the country and the little respect for human rights shown by the Aristide government. Rebellion, escalating in early 2003, coupled with international pressure, led to the resignation of Aristide on 29 February 2004, who then went into exile in South Africa. The same day, Boniface Alexandre, a Supreme Court justice, was sworn in as president of an interim government. The rebels, made up largely of personnel from the disbanded military, continued sporadic violence as UN forces attempted to control security by confiscating weapons; Aristide supporters also protested, sometimes in violent support for his return. Rebels almost began another attempt to oust the interim government, but money began flowing into the country again when loans and aid were released after about a four-year freeze. The interim government was able to make some payments to appease the rebels, who demanded that the military be reinstated with 10 years of back pay, but organizational hurdles twice postponed elections originally slated for October.

On 7 February 2006, general elections were held for the first time since Aristide was overthrown in 2004. Former President René Préval was declared the winner of the highly contested presidential election, with 51% of the vote. Préval was declared the winner after election officials agreed to discount thousands of blank ballots. Préval's supporters had taken to the streets, rejecting initial vote tallies, which would have led to a second round of voting. Préval took office on 14 May 2006.

13 GOVERNMENT

Under Article 197 of the 1964 constitution, François Duvalier was appointed president for life, with the stipulation that this article be approved in a nationwide plebiscite. On 14 June 1964, the voters were declared to have "almost unanimously" given their consent. He was granted power to dissolve the Legislative Assembly and the cabinet and to govern by decree in case of grave conflict. A constitutional amendment in January 1971 allowed the president to choose his successor. Jean-Claude Duvalier became president for life in April 1971 and was chief of state and head of government until early 1986.

The constitution adopted in March 1987 established a president elected to a five-year term as head of state and restricted to no more than two nonconsecutive terms in office. The head of government was to be the prime minister, appointed by the president from the party holding the majority in both houses of the legislature, which is made up of a 27-member Senate and a Chamber of Deputies with 83 members. Supporters of the Duvaliers were barred from holding political office for 10 years. Senators are elected for six years and deputies for four.

Since its passage, the constitution was suspended in June 1988 and reinstated in March 1989. The leaders of the coup of October 1991 claimed to be observing the constitution and Marc Bazin was named head of a caretaker government. But to all observers, nothing approaching a political system was present in Haiti until the

restoration of the democratically elected Aristide government in late 1994. Because of an agreement with the United States, Aristide was unable to seek a second consecutive term and endorsed René Préval to succeed him in office. Préval was elected on 17 December 1995 as the country's second democratically elected president. In 2000, Aristide was elected president again, marking the first time that a democratically elected president completed his term without interruption and handed power over to another democratically elected leader. In 2004, however, Aristide resigned following a violent uprising; he went into exile in South Africa. The country was thrown into chaos and UN peacekeepers arrived to provide security for the country. In February 2006, former President René Préval was elected with 51% of the vote in the first round.

14 POLITICAL PARTIES

From the mid-19th to the mid-20th century, two major political parties, the Liberals and the Nationalists, were predominant. The Liberals, composed mainly of the wealthier and better-educated mulatto minority, advocated legislative control of government, while the Nationalists, composed mainly of the lower- and middle-class black majority, favored a strong executive. The traditional mulatto hegemony, whose wealth was inherited from the departed French colonists, was ended by Duvalier, who used the mulattoes as scapegoats.

After Jean-Claude Duvalier became president in 1971, some political activity was allowed, but by 1982 most dissidents had again been silenced. In 1979, an opposition Haitian Christian Democratic Party (Parti Démocratique Chrétien d'Haïti—PDCH) was founded, but its leader, Sylvio Claude, was arrested in October 1980. In the 1979 legislative elections only one antigovernment candidate won a seat; he resigned in July 1981. The PDCH dropped out of the municipal election campaign in 1983 following the arrest of several party members on national security charges.

Dozens of parties emerged after the CNG ousted Jean-Claude Duvalier in February 1986, most prominently, the National Front for Change and Democracy (FNCD), which backed Jean-Bertrand Aristide in the 1990 elections, but from which he later disassociated himself. Other groups include the National Congress of Democratic Movements (CONACOM), the Rally of Progressive National Democrats (RDNP), the Revolutionary Progressive Nationalist Party (PANPRA), and the Movement for the Installation of Democracy in Haiti (MIDH), under former Prime Minister Marc Bazin.

By 1995 the dominant party, and the one associated with Aristide, was the Lavalas Political Platform, an alliance of the Lavalas Political Organization (OPL) and the Movement for the Organization of the Country (MOP). Backed by Aristide and Lavalas, René Préval was elected president in the December 1995 elections with 88% of the vote. In the mid-1995 legislative elections, all but one of the 18 vacated Senate seats were won by Lavalas candidates and the party also swept the election in the lower house, with 12 seats going to candidates of other groups, including independents. In 1997, former president Bertrand Aristide formally registered a new party—Fanmi Lavalas (FL—Lavalas Family)—which broke ranks with the existing Lavalas government before the 2000 elections. The legislative elections, initially scheduled for June 1999, were postponed repeatedly throughout the rest of 1999 and the first half of 2000. They were eventually held, together with the

presidential elections, in November 2000. The FL dominated the elections, which were boycotted by the opposition. Parliamentary elections were due to be held in 2003, but they were not. Large protests were held against Aristide's rule, which eventually turned into a rebellion which, along with international pressure, ousted him on 29 February 2004.

A first round of legislative elections was held on 7 February 2006, but only two deputies were elected. A second round of legislative elections was held on 21 April 2006. René Préval's alliance Front for Hope or L'ESPWA won 11 seats in the Senate. Other parties winning Senate seats included: Struggling People's Organization (OPL), 4; Fanmi Lavalas (FL), 3; Merging of Haitian Social Democratic Parties (FUSION), 3; Artibonite in Action (LAAA), 2; National Christian Union for the Reconstruction of Haiti (UNCRH), 2; Democratic Alliance (ALYANS) 1; For Us All (PONT), 1; 3 seats were subject to a run-off election. In the Chamber of Deputies, seats by party were: L'ESPWA 19; FUSION 15; ALYANS 10; OPL 8; FL 6; UNCRH 6; Mobilization for Haiti's Development (MPH), 4; Assembly of Progressive National Democrats (RDNP), 4; LAAA 3; Cooperative Action to Build Haiti (KONBA), 3; National Front for the Reconstruction of Haiti (FRN) 1; New Christian Movement for a New Haiti (MOCHRENHA), 1; Movement for National Reconstruction (MRN), 1; Heads Together (Tet-Ansanm), 1; Independent Movement for National Reconciliation (MIRN), 1; Justice for Peace and National Development (JPDN), 1; Union of Nationalist and Progressive Haitians (UNITE), 1; Liberal Party of Haiti (PLH), 1; 13 seats were subject to a run-off election by June 2006.

15 LOCAL GOVERNMENT

As of 1999, Haiti was divided into nine departments and subdivided into arrondissements and communes. Each department is headed by a prefect appointed by the central government. Under the constitution, a commune is headed by an elected mayor, whose powers are strictly circumscribed. Local government is limited and all taxes collected by the communes are paid directly into the national treasury. The first open municipal elections in 26 years took place in 1983. Local mayoral and council elections were held in December 1995. In January 1999 President René Préval began appointing mayors and other local officials because political violence and instability had resulted in the delay of local elections. Since taking office, President Aristide has replaced many of the mayors elected by Préval. By late 2002, most government officials and authorities were loyal to Aristide and his Fanmi Lavalas party. Opposition leaders were prevented from having power in local governments.

16 JUDICIAL SYSTEM

The judiciary consists of four levels: the Court of Cassation, courts of appeal, civil courts, and magistrates' courts. Judges of the Court of Cassation are appointed by the president for 10-year terms. Government prosecutors, appointed by the courts, act in both civil and criminal cases. There are also land, labor, and children's courts. Military courts function in both military and civilian cases when the constitution is suspended. The legal system is based upon the French Napoleonic Code.

Until 1995, the Haitian armed forces controlled law enforcement and public security even though the constitution called for

separation of the police and military. The 1987 constitution was put into effect in 1995. Although the constitution also calls for an independent judiciary, all judges since 1986 have been appointed and removed at the will of the government and political pressures affect the judiciary at all levels. The justices of peace issue warrants and adjudicate minor infractions. The Supreme Court deals with questions of procedure and constitutionality. Haiti accepts compulsory jurisdiction of the International Court of Justice. On 9 June 2003, a treaty was ratified to establish the Caribbean Court of Justice (CCJ), with the first session of the CCJ scheduled for November 2003. Although Haiti was not among the eight nations to officially approve the CCJ, it did agree to use the CCJ for resolution of trade disputes.

17 ARMED FORCES

In 1994, a civilian administration replaced the military government. The armed forces and police were disbanded and they were replaced with a National Police Force, which had an estimated 5,300 members. Since 1 June 2004 there have been no active armed forces, replaced instead, by a UN stabilization force, with 6,700 authorized personnel. A National Police Force of around 2,000 personnel remains operational. Security expenditures in 2000 (the latest year for which data was available) were \$50 million.

18 INTERNATIONAL COOPERATION

Haiti is a charter member of the United Nations, having joined on 24 October 1945; it is part of ECLAC and several specialized UN agencies, such as FAO, IAEA, ILO, IMF, IFC, UNESCO, UNIDO, WHO, and the World Bank. Haiti joined the WTO in 1996. The country is also a member of the ACP Group, G-77, the Inter-American development Bank, the Latin American Economic System (LAES), CARICOM, the Alliance of Small Island States (AOSIS), the Association of Caribbean States (ACS), and the OAS.

During the 1991–94 period of de facto military rule, the UN Mission in Haiti (UNMIH) was formed (1993), with a total of 38 countries participating, to restore legitimate government and create a secure and stable political environment within the country. In 1994, the UN Security Council authorized deployment of a US-led multinational force to accomplish this task. From 1994–2001, other peacekeeping missions were established, including the United Nations Support Mission in Haiti (UNSMIH), the United Nations Transition Mission in Haiti (UNTMIH) and the United Nations Civilian Police Mission in Haiti (MIPONUH). The United Nations Stabilization Mission in Haiti (MINUSTAH) was established in 2004, at the resignation of Jean-Bertrand Aristide, to support the efforts of the transitional government. A total of 20 countries have offered support to MINUSTAH.

Haiti is a signatory of the 1947 Río Treaty, an inter-American security agreement. The nation also participates in the Agency for the Prohibition of Nuclear Weapons in Latin America and the Caribbean (OPANAL) and is a signatory to the Organization for the Prohibition of Chemical Weapons. In environmental protection, Haiti is part of the Convention on Biological Diversity, the London Convention, the Montréal Protocol, and the UN Conventions on the Law of the Sea, Climate Change, and Desertification.

19 ECONOMY

One of the richest colonial possessions based on its slave-operated sugar plantations, and site of the world's first successful slave revolt, Haiti is now one of the world's poorest countries, separated on the island of Hispanola from the prospering Dominican Republic by racial and linguistic divisions, and a river named Massacre. About 80% of the population lives in abject poverty, engaged mainly in subsistence agriculture. The economy is basically agricultural: coffee, mangoes, sugar, rice, corn, sorghum, and wood are the main products. Some cottage industries were developed in the mid 1940s, and in the late 1950s and early 1960s the mining sector, particularly bauxite and copper, grew to provide important export items. By the early 1980s, however, mining was losing its importance, and light export-oriented industry, based on cheap labor, was the main growing area. The informal market is growing including the black market transshipment of cocaine. In 2003, Haiti remains one of the 23 countries on the US government's list of major drug-producing or drug-transit countries.

Haiti has suffered a series of natural and political setbacks. Hurricanes have often destroyed substantial parts of the coffee and sugar crops. During 1960–70, the real GDP declined annually by 0.2%. The accession of Jean-Claude Duvalier in 1971 improved the economy, and between 1970 and 1979, the average annual growth of the GDP was 4%. The economy took a downward turn in the early 1980s, growing by only 0.90% between 1977 and 1987.

On 30 September 1991 a military coup headed by General Cedras deposed the democratically elected government of President Jean-Bertrand Aristide. The OAS and the United States imposed several economic sanctions following this military coup. The accumulated contraction in the economy from 1991–94 amounted to about 30%, leaving per capita income at about \$260. A UN-mediated agreement called for President Aristide's return to power, which occurred in 1994.

In 1995, GDP growth reached a recent high of 4.5% due mainly to public investment equal to 7.2% of GDP (compared to 0.6% in 1994). Inflation fell to 30.2%, down from 36.1% in 1994. In 1996, GDP growth moderated to 2.78% as inflation fell to 20%. From 1997 to 1999, annual GDP growth averaged 2.1% and inflation fell to single digits, 8.3% in 1998 and 9.9% in 1999. With extensions of credit under the IMF's Enhanced Structural Adjustment Facility (ESAF), the government initiated fiscal policy and structural reforms. After Aristide was voted out of office in 1996, the prime minister resigned in 1997, and the legislature broke up in 1999; all these factors contributed to a cessation of economic reforms. In 2000, violence, civil unrest and fraud that marred the presidential election and led donor countries to put a hold on about \$500 million of economic assistance, helped bring GDP growth down to a negligible 0.9% as inflation increased to 15.3%. A new agreement in November 2000 with the IMF was voted down by the legislature. In 2001, continued political unrest, the freezing of over \$1 billion in credits from international financial institutions, and the deterioration in the external economy following recession in the United States and the 11 September 2001 terrorist attacks brought on Haiti's first contraction since 1994 as GDP fell 1.1%. In 2002, the US government (George W. Bush administration) continued to block aid to Haiti on condition that political reforms, specific arrests, and disarmament would first have to be carried out, and sent assistance to the Dominican Republic to help their

military seal their border against Haitian refugees along the Massacre River.

Economic growth for 2002 was -0.9%, with inflation at 9.9%. Unemployment was an estimated 60%. In 2003 the GDP growth rate recovered slightly at 0.5%, but in 2004 it relapsed again, reaching -3.8%; in 2005 the economy was expected to expand by 2%. Inflation went out of control, reaching 39.3% in 2003, and 22.8% in 2004; it was expected to fall to 15% in 2005. Haiti suffers from lack of investments, and a severe trade deficit. In addition, civil conflict and natural disasters, in 2004, added to the problems of an already impoverished country. Foreign aid flows have started to pick up in past years that not at a pace that would offer immediate economic relief.

20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 Haiti's gross domestic product (GDP) was estimated at \$12.9 billion. 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 based on current dollars. The per capita GDP was estimated at \$1,600. The annual growth rate of GDP was estimated at 3.5%. The average inflation rate in 2005 was 13.3%. It was estimated that agriculture accounted for 30% of GDP, industry 20%, and services 50%.

According to the World Bank, in 2003 remittances from citizens working abroad totaled \$811 million or about \$96 per capita and accounted for approximately 27.8% of GDP. Foreign aid receipts amounted to \$200 million or about \$24 per capita and accounted for approximately 6.9% of the gross national income (GNI).

The World Bank reports that in 2003 household consumption in Haiti totaled \$2.69 billion or about \$316 per capita based on a GDP of \$2.9 billion, measured in current dollars rather than PPP. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the period 1980 to 1990 household consumption grew at an average annual rate of 0.9%. It was estimated that in 2003 about 80% of the population had incomes below the poverty line.

21 LABOR

In the latest years for which data was available, Haiti's labor force in 1998 was estimated at three million. Of that total, agriculture employed 66%; industry, 9%; and services, 25%. Unemployment and underemployment in Haiti is widespread. As of 2002, it was estimated that more than two-thirds of the country's labor force did not have formal employment of any kind.

Because the proportion of wage earners is relatively small, the labor movement is weak. In 2002, there were nine principal labor federations, representing about 5% of the total labor force. Unions are independent of the government and political parties, but they must register to achieve legal recognition. Strikes are permitted, but participation in strike activity is low. Collective bargaining does not occur.

The minimum age for employment is legally set at 15 years with the exception of domestic service. Child labor is not problematic in the formal sector due to job competition, however it remains prevalent in the informal economy. In industry and service orga-

nizations, the legal standard is an eight-hour day with a 48-hour week and 24-hour rest on Sunday. The legal daily minimum wage in 2002 was \$1.52, which does not provide a decent standard of living for a family. This only applies to the formal wage-earners, and does not apply to agricultural workers or the informal sector of the economy.

22 AGRICULTURE

With 62% of the laboring population deriving its living exclusively from the soil, farming is the mainstay of the Haitian economy. Although only about one-third of the country's land is considered suitable for cultivation because of the rugged terrain, 40% of the land was actually being used for crop and feed production and pasture in 2003. Nevertheless, population growth outstripped agricultural growth during the 1970s, and a drought in 1985 affected the production of such important staple crops as rice, maize, and beans. Consequently, foodstuffs have had to be imported in increasing quantity.

Production of coffee in 2004 totaled 28,000 tons, as compared with the record-high of 43,600 tons in 1962. Sugarcane is the second major cash crop, but production has been declining; in 1976, Haiti became a net importer of sugar. Sugarcane production in 2004 was 1,080,000 tons. Other agricultural production figures for the 2004 growing season (in thousands of tons) were bananas, 290; corn, 180; rice, 102; sorghum, 85; dry beans, 33; and cocoa beans, 4.4. Haitian agriculture is characterized by numerous small plots averaging slightly over one hectare (2.5 acres) per family, on which peasants grow most of their food crops and a few other crops for cash sale; few farms exceed 12 hectares (30 acres). Haiti employs an unusual form of farming called arboriculture. Combinations of fruit trees and various roots, particularly the manioc plant, the traditional Haitian bread staple, replace the grain culture of the usual subsistence-economy farming. Crops are cultivated with simple hand tools; the plow or animal power is only rarely employed, except on sugarcane plantations. Coffee is grown on humid mountain slopes, cotton on the semiarid plateaus and sea-level plains, and bananas as well as sugar on the irrigated plains, which covered about 57,000 hectares (140,800 acres) in 2004. Rice has become a basic staple for Haitians, but local production only meets a little more than 20% of demand.

23 ANIMAL HUSBANDRY

Stock raising is generally a supplementary activity on small farms. In 2005 there were 1,456,000 head of cattle, 1,000,000 hogs, 1,900,000 goats, 500,000 horses, 153,500 sheep, and 5,500,000 poultry. The hog population was decimated by African swine fever in 1979, and careful efforts at replacement have been unsuccessful. In the mid-1990s, the poultry industry contracted from over 100 commercial producers to less than 10. In addition to the embargo and political uncertainty, the industry is under competitive pressure of low cost poultry imports from the United States. Poultry production has not risen enough to fill the vacuum in the rural diet. Extension work directed by the Department of Agriculture's educational center at Damien has helped to stabilize animal husbandry. Poultry production slowly increased from about 6,000 tons per year in the mid-1990s to 8,400 tons by 2005. Native stock has been upgraded by the introduction of hogs and cattle from abroad, particularly the zebu, which does well in the hot, dry

plains. Two major stock-feeding centers operate at Port-au-Prince and Cap-Haïtien. Livestock products in 2005 included 99,893 tons of meat, 25,200 tons of goat's milk, 44,500 tons of cow's milk, and 5,050 tons of eggs.

24 FISHING

While the proximity of Haiti to the Windward Passage and the north-flowing currents off the Venezuelan coast place it in the path of major fish migrations, including tuna, marlin, bonito, and sardines, the commercial fishing industry is not developed. Reef fish, including giant grouper and rock lobster, are important food sources because deep-sea fishing is limited. Fisheries have been successfully developed in the small ponds and in the irrigation and drainage ditches of the Artibonite Plain. Carp and tertar, a native fish, are abundant, but lack of transport and other facilities limits this important food source to local consumption. The catch was estimated at 5,010 tons in 2003, including 200 tons of Caribbean spiny lobster and 300 tons of conch.

25 FORESTRY

Originally, Haiti was endowed with abundant forest resources. Excellent stands of pine were located in the mountain rain forests of La Hotte Massif and in the Massif du Nord. (Haitian pine is high in turpentine and rosin content, making it suitable for naval stores.) Major stands of mahogany grew in the Fer à Cheval region, and small stands occurred in the island's lower mountain ranges. Tropical oak, cedar, rosewood, and taverneaux also were widespread; hardwoods included lavan (mahogany), narra, tindalo, and ipil. The intensive use of the forests for fuel, both in colonial times and in the modern era, and the clearing of woodlands for agriculture resulted in a decline of Haiti's forestland from over 2.7 million hectares (6.7 million acres) before the coming of Columbus to about 88,000 hectares (217,000 acres) by 2000, the majority of which was privately owned. Such deforestation has created a problem with soil erosion. Reforestation efforts have been more ambitious in design than successful in execution. Haiti had an annual average deforestation rate of 5.7% during 1990–2000, the highest in the world. Of the estimated 2,231,000 cu m (78,784,000 cu ft) of wood cut in 2004, almost 89% was used for fuel.

26 MINING

The mining sector played a minor role in Haiti's economy. In 2003, mining was limited to sand, gravel, and marble. Cement was also produced in 2003. Asphalt, lime, and salt may also have been produced. The marble industry was being developed for export possibilities.

In 2003, cement production totaled 290,300 metric tons. Sand and gravel production that same year each totaled an estimated 450,000 and 2 million cu m, respectively. Marble output in 2003 was estimated at 131 cu m.

There were small, undeveloped deposits in northern Haiti of chromite, copper (both sedimentary and in veins, in the Massif du Nord), gold, iron ore, lead, manganese (in the Morne Macat section of the Massif du Nord), silver, sulfur, tin, and zinc. There were also bauxite deposits near Miragoâne, and deposits of antimony, gypsum, nickel, and porphyry. The Canadian company St. Genevieve Resources estimated that two small gold mines near Cap-Haïtien could yield at least \$100 million over 10 years. The Cana-

dian company KWG Resources, Inc. had two properties with gold and copper resources—Grand Bois and Morne Bossa.

All subsoil rights belonged to the state; private ownership of mining companies was permitted, and mineral exploration has generally been conducted by foreign enterprises. Private gold mining was permitted, but the metal had to be sold to the National Bank. Production of bauxite ceased with the 1985 closing of the Reynolds mine; production peaked at 613,000 tons in 1979, and exports were worth \$14.9 million in 1982. Copper mining was suspended in 1971, because it became unprofitable.

27 ENERGY AND POWER

Haiti has no known proven reserves of oil, natural gas, coal, or any oil refining capacity. As a result the country must import whatever refined petroleum products or fossil fuels it consumes. In 2002, imports and consumption of refined petroleum products averaged 11,610 barrels per day in 2002. There were no imports or consumption of natural gas or coal for that same year.

Haiti's electric power sector is marked by reliance upon fossil fuels and hydropower to generate electricity. In 2002, conventional thermal fueled generating capacity totaled 0.244 million kW, with hydropower accounting for 0.063 million kW and fossil fuel plants 0.181 million kW. Electric power production in that year totaled 0.609 billion kWh, with hydropower and conventional thermal accounting for 0.298 billion kWh and 0.311 kWh, respectively. Total power demand in 2002 totaled 0.566 billion kWh. Although power represented the government's top investment priority in the early 1970s, as of July 2005, the electricity supply remains erratic and inadequate. Most industrial plants have stand-by generators.

28 INDUSTRY

Industry has traditionally been primarily devoted to the processing of agricultural and forestry products, although the assembly of imported components for export to the United States and other markets has grown into a substantial industry. During 1970–78, the industrial sector grew by 8.3% annually; between 1977 and 1987, growth was null; and between 1988 and 1998 the sector declined by 3.1% annually. The parastatal flour refinery and cement factory were sold to foreign interests in 1999. The flour refinery had been out of service for five years before it began operations again in 1998. The cement factory was undergoing restructuring in 1999, and thus was closed. Since the flour refinery and cement factory were privatized in 1999, privatization has stalled. Other industries produce aluminum, enamelware, garments and hats, essential oils, plastic, soap, pharmaceuticals, and paint. A steel plant commenced operations in 1974, converting imported scrap into steel sections. Haitian plants assemble US-made components to create electronic devices, toys, and leather goods. In 1986, before the trade embargo, some 140 export assembly firms employed about 40,000 people. The figure was only 400 in 1994, but five years later 25,000 people were employed in such firms.

Industry grew by 6% annually in 1997 and 1998. However, a growing trade imbalance preempted a more robust recovery, and the global economic slowdown in the United States that began in 2001 negatively affected the Haitian economy. Construction has been consistently more dynamic than agriculture and manufacturing, which realized only moderate output increases.

Industry made up 20% of the economy in 2001, and it employed only 9% of the labor force; services represented 30% of the overall GDP, and employed 25% of the workforce; agriculture was the biggest employer, at 66%, and contributed with 30% to the overall GDP.

29 SCIENCE AND TECHNOLOGY

The National Council for Scientific Research, founded in 1963, coordinates scientific activities in Haiti, especially in the public health field. Four colleges and universities, including the University of Haiti, offer degrees in basic and applied sciences.

30 DOMESTIC TRADE

Port-au-Prince, a free port, is the commercial center of Haiti, with Cap-Haïtien second in importance. Most Haitian products are sold in regional markets, which meet on traditional established days, once or twice a week. The Croix-de-Bossales market in Port-au-Prince is the largest market in the country, handling about two-thirds of the food and manufactures used in the capital.

Imported goods usually are sold in small stalls (*boutiques*), but there are some modern supermarkets. Specialty goods and articles for the tourist trade are offered by merchants who are generally franchised to handle specific brands. Some larger franchised stores, including Sears, Radio Shack, NAPA Auto Parts, and Domino's Pizza, have found a market with the help of Haitian business managers. Although foreign imports, motion pictures, and soft drinks are advertised in newspapers, radio is the principal advertising medium.

Stores are generally open on weekdays from 8 AM to 5 PM in the winter, with some shops open until about 7 PM. In summer, closing time is set by law at 4 PM; on Saturdays, stores close at noon. Banks are open from 9 AM to 1 PM, Monday through Friday.

31 FOREIGN TRADE

Coffee has been supplanted as the main export by manufactured articles assembled in Haiti. The high deficit in the trade balance, with a marginal increase in exports and continued high import buoyancy in the late 1990s, reflects pent-up aggregate demand that is not satisfied by domestic production. Narrowing the trade deficit will therefore require a policy mix that prioritizes export-oriented productive sectors.

The light manufacture of clothes in Haiti accounts for the majority of commodity exports (56%). Other exports include essential oils (5.6%), coffee (5.4%), tropical fruits and vegetables (5.4%), and paper products (4.8%). Haiti's biggest export market is, by far, the United States.

In 2004, exports reached \$338 million (FOB—Free on Board), while imports grew to \$1.1 billion (FOB). The bulk of exports went to the United States (81.2%), the Dominican Republic (7.3%), and Canada (4.1%). Imports included food, manufactured goods, machinery and transport equipment, fuels, and raw materials, and mainly came from the United States (34.8%), the Netherlands Antilles (18%), Malaysia (5.1%), and Colombia (4.7%).

32 BALANCE OF PAYMENTS

Haiti's external trade position worsened from 1991 to 1994 following the imposition of the trade embargo. As all but humanitarian foreign aid was suspended during those years, balance of

Balance of Payments – Haiti (2003)

(In millions of US dollars)

Current Account		-13.1
Balance on goods		-782.7
Imports	-1,115.8	
Exports	333.2	
Balance on services		-123.0
Balance on income		-14.3
Current transfers		906.8
Capital Account		...
Financial Account		-76.5
Direct investment abroad		...
Direct investment in Haiti		...
Portfolio investment assets		...
Portfolio investment liabilities		...
Financial derivatives		...
Other investment assets		-98.0
Other investment liabilities		13.7
Net Errors and Omissions		85.0
Reserves and Related Items		4.6

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

payments deficits reflected the decline in net capital inflows. Once a constitutional government was returned to power in 1994, however, imports increased, due to high domestic demand. As a result of aid flows and remittances from Haitians living abroad, imports in the 1990s and into the early 2000s grew steadily. Haiti's ability to generate export revenue depends upon a revival of the assembly sector.

The US Central Intelligence Agency (CIA) reported that in 2001 the purchasing power parity of Haiti's exports was \$326.6 million while imports totaled \$977.5 million resulting in a trade deficit of \$650.9 million.

The International Monetary Fund (IMF) reported that in 1998 Haiti had exports of goods totaling \$299 million and imports totaling \$641 million. The services credit totaled \$180 million and debit \$381 million.

Exports of goods and services reached \$502 million in 2004, up from \$461 million in 2003. Imports grew from \$1.4 billion in 2003, to \$1.5 billion in 2004. The resource balance was consequently negative in both years, worsening from -\$939 million in 2003, to -\$953 million in 2004. The current account balance was also negative, slightly improving from -\$140 million in 2003, to -\$98 million in 2004.

33 BANKING AND SECURITIES

The national bank of the Republic of Haiti (Banque Nationale de la République d'Haiti-BRH), the sole bank of issue and government depository, was founded in 1880 and acquired from US interests in 1934 and became the fiscal agent of Haiti in 1947. As the nation's principal commercial bank, it participates in the national lottery, the national printing office and plant, the National Archives, banana development, the tobacco and sugar monopolies, the Agricultural and Industrial Development Institute, and

the Agricultural Credit Bureau; it is also a depositor with the IMF and IBRD.

The first private Haitian bank, the Bank of the Haitian Union, opened in 1973. In 2002, nine other commercial banks were in operation; including one of them Haitian (Banque Industrielle et Commerciale d'Haiti), one US (Citibank), and one Canadian (Bank of Nova Scotia). There are two state-owned banks, Banque Nationale de Crédit and Banque Populaire Haitienne. Other banks included Promobank, Unibank, Sogebank, Socabank, and Capital Bank. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$434.3 million. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$1.4 billion.

There is no securities exchange in Haiti. Trading in Haitian corporations that make public offerings of their bonds or equity shares is conducted on the New York over-the-counter market.

34 INSURANCE

Major world insurance companies maintain agencies or branches in Haiti, the most prominent being Sun Life of Canada, the first to enter into life insurance. The insurance classes covered are life, accident, sickness, fire, and motor.

35 PUBLIC FINANCE

In the mid to late 1990s, Haiti, under President Préval, undertook a program of economic reform. The agenda included trade liberalization, increasing fiscal responsibility, downsizing civil service, financial sector reform, and privatization of some state-owned enterprises. The privatization program stalled in 2001, a year in which GDP fell by 2.1% due to political uncertainty, low investment, a high budget deficit, and reduced capital inflow from abroad.

The US Central Intelligence Agency (CIA) estimated that in 2005 Haiti's central government took in revenues of approximately \$400 million and had expenditures of \$600.8 million. Revenues minus expenditures totaled approximately -\$200.8 million. Total external debt was \$1.3 billion.

36 TAXATION

Corporate and personal incomes are both taxed according to a progressive scale ranging from 10% to 35%. Since 1951, new corporations, if placed on the government's list of recommended new industries have benefited from special tax concessions, including customs duties exemption and a five-year corporate income tax exemption. The progressive income tax is the most important direct tax. The first band, 10%, implicitly exempts the first 20,000 gourde of income (about \$509) from taxation, and runs to 100,000 gourde (\$2,542). The 15% band covers the next increment of income to 250,000 gourde (\$6,360); the 25% band covers the next increment to 750,000 gourde (\$19,076), and the highest band, 30%, applies to all income above \$19,076. The highest property tax rate is reportedly 15%. Indirect taxes include a value-added tax

(VAT) with a 10% standard rate, raised from 7% in 1985. There are also numerous excise taxes at various rates.

37 CUSTOMS AND DUTIES

In February 1987, a new tariff structure replaced all remaining specific duties with ad valorem tariffs and introduced new rates of between zero and 15%, except for higher rates on rice, maize, millet, flour, and gasoline, and lower rates for sugar and cement. All imports are subject to a 10% VAT and 4% verification fee. Fuel imports are subject to various additional excise taxes.

Haiti was voted into CARICOM in July 1999 and is working towards full integration by 2006. The country is also a part of the Caribbean Basin Initiative (CBI), allowing duty-free entry of exports to the United States, and is a signatory to the Lomé Convention, allowing mostly free exporting to the European Union.

38 FOREIGN INVESTMENT

The government welcomes foreign investment, granting important concessions to new industries not competing with local production. Such enterprises are exempt from import and export duties for the life of the enterprise and enjoy a full tax exception for the first five years of operation. Companies locating in the industrial park are entitled to tax exception for a further three years. For companies that locate outside the Port-au-Prince metropolitan area there is a 100% income tax exemption for 5 to 15 years with 15–20% of the income tax payable thereafter. Additionally, for export and import oriented business, there is an exemption without time limit from customs duties on imported machinery, equipment, raw materials, and accessories needed for production. Foreign capital enjoys equal status treatment with Haitian capital. The National Office for Investment Promotion is in charge of foreign investment.

Substantial foreign investment in Haiti began during World War II as a means of stimulating production of goods considered essential to the United States war effort. Agricultural development was financed largely by the US Export-Import Bank and the World Bank, supplemented with private foreign capital.

In October 1996, the IMF approved a \$131 million loan to Haiti. The credit, to be provided over a three-year period, is aimed at supporting a national economic reform program. The international donor community committed \$2 billion in concessional loans and grants to Haiti for the 1995–99 period, including \$390 million from the World Bank. Unfortunately, the political impasse of 2000 caused a freeze on international donations.

Foreign direct investment (FDI), since the lifting of the trade embargo in 1995, has increased only moderately. By 1998, annual FDI inflow to Haiti reached almost \$11 million, up from \$4.4 million in 1997, and in 1999, FDI inflow peaked at \$30 million. The disputed elections in 2000 and continuing political uncertainty helped bring FDI flows down to \$13.2 million in 2000 and less than \$3 million in 2001. In 2003, Haiti was one of 23 countries that remained on the US “majors” list of countries involved in illicit drug processing and/or illicit drug transit.

Most investment comes from petroleum companies (Texaco, Shell, Esso, and Elf). Other major foreign investors include American Airlines, American Rice Corporation, Citibank, Compagnie Tabac, Continental Grain, Seaboard Marine, and West-

ern Wireless, from the United States; and Royal Caribbean and Scotiabank.

39 ECONOMIC DEVELOPMENT

Although its annual national revenue covers basic necessities, the government supports development programs by encouraging loans and by requiring private enterprises to finance development projects. Aided by the United States and various international aid organizations, the government has supported the construction of tourist facilities, public works, and irrigation and the creation of monopolies in cement, sugar marketing, tobacco and lumbering.

The framework for economic policy in 1996 was determined mainly by the passage of a structural reform program and the agreement signed between the Central Bank and the Ministry of Finance to curtail financing of the fiscal deficit by the Central Bank. Passage of the structural reform program (which forms the basis for international financial support and includes Civil Service Reform and Modernization of Public Enterprises), proved slow and difficult. The Civil Service Reform prescribed the modalities for a reduction of the civil service by 7,500 employees over a period of 18 months. The Modernization of Public Enterprises program established a legal framework for private sector participation in the state-owned enterprises, in the form of either concession, management contract, and/or capitalization.

Macroeconomic stability, structural and institutional reforms, and poverty alleviation are still the main objectives in Haiti's agenda for the future. The administration has demonstrated its commitment through programs with the International Monetary Fund (IMF); the passage of laws pertaining to structural reforms; coordinated efforts with multilateral and national institutions to design the modernization of the state program; and continuation of programs for poverty alleviation such as the IMF's Poverty Reduction and Growth Facility (PRGF) Arrangement. In exchange for the IMF assistance, Haiti in 2003 pledged to reduce spending and stabilize its currency, moves that were expected to pave the way for other financial institutions to release suspended funds to the country (funds were suspended due to flawed legislative elections in 2000, and due to Haiti's state of arrears on its debts).

Haiti, the poorest country in the Western Hemisphere, experienced worsening economic and social conditions from 2001–03. About 80% of the population lives in abject poverty. Nearly 70% of all Haitians depend on the agriculture sector, which consists mainly of small-scale subsistence farming and employs about two-thirds of the economically active work force. The country has experienced only moderate job creation in recent years. Failure to reach agreement with multilateral lenders in late 1995 led to rising deficit spending, subsequently increasing inflation, and a drop in the value of the Haitian currency in the final months of 1995. Potential investors, both foreign and domestic, have been reluctant to risk their capital. The government will have to grapple with implementing necessary, although unpopular, economic reforms in order to obtain badly needed foreign aid and improve Haiti's ability to attract foreign capital if the Haitian economy is to gain momentum. Haiti will continue to depend heavily on foreign aid in the medium term.

Foreign aid flows have mainly targeted the garment assembly industry, and were doubled by remittances from abroad (which are estimated to represent over 20% of the country's GDP). The

economy was expected to expand by around 2% in 2005, a rate that is far from what is needed to improve the economic situation for the population that is living in abject poverty.

40 SOCIAL DEVELOPMENT

A social welfare program covers employees of industrial, commercial, and agricultural firms funded equally from employee and employer contributions. The government funds any deficit. Retirement is set at age 55. Pensions are also available for survivors and disability. Work injury insurance is funded by the employer. Maternity benefits were first introduced in 1999. A funeral grant of one month's earnings is provided.

Women do not enjoy the same economic and social status as men. Women's rights groups reported in 2004 that rape and other abuses against women increased. The government provides no services for victims of sexual violence. Although the government signed the International Convention on the Rights of the Child, the abuse of children is widespread. Many children in Haiti are forced to work as domestic servants in the homes of middle and upper class families.

Haiti has an extremely poor human rights record.

41 HEALTH

In general, sanitation facilities in Haiti are among the poorest in Latin America. Haiti lacks water in both quantity and quality, with only 46% of the urban population having access to safe water in 2000. City sewerage systems are inadequate and business and residential areas often make use of septic tanks. In 2000, only 28% of Haiti's population had access to adequate sanitation.

As of 2004, there were an estimated 25 physicians, 11 nurses, and 1 dentist per 100,000 people. Half the doctors are in Port-au-Prince and a fourth are in other principal towns, leaving a minimum of medical services for the rural population. In 1999, the government entered into an agreement with Cuba under which 120 Haitians are studying medicine in Cuba, while 500 Cuban health care professionals provide services to Haitians.

Malaria and yaws have been combated by the World Health Organization, while other health programs have been conducted by the Rockefeller Foundation and the American Sanitary Mission. Tuberculosis has long been a serious health problem; in 1999, there were about 361 reported cases of tuberculosis per 100,000 inhabitants. Malnutrition and gastrointestinal diseases are responsible for more than half of all deaths. Children may receive vaccinations, but the statistics are very low. Haiti's government did not pay for routine vaccines. Children were vaccinated against tuberculosis, 40%; diphtheria, pertussis, and tetanus, 35%; polio, 32%; and measles, 30%. Goiter was present in 12.4% of school-age children in 1996. Some 27% of children were underweight between 1989 and 1995.

Haiti has one of the highest HIV infection rates in the Americas. The HIV/AIDS prevalence was 5.60 per 100 adults in 2003. As of 2004, there were approximately 280,000 people living with HIV/AIDS in the country. There were an estimated 24,000 deaths from AIDS in 2003.

The fertility rate has declined from 6.3 in 1960 to 4.3 children per woman in 2000. An estimated 15% of all births were considered low birth weight. Haiti has the highest maternal mortality rate in the Americas, with 525 maternal deaths per 1,000 live

births. The infant mortality rate fell from 182 per 1,000 live births in 1960 to 73.45 in 2005 and the general mortality rate was estimated at 14.8 per 1,000 in 2002. During 2005, the average life expectancy was estimated at 52.92 years. The birth rate was an estimated 31.4 per 1,000 people in 2002. As of 2000, 28% of women (ages 15 to 49) used some form of contraception. Less than half the population had access to health care services. Total health care expenditure was estimated at 4.2% of GDP.

42 HOUSING

Although housing projects have been constructed in Port-au-Prince and in Cap-Haïtien, there is an increasing shortage of low-cost housing. Migration to the major cities has compounded the urban housing problem. Natural disaster including cyclones, floods, droughts, and earthquake have had serious effects on the housing situation as well.

Outside the capital and some other cities, housing facilities are generally primitive and almost universally without sanitation. Wooden huts are the prevalent standard for the countryside. The average household includes about five or six people, often living on a two- or three-room dwelling. Over 40% of all homes have dirt floors. About 63% of the population do not have access to clean water or sanitary restroom facilities. The housing deficit has been estimated at one million homes and growing.

By presidential decree, the National Housing Office was established in 1966. Housing built in the 1970s in Port-au-Prince for about 18,000 people merely replaced demolished units. A new cooperative project, supervised by the National Housing Office and financed by UNDP, was initiated in 1979 in St. Martin, on the outskirts of Port-au-Prince. Housing construction is reported to have proceeded at a steady pace since that time. According to the latest available statistical information, total housing units numbered 890,000, with 6.1 people per dwelling.

43 EDUCATION

Although 80% of the students speak Creole and have only rudimentary knowledge of French, educational programs are mostly conducted in French. The Office of National Literacy and Community Action has the major responsibility for literacy programs throughout the country. The adult literacy rate for 2004 was estimated at about 51.9%, with 53.8% for men and 50% for women. In 1990, public expenditure on education was estimated at 1.4% of GDP.

Education is compulsory for six years (ages 6 to 12). There are two systems of public education. In the traditional (French) system, primary school covers six years and secondary school covers seven years. In the reform system, there are nine years of primary school followed by three years of secondary school. At about age 15, some students may choose to attend a three-year technical school instead of following the classical or professional education tracks of the other systems. The academic year runs from October to June. Primary school enrollment in 1999 was estimated at about 81% of age-eligible students. The student-to-teacher ratio in 1999 was about 31:1 for primary schools.

The Université d'État d'Haïti (Port-au-Prince), dating from 1920, offers the following schools: administration and management, agronomy, economics, ethnology, law, medicine and pharmacy, science, and surveying. There are about two dozen other

universities in Haiti, including the Université Jacques Theodore Holly. There are also several vocational training centers and trade schools.

44 LIBRARIES AND MUSEUMS

The library of the Brothers of St.-Louis de Gonzague, the finest in Haiti, includes bound newspaper collections covering the 19th and 20th centuries and many rare works of the colonial and republican eras. The Bibliothèque Nationale contains about 26,000 volumes. Le Petit Séminaire, a parochial college, has an excellent library. The government has a wealth of library material dating back to colonial Saint-Domingue in the National Archives and rare papers on the Napoleonic expedition in Haiti in the famous Rochambeau Collection. Private libraries, notably the Mangones Library in Pétienville, make important contributions to Haitian scholarship. There is a French Institute and an American Institute library in Port-au-Prince. The University of Haiti has an important agricultural collection.

The National Museum in Port-au-Prince dates from 1938. The Museum of the Haitian People, also in the capital, has anthropological and folklore collections, and the College of St. Pierre houses the Museum of Haitian Art, which opened in 1972. There is a historical and public affairs museum in the capital as well.

45 MEDIA

The government owns and operates domestic telephone and telegraph communications. All America Radio and Cables, RCA Global Communications, and Western Union International provide international telephone and telegraph service. In 2003, there were an estimated 17 mainline telephones for every 1,000 people. The same year, there were approximately 38 mobile phones in use for every 1,000 people.

With low literacy rates and limited television broadcasting, radio is the most important medium for news and information. A 1997 law designates the government as the sole owner of the airwaves; however, the government provides broadcast leases to private operators. In 2004, there were about 307 licensed radio stations and at least 133 unlicensed stations. Most broadcast in French; some offer programming in Creole. In 2005, there were at least three television stations. Television Nationale d'Haiti is a government-owned cultural television station offering programs in Creole, French, and Spanish. Trans-America and PVS Antenne are private stations broadcasting in French. In 2003, there were an estimated 18 radios and 60 television sets for every 1,000 people. The same year, about 18 of every 1,000 people had access to the Internet. There were five secure Internet servers in the country in 2004.

The principal Haitian newspapers (all published in Port-au-Prince) are the three dailies, *Le Matin*, (2002 circulation, 5,000), *Le Nouvelliste* (6,000), and *L'Union* (7,000). *Le Moniteur*, the official gazette, is published three times a week.

The constitution guarantees free speech and a free press, and the government is said to uphold these freedoms with few exceptions.

46 ORGANIZATIONS

Organizational activity in Haiti is limited. The Credit Cooperative of Les Cayes, the only cooperative of any significance, has main-

tained a sizable membership. There is a chamber of commerce in Port-au-Prince. The Center d'Art, an informal artists' cooperative founded in 1944, has exhibited Haitian artists locally and internationally. There are some professional associations in the country, such as the Association Médicale Haïtienne, which serves as both a physician network and an advocacy group for research and education in medicine and healthcare industries.

A national student movement is organized through the National Federation of Haitian Students. Boy Scouts and Girl Scouts programs are available, as are branches of the YMCA. There are some sports associations in the country representing a variety of pastimes.

There are branches of the Red Cross, Habitat for Humanity, Rotary, Lion's Club, and the Masonic Order.

47 TOURISM, TRAVEL, AND RECREATION

Port-au-Prince is a free port for a variety of luxury items. Tourist attractions include white sand beaches, numerous colonial buildings in Port-au-Prince and other cities, and the early 19th-century Citadelle and Sans Souci Palace in Cap-Haïtien. Rapid divorces—granted in 24 to 48 hours—and casino gambling are among the attractions for US residents. Football (soccer) is the national sport, and cockfighting is very popular. Tourist resorts offer facilities for water sports and tennis.

For entry to Haiti, visitors must have a valid passport. A visa is not required for stays of up to 90 days. In the 1980s and 1990s, tourism was adversely affected by the island's generally depressed economy, political turbulence, and by the alleged link between Haitians and AIDS. The political and civil unrest in 2004 caused the tourism industry to suffer further.

In 2005, the US Department of State estimated the daily cost of staying in Port-au-Prince at \$235. Other areas were as low as \$129.

48 FAMOUS HAITIANS

The national heroes of Haiti include Pierre Dominique Toussaint L'Ouverture (1743–1803), the Precursor; Jean Jacques Dessalines (1758–1806), who defeated Napoleon's army and proclaimed Haitian independence; Alexandre Sabès Pétiion (1770–1818), first president of the republic established in southern Haiti; and Henri Christophe (1767–1820), king of Haiti (1811–20), who built the famous Citadelle and Sans Souci Palace. François Duvalier ("Papa Doc," 1907–71), originally trained as a physician, was elected president in 1957 and in 1964 became president for life. His son Jean-Claude Duvalier (b.1951) inherited his father's title in 1971 but was ousted in 1986. Ertha Pascal-Trouillot (b.1943) was the first woman to hold the post of president of Haiti. She held the position for nearly a year, from 1990 to 1991. Jean-Bertrand Aristide (b.1953), a former Roman Catholic priest, succeeded her in 1991, and served again from 1994 to 1996, and then from 2001 to 2004, when he was overthrown in a popular rebellion.

John James Audubon (1785–1851), an artist and ornithologist, was born in Haiti. The writers Émeric Bergeaud (1818–58), Oswald Durand (1840–1906), Philippe Thoby-Marcelin (1904–75), Jacques Roumain (1907–44), and Jean Fernand Brierre (1909–92) have won international literary recognition. Noted poets include the dramatist Pierre Faubert (1803–68), Corolian Ardouin (1812–35), Alibée Féry (1819–96), and Charles-Seguy Villavaleix (1835–

1923). Haitian artists include the sculptor Edmond Laforestière (1837–1904); the primitive painter Héctor Hippolyte (1890–1948), leader of the Afro-Art Renaissance in the Caribbean; Wilson Bigaud (b.1931); and Jacques Enguerrand Gourge (1931–1996). Haitian composers include Occide Jeanty (1860–1936) and Justin Elie (1883–1931); Ludovic Lamothe (1882–1953) used voodoo music in his compositions.

49 DEPENDENCIES

Haiti has no territories or colonies.

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HONDURAS

Republic of Honduras
República de Honduras

CAPITAL: Tegucigalpa

FLAG: The national flag consists of a white horizontal stripe between two blue horizontal stripes, with five blue stars on the white stripe representing the five members of the former union of Central American provinces.

ANTHEM: *Himno Nacional*, beginning “Tu bandera es un lampo de cielo” (“Thy flag is a heavenly light”).

MONETARY UNIT: The lempira (L), also known as the peso, is a paper currency of 100 centavos. There are coins of 1, 2, 5, 10, 20, and 50 centavos, and notes of 1, 2, 5, 10, 20, 50, and 100 lempiras. L1 = \$0.05285 (or \$1 = L18.92) as of 2005.

WEIGHTS AND MEASURES: The metric system is the legal standard; some old Spanish measures are still used.

HOLIDAYS: New Year’s Day, 1 January; Day of the Americas, 14 April; Labor Day, 1 May; Independence Day, 15 September; Birthday of Francisco Morazán, 3 October; Columbus Day, 12 October; Army Day, 21 October; Christmas, 25 December. Movable religious holidays include Holy Thursday, Good Friday, and Holy Saturday.

TIME: 6 AM = noon GMT.

¹ LOCATION, SIZE, AND EXTENT

Situated in Central America, Honduras has a total area of 112,090 sq km (43,278 sq mi), with a length of 663 km (412 mi) ENE–WSW and 317 km (197 mi) NNW–SSE. Comparatively, the area occupied by Honduras is slightly larger than the state of Tennessee. It is bounded on the N and E by the Caribbean Sea, on the S by Nicaragua and the Gulf of Fonseca, on the SW by El Salvador, and on the W by Guatemala, with a total boundary length of 2,340 km (1,454 mi), of which 820 km (509 mi) is coastline.

Under the terms of an arbitration award made by Alfonso XIII of Spain in 1906, Honduras received a portion of the Mosquito Coast, or La Mosquitia, north and west of the Coco (Segovia) River. Citing Honduras’s failure to integrate the territory, Nicaragua renewed its claim to the entire Mosquito Coast in the 1950s and brought the case to the International Court of Justice (ICJ). In February 1957, Honduras created the new Department of Gracias a Dios, made up of the former Mosquitia territory. The ICJ determined in 1960 that Nicaragua was obligated to accept the 1906 arbitration ruling concerning that country’s boundary with Honduras. The judges ruled, by a vote of 14–1, that once a valid arbitration award was made in an international dispute, it became effective, and remained so, despite any lapse of time in carrying it out.

The two tiny Swan Islands (Islas del Cisne), lying at 17°23′ N and 83°56′ W in the west Caribbean Sea some 177 km (110 mi) NNE of Patuca Point, were officially ceded by the United States to Honduras on 20 November 1971. For administrative purposes, they are included under the Department of Islas de la Bahía, whose capital is Roatán on Roatán Island. The Swan Islands had been effectively

held by the United States, which asserted a claim in 1863 to exploit guano, and had housed a weather station and an aviation post.

The capital city of Honduras, Tegucigalpa, is located in the south central part of the country.

² TOPOGRAPHY

Honduras is mountainous, with the exception of the northern Ulúa and Aguán river valleys on the Caribbean Sea and the southern coastal area. There are four main topographic regions: the eastern lowlands and lower mountain slopes, with 20% of the land area and no more than 5% of the population; the northern coastal plains and mountain slopes, with 13% of the land and about 20% of the population; the central highlands, with 65% of the area and 70% of the population; and the Pacific lowlands and their adjacent lower mountain slopes, with 2% of the area and 5% of the population.

The width of the Caribbean coastal plain varies from practically no shore to about 120 km (75 mi), and the coastal plain of the Gulf of Fonseca is generally narrow. The highest elevations are in the northwest (almost 3,000 m/10,000 ft) and in the south (over 2,400 m/8,000 ft). Many intermontane valleys, at elevations of 910 to 1,370 m (3,000 to 4,500 ft), are settled. The old capital city, Comayagua, lies in a deep rift that cuts the country from north to south. Tegucigalpa, the modern capital, is situated in the southern highlands at about 910 m (3,000 ft). There are two large rivers in the north, the Patuca and the Ulúa. Other important features include the Choluteca, Nacaome, and Goascorán rivers in the south, Lake Yojoa in the west, and Caratasca Lagoon in the northeast.

3 CLIMATE

The northern Caribbean area and the southern coastal plain have a wet, tropical climate, but the interior is drier and cooler. Temperature varies with altitude. The coastal lowlands average 31°C (88°F); from 300 to 760 m (1,000 to 2,500 ft) above sea level the average is 29°C (84°F); and above 760 m (2,500 ft) the average temperature is 23°C (73°F). There are two seasons: a rainy period, from May through October, and a dry season, from November through April. Average annual rainfall varies from over 240 cm (95 in) along the northern coast to about 84 cm (33 in) around Tegucigalpa in the south. The northwest coast is vulnerable to hurricanes, of which the most destructive, Hurricane Fifi in September 1974, claimed some 12,000 lives, caused \$200 million in property damage, and devastated the banana plantations.

4 FLORA AND FAUNA

Honduras has a rich and varied flora and fauna. Tropical trees, ferns, moss, and orchids abound, especially in the rain forest areas. Mammal life includes the anteater, armadillo, coyote, deer, fox, peccary, pocket gopher, porcupine, puma, tapir, and monkeys in several varieties. Fish and turtles are numerous in both freshwater and marine varieties. Among the reptiles are the bushmaster, coral snake, fer-de-lance, horned viper, rattlesnake, and whip snake, caiman, crocodile, and iguana. Birds include the black robin, hummingbird, macaw, nightingale, thrush, partridge, quail, quetzal, toucanet, wren, and many others. As of 2002, there were at least 173 species of mammals, 232 species of birds, and over 5,600 species of plants throughout the country.

5 ENVIRONMENT

The major environmental problems are soil erosion and loss of soil fertility (in part because of traditional slash-and-burn cultivation) and rapid depletion of forests for lumber, firewood, and land cultivation. From 1990–95, the annual rate of deforestation was at about 2.34%. In 2000, about 48% of the total land area was forested.

Enforcement of antipollution laws has been weak, and Honduras also lacks an integrated economic development and land-use policy. Rivers and streams in Honduras are threatened by pollution from mining chemicals. The nation has 96 cu km of renewable water resources with 91% used in farming activities. About 99% of city dwellers and 82% of people living in rural areas have access to pure drinking water. Air pollution results from a lack of pollution control equipment for industries and automobiles. The Secretariat of Planning, Coordination, and Budget (Secretaría de Planificación, Coordinación, y Presupuesto—SECPLAN), the Ministry of Natural Resources, and several other agencies are vested with environmental responsibilities.

In 2003, 6.4% of the total land area in Honduras was protected. The Río Plátano Biosphere Reserve is a natural UNESCO World Heritage Site and there are six Ramsar wetland sites. According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 10 types of mammals, 6 species of birds, 10 types of reptiles, 53 species of amphibians, 14 species of fish, 2 species of invertebrates, and 111 species of plants. Endangered or extinct species in Honduras included the tundra peregrine falcon, jaguar,

three species of turtle (green sea, hawksbill, and olive ridley), and three species of crocodile (spectacled caiman, American, and Morelet's). The Caribbean monk seal, the Lago Yojoa palm, and the Swan Island hutia have become extinct.

6 POPULATION

The population of Honduras in 2005 was estimated by the United Nations (UN) at 7,212,000, which placed it at number 96 in population among the 193 nations of the world. In 2005, approximately 4% 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. According to the UN, the annual population rate of change for 2005–10 was expected to be 2.8%, a rate the government viewed as too high. Of particular concern was the high rate of adolescent pregnancy, with 50% of the population under 19 years of age. The projected population for the year 2025 was 10,700,000. The population density was 64 per sq km (167 per sq mi), with the majority of the population living in the western portion of the country.

The UN estimated that 47% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 2.99%. The capital city, Tegucigalpa, had a population of 1,007,000 in that year. San Pedro Sula, the second-largest city, had an estimated population of 486,000; La Ceiba, 250,000; and El Progreso, 115,000.

Honduras has the highest number of HIV/AIDS cases in Central America, with the rate of infection increasing rapidly among women and those under age 19. In 2003 Honduras began receiving monies from the Global Fund for Aids, Tuberculosis, and Malaria to address its HIV/AIDS situation.

7 MIGRATION

Before 1969 there was a steady flow of immigrants from El Salvador. The steps taken by the Honduran government in 1969 to curb this influx were a contributing cause of the war with El Salvador during the same year. When the Sandinistas took over in Nicaragua in 1979, former National Guard members began to arrive in Honduras, and by 1983 there were 5,000–10,000 of them along the border. In addition, at least 25,000 Miskito Amerindians from Nicaragua and about 21,000 Salvadorans had fled to Honduras by the end of 1986. Many of them later returned. By the end of 1992 about 100,000 citizens of Central American nations had taken refuge in Honduras.

As a result of the Central American refugee problem of the 1990s, Honduras has adopted a restrictive policy toward refugees. There were very few refugees among the 44,000 migrants living in Honduras in 2000. In 2004 worker remittances were \$1,134 million. In 2005, the net migration rate was estimated as -1.95 migrants per 1,000 population. The government viewed the migration levels as satisfactory.

8 ETHNIC GROUPS

The vast majority (90%) of the Honduran people are mestizo, a mixture of European and Amerindian. About 7% of the population is purely Amerindian, the largest proportion being in the Copán area near the Guatemalan border. Africans, about 2% of



LOCATION: 13° to 16° N; 83°10' to 89°20' W. BOUNDARY LENGTHS: Caribbean coastline, 591 kilometers (367 miles); Nicaragua, 922 kilometers (573 miles); Golfo de Fonseca (Golfo de Fonseca) coastline, 74 kilometers (46 miles); El Salvador, 335 kilometers (208 miles); Guatemala, 248 kilometers (154 miles). TERRITORIAL SEA LIMIT: 12 miles.

the population, live mostly along the north coast. About 1% of the population is European, chiefly of Spanish origin.

⁹ LANGUAGES

The official language is Spanish. However, English is used widely, especially in northern Honduras. The more important Amerindian languages include Miskito, Zambo, Paya, and Xicaque.

¹⁰ RELIGIONS

The Roman Catholic Church reports a membership that comprises slightly more than 80% of the country's total population. However, according to estimates based on a 2002 poll of citizens 18 or older, only 63% of the population identify themselves as Roman Catholic. Approximately 23% report themselves to be evangelical Christians, and 14% designate themselves as belonging to other religious groups. The remainder were either "others" or provided no answer. The primary religious groups include Roman Catholics, Jews, Greek Orthodox, Episcopalians, Lutherans, Jehovah's Witnesses, Mennonites, the Church of Jesus Christ of Latter-Day Saints (Mormons), the Union Church, and about 300 evangelical Protestant churches (including the Abundant Life, Living Love,

and the Grand Commission church). There are small numbers of Muslims and Jews.

Religious freedom is guaranteed by the constitution of 1982. Though there is no state religion, many consult with the Roman Catholic Church and some Catholic leaders have been appointed to semiofficial commissions on key political and social issues. Certain Christian holidays are celebrated as public holidays.

¹¹ TRANSPORTATION

In 2002 there were 13,603 km (8,461 mi) of highways, about 2,775 km (1,726 mi) of which were paved. Of the 112,300 registered vehicles in 2003, only 25,000 were passenger cars, while commercial vehicles totaled 87,300. The Pan American Highway virtually bypasses Honduras, entering from El Salvador and running to the eastern Nicaraguan border. The 362-km (225-mi) Inter-Ocean Highway is the only surface connection between the Pacific and the Caribbean that includes in its path both Tegucigalpa and San Pedro Sula. In 1971, a paved highway was opened between Tegucigalpa and San Pedro Sula and west to the Guatemalan border. Tegucigalpa is served by secondary roads to the north and east, while San Pedro Sula is connected both to the important Caribbean ports of Puerto Cortés, Tela, and Trujillo and to the western

Mayan shrine site of Copán. Road improvements near the Nicaraguan border were undertaken with US military aid beginning in 1983.

Rail service exists only in the north, connecting the industrial and banana-growing northeastern coastal zone with the principal ports and cities. As of 2004, National Railway of Honduras, owned and operated by the government, maintains all 699 km (435 mi) of narrow gauge track.

Four principal ports—Puerto Cortés, Tela, La Ceiba, and Puerto Castilla—serve the country on the Caribbean side. Another Caribbean port, Roatán, is offshore, in the Bay Islands, and Puerto de Henecán, on the Pacific coast, opened in 1979, replacing Amapala as a port facility, although the latter retains a naval base. La Ceiba and Tela are primarily banana-trade ports. Puerto Castilla (completed in 1980) serves the Olancho forestry project; and Puerto Cortés and Puerto de Henecán handle general traffic. River traffic is negligible, with only 465 km (289 mi) accessible and only to small craft, as of 2004. In 2005, the Honduran merchant fleet comprised 137 vessels of 1,000 GRT or more, totaling 598,600 GRT.

Air service is important in the transportation of passengers and cargo. In 2004 there were an estimated 115 airports in Honduras, 11 of which had paved runways as of 2005. The two principal airports are Ramon Villeda, at San Pedro Sula, and Toncontín, about 6.4 km (4 mi) from Tegucigalpa. Toncontín is served by Transportes Aéreos Nacionales de Honduras/Servicio Aéreo de Honduras (TAN/SAHSA), Líneas Aéreas Costarricenses (LACSA), Challenge, and TACA airlines and the domestic carrier Lineas Aéreas Nacionales (LANSA). TAN/SAHSA flies to the United States, Mexico, and other Central American countries and also provides domestic passenger service. In 2001, San Pedro Sula International Airport serviced 510,000 passengers on scheduled domestic and international flights.

12 HISTORY

Before the Spaniards entered the land now called Honduras, the region was inhabited by the war-like Lencas and Jicaques, Mexican Amerindian traders, and Paya hunters and fishermen. The Mayan ceremonial center at Copán in western Honduras flourished about the 8th century AD but was in ruins when Columbus reached the mainland on his fourth voyage in 1502. He named the region Honduras, meaning “depths.”

Colonization began in 1524 under Gil González de Ávila. In 1536, Pedro de Alvarado, who came from Guatemala at the bidding of Hernán Cortés in Mexico, founded San Pedro Sula, and another faction founded Comayagua in 1537. After the treacherous murder by the Spaniards of an Amerindian chieftain named Lempira in 1539, his followers were subjugated. In that year, Honduras was made part of the captaincy-general of Guatemala, and for most of the period until 1821, it was divided into two provinces, Comayagua and Tegucigalpa. Some silver was produced in the mines of Tegucigalpa, but the area was otherwise ignored by the Spanish empire.

Honduras joined other provinces of Central America in declaring independence from Spain in 1821. It came under the Mexican empire of Agustín de Iturbide in 1822–23. Honduras was a member of the United Provinces of Central America from 1824 to 1838. During that time, a liberal Honduran, Francisco Morazán,

became president and struggled unsuccessfully to hold the federation together. He was exiled in 1840 and assassinated in 1842.

After Honduras declared itself independent on 26 October 1838, conservatives and liberals fought for political control. From 1840 to 1876, conservative leaders held power either as presidents or as army leaders. The second half of the 19th century brought the development, by US companies, of banana growing in northern Honduras. During the administration of liberal president Marco Aurelio Soto (1876–83), there was a “golden age” in Honduran letters and education.

US corporate interests, especially the United Fruit Co. (now Chiquita Brands International Inc.) and military dictators, dominated Honduran economic life during the first half of the 20th century. Honduran politics was dominated by the conservative Gen. Tiburcio Carías Andino (1932–48). In 1948, his handpicked successor, Juan Manuel Gálvez, took office. Gálvez proved to be more than a mere puppet, but was conservative nonetheless. When the election of 1954 produced no presidential candidate with a majority vote, he transferred the presidency to the vice president, Julio Lozano Díaz, who governed for almost two years. After an abortive attempt to have himself elected president, Díaz was deposed in 1956 by high army officers, who set up a junta. Democratic elections were held in 1957, and José Ramón Villeda Morales of the Liberal Party was elected president.

In 1963, just before completing the final months of his six-year term, Villeda was turned out of office by a coup. The liberal government was succeeded by a conservative coalition of military, Nationalist Party, and Liberal Party leaders under an air force officer, Col. Oswaldo López Arellano. This government was legalized almost two years later by an elected constituent assembly, which adopted a new constitution and proclaimed López president in June 1965.

During López's second term, a bitter and destructive four-day war broke out in July 1969 between Honduras and El Salvador. Although the immediate cause of the war was animosity arising from a World Cup elimination-round soccer match between the two countries, the underlying causes were a long-standing border dispute and the long-term migration of some 300,000 Salvadorans in search of land, which the Honduran government made it illegal for Salvadoran immigrants to own. Salvadoran troops won the ground war, but Honduran planes controlled the air. Out of this stalemate and with the help of the OAS, a compromise cease-fire was arranged. In June 1970, the two nations accepted a seven-point peace plan, creating a “no-man's-land” demilitarized zone along their common frontier. In the fall of 1973, Honduras and El Salvador began bilateral talks to resolve their differences. Progress was slow, and it was not until October 1980 that Honduras and El Salvador signed a treaty settling the dispute.

In the 1970s, López and the military continued to dominate Honduran politics. A civilian, Ramón Ernesto Cruz Uclés, was elected president in 1971, but lasted only briefly. By 1972, General López was back in power. General López assumed the title of chief of state, and suspended the National Congress and all political party activities. It was later discovered that in 1974 officials in the López administration had accepted a \$1.25-million bribe from United Brands (formerly United Fruit and now Chiquita) in exchange for a 50% reduction in the banana tax. A Honduran investigative commission insisted on examining López's Swiss bank

account, and the scandal came to be known as “Bananagate” in the United States. Finally, in April 1974, López was overthrown by a group of lieutenant colonels.

This military group was something of a reformist group, seeking social reforms and the removal of the senior officer corps. Political activity continued to be banned following the coup of 1975. Meanwhile, a significant grassroots movement, the National Front of United Peasants, had come to the fore and was pressuring the successive military governments to enact a program of large-scale land redistribution.

There followed two more military governments led by Col. Juan Alberto Melgar Castro (1975–78) and Gen. Policarpo Paz García (1978–83). This period saw strong economic growth and the building of a modern infrastructure for Honduras. At the same time, there was a gradual movement toward the democratization of the system.

Elections to a constituent assembly took place in April 1980, followed by general elections in November 1981. Under a new constitution in 1982, Roberto Suazo Córdova of the Liberal Party became president. The armed forces retained broad powers, including veto power over cabinet appointments and responsibility for national security. The military continued to grow in response to domestic instability and the fighting in neighboring Nicaragua and El Salvador. By 1983, several thousand anti-Sandinista guerrillas (popularly known as “contras”) in Honduras were working for the overthrow of the Sandinista government, while the Honduran army, backed by the United States, was helping Salvadoran government forces in their fight against leftist guerrillas.

This stability became apparent in November 1985, when Hondurans elected José Simón Azcona Hoyo to the presidency in the first peaceful transfer of power between elected executives in half a century. Azcona was elected with only 27% of the vote, due to a peculiarity of Honduran electoral laws. Azcona attempted to distance himself from the United States in foreign policy and was critical of US contra policy. He signed the Central American peace plan outlined by President Oscar Arias Sánchez of Costa Rica; however, he did not move to close down contra bases as promised. The Suazo government worked closely with the United States on matters of domestic and foreign policy. US military presence in Honduras grew rapidly. Several joint military maneuvers took place during 1983–87, and the US CIA used Honduras during that time as a base for covert activities against the Sandinista regime. In exchange, the United States sent large amounts of economic aid to Honduras. Suazo also worked closely with the Honduran military, allowing it to pursue its anticommunist agenda freely. This arrangement led to an unprecedented political stabilization in Honduras.

In 1989, Rafael Leonardo Callejas of the National (conservative) Party was elected. With the Nicaraguan issue fading after the Sandinistas’ electoral loss, Callejas focused on domestic issues, applying a dose of both conservative economics and IMF austerity measures to the Honduran economy. Callejas moved to reduce the deficit and allow for a set of market adjustments, which in the short term produced a good deal of dislocation but led to higher rates of growth thereafter. Most significantly, Callejas maintained good relations with the military. In an unprecedented show of restraint, the military sat on the sidelines as voters went to the polls in November 1993.

The voters themselves showed a good deal of resentment toward the Callejas reforms. The Liberal Party returned to power in the person of Carlos Roberto Reina. While it was unlikely that its economic problems would be solved quickly, Honduras nevertheless had achieved a level of political stability that few could have anticipated in decades past. Reina, known for his support of human rights and clean government, called for a “moral revolution” to combat crime, poverty, and widespread corruption in both the public and private sectors. In late 1994, corruption charges were filed against former president Callejas and other top government officials. Reina also took steps to further reduce the influence of Honduras’s powerful military, most notably the abolition of the draft, including the notorious press-gang conscription by which young men were seized off the streets and forced into military service. The liberal administration also dismantled the military-controlled Public Security Forces (FUSEP), replacing them with a new civilian force.

Reina proved less successful in dealing with the economic problems of his nation, long considered the poorest in Central America. An already difficult situation was exacerbated by the 1994 drought that slashed production of hydroelectric power, creating an energy crisis that drove up food and fuel prices and caused chronic power outages. The struggle to improve economic conditions continued through 1996, with the government caught between an international financial community demanding tough structural reforms and a beleaguered population unwilling to tolerate the sacrifices entailed by such programs. In November of 1997, Carlos Roberto Flores of the Liberal Party won the presidential elections with 52.8%. His party also won 62 out of 128 seats in the unicameral National Assembly. But the fury of Hurricane Mitch in October 1998 destroyed Honduras’s economy and placed an even heavier burden on President Flores’ challenges. The subsequent economic crisis of 1999 further worsened the economic situation.

Discontent with the government helped opposition candidate Ricardo Maduro win the 2001 presidential election with 52.2% of the vote. His National Party also came ahead in the legislative election with 46% of the vote, but it only gained 61 seats in the 128-seat assembly, forcing Maduro to seek the support of the smaller centrist parties to pass his legislative initiatives. The economy has continued to perform poorly. More than 50% of Hondurans live in poverty. In March 2005, the Honduran Congress ratified the Central American Free Trade Agreement (CAFTA) with the United States.

Crime and violence are significant problems in Honduras. Youth gangs known as *maras* are thought to have tens of thousands of members, and use threats and violence to control poorer areas in the main urban centers. In December 2004, gang members massacred 28 bus passengers in the northern city of Chamelecon. At the same time, police officers have been implicated in high-profile crimes; in January 2001, the Honduran Committee for the Defense of Human Rights reported that more than 1,000 street children had been murdered in 2000 by death squads backed by the police. Also, former military and security personnel, along with right wing paramilitary groups, are thought to be behind the murder of members of indigenous minority rights groups.

Presidential and legislative elections were held on 27 November 2005. Although National Party presidential candidate Porfirio Lobo Sosa—who came in second place behind Liberal Party can-

didate José Manuel Zelaya Rosales—contested the results of the election, the National Party after 10 days conceded the election to Zelaya. Zelaya took 49.9% of the vote to Lobo's 46.2%. In the elections for the National Congress, the Liberal Party won 62 of 128 seats, with the National Party winning 55. The Democratic Unification Party won 5 seats, followed by the Christian Democratic Party with 4 and the Innovation and Unity Party-Social-Democracy with 2.

13 GOVERNMENT

The constitution of 1965, suspended following the 1972 coup, was superseded by a governing document adopted in November 1982 (amended in 1995). It defines Honduras as a democratic republic headed by a president who must be a native-born civilian. The president is elected by direct popular vote for a four-year term. The executive branch also includes a cabinet of 14 ministers. A constitutional change approved by the legislature in November 1982 deprived the president of the title of commander-in-chief of the armed forces, transferring that responsibility to the army chief of staff.

The 1982 constitution provides for the popular election of deputies to the unicameral National Congress, consisting of 128 deputies. The deputies, who are directly elected for four-year terms, must be natives or residents of the constituencies they represent. Voting is compulsory for all men and women 18 years of age and older.

14 POLITICAL PARTIES

The two major parties in Honduras are the Liberal Party (Partido Liberal—PL) and the National Party (Partido Nacional—PN). Both descend from the old Liberal and Conservative Parties from the 19th century. Although generally the National Party remains more conservative in nature, the two parties are very close ideologically.

The National Party was in power from 1932 to 1954 under Carías and Gálvez. In 1965, a PN-backed constituent assembly promulgated a new constitution, designated its membership as the National Congress for a six-year term, and proclaimed Gen. Oswaldo López Arellano as president. In the 1971 elections, the PN candidate, Gen. Ramón Ernesto Cruz, received about 52% of the vote and was elected president. Their most recent success came in 1989 when Rafael Leonardo Callejas became president. In the 1997 elections, its presidential candidate was Alba Gunera, the first woman to seek Honduras's presidency. She gained 42% of the vote. The National Party won 54 seats in the National Assembly in 1997, but it benefited from Ricardo Maduro's victory in 2001 and increased its parliamentary representation to 61 seats.

The Liberals rely on their following in urban areas and among the laboring classes and have had some successes over the last half-century. In 1957, José Ramón Villeda Morales was elected to the presidency, and governed until 1963, when he was removed by a coup. The next successes came in 1981 with the election of Suazo, and then in 1985 with the election of José Simón Azcona Hoyo, in 1993 with Carlos Roberto Reina and in 1997 with Carlos Flores, who became president with 52% of the vote. The Liberal Party also won 67 out of the 128 seats in the National Assembly, but its support fell in 2001 when it captured only 40.8% of the vote and clinched 55 seats.

Two minor parties occupy mildly leftist positions: the Christian Democratic Party, under Marco Orlandi, and the National Innovation and Unity Party, led by Olban Valladares. Each of those parties won three and four seats respectively in the National Assembly in 2001. In 1997, a Social Democratic party made its debut. The Partido de Innovación y Unidad-Social Democracia (Party for Innovation and Unity-Social Democracy) won five seats in the National Assembly in 1997 and four seats in 2001.

In the December 1996 primaries preceding the November 1997 presidential elections, the Liberal Party nominated Carlos Roberto Flores. Nora Gúnera de Melgar won the National Party nomination. Flores went on to win the election and his party won 62 of 128 seats in the National Assembly. In 2001, Ricardo Maduro became the National Party candidate and won the presidential election. His party captured 61 of the 128 seats in the Assembly.

In 2005, Liberal Party presidential candidate José Manuel Zelaya Rosales beat National Party candidate Porfirio Lobo Sosa. Zelaya took 49.9% of the vote to Lobo's 46.2%. In the elections for the National Congress, the Liberal Party won 62 of 128 seats, with the National Party winning 55. The Democratic Unification Party won 5 seats, followed by the Christian Democratic Party with 4 and the Innovation and Unity Party-Social-Democracy with 2.

15 LOCAL GOVERNMENT

Honduras is divided into 18 departments, each with a governor popularly elected for a two-year term. Departments are divided into municipalities (298 in 2005) governed by popularly elected councils. Localities with populations between 500 and 1,000 have a mayor, a legal representative, and a council member. A council member is added for each additional 1,000 residents, but the total is not to exceed seven. A special law governs the Central District of Tegucigalpa and Comayagüela.

Under the jurisdiction of the local government, municipal land is granted or lent to peasants in the district in sections known as *ejidos*. The *ejido* system is designed to aid landless peasants and has become an important function of local administration.

16 JUDICIAL SYSTEM

Judicial power is exercised by the nine-member Supreme Court (with seven substitutes) and courts of appeal, as well as by courts of first instance, justices of the peace, and courts of limited jurisdiction. The Supreme Court appoints the judges of the courts of appeal and the courts of first instance, who, in turn, appoint local justices of the peace. The justices of the Supreme Court are elected by the National Assembly and serve for seven-year terms. The Supreme Court has the power to declare laws unconstitutional.

There is a military court of first instance from which appeals can be taken to the civilian judicial system. In practice, the civilian courts are not independent. Because of underfunding and corruption, the formal resolution of legal disputes in courts is often the product of influence and political pressure.

The constitution provides for an independent judiciary and the right to a fair trial. A public defender program provides services to indigent defendants.

Honduras accepts the jurisdiction of the International Court of Justice with reservations.

17 ARMED FORCES

The Honduran military as of 2005 had an active force of 12,000 personnel with 60,000 registered as reservists. As of that year, there were 8,300 personnel in the Army, 2,300 in the Air Force, and 1,400 in the Navy, which included 830 Marines. The Army's major armament included 12 light tanks, 57 reconnaissance vehicles, and over 118 artillery pieces. Naval equipment consisted of 31 patrol/coastal vessels and one amphibious landing craft. The Air Force had 18 combat capable aircraft made up of 8 fighters and 10 operating fighter ground attack aircraft. Paramilitary forces consisted of an 8,000 member Public Security Force. The defense budget in 2005 was \$52.4 million.

18 INTERNATIONAL COOPERATION

Honduras is a charter member of the United Nations, having joined on 17 December 1945; it is part of ECLAC and serves in several specialized agencies, such as FAO, IFC, UNESCO, UNIDO, ILO, IMF, WHO, and the World Bank. Honduras served on the UN Security Council from 1995–96. It is one of five members of the Central American Bank for Economic Integration (BCIE) and the Central American Common Market (CACM). In 2004, Honduras, the United States, Costa Rica, El Salvador, Guatemala, Nicaragua, and the Dominican Republic signed the US–Central America Free Trade Agreement (CAFTA). The agreement must be ratified by all participating countries before it enters into force.

Honduras is also part of G-77, the Latin American Economic System (LAES), the OAS, the Association of Caribbean States (ACS), and the Río Group. Honduras has observer status with the Latin American Integration Association (LAIA) and belongs to the Central American Parliament (PARLACEN), the Central American Integration System (SICA), and the Central American Security Commission (CASC). The country is a signatory of the 1947 Río Treaty, an inter-American security agreement.

Honduras is a member of the Agency for the Prohibition of Nuclear Weapons in Latin America and the Caribbean (OPANAL) and is a signatory to the Organization for the Prohibition of Chemical Weapons. In environmental cooperation, Honduras is part of the Basel Convention, the Convention on Biological Diversity, Ramsar, CITES, the London Convention, International Tropical Timber Agreements, the Kyoto Protocol, the Montréal Protocol, MARPOL, the Nuclear Test Ban Treaty, and the UN Conventions on the Law of the Sea, Climate Change, and Desertification. Honduras is also part of the Central American-US Joint Declaration (CONCAUSA).

19 ECONOMY

Honduras is one of the poorest and least developed countries in Latin America. The economy has been based mostly on agriculture, and over a third of the labor force in 2001 were still involved in this sector. However, agriculture's contribution to the overall GDP fell from 27% in 1998 to 18% in 2000 mainly due to the damage done to export crops by Hurricane Mitch in October 1998. About 16% of the land is arable, located mostly along the coastal plains. Coffee and bananas account for 65% of total Honduran export revenues. The vast majority of banana holdings are controlled by two US companies, United Brands and Standard Fruit, and most other profitable agricultural enterprises are owned by a small

number of private citizens. With its economy enormously dependent on banana production, the country is vulnerable to weather and world market price variations. Honduras also has extensive forest, marine, and mineral resources, although widespread slash-and-burn agricultural methods continue to destroy forests. Hondurans, however, are becoming more concerned about protecting their environmental patrimony, in part because of the benefits of ecotourism.

In 1995, the Honduran economy rebounded from the severe recession experienced in 1994. Real GDP growth in 1995 was 3.6%. It was led by a solid expansion in agricultural production spurred by soaring world coffee prices, excellent basic grains harvests, and a resurrected banana industry as well as a growing maquila (Free Trade Zone of assembly plants) sector that employed 65,000 people by year's end. Honduras also received abundant rainfall which replenished the nation's dams and enabled the country to generate adequate hydroelectric energy, thus avoiding the drought-related power cuts which adversely affected economic performance in 1994. In 1996, Honduran GDP grew about 3.5%. However, inflation for 1996 reached 24.9%, well above the government's target of 16%. End of period inflation declined to 12.8% in 1997.

The economy, however, has still not recovered from the devastation left by Hurricane Mitch in late 1998, a Category Five Hurricane, rated the worst in 200 years, with winds reaching 200-mph and dumping unprecedented amounts of rain in their wake. The dead were officially counted at almost 6,000, but the total number buried in the mud slides will likely never be known. Hurricane Mitch destroyed 20–80% of the 1998 coffee and banana crops, and caused an estimated \$3 billion in damages, equal to half of the annual GDP. End of period inflation rose to 15.9%. In 1999 the Paris Club creditor countries extended a three-year moratorium on debt repayments by Honduras and wrote-off about two-thirds of its \$1.7 billion external debt contingent on the implementation of austerity, liberalization, and privatization program under the IMF's Poverty Reduction and Growth Facility (PRGF). In February 1999, a man-made disaster, a fire at the El Cajón hydroelectric plant, shut down 60% of the country's electricity until May. In all, GDP in 1999 fell 1.9% as the fall in production and export revenues was offset by increases in construction under the National Reconstruction and Transformation Plan presented by the government in May. Inflation was held to 10.9%, but the country's trade deficit, which had amounted to 10.7% of GDP in 1997, more than doubled as a proportion of GDP, to 23.8% in 1999.

In 2000, GDP growth rose to 5% as the reconstruction program continued, although the trade deficit remained high—21.1% of GDP. Inflation dipped slightly to 10.1% and Honduras qualified for debt forgiveness and restructuring under the Highly Indebted Poor Countries (HIPC) initiative which included adhering to a program of civil service reform that meant large layoffs in the public sector. Honduras joined Guatemala and El Salvador in a free trade agreement with Mexico, but ended up placing trade sanctions on Nicaragua over border and fishing rights disputes. In 2001, though reconstruction continued, Honduras was hit by a serious drought that helped reduce GDP growth to 3.5%. The trade deficit increased slightly as a percent of the GDP to 23% as exports were further depressed by a declining external demand. Inflation fell to 10%. In 2002, GDP grew about 1.4% and inflation fell to 7.7%, although the IMF withheld further disbursement of

debt relief under the HIPC because the targets under the PRGF program had not been sufficiently met. The trade deficit remained inordinately high, amounting to about 25% of GDP.

The economy expanded by 5.0% in 2004, up from 3.0% in 2003; in 2005, the GDP growth rate was estimated at 4.0%, while the GDP per capita, at purchasing power parity, reached \$2,900. The inflation rate was fairly stable and at 8.1% in 2004 it did not pose a major problem to the economy. The unemployment rate however, was, at 28%, very high and, together with the unequal distribution of income, represented one of the main concerns of the government. Honduras remains one of the poorest countries in the Western hemisphere and is dependent on the economy of the United States, its largest trading partner.

2⁰ INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 Honduras's gross domestic product (GDP) was estimated at \$20.6 billion. 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 based on current dollars. The per capita GDP was estimated at \$2,900. The annual growth rate of GDP was estimated at 4%. The average inflation rate in 2005 was 9.2%. It was estimated that agriculture accounted for 12.7% of GDP, industry 31.2%, and services 56.1%.

According to the World Bank, in 2003 remittances from citizens working abroad totaled \$867 million or about \$124 per capita and accounted for approximately 12.6% of GDP. Foreign aid receipts amounted to \$389 million or about \$56 per capita and accounted for approximately 5.7% of the gross national income (GNI).

The World Bank reports that in 2003 household consumption in Honduras totaled \$5.13 billion or about \$736 per capita based on a GDP of \$6.9 billion, measured in current dollars rather than PPP. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the period 1990 to 2003 household consumption grew at an average annual rate of 3.1%. It was estimated that in 1993 about 53% of the population had incomes below the poverty line.

2¹ LABOR

In 2005, the Honduran workforce totaled an estimated 2.54 million (excluding the armed forces). In 2002, agriculture accounted for 37.4% of the labor force, with services at 41.2%, and industry at 21.4%. The unemployment rate in 2005 was estimated at 28%.

Honduras did not have effective labor legislation until 1954. It joined the ILO in 1955 and subsequently adopted several labor codes, most notably that of 1959, which established the Ministry of Labor. The code also provided for union organization, collective bargaining, arbitration, social security, and fair labor standards. The principal labor organizations in 2002 were the Confederation of Honduran Workers (CTH), the General Workers' Central (CGT), and the Unitary Confederation of Honduran Workers (CUTH). Although retribution against union activity is prohibited by law, it frequently occurs. Only 14% of the workforce was unionized in 2002.

The law sets the maximum at an 8-hour day, a 44-hour week, and a 24-hour rest period each week. Because of high unemploy-

ment and a lack of government enforcement, however, these regulations are often not enforced. The labor code disallows children under 16 from working; however, in actuality, economic necessity and a lack of government enforcement mean that many children do work, especially on small farms in rural areas and as street vendors in cities. As of 2002, the daily minimum wage ranged from \$2.25 to \$4.08.

2² AGRICULTURE

Over 16% of the national territory is agriculturally productive; because of the uneconomical system of land use, much arable land has not been exploited. Agriculture is the primary sector of the economy, accounting for about 13% of GDP and 32% of employment in 2003. Farming methods are inefficient, and crop yields and qualities are low. The principal export crops are bananas and coffee; the major subsistence crops are corn, sorghum, beans, and rice. In 2002–04, crop production was 11% higher than during 1999–2001. The trade surplus in agricultural products totaled \$173.7 million in 2004. Crop production for 2004 included: sugarcane, 5,363,000 tons; bananas, 965,000 tons; sorghum, 52,500 tons; dry beans, 69,900 tons; rice, 29,100 tons.

Since 1972, agrarian reform has been an announced priority of the national government. In January 1975, plans were made for the distribution of 600,000 hectares (1,483,000 acres) of land among 100,000 families over a five-year period. The program was suspended in 1979 because of lack of funds and pressure from landowners; by that time, only about one-third of the goal had been met. The reform program was revived in the early 1980s, and in 1982, lands totaling 27,960 hectares (69,090 acres) were distributed to 4,000 peasant families. By 1986, however, land reform was at a virtual standstill; peasant groups, demanding immediate land distribution, staged "land invasions" and seized the offices of the National Agrarian Institute in San Pedro Sula. The agricultural modernization law eliminated subsidized credit to small farmers, while high commercial interest rates squeezed small farmers from the credit market.

2³ ANIMAL HUSBANDRY

Honduran consumption of milk and meat is traditionally low. However, pastures account for 13.8% of the total land area. Poor transportation facilities are a barrier to the development of stock raising and dairying, two potentially profitable economic activities. Honduras has nearly 100,000 livestock operations, mostly small or medium-sized producers. About 50% of all cattle ranches are 50 hectares (124 acres) or smaller, and 95% of all ranches have less than 100 head. In 2005, the cattle population was estimated at 2,500,000 head; hogs, 490,000; horses and mules, 250,600; and chickens, 18,700,000. That year, 1,761,950 tons of raw milk and 40,900 tons of eggs were produced. During 2002–04, livestock and poultry production had increased 6% since 1999–2001.

2⁴ FISHING

There is commercial fishing in Puerto Cortés, and other areas are served by local fishermen. A small local company operates a cannery for the domestic market on the Gulf of Fonseca. There is a commercial fishing concern on the island of Guanaja, and a large refrigeration-factory ship is engaged in freezing shrimp and lobster near Caratasca. In 2003, the total catch was 30,835 tons.

Shrimp accounted for about 65% of the total catch, taken mostly from southern shrimp farms. Exports of fish products amounted to \$46.3 million in 2003.

25 FORESTRY

About 48% of Honduras is covered by forests, including stands of longleaf pine and such valuable hardwoods as cedar, ebony, mahogany, and walnut. Total roundwood production in 2004 amounted to 9.5 million cu m (335 million cu ft), and forest products exports were valued at \$43.1 million. The National Corporation for Forestry Development (Corporación Hondureña de Desarrollo Forestal), established in 1974, is charged with the overall preservation, exploitation, and exportation of Honduran forest resources. The privatization of government-owned woodlands is expected to intensify the use of forestry resources. A restriction on the export of raw wood also is causing growth in the woodworking industry for semifinished wood products.

26 MINING

The mineral resources of Honduras consisted of cadmium, cement, gold, gypsum, iron oxide pigments, lead, limestone, marble, pozzolan, rhyolite, salt, silver, and zinc, a leading export commodity. However, inadequate transportation continued to hamper full development of the country's mineral resources. In the mid-1990s, the El Mochito Mine, in Santa Bárbara, was the country's only large operating base metal mine. By the end of 2002, the mine's proven and probable reserves stood at 3.2 million tons at an average grade of 6.8% zinc, 1.9% lead, and 78 grams per ton of silver. Estimated and indicated reserves were placed at 4.3 million tons, with inferred reserves at 2.4 million tons. Lead and zinc concentrates from the mine contributed less than 2% to GDP, which grew 5% in 2001, with the completion of reconstruction from Hurricane Mitch. Under 0.3% of the Honduran labor force was employed in the mining sector.

In 2003, production of mined zinc was estimated at 46,500 metric tons, up from 46,339 metric tons in 2002. Lead mine output in 2003 was estimated at 8,000 metric tons. Silver and gold production in 2003 totaled 2,040 kg and 3,029 kg, respectively in 2003. Limestone output that same year was estimated at 1.23 million metric tons, unchanged from 2001 and 2002.

27 ENERGY AND POWER

Honduras has no known proven reserves of oil, natural gas, coal or refining capacity. Therefore, it must import all the refined petroleum products natural gas or coal that it consumes. However, it is nearly self-sufficient for its own electricity needs. In 2002, imports and consumption of refined oil products averaged 38,710 barrels per day and 38,340 barrels per day, respectively. Coal was also imported that year, amounting to 186,000 short tons of hard coal, of which consumption came to 155,000 short tons. There were no imports or consumption of natural gas in 2002.

Honduras's electric power sector is heavily reliant upon fossil fueled plants and hydropower. However, the country is facing increasing demand for electric power and the possibility of power shortages due to underperforming hydroelectric facilities. In 1998, for example, a drought induced by El Niño forced the government to declare an energy emergency. Since then, the government has sought to diversify its sources of electric power via the

construction of thermal power plants. In 2002, electric power generating capacity was 0.923 million kW, with hydropower accounting for 0.435 million kW and conventional thermal plants 0.488 million kW. In the same year, consumption of electricity totaled 3.371 billion kWh, while output came to 3.195 billion kWh, with hydropower accounting for 1.594 billion kWh, and 1.601 billion kWh from conventional thermal plants.

28 INDUSTRY

Industry as a whole supplied 32% of Honduras's GDP in 2000 and employed 21% of the work force. Manufacturing has traditionally been limited to small-scale light industry supplying domestic requirements.

Assembly plant operations developed in the 1970s, especially after a free-trade zone was established in Puerto Cortes in 1975. San Pedro Sula is the center for matches, cigars, cigarettes, cement, meatpacking, sugar, beer and soft drinks, fats and oils, processed foods, shoes, and candles. Tegucigalpa has plants for the manufacture of plastics, furniture, candles, cotton textiles, and leather. The country has also established a well-known apparel assembly industry in the maquiladora sector, which employed over 125,000 workers in 2001. As of 2002, Honduras was the second-largest exporter of maquiladora items to the US market.

Production in the manufacturing industry, mainly of nondurable goods, has realized significant growth in the late 1990s and into the 2000s. The largest growth has been seen in the construction sector, which rebounded after the destruction wrought by Hurricane Mitch in 1998. The electric, gas, and water sectors gained almost 9%. However, in 1999 a fire temporarily closed the Cajon hydroelectric plant that had supplied 40% of the country's electricity. The electronic distribution system was privatized in 2000.

The industrial production growth rate in 2003 was 7.7%, higher than the overall GDP growth rate, and an indicator that industry was an economic growth engine. In 2005, industry accounted for 31.2% of the GDP and it employed around 21% of the labor force. Services were by far the largest sector, with a 56.1% share of the economy, while agriculture was the smallest one, with a 12.7% share.

29 SCIENCE AND TECHNOLOGY

The Honduran Academy (founded in 1949), the Honduran Coffee Institute, and the National Agriculture Institute are all located in Tegucigalpa. The José Cecilio del Valle University (founded in 1978) has engineering and computer science departments, and the National Autonomous University of Honduras (founded in 1847) has faculties of medicine, pharmacy, dentistry, and engineering. The Pan-American Agricultural School (founded in 1942) has students from 20 Latin American countries. The National Museum in Tegucigalpa has natural history exhibits. In 1987–97, science and engineering students accounted for 24% of college and university enrollments.

In 2000, there were 74 researchers and 261 technicians per million people who were actively engaged in research and development (R&D) activities. For that same year, R&D spending by Honduras totaled \$8.346 million, or 0.05% of GDP. In 2002, high technology exports by Honduras totaled \$5 million, accounting for 2% of that country's manufactured exports.

3⁰ DOMESTIC TRADE

The principal distribution centers include Puerto Cortes and San Pedro Sula, the latter of which is the commercial and industrial capital on the nation. Tegucigalpa is a leading center of retail trade. In major cities, shops are comparable to those in Central American towns. In the countryside, small markets and stores supply staple needs. As of 2002, there were about 55 foreign franchise companies present in the country. That number is expected to rise rapidly as local business managers become interested in franchise agreements. Foreign investment is encouraged, but in certain industries, the law requires that majority ownership be by Hondurans. The government maintains a certain degree of price management and controls over some items, including coffee, medicine, gasoline, milk, and sugar. A 12% sales tax applies to many goods and services, with the exception of staple food items and certain health and educational expenses.

Business hours are generally from 8 AM to noon and 1:30 or 2 to 5 or 6 PM on weekdays and 8 to 11 AM on Saturdays. Banks in Tegucigalpa are open from 9 AM to 3 PM, Monday through Friday.

3¹ FOREIGN TRADE

Honduras remains at the forefront of Central American economic integration efforts. In May 1992, Honduras signed several trade agreements with its neighbors, including Free Trade Agreements with Guatemala and El Salvador, and a Honduran/Salvadoran/Guatemalan Northern Triangle Accord, with the intent of accelerating regional integration. Honduras is also a member of the WTO and the CACM. Free trade agreements were under discussion with Chile, Panama, Mexico, the Andean Community, Taiwan, and the Dominican Republic in 1999.

The most important export from Honduras is coffee (33%), followed by printed matter (13%), and the cultivation of fruits and nuts (10%). Other major exports include shrimp and lobster (3.5%), wood and logging products, including paper (4.1%), and tobacco (2.4%).

In 2005, exports reached \$1.7 billion (FOB—Free on Board), while imports grew to \$4.1 billion (FOB). In 2004, the bulk of exports went to the United States (54.4%), El Salvador (8.1%), Germany (5.9%), and Guatemala (5.4%). Imports included manu-

factures and industrial raw materials, machinery and transport equipment, minerals and fuels, and food and animal products, and mainly came from the United States (37.5%), Guatemala (6.9%), Mexico (5.4%), Costa Rica (4.3%), and El Salvador (4%).

3² BALANCE OF PAYMENTS

Since 1973, trade balances have been negative. Investment income repatriated by foreign companies in Honduras is an endemic burden on the local economy. The Honduran authorities have generally adhered to the policies of fiscal and monetary restraint that were introduced early in 1959, following a period of exceptional strain on the country's international reserves. The fall in reserves resulted from a decline in income from the banana industry and reduced international prices for other major exports. Political instability in the region in the late 1970s to the mid-1980s, together with low commodity prices and high oil prices, had an adverse effect on the balance of payments. The 1990s brought a continuation of the negative trade balance (averaging 7% of GDP), especially after the increase of imports after Hurricane Mitch. However, increases in agricultural and clothes exports are forecast to improve the balance of payments situation. International reserves reached \$700 million in 1999 due, in part, to increased remittances from abroad, and international aid following the hurricane (\$300 million from the United States alone).

The US Central Intelligence Agency (CIA) reported that in 2001 the purchasing power parity of Honduras's exports was \$2 billion while imports totaled \$2.7 billion, resulting in a trade deficit of \$700 million.

The International Monetary Fund (IMF) reported that in 2001 Honduras had exports of goods totaling \$1.93 billion and imports totaling \$2.81 billion. The services credit totaled \$481 million and debit \$653 million.

Exports of goods reached \$1.6 billion in 2004, up from \$1.4 billion in 2003. Imports increased from \$3.1 billion in 2003, to \$3.7

Principal Trading Partners – Honduras (2002)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	961.8	3,105.3	-2,143.5
United States	448.9	1,210.7	-761.8
El Salvador	138.7	171.7	-33.0
Guatemala	63.3	261.6	-198.3
Germany	53.6	38.5	15.1
Netherlands	27.1	15.1	12.0
Belgium	23.4	23.6	-0.2
Costa Rica	22.1	149.9	-127.8
Japan	17.4	168.4	-151.0
Nicaragua	16.5	48.9	-32.4
Jamaica	15.1	...	15.1

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

Balance of Payments – Honduras (2003)

(In millions of US dollars)

Current Account		-279.2
Balance on goods		-987.2
Imports	-3,065.4	
Exports	2,078.2	
Balance on services		-77.0
Balance on income		-183.3
Current transfers		968.2
Capital Account		21.0
Financial Account		-20.0
Direct investment abroad		...
Direct investment in Honduras		198.0
Portfolio investment assets		-4.1
Portfolio investment liabilities		...
Financial derivatives		...
Other investment assets		-77.6
Other investment liabilities		-136.3
Net Errors and Omissions		76.1
Reserves and Related Items		202.1

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

billion in 2004. The resource balance was consequently negative in both years, deteriorating from -\$1.7 billion in 2003, to -\$2.1 billion in 2004. The current account balance followed a similar path, worsening from -\$292 million in 2003, to -\$391 million in 2004. Foreign exchange reserves (including gold) reached \$2.2 billion in 2005, covering more than six months of imports.

33 BANKING AND SECURITIES

In 1950, the Central Bank of Honduras (Banco Central de Honduras), the sole bank of issue, was established to centralize national financial operations and to replace foreign currencies then in circulation. In 2002, there were 22 commercial banks in Honduras with an estimated \$3.4 billion in assets. In addition, there are some 150 nonbank financial institutions, many of them associated with the major banks. The Banco Atlántida, the most important commercial bank, accounts for over one-half of the total assets of private banks. US banks play a significant role in the commercial system: the Atlántida is affiliated with Chase Manhattan, and the second-largest commercial bank, the Banco de Honduras, is affiliated with Citibank of New York.

The government-controlled banks, including the National Development Bank, the National Agricultural Development Bank, and the Municipal Bank, provide credit for development projects. The National Development Bank extends agricultural and other credit—mainly to the tobacco, coffee, and livestock industries—and furnishes technical and financial assistance and other services to national economic interests. The Municipal Bank gives assistance at the local level.

In 1990, the Central Bank devalued the lempira and let it float freely until 1994, when a currency auction was created. The year of 1995 saw the Financial Sector Reform Law, which created a modern Banking Commission. Elements of Central Bank reforms in 1997 included the abolition of the government's right to borrow at below-market rates of interest. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$800.6 million. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$3.3 billion.

In 1990, a stock exchange opened in San Pedro Sula to raise short-term bond finance for local businesses.

34 INSURANCE

The oldest insurance company in Honduras is Honduras Savings (Ahorro Hondureño), established in 1917. Five other companies deal with life insurance and other types of policies. The number and the role of foreign companies in the insurance sector have decreased because of government incentives to domestic underwriters. In 2002, direct premiums written totaled \$190 million, of which the largest portion, \$142 million, was nonlife premiums. In 2003, the top nonlife insurer was Ahorro, with gross written non-life premiums of \$19.3 million. In that same year, the country's leading life insurer was Palic, with gross written life insurance premiums of \$16.5 million.

35 PUBLIC FINANCE

The US Central Intelligence Agency (CIA) estimated that in 2005 Honduras's central government took in revenues of approximately

\$1.6 billion and had expenditures of \$1.9 billion. Revenues minus expenditures totaled approximately -\$245 million. Public debt in 2005 amounted to 70.5% of GDP. Total external debt was \$4.675 billion.

36 TAXATION

Personal income in Honduras is taxed according to a progressive schedule with rates running from 10–25%. In 2001, the personal exemption level equaled six times the average income in Honduras whereas the threshold for the 25% bracket was 36 times the average income (down from over 100 times the average in 1997). Social security taxes are also collected. No distinction is made for tax purposes between individuals and businesses. Agricultural activities and industries classified as “basic” receive favorable depreciation rates. The corporate tax rate is 25%, with a 5% solidarity tax added. Profits from branch operations are taxed at 15%. The main indirect tax is a value-added tax (VAT) with a standard rate of 12%. An increased rate of 15% is applied to some items. Excise taxes are imposed mainly on beer and cigarettes, but also on imported matches, soft drinks, imported sugar, and new motor vehicles. New industries are exempted from income and production taxes and import duties for up to 10 years.

District and municipal governments obtain their revenues from taxes on amusements and livestock consumption, and from permits, licenses, registrations, certifications, storage charges, transfers of real estate, and fines.

37 CUSTOMS AND DUTIES

Most imports from outside the CACM are subject to a common external tariff (CET) ranging from 0–20%. Duties are levied ad valorem over the cost, insurance, and freight (CIF) value of goods. Honduras also imposes a sales tax (12% on most goods, 15% for alcohol and tobacco) and consumption tax on selected imports: 20% on alcoholic beverages, 35% on motor vehicles, and 55% on cigarettes. Capital goods are admitted at a tariff rate of only 1%.

In June 1992, the Central Bank of Honduras eliminated the need for most import permits and foreign exchange authorizations.

38 FOREIGN INVESTMENT

Traditionally, the Honduran attitude toward foreign enterprise has been favorable. Foreign capital is treated in the same way as domestic capital; however, firms in the distribution, health services, telecommunications, fishing and hunting, mining, insurance and financial services, or lumber business must have 51% Honduran ownership. Honduran economic development has been powerfully influenced by foreign investment in agriculture, industry, commerce, and other economic sectors.

Since 1910, the Standard and Fruit and Steamship Co. and United Brands (formerly the United Fruit Company) have developed railroads, ports, plantations, cattle farms, lumber yards, breweries, electric power, housing, and education. All contracts, aside from commodity exports, were canceled on 15 September 1975; plans to convert banana-marketing operations into a joint venture fell through, however, and in 1976, the government instead expropriated large tracts of land from the banana producers. Mines have been developed by the New York and Honduras Rosario Mining Co.

In 1998, annual foreign direct investment (FDI) inflows into Honduras totaled almost \$100 million, down from \$128 million in 1997. Annual FDI inflows more than doubled from 1999 to 2001, averaging \$238 million.

The United States has historically been, and remains today, Honduras's largest investor, accounting for at least three-quarters FDI in Honduras. More than 100 American companies operate there. About 75% of those companies produce apparel, but the largest US investments in Honduras have been in the agribusiness sector. Other important sectors include petroleum products, marketing, electric power generation, banking, insurance, and tobacco.

US franchises have substantially increased their presence in recent years, mostly in the fast food sector. Other major investors include Japan, El Salvador, Korea, Hong Kong, and Taiwan. Total capital inflows reached \$198 million in 2003 (or 3.0% of the GDP), up from \$172 billion in 2002, but still far from the 2000 historical high of \$282 million.

3⁹ ECONOMIC DEVELOPMENT

During the administration of President Callejas, between 1990 and 1993, economic policy was mostly based on neoliberal ideas. This included a move from an inward-oriented policy to an export-oriented one. In addition, privatization was deeply emphasized. During that period, GDP was characterized by consistent growth. At the same time the country's galloping inflation was reduced to single digits. Government corruption, however, prompted citizens to vote Callejas out of office.

The November 1993 elections gave birth to a new political era in Honduras. President Reina of the Liberal Party was expected to slow down the pace of market-oriented reforms, but to continue privatization. Strong growth in nontraditional exports and the prospects for an improvement in coffee prices helped to finance the current account deficit. The continuation of foreign aid and investment was essential to closing the Honduras trade gap.

Reforms in the late 1990s were focused on alleviating the lot of the poorest citizens in Honduras, and improving international competitiveness. Hurricane Mitch in 1998 damaged the economy (particularly banana exports), as did low world coffee prices in the early 2000s, and cold weather and heavy rains in 2002–03 harmed the harvest (coffee revenues were down to \$161 million in 2001, from \$340 million in 2000). The garment-manufacturing industry, the third-largest in the world, turned in a strong performance in early 2003. In 2000, Honduras became eligible under the International Monetary Fund (IMF)/World Bank Heavily Indebted Poor Countries (HIPC) Initiative for \$900 million in debt service relief.

The economic growth of 2005 was mainly led by an increase in consumption and exports. However, consumption levels are expected to grow slower than the overall economic growth (despite a rise in remittances from abroad) due to the impact on wages of above-target inflation. Maquilas and tourism, as well as major public development projects, will likely benefit the economy in coming years, although they can also lead to high levels of indebtedness.

4⁰ SOCIAL DEVELOPMENT

The social insurance program covers accidents, illness, maternity, old age, occupational disease, unemployment, disability, death,

and other circumstances affecting the capacity to work. Social security services are furnished and administered by the Honduran Social Security Institute and financed by contributions from employees, employers, and the government. Workers contribute 1% of their earnings toward retirement, disability, and survivor insurance, while employers paid 2% of their payroll. Retirement is set at age 65 for men and age 60 for women. These programs exclude domestic, temporary and some agricultural workers. Workers' medical benefits include medical care and surgery, hospitalization and medications, and appliances.

Violence against women remains widespread although the penal code classifies domestic violence and sexual harassment as crimes. These laws are not effectively enforced. Cultural attitudes toward women limit career opportunities, and women mostly work in low status jobs. Women are treated equally under the law in divorce cases. There is a growing problem of child abuse, and trafficking in children continues.

The government's human rights record has improved since 1995, but serious abuses still occur, including torture and killing by the police. Human rights groups have challenged the existence of organized death squads.

4¹ HEALTH

Health conditions in Honduras are among the worst in the Western Hemisphere. There are an estimated 83 physicians, 25 nurses, and 1 dentist per 100,000 people. The Inter-American Cooperative Public Health Service, created in 1942 under the joint sponsorship of Honduras and the United States, has contributed to public health through malaria control, construction of water systems and sewage disposal plants, personnel training, and the establishment of a national tuberculosis sanatorium. US Peace Corps volunteers help train personnel for urban and rural clinics. Nearly 39% of children under five years of age were considered malnourished as of 2000. Honduras started fortifying sugar with vitamin A in 1996. Health care expenditure was relatively high, estimated at 8.6% of GDP.

Major causes of illness and death are diseases of the digestive tract, intestinal parasites, accidents, suicides, influenza, pneumonia, cancer, and infant diseases. Malnutrition, impure water, poor sewage disposal, and inadequate housing are the major health problems. In 2000, 90% of the population had access to safe drinking water and 77% had adequate sanitation. In 1995, there were 4,717 cases of cholera, of which 77 turned fatal. In 1995, there were 1,022 malaria cases per 100,000 people. Honduras has been hard hit by AIDS. The HIV/AIDS prevalence was 1.80 per 100 adults in 2003. As of 2004, there were approximately 63,000 people living with HIV/AIDS in the country. There were an estimated 4,100 deaths from AIDS in 2003. Immunization rates for children up to one year old were as follows: tuberculosis, 99%; diphtheria, pertussis, and tetanus, 94%; polio, 93%; and measles, 89%. The government pays 79% of routine immunization bills. As of 2002, the birth rate was estimated at 31 per 1,000 people and the general mortality rate at 5 per 1,000 people. About 50% of married women (ages 15 to 49) were using contraception. In 2000 the total fertility rate was 3.9 children per mother during her childbearing years. The infant mortality rate in 2005 was 26.47 per 1,000 live births. Life expectancy in the same year was an average of 69.30 years.

4² HOUSING

Housing shortages and lack of access to basic utilities in existing housing units has been an ongoing problem throughout most of the country. In recent years, the government has initiated and participated in several programs focusing on low-income housing construction. These have included a \$30-million low-cost housing program sponsored by the Housing Finance Corp. and a \$19-million venture undertaken by the National Housing Institute.

As of 2000, about 90% of the population had access to improved water sources; 77% of the population had access to improved sanitation systems. As of the 2001 census, there were about 1,487,319 housing units in the nation. The vast majority of housing units are individual homes, about 66% of which are considered to be deficient. Many homes are simply made of cardboard or plastic structures that house from 4 to 10 people in a single room.

4³ EDUCATION

Public education is free and compulsory for six years (ages 6 to 12). After these six years of primary education, students take three years of lower secondary school and two years of upper secondary school. In the upper level, students choose between literary or scientific tracks. Students may also choose to attend a three-year technical school at the upper level. The academic year runs from February to November.

In 2001, about 21% of children between the ages of four and six were enrolled in some type of preschool program. It is estimated that about 79% of all students complete their primary education. The student-to-teacher ratio for primary school was at about 34:1 in 2003. As of 1998, there were 169,430 students enrolled in secondary schools.

The major university is the National Autonomous University of Honduras, founded at Tegucigalpa in 1847, with branches at San Pedro Sula and La Ceiba. There are several other universities, as well as technical and agricultural schools. In 2001, about 15% of the tertiary age population were enrolled in some type of higher education program. The adult literacy rate for 2004 was estimated at about 80%.

As of 2003, public expenditure on education was estimated at 4% of GDP.

4⁴ LIBRARIES AND MUSEUMS

Although the National Archive and Library of Honduras was established in 1880 to conserve and maintain the records of the republic, no great attention has been shown to government documents and other records in modern times. The National Archive and Library (40,000 volumes) includes land titles dating from 1580, historical documents dating from the 17th century, a newspaper collection from 1880 onward, a civil registry, and a collection of laws since 1880. The Ministry of Education has charge of the National Archive, as well as of other libraries and museums. The National University's library in Tegucigalpa contains over 200,000 volumes.

In Tegucigalpa, the National Museum exhibits historical and archeological works and the Miguel Paz Baraona Historical Museum highlights the personal effects of the national hero as well as the country's history. Also in Tegucigalpa are the National Art Gallery, the Museum of Natural History, and the Museum of Mil-

itary History. The Museum of Anthropology in San Pedro Sula covers regional history from 1500 bc to present day and houses an impressive collection of Mayan artifacts. The Mayan Museum of Sculpture is in Copan. A Colonial Museum in Comayagua contains a collection of religious art and artifacts.

4⁵ MEDIA

The government owns and operates postal, telephone, and telegraph services. Tegucigalpa and San Pedro Sula are linked by a multiplex radio relay network. The Tropical Radio Co. provides international radiotelegraph and radiotelephone service. In 2003, there were an estimated 48 mainline telephones for every 1,000 people; about 342,200 people were on a waiting list for telephone service installation. The same year, there were approximately 49 mobile phones in use for every 1,000 people.

As of 1998, Honduras had 241 AM and 53 FM radio stations. In 1997, there were 11 television stations. In 2003, there were an estimated 411 radios and 119 television sets for every 1,000 people. About 21.6 of every 1,000 people were cable subscribers. Also in 2003, there were 13.6 personal computers for every 1,000 people and 25 of every 1,000 people had access to the Internet. There were 31 secure Internet servers in the country in 2004.

The country's principal newspapers (with 2004 circulation) were *El Herald* (30,000), *Tiempo* (30,000), and *La Tribuna* (20,000), all published in Tegucigalpa, and *La Prensa* (62,000), published in San Pedro Sula. *La Tribuna* is owned by President Flores.

The constitution provides for freedom of speech and press, and the government is said to generally respect these rights. The media itself, however, is said to be subject to a high degree of politicization and corruption.

4⁶ ORGANIZATIONS

The Chamber of Commerce and Industries has its headquarters in Tegucigalpa; chambers of commerce also function in San Pedro Sula, La Ceiba, and other towns. Business and industry organizations include the Federation of Agricultural Producers and Exporters, the Honduran Manufacturers Association, and the Honduran Association of Sugar Producers. Various professional associations are also active.

The National Federation of University Students of Honduras is an active student movement. Other national youth organizations include scouting and YMCA/YWCA programs. There are several sports associations promoting amateur competition in such pastimes as tennis, football (soccer), badminton, tae kwon do, and baseball. There are also active branches of the Special Olympics.

Volunteer service organizations, such as the Lions Clubs International, are present. There are national chapters of the Red Cross, Habitat for Humanity, Caritas, and CARE.

4⁷ TOURISM, TRAVEL, AND RECREATION

The main tourist attraction is the restoration at Copán, the second-largest city of the ancient Mayan Empire. There are many beaches on the northern and southern coasts where there is vibrant underwater life. Fishing is popular in Trujillo Bay and Lake Yojoa. A valid passport is needed for entry, and all visitors need visas except for nationals of the United States, and of the countries

of Central and South America. Evidence of vaccination against yellow fever is required if traveling from an infected country.

Approximately 610,535 tourists visited Honduras in 2003, an 11% increase from 2002. About 57% of the visitors came from Central America. There were 18,590 hotel rooms with 26,897 beds that same year. The average length of stay was estimated at 10 nights. Gross tourism expenditures totaled \$341 million.

In 2004, the US Department of State estimated the cost of staying in Tegucigalpa at \$173 per day. Daily costs in San Pedro Sula were estimated at \$163 in 2002.

48 FAMOUS HONDURANS

José Cecilio del Valle (1780–1834), a member of the French Academy of Sciences, was an intellectual, a political leader, and the author of the Central American declaration of independence. Francisco Morazán (1799–1842) was the last president of the United Provinces of Central America, which lasted from 1823 to 1839. Father José Trinidad Reyes (1797–1855) founded an institute in 1847 that became the National University. Outstanding literary figures were Marco Aurelio Soto (1846–1908), an essayist and liberal president; Ramón Rosa (1848–93), an essayist and biographer; Policarpo Bonilla (1858–1926), a politician and author of political works; Alberto Membreño (1859–1921), a philologist; Juan Ramón Molina (1875–1908), a modernist poet; Froilán Turcios (1875–1943), a novelist and writer of fantastic tales; Rafael Heliodoro Valle (1891–1959), a historian and biographer; and Ramón Amaya Amador (1916–1966), a journalist and left wing political

figure. Contemporary writers include Eduardo Bähr (b.1940), Roberto Sosa (b.1930), Amanda Castro (b.1962), Javier Abril Espinoza (b.1967), and Roberto Quesada (b.1962).

49 DEPENDENCIES

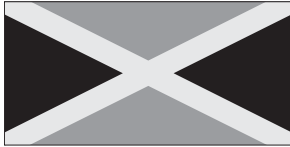
Honduras has no territories or colonies.

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JAMAICA



CAPITAL: Kingston

FLAG: Two diagonal yellow gold bars forming a saltire divide the flag into four triangular panels. The two side panels are black, and the top and bottom panels are green.

ANTHEM: First line, "Eternal father, bless our land..."

MONETARY UNIT: The Jamaican dollar (J\$) of 100 cents was introduced on 8 September 1969. There are coins of 1, 5, 10, and 25 cents, and 1 dollar, and notes of 2, 5, 10, 20, 50, and 100 dollars. J\$1 = US\$0.01612 (or US\$1 = J\$62.04) as of 2005.

WEIGHTS AND MEASURES: Both metric and imperial weights and measures are used.

HOLIDAYS: New Year's Day, 1 January; Labor Day, 23 May; Independence Day, 1st Monday in August; National Heroes' Day, 3rd Monday in October; Christmas, 25 December; Boxing Day, 26 December. Movable religious holidays include Ash Wednesday, Good Friday, and Easter Monday.

TIME: 7 AM = noon GMT.

¹ LOCATION, SIZE, AND EXTENT

Jamaica is an island in the Caribbean Sea situated about 145 km (90 mi) s of Cuba. It has a total area of 10,990 sq km (4,243 sq mi) and extends, at maximum, 235 km (146 mi) N–S and 82 km (51 mi) E–W. Comparatively, the area occupied by Jamaica is slightly smaller than the state of Connecticut. The total coastline is 1,022 km (634 mi).

Jamaica's capital city, Kingston, is located on the country's southeastern coast.

² TOPOGRAPHY

The greater part of Jamaica is a limestone plateau, with an average elevation of about 460 m (1,500 ft). The interior of the island is largely mountainous, and peaks of over 2,100 m (7,000 ft) are found in the Blue Mountains, which dominate the eastern part of the island; the highest point on the island is Blue Mountain Peak, at 2,256 m (7,402 ft) above sea level.

The coastal plains are largely alluvial, and the largest plains areas lie along the south coast. The island has numerous interior valleys. There are many rivers, but most are small, with rapids and falls that make navigation virtually impossible for any distance.

Some volcanic and seismic activity is present on the island in the form of lava cones and hot springs, some of the latter being radioactive. One of the worst earthquakes in history occurred at Port Royal (then the chief city in Jamaica) on 7 June 1692 when a large portion of the city literally sank below sea level through a series of three main quakes and several days of aftershocks; thousands of people were killed. A 1907 earthquake followed by a tidal wave destroyed the Kingston area and killed about 900 people. Lesser earthquakes, such as the 5.1 magnitude tremor felt throughout the country on 13 June 2005, have caused damage to homes and other building, but few injuries.

³ CLIMATE

The climate ranges from tropical at sea level to temperate in the uplands; there is relatively little seasonal variation in temperature. The average annual temperature in the coastal lowlands is 27°C (81°F); for the Blue Mountains, 13°C (55°F).

The island has a mean annual rainfall of 198 cm (78 in), with wide variations during the year between the north and south coasts. The northeast coast and the Blue Mountains receive up to 500 cm (200 in) of rain a year in places, while some parts of the south coast receive less than 75 cm (30 in), most of it falling between May and October. The rainy seasons are May to June and September to November. The period from late August to November has occasionally been marked by destructive hurricanes.

⁴ FLORA AND FAUNA

The original forest of Jamaica has been largely cut over, but in the areas of heavy rainfall along the north and northeast coasts there are stands of bamboo, ferns, ebony, mahogany, and rosewood. Cactus and similar dry-area plants are found along the south and southwest coastal area. Parts of the west and southwest consist of grassland, with scattered stands of trees.

The wild hog is one of the few native mammals, but there are many reptiles and lizards. Birds are abundant. Jamaican waters contain considerable resources of fresh- and saltwater fish. The chief varieties of saltwater fish are kingfish, jack, mackerel, whiting, bonito, and tuna; freshwater varieties include snook, jewfish, gray and black snapper, and mullet.

As of 2002, there were at least 24 species of mammals, 75 species of birds, and over 3,300 species of plants throughout the country.

⁵ ENVIRONMENT

Among the government agencies charged with environmental responsibilities are the Ministry of Health and Environmental Con-

trol, the Ministry of Agriculture, and the Natural Resources Conservation Authority. The major environmental problems involve water quality and waste disposal. Jamaica has 9 cu km of renewable water resources with 77% used for agriculture and 7% used for industrial purposes. About 87% of the people living in rural areas and 98% of the city dwellers have access to pure drinking water. Coastal waters have been polluted by sewage, oil spills, and industrial wastes. Another major source of water pollution has been the mining of bauxite, which has contaminated the ground water with red-mud waste.

Another environmental problem for Jamaica is land erosion and deforestation. Forest and woodland decreased 1.5% annually between 1990 and 2000. Jamaica's coral reefs have also been damaged. Kingston has the waste disposal and vehicular pollution problems typical of a densely populated urban area.

According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 5 types of mammals, 12 species of birds, 8 types of reptiles, 17 species of amphibians, 12 species of fish, 5 species of invertebrates, and 208 species of plants. Endangered species in Jamaica included the tundra peregrine falcon, homerus swallowtail butterfly, green sea turtle, hawksbill turtle, and American crocodile. The Caribbean monk seal, Osborn's key mouse, and the Jamaica giant galliwasp have become extinct.

6 POPULATION

The population of Jamaica in 2005 was estimated by the United Nations (UN) at 2,666,000, which placed it at number 134 in population among the 193 nations of the world. In 2005, approximately 7% of the population was over 65 years of age, with another 31% of the population under 15 years of age. There were 98 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 0.4%. The projected population for the year 2025 was 3,048,000. The population density was 242 per sq km (628 per sq mi), with most of the population residing in coastal regions.

The UN estimated that 52% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 1.23%. The capital city, Kingston, had a population of 575,000 in that year. Other leading cities (and their estimated populations) are Montego Bay (120,000), Spanish Town (about 92,383), and Portmore (90,138).

7 MIGRATION

Jamaica's net loss from emigration totaled 145,800 between 1891 and 1921; after a net gain of 25,800 during 1921–43, losses of 195,200 were recorded from 1943 to 1960, and 265,500 from 1960 through 1970. Until the United Kingdom introduced restrictions on immigration from Commonwealth countries in 1962, a large number of Jamaican workers emigrated to Great Britain. In 1964, in an effort to curb increasing migration, Jamaica passed the Foreign Nationals and Commonwealth Citizens (Employment) Act, providing Jamaicans with easier access to the island's employment market; however, domestic unemployment continued to plague Jamaica through the 1970s. During this period, Jamaica suffered from a "brain drain," losing perhaps as much as 40% of its middle class. From 1971 through 1980, 276,200 Jamaicans left the island, 142,000 for the United States. According to the 2000 US Census,

Jamaican ancestry in the United States was claimed by 736,513 people.

The great disparity between rural and urban income levels has contributed to the exodus of rural dwellers to the cities, where many of these migrants remain unemployed for lack of necessary skills. In this search for jobs, migration is so routine in Jamaica that the term "barrel children" has come to describe children whose parent have gone abroad for work and ship back necessities and goodies to their children in barrels. The US Department of State notes that 20,000 Jamaicans immigrate to the United States each year, settling mainly in New York, Miami, Chicago, and Hartford, Connecticut. In 2003, remittances to Jamaica were \$1.4 billion. In 2005, the net migration rate was estimated as -4.07 migrants per 1,000 population.

Jamaica is a transit point for migrants, including asylum seekers, trying to reach the United States. The total number of migrants living in Jamaica in 2000 was 13,000.

In 1999, Jamaica hosted 25 recognized refugees, most from Cuba, and had granted humanitarian status to a number of others. Asylum seekers continue to arrive from Cuba, Haiti, and other parts of the world. In 2002 six Haitians sought political asylum, having arrived by boat. Fearing their forcible return to Haiti, Amnesty International drew attention to their plight and their claims were fairly heard. In 2004, some 1,104 Jamaicans sought political asylum in Canada, the United Kingdom, and the United States.

8 ETHNIC GROUPS

About 97% of the population is of partial or total African descent. This population is comprised of blacks, mulattos, and black-East Indians or black-Chinese. Other ethnic groups include East Indians (1.3%), Chinese (0.2%), and Europeans. Nearly the whole population is native-born Jamaican. Black racial consciousness has been present in Jamaica at least since the beginnings of the Rastafarian sect, founded in 1930 and based on the ideas of Marcus Garvey.

9 LANGUAGES

Jamaica is an English-speaking country and British usage is followed in government and the schools. Creole is also often used.

10 RELIGIONS

There is freedom and equality of religion in Jamaica. Protestant churches are dominant, with various denominations comprising over 61% of the total population. The Church of God now claims the largest number of adherents, with 24% of the populace. Seventh-Day Adventists, with 11%, and Pentecostals, with 10%, are the next largest denominations. About 7% of the population are Baptist. The Church of England (Anglican), formerly the dominant religion in Jamaica, claims about 4%. Other denominations include Roman Catholics (2%), United Church (2%), Methodists (2%), Jehovah's Witnesses (2%), Moravians (1%), and Brethren (1%). Other religious groups, including Hindus, Jews, Muslims, and Rastafarians, as well as some spiritual cults, make up about 10% of the population. About 22% of the population claim no religious affiliation.

The Rastafarian movement continues to grow and is culturally influential in Jamaica and abroad. Rastas regard Africa (specifically Ethiopia) as Zion and consider their life outside Africa as an

exile or captivity; the use of marijuana, or ganja, plays an important role in the movement. The government officially recognized Rastafarianism as a religion in 2003.

11 TRANSPORTATION

Jamaica has an extensive system of roads; in 2002 there were 19,000 km (11,806 mi) of roads, including 13,433 km (8,347 mi) of paved roads. In 2003 there were 115,260 licensed passenger cars and 30,100 commercial vehicles on the island. Motorbus service, which has greatly facilitated travel, is operated by the government-owned Jamaica Omnibus Services Company.

The standard-gauge rail system totals 272 km (169 mi) of track. Of that total, 207 km (129 mi) which belonged to the government-owned Jamaica Railway Corp. (JRC) are no longer operational, as of 1992. The remaining track is privately owned and used to transport bauxite.

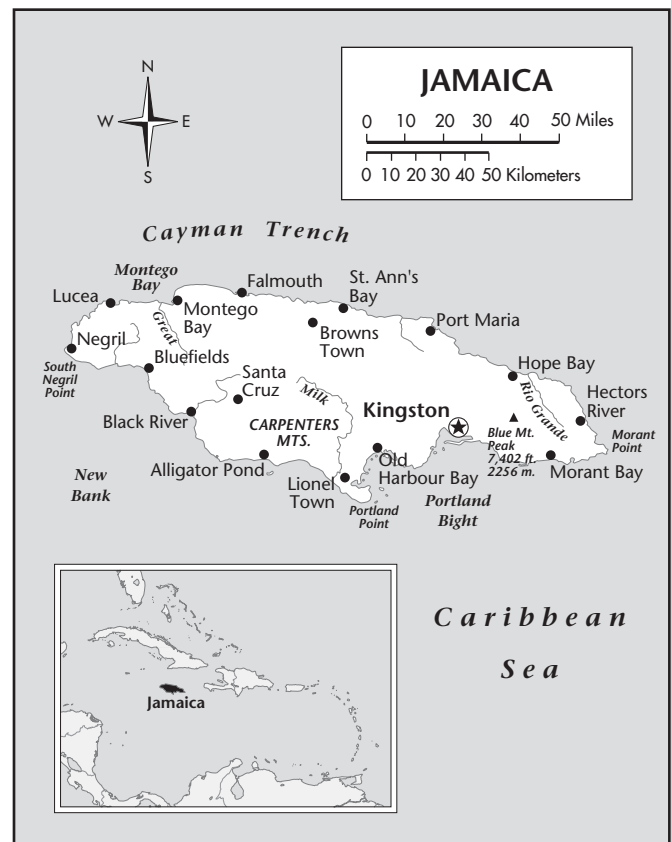
Kingston, the main port, handles nearly all of the country's foreign imports but only a small percentage of its exports, by weight. The remaining exports are shipped through 18 other ports, which tend to specialize in particular commodities: Montego Bay and Port Antonio in bananas and sugar, for instance, and Port Esquivel and Ocho Rios in bauxite. More than 30 shipping companies provide passenger and cargo service. The port facilities of Kingston harbor are among the most modern in the Caribbean. In 2005, Jamaica's merchant marine consisted of nine vessels of 1,000 GRT or more, for a total of 74,881 GRT.

Air service is the major means of passenger transport between Jamaica and outside areas. In 2004 there were an estimated 35 airports, 11 of which had paved runways as of 2005. Control of the two modern airports, Norman Manley International Airport (Kingston) and Sangster International Airport (Montego Bay), was assigned to the Airports Authority of Jamaica in 1974. About eleven airlines provide scheduled international air transportation. Air Jamaica, the national airline, operates internationally in association with British Airways and British West Indian Airways. The government owns a controlling interest in Air Jamaica and has also invested in a domestic air carrier, Trans Jamaican Airlines. In 2003 about 1.838 million passengers were carried on scheduled domestic and international flights.

12 HISTORY

Jamaica was discovered by Christopher Columbus in 1494 and was settled by the Spanish in the early 16th century. The Spanish used the island as a supply base and also established a few cattle ranches. The Arawaks, who had inhabited the island since about AD 1000, were gradually exterminated and replaced by African slaves. In 1655, the island was taken over by the English, and the Spanish were expelled five years later.

Spain formally ceded Jamaica to England in 1670 by the Treaty of Madrid. The island became a base for English privateers raiding the Spanish Main. A plantation economy was developed, and sugar, cocoa, and coffee became the basis of the island's economy. The abolition of the slave trade in 1807 and of slavery itself in 1834 upset Jamaica's plantation economy and society. The quarter million slaves were set free, and many became small farmers in the hill districts. Freed slaves were replaced by East Indian and Chinese contract workers.



LOCATION: 17°43' to 18°32' N; 76°11' to 78°21' W. TOTAL COASTLINE: 1,022 kilometers (634 miles). TERRITORIAL SEA LIMIT: 12 miles.

The economy suffered from two developments in mid-century: in 1846 the British rescinded favorable terms of trade for Jamaica, and the union blockade during the US Civil War limited commercial options for the island. Bankruptcies and abandonment of plantations followed, and dissension between the white planters and black laborers led to a crisis. An uprising by black freedmen at Morant Bay in 1865 began a struggle that necessitated the imposition of martial law. Parliament established a crown colony government in 1866, and Jamaica's new governor, Sir John Peter Grant, introduced new programs, which included development of banana cultivation, improvement of internal transportation, and reorganization of government administration. Advances in education, public health, and political representation pacified the island.

These measures did not resolve Jamaica's basic problems, stemming from wide economic and social disparities, and social unrest came to the surface whenever economic reverses beset the island. The depression of the 1930s, coupled with a blight on the banana crop, produced serious disruption and demands for political reform. A royal commission investigated the island's social and economic conditions and recommended self-government for Jamaica. A Jamaica legislative council committee concurred, and in 1944, Jamaica had its first election. The contenders in that election were two recently formed political parties, the People's National Party (PNP), led by Norman W. Manley, and the Jamaica Labour Party (JLP), founded by Manley's cousin, Sir Alexander Bustamante.

During the 1950s, the bauxite industry and the tourist trade assumed prominent roles in the economy. The economic gains from these enterprises did little to solve Jamaica's underlying economic problems. Jamaica joined with other British Caribbean colonies in 1958 to form the Federation of the West Indies, but in a referendum in 1961 a majority of Jamaicans voted for withdrawal from the federation. The governments of the United Kingdom and Jamaica accepted the decision of the electorate, and Jamaica became an independent state on 6 August 1962, with dominion status in the Commonwealth of Nations. The PNP had supported the federation concept, so the JLP became the independence party, and Bustamante became the nation's first prime minister.

The JLP held power through the 1960s. Donald Sangster became prime minister in 1965 and was succeeded by Hugh Shearer, also of the JLP, two years later. In February 1972, the PNP regained a majority in parliament, and the late Norman Manley's son, Michael, headed a new democratic socialist government.

Manley moved to nationalize various industries, and expanded Jamaica's programs in health and education. Manley placed price controls on a number of key products and provided consumer subsidies for others. Internationally, Manley established friendly relations with Cuba, which the United States decried. Deteriorating economic conditions led to recurrent violence in Kingston and elsewhere during the mid-1970s, discouraging tourism. By 1976, Jamaica was faced with declining exports, a critical shortage of foreign exchange and investment, an unemployment rate estimated at 30–40%, and rampant currency speculation.

The PNP nevertheless increased its parliamentary majority in the December elections that were held during a state of emergency. Tourism suffered another blow in January 1979 with three days of rioting in Kingston, at the height of the tourist season. Meanwhile, Manley quarreled with the IMF. The IMF responded to Jamaica's request for loan guarantees by conditioning acceptance on a set of austerity measures. Manley refused to initiate many of the market-oriented measures the IMF was demanding.

Manley called for elections in the fall of 1980. The campaign was marred by somewhere between 500 and 800 deaths, and was further inflamed by PNP claims that the CIA was attempting to destabilize its government. The opposition JLP won a landslide victory, and Edward Seaga became prime minister and minister of finance. He announced a conservative economic program that brought an immediate harvest of aid from the United States and the IMF. In October 1981, Jamaica broke off diplomatic relations with Cuba, and two years later it participated in the US-led invasion of Grenada.

In December 1983, Seaga called for elections, which the PNP boycotted, leaving the JLP with all 60 seats in the House of Representatives. Seaga then implemented an IMF plan of sharp austerity, pushing the economy into negative growth for two years. In May 1986, Seaga turned away from the IMF, announcing an expansionary budget. The JLP nevertheless suffered a sharp loss in July parish elections, with the PNP taking 12 of 13 municipalities. By January 1987, a new IMF agreement was in place, but their political position continued to slide.

The 1989 elections were a good deal less tumultuous than expected. The two parties reached an agreement to control their respective partisans, and election violence was minimal. The rhetoric was also considerably less inflammatory, as the PNP's Manley

ran as a more moderate candidate. Citing the deterioration of social services under Seaga, and promising to attract foreign capital, Manley was returned to the prime ministership as the PNP took a powerful 45-seat bloc in the House of Representatives. Manley reversed many of Seaga's policies, but by 1992, inflation was on the rise and the economy slowed. Unemployment hovered around 20%. Manley retired in 1992, leaving the government to Percival J. Patterson.

Patterson moved further to the right from Seaga, encouraging more market-oriented reforms. Within a year of taking office, he called for elections, in which violence erupted anew and 11 died in campaign-related killings. The PNP increased its parliamentary margin to 52–8, a small consolation for a government besieged by serious political, social, and economic problems.

Political violence resurged in 1996, following the establishment in 1995 of two new political parties, the Jamaica Labour Party and the rival National Democratic Movement. Clashes between party regulars in Kingston and Spanish Town led to 10 deaths in a six-month period. Vigilante killings in response to a high crime rate were also the norm in 1995 and 1996, with police reporting 22 such killings in that span.

In March 1997, former prime minister and PNP founder Michael Manley died. In the December elections that year, the PNP remained the dominant party. It was the first time a Jamaican political party had won a third consecutive legislative victory. The ruling party also swept local elections in September 1998. However, it presided over an increasingly troubled country, with continued economic contraction and an escalating crime wave, much of it attributable to rival gangs that had begun as armed militias created by the major political parties in the 1970s and later evolved into highly powerful organized crime networks engaged in international drug smuggling and other illicit activities. In the first half of 1999 alone, an estimated 500 Jamaicans had been killed in gang-related violence. In addition, rioting followed the announcement of a 30% gasoline tax increase in April. Export revenues driven down by low prices and high costs followed in a historically cyclical pattern, while tourism was hurt by the rising violence and harsh army tactics were used to curb the crime rate.

The PNP continued to dominate Jamaican politics. In the October 2002 elections, the PNP captured 52.2% of the vote, winning 34 seats in the 60-member Assembly. The prime minister was PNP leader Percival James Patterson. Violence continued with 971 murders in 2003 and 1,145 in 2004. England imposed policies such as halting death penalty executions intended to curb crime in 2002, and in 2003 introduced visa requirements for Jamaicans entering the United Kingdom.

In addition to social and economic hardships, on 10 September 2004 Jamaica was hit hard by Hurricane Ivan. Prime Minister Patterson declared a state of emergency in the interest of public safety, as the national public power and water supplies were forced to shut down. All sectors of the economy were badly affected; the southern parishes that are the breadbasket of the country suffered a double blow, as crops were also damaged during the passage of Hurricane Charley less than a month before. By 2005 protests over price increases, such as utilities and public transportation, continued, as well as general social unrest. In the midst of prevalent gang violence, Prime Minister Patterson announced that he would step down before the legal date of October 2007. Portia Simpson-

Miller was sworn in as the new prime minister on 30 March 2006, becoming the first woman to lead Jamaica's government.

Amidst the violence and poverty, the rural sections of the island, especially in and around the resort towns of Negril, Montego Bay, and Ocho Rios, remained quite safe. Furthermore, President Chavez from Venezuela made preferential agreements with Jamaica and a number of Caribbean nations to aid them with their fuel scarcity, helping boost the slowly progressing economy.

13 GOVERNMENT

The 1962 constitution provides for a governor-general appointed by the crown, a cabinet presided over by a prime minister, and a bicameral legislature.

The Senate, the upper house, consists of 21 members appointed by the governor-general, 13 on the advice of the prime minister and 8 on the advice of the leader of the opposition. The popularly elected House of Representatives consists of 60 members (increased from 53 in 1976). The House is by far the more important of the two. The governor-general appoints both the prime minister and the leader of the opposition. The normal term of office in parliament is five years, but elections can be called at any time. Suffrage is universal at age 18.

The cabinet consists of the prime minister and at least 11 additional ministers, appointed by the governor-general on the advice of the prime minister.

14 POLITICAL PARTIES

Two political parties, the Jamaica Labour Party (JLP) and the People's National Party (PNP), dominate Jamaican politics. Their fortunes have risen and fallen dramatically over the past thirty years. Both parties have held more than three-fourths of parliament. The JLP, founded in 1943 by Sir Alexander Bustamante, is the more conservative of the two parties. Its original political base was the Bustamante Industrial Trade Union, which Bustamante organized in 1938. The JLP held a parliamentary majority during the first 10 years of independence, and again from 1980–89 under Edward Seaga.

The PNP, founded by Norman W. Manley in 1938, held to a moderate socialist program and from its foundation sought responsible government and independence for Jamaica. The party formed its first government in 1972 under Michael Manley. In 1976, the PNP remained in power, increasing its majority by 10 seats in a house that had been enlarged by 7. After losing in 1980, the PNP refused to participate in the parliamentary elections called by Prime Minister Seaga for December 1983, two years ahead of schedule. The PNP draws much of its support from the National Workers' Union, Jamaica's largest trade union, and is primarily an urban, middle-class party that has moved toward the political center since its defeat in the 1980 elections. Both the JLP and PNP stand for a broad program of social reform and welfare and economic development with the participation of foreign capital. The PNP was returned to power in 1989. In 1992, its founder and longtime leader Michael Manley retired and was succeeded by Percival (P.J.) Patterson, who led the party to four consecutive parliamentary victories 1993–2002.

A third political party, the National Democratic Movement (NDM), was formed in October 1995 by Bruce Golding, who was the former chairman of the JLP, and who is now the main leader of

the opposition. In the 2002 elections the JLP gained power as the PNP fell from 50 seats in 1997 to 34. The JLP went from winning 10 seats in 1997 to clinching 26 seats in 2002. The next elections were scheduled for October 2007.

15 LOCAL GOVERNMENT

Local government is patterned on that of the United Kingdom and the unit of local government is the parish. Responsibility for local government is vested in 12 parish councils and the Kingston and St. Andrew Corporation, which represents the amalgamation of two parishes. Since 1947, all of the councils (called parochial boards until 1956) have been fully elective, although the members of the House of Representatives from each parish are ex-officio members of the councils. Elections are normally held every three years on the basis of universal adult suffrage.

Local government authorities are responsible for public health and sanitation, poor relief, water supply, minor roads, and markets and fire services. Revenues come largely from land taxes, supplemented by large grants from the central government.

16 JUDICIAL SYSTEM

The judicial system follows British practice, with some local variations. Cases may be brought in the first instance before a lay magistrate (justice of the peace), a magistrate, or a judge in the Supreme Court, according to the seriousness of the offense or the amount of property involved. The Supreme Court also has appellate jurisdiction. Final appeal rests with the seven-member Court of Appeals, appointed on the advice of the prime minister in consultation with the leader of the opposition. The attorney general, who need not be a member of parliament, is appointed by the governor-general on the advice of the prime minister.

The judiciary is independent but is overburdened and backlogged because of a lack of trained personnel. Recent increases in salaries, training programs for judicial personnel, and improvement in court facilities may eventually serve to improve efficiency and processing of cases. In 1995, to reduce the backlog of cases, the government initiated a night court, but little progress has been achieved almost eight years after the reform.

The constitution gives power to the Court of Appeals and the parliament to refer cases to the Judicial Committee of the Privy Council in the United Kingdom. However, Jamaica was among the eight nations (Barbados, Belize, Dominica, Guyana, Jamaica, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago) whose leaders met in Kingston on 9 June 2003 to ratify a treaty to establish the Caribbean Court of Justice (CCJ), which was inaugurated on 16 April 2005 in Port of Spain, Trinidad and Tobago. It has been established as an attempt to ensure autonomy of judicial determinations in the region in order to complete the process of independence, to inspire confidence, and to ensure voluntary compliance, freeing the justice system from political manipulation.

17 ARMED FORCES

The Jamaica Defense Force assumed responsibility for the defense of Jamaica following the withdrawal of British forces in 1962. The total defense force in 2005 numbered 2,830 active personnel with 953 reservists. The Army accounted for 2,500 personnel, the Coast

Guard 190, and the air wing 140. In 2005, the defense budget totaled \$57.5 million.

18 INTERNATIONAL COOPERATION

Jamaica was admitted to the United Nations on 18 September 1962 and is a member of ECLAC and several nonregional specialized agencies, including the FAO, IAEA, ILO, IMF, UNESCO, UNIDO, WHO, and the World Bank. Jamaica served on the UN Security Council from 2000–01. Although Jamaica remains a member of the Commonwealth of Nations, the country's political, social, and economic ties have shifted toward participation in Latin American, Caribbean, and third-world international organizations. International memberships includes the ACP Group, CARICOM, the Caribbean Development Bank, G-15, G-77, the Alliance of Small Island States (AOSIS), Latin American Economic System (LAES), the Association of Caribbean States (ACS), and OAS.

Jamaica is a member of the Nonaligned Movement and a part of the Organization for the Prohibition of Chemical Weapons and the Agency for the Prohibition of Nuclear Weapons in Latin America and the Caribbean (OPANAL).

In environmental cooperation, Jamaica is part of the Convention on Biological Diversity, Ramsar, CITES, the London Convention, the Kyoto Protocol, the Montréal Protocol, MARPOL, the Nuclear Test Ban Treaty, and the UN Conventions on the Law of the Sea, Climate Change, and Desertification.

19 ECONOMY

The structure of the Jamaican economy has undergone extensive changes since 1945, when it was primarily dependent on tropical agricultural products such as sugar, bananas, coffee, and cocoa. The island has since become one of the world's largest producers of bauxite, though the industry suffered severely in the 1980s from high local costs and low world prices. It has also developed into a major tourist center for North Americans. Since 1983, tourism has been Jamaica's primary foreign exchange earner.

The underlying weaknesses of Jamaica's economy (including unemployment, underemployment, and unequal distribution of income) have revealed themselves as the market for bauxite has weakened. During 1972–80, production and foreign sales of bauxite, sugar, and bananas declined; tourism dropped because of rising social unrest; investor confidence waned; and consumer prices (1975–81) increased by 325%. With the change of administration in both Jamaica and the United States during 1980–81, more than \$1 billion in IMF and other credits became available. This was enough to extricate the country from its immediate payments crisis, but weak growth continued through 1986, when per capita income was 5.6% less than in 1981.

This trend of declining growth performance continued in the 1990s as the country experienced negative growth, for the first time in nearly a decade, declining by 1.5% in 1996. Underlying this performance was a marked deterioration in manufacturing and construction which declined by 2% and 3%, respectively, and the surfacing of severe problems in the financial sector. Significant among industries showing decline was the apparel industry, second only to bauxite and aluminum in terms of export earnings, resulting in a 5% drop in apparel exports in January–October 1996, compared to the same period of 1995. This marked a reversal of the progress for this sector, which experienced 22% growth dur-

ing the same period of 1995. Competition from NAFTA caused many garment manufacturers to close, and thousands of workers to go jobless.

Following the financial crisis of 1995/96, the Jamaican government adopted tight money policies to bring down inflation, which had peaked at 80% in 1992. At 15.8% in 1995/96, inflation fell to 8.8% in 1997/98, and has remained in single digits since. However, 1997/98 was also the first of three consecutive years of contraction in part attributable to the government's financial stabilization policies. Real GDP decreased 0.4% in 1998/99 and 0.1% in 1999/2000, while inflation averaged 7.7% a year. In June 2000, the government agreed to a staff-monitored program (SMP) with the IMF for 2001/02 designed to reduce Jamaica's heavy debt servicing burden and increase the country's attractiveness for foreign investment. In 2000/01 growth returned at a weak level of 1.1%, and continued at the same low level in 2001/02 as export demand weakened and tourism declined in the global economic slowdown in 2001 and in the aftermath of the 11 September 2001 terrorist attacks in the United States. Remittances to Jamaica from expatriates accounted for 13.6% of GDP in 2001. In 2002 and 2003 Jamaica was one of 23 countries on the US government's "Majors" list for being certified as a major illicit drug producer and/or drug transit country.

In 2004, the GDP growth rate was 1.3%, down from 2.3% in 2003; the economy was expected to recover in 2005, and expand by 3.3%. Inflation was on an upward spiral, expected to grow to 14.3% in 2005, from 13.6% in 2004, and 10.3% in 2003. The unemployment rate seemed to have been brought under control at around 11%.

Civil unrest, fueled by gang violence and drug wars, as well as damages caused by Hurricane Ivan hampered the governments attempts of achieving fiscal discipline and economic growth in 2004.

20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 Jamaica's gross domestic product (GDP) was estimated at \$11.7 billion. 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 based on current dollars. The per capita GDP was estimated at \$4,300. The annual growth rate of GDP was estimated at 3.2%. The average inflation rate in 2005 was 14.9%. It was estimated that agriculture accounted for 4.9% of GDP, industry 33.8%, and services 61.3%.

According to the World Bank, in 2003 remittances from citizens working abroad totaled \$1.398 billion or about \$529 per capita and accounted for approximately 18.6% of GDP. Foreign aid receipts amounted to \$3 million or about \$1 per capita and accounted for approximately 0.0% of the gross national income (GNI).

The World Bank reports that in 2003 household consumption in Jamaica totaled \$5.98 billion or about \$2,264 per capita based on a GDP of \$7.5 billion, measured in current dollars rather than PPP. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the period 1990 to 2003 household consumption grew at

an average annual rate of 7.4%. In 2001 it was estimated that approximately 24% of household consumption was spent on food, 3% on fuel, 1% on health care, and 9% on education. It was estimated that in 2002 about 19.7% of the population had incomes below the poverty line.

2¹ LABOR

Jamaica's labor force in 2005 was estimated at 1.2 million. As of 2003, agriculture accounted for 20.1%, with industry at 16.6%, and the services sector at 63.4%. The nation's unemployment rate in 2005 was estimated at 11.5%.

The right to unionize is protected by law, and union membership accounted for 15% of those employed. The two major trade unions are closely identified with the country's two main political parties: the National Workers' Union with the PNP and the Bustamante Industrial Trade Union with the JLP. The Trade Union Congress is a third major union. The ability to strike is neither authorized nor prohibited by law and strikes do occur. The government rarely interferes with union organizing or bargaining efforts and it effectively enforces laws which prohibit discriminating against workers for their union activities.

Labor legislation covers such items as national insurance, employment of nationals, hours of work, minimum wages, employment of women and youths, apprenticeship, and welfare (workers' compensation and factory conditions). The industrial workweek is generally eight hours a day for five days with mandatory overtime pay for work in excess of eight hours. Hours in agriculture and some of the service industries vary, but are usually longer. The minimum wage was US\$30 per week in 2002, but most salaried workers earn more than the minimum.

2² AGRICULTURE

Jamaican agriculture accounts for about 7% of GDP, less than in most developing countries. Agriculture (together with forestry and fisheries) is the third-largest foreign exchange earner and the second-largest employer of labor. Attempts to offset the serious price and production problems of traditional agricultural exports by encouraging production of winter vegetables, fruits, and flowers have had limited success. Vegetable and melon production in 2004 amounted to 196,500 tons; principal varieties include pumpkin, carrot, cabbage, tomato, callaloo, and cucumber. Production of other crop groups (with leading varieties) in 2004 included: pulses (red peas, peanut, gungo peas), 5,050 tons; fruits (papaya, pineapple, watermelon), 464,404 tons; cereals (corn, rice), 1,105 tons; and roots and tubers (yams, potatoes, plantains), 212,500 tons.

Sugar, the leading export crop, is produced mainly on plantations organized around modern sugar factories that also buy cane from independent growers. Raw sugar production in 2004 was estimated at 181,042 tons, down from 290,000 tons in 1978.

Sugar is Jamaica's largest agricultural export, earning \$84.9 million in 2004. Sugar is also used for the production of molasses (78,884 tons in 2004) and rum (24.7 million liters in 2004). Banana production in 2004 was 1250,000 tons. Other major export crops in 2004 included cocoa, and coffee. Blue Mountain coffee, which is primarily exported to Japan, brings in some \$12 million annually in foreign exchange earnings. Jamaica also exports coconuts, pimientos, citrus fruits, ginger, tobacco, yams, papayas,

dasheens, peppers, and cut flowers. Jamaica exported \$266.2 million and imported \$438.4 million in agricultural products during 2004.

The island's food needs are met only in part by domestic production, and foodstuffs are a major import item. The main food crops, grown primarily by small cultivators, are sweet potatoes and yams, rice, potatoes, manioc, tomatoes, and beans. Jamaica is a major producer of marijuana, which, however, remains illegal. The government participates in a US-funded campaign to eradicate marijuana trading.

2³ ANIMAL HUSBANDRY

Livestock has long been important in Jamaica's agricultural life, providing both fertilizer and protein for the local diet. Despite increases in the livestock population and in the production of meat, milk, and poultry, increased demand has resulted in continued imports of livestock products. Livestock holdings in 2005 included some 430,000 head of cattle, 440,000 goats, and 85,000 hogs. Livestock products in 2005 included 102,900 tons of meat (80% poultry) and 28,500 tons of cow's milk.

2⁴ FISHING

The fishing industry grew during the 1980s, primarily from the focus on inland fishing. Whereas the inland catch in 1982 was 129 tons, by 2003 it had risen to 3,013 tons. Nevertheless, imports exceeded exports by \$31.3 million in 2003 to meet domestic needs. The total catch in 2003 was 11,671 tons.

2⁵ FORESTRY

By the late 1980s, only 185,000 hectares (457,000 acres) of Jamaica's original 1,000,000 hectares (2,500,000 acres) of forest remained. Roundwood production increased from 55,000 cu m (1.9 million cu ft) in 1981 to 220,000 cu m (7.8 million cu ft) in 1988 and to 852,500 cu m (30 million cu ft) in 2004. About 67% of the timber cut in 2004 was used as fuel wood. The Forestry Department began a reforestation program in 1963 that was scheduled to last for 30 years; the target was to plant 1,200 hectares (3,000 acres) of timber a year. During the 1990s, reforestation averaged 5,000 hectares (12,300 acres) a year.

2⁶ MINING

Jamaica in 2003 was a leading producer of alumina, with 3.844 million tons, as well as of bauxite, with 13.444 million tons, gross weight dry equivalent. In 2003 Jamaica's alumina plants were operating at near full capacity. The country's bauxite ores were expected to last 100 years.

In 2003, Jamaica produced 248,558 metric tons of gypsum, up from 164,880 metric tons in 2002. Output of lime totaled 275,763 metric tons in 2003. Quality marble was found in the Blue Mountains, and silica sand, limestone, clays, salt, hydraulic cement, marl and fill, and sand and gravel were also exploited. Australia's Ausjam Mining began the first recorded gold-mining operation in Jamaica in 2000, at the Pennants gold mine, in Clarendon Parish. In 2003, the mine produced 277 kg of gold and 98 kg of silver. However, low ore grades and labor union demands forced Ausjam to close Pennants in December 2003.

27 ENERGY AND POWER

Jamaica has no coal deposits proven reserves of oil, or natural gas, and very little hydroelectric potential.

Electricity is the main source of power and is almost all generated by steam from oil-burning plants. In 2002, Jamaica's electric power generating capacity stood at 1.398 million kW, of which conventional thermal accounted for 1.398 million kW of capacity and hydropower at 0.023 million kW. The total amount of electricity generated by public and private sources in 2002 totaled 6.524 billion kWh, of which 6.334 billion kWh came from conventional thermal sources and 0.093 billion kWh came from hydroelectric sources. Geothermal and other sources accounted for 0.097 billion kWh. Consumption of electricity in 2002 came to 6.067 billion kWh. As of 2002, blackouts still occurred from lack of capacity. Some large enterprises, such as the bauxite companies, and the sugar estates generate their own electricity. In 2001, US-based Mirant Corporation acquired 80% of the Jamaica Public Service Company, which had been government owned.

In 2001, Jamaica stated its intention to start replacing fuel oil with natural gas as the primary energy source for its power plants and for the bauxite and alumina industry. Although Jamaica has made a few ventures into alternative sources of energy, these are still minor relative to overall demand.

In 2002, Jamaica's imports of refined and crude oil products averaged 67,860 barrels per day, with total demand for refined products averaging 67,780 barrels per day.

Imports and consumption of coal in 2002 each came to 97,000 short tons.

28 INDUSTRY

In 1996, the production of bauxite and aluminum, the leading export commodities, bounced back from a sharp decline in 1995, but the growth of earnings was dampened by soft conditions in aluminum markets. While bauxite and aluminum output grew by 8.9% and exports of ore and aluminum grew by 9.5%, the value added by mining and quarrying, which consists overwhelmingly of these products, grew by only 2%. In 2001, production of bauxite reached its highest level in 20 years. Alumina production fell by 1% that year, due to the 11 September 2001 terrorist attacks on the United States and the temporary closure of the JAMALCO Halse Hall aluminum plant due to workers' action in October 2001.

Construction was seen as a growth sector in 2002, as was food processing (particularly poultry meat production and condensed milk). Jamaica has an oil refinery with a production capacity of 34,000 barrels per day in 2002.

Industry made up 32.7% of the economy in 2004, and it employed 16.6% of the labor force; agriculture contributed only 6.1% to the economy, but it employed a fifth of the working population; services came in first with 61.3% and 63.4% respectively.

29 SCIENCE AND TECHNOLOGY

Learned societies include the Jamaica Institution of Engineers and the Medical Association of Jamaica, both in Kingston, and the Jamaican Association of Sugar Technologists, in Mandeville. Research institutions include the Caribbean Food and Nutrition Institute, in Kingston, and the Sugar Industry Research Institute, in Mandeville. The Scientific Research Council, located in Kingston

and founded in 1960, coordinates research efforts in Jamaica. The University of the West Indies, with a campus in Mona, has faculties of medical sciences and natural sciences. An agricultural college is located in Portland. The College of Arts, Science and Technology, founded in 1958, is located in Kingston, and the College of Agriculture, founded in 1982, is located in Portland. In 1986, the Scientific Research Council had 18 scientists and engineers and 15 technicians engaged in research and development (R&D). In 1987-97, science and engineering students accounted for 64% of college and university enrollments. In 2002, high technology exports were valued at \$1 million. For that same year, R&D spending totaled \$7.843 million, or 0.08% of GDP.

30 DOMESTIC TRADE

Imports normally account for about one third of the goods distributed and importing is in the hands of a relatively small number of firms. Competition is limited by the acquisition of import licenses and profit margins are high. Many importers function as wholesalers and also have retail outlets. Locally produced consumer goods often are marketed through the same firms.

Retail outlets range from supermarkets and department stores, in the urban areas, to small general stores and itinerant merchants, in the rural regions. Purchases tend to be made in small quantities. Newspapers, radio, and television are the main advertising media.

Shops open weekdays between 8 and 9 AM; large stores generally close at 4:30 or 5 PM, with an early closing one day a week. Food stores, drugstores, and family enterprises, however, often remain open until 9 PM or later. Most commercial establishments also have Saturday hours. They are generally closed on Sundays. Banks are normally open on weekdays from 9 AM to 2 PM.

31 FOREIGN TRADE

Since the discovery of bauxite deposits in the 1950s, Jamaica has become increasingly active in international trade and has gradually loosened its ties to the Commonwealth and increased commercial contacts with North America and the Caribbean. On the supply side, the Jamaican government is committed to attracting foreign investment; and on the demand side, Jamaica is a consumer

Principal Trading Partners – Jamaica (2002)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	1,104.1	3,543.1	-2,439.0
United States	313.0	1,525.6	-1,212.6
Canada	156.9	112.6	44.3
Netherlands	135.2	24.1	111.1
United Kingdom	122.5	129.7	-7.2
Norway	93.3	...	93.3
China	43.7	60.4	-16.7
France-Monaco	41.8	22.2	19.6
Japan	28.6	214.9	-186.3
Ghana	24.0	...	24.0
Sweden	21.9	78.6	-56.7

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

oriented country that produces very little of its major necessities. The United States supplies at least 50% of Jamaica's food needs, but two-thirds of all tourists come from the United States. Jamaica has never recorded a visible trade surplus. In February 1991, the government implemented the CARICOM Common External Tariff (CET), creating the first customs union in the Caribbean.

This island's most lucrative exports are alumina and bauxite (56%), while the garment industry comes second (11%). Sugar (6.4%), rum (4.4%), and fruits (bananas) and nuts (2.5%) are the important agricultural products.

In 2004, exports reached \$1.7 billion (FOB—Free on Board), while imports grew to \$3.6 billion (FOB). The bulk of exports went to the United States (17.4%), Canada (14.8%), France (13%), China (10.5%), the United Kingdom (8.7%), the Netherlands (7.5%), Norway (6%), and Germany (5.9%). Imports included food and other consumer goods, industrial supplies, fuel, parts and accessories of capital goods, machinery and transport equipment, and construction materials, and mainly came from the United States (38.7%), Trinidad and Tobago (13.2%), France (5.6%), and Japan (4.7%).

3² BALANCE OF PAYMENTS

Balance-of-payments deficits in the 1960s and early 1970s were directly related to the growth of the Jamaican economy and to increased imports of capital goods and raw materials. Later in the 1970s, however, the continued deficits were symptomatic of a weakened economy, declining exports, and the flight of capital. The payments picture brightened somewhat in the first half of the 1980s (despite rising debt payments and the downturn of bauxite exports), as income from tourism and remittances from Jamaicans abroad rose, while substantial international assistance enabled Jamaica to meet its payments obligations. In the 1990s, a favorable balance of payments was aided by increased tourism inflows, reduced capital outflows, significant improvement in the

agricultural sector, stability in the foreign exchange rate, and the improved economic strength of the United States, Jamaica's major trading partner. The 11 September 2001 terrorist attacks on the United States negatively impacted Jamaica's balance of payments situation, which had improved in 2000.

The US Central Intelligence Agency (CIA) reported that in 2001 the purchasing power parity of Jamaica's exports was \$1.6 billion while imports totaled \$3.1 billion resulting in a trade deficit of \$1.5 billion.

The International Monetary Fund (IMF) reported that in 2001 Jamaica had exports of goods totaling \$1.45 billion and imports totaling \$3.07 billion. The services credit totaled \$1.9 billion and debit \$1.52 billion.

Exports of goods and services reached \$1.6 billion in 2004, up from \$1.4 billion in 2003. Imports grew from \$3.3 billion in 2003 to \$3.5 billion in 2004. The resource balance was consequently negative in both years, hovering at around -\$1.9 billion. The current account balance was also negative, slightly improving from -\$773 million in 2003, to -\$509 million in 2004. Foreign exchange reserves (excluding gold) grew to \$1.8 billion in 2004, covering more than six months of imports.

3³ BANKING AND SECURITIES

The Bank of Jamaica, the central bank, acts as the government's banker and is authorized to act as agent for the government in the management of the public debt. It also issues and redeems currency, administers Jamaica's external reserves, oversees private banks, and influences the volume and conditions of the supply of credit. Financial institutions in Jamaica in 2002 included 6 commercial banks, 11 merchant banks, 2 development banks, and 59 credit unions. The financial sector accounted for 15% of GDP in 2002. Total bank assets amounted to \$5.14 billion in 2001. Commercial banks include the Bank of Nova Scotia, Citibank, Union Bank, CIBC, National Commerce Bank, and Trafalgar Commercial Bank.

Various measures were introduced to restructure the liquidity profile of the banking system. In July 1992, in an attempt to reduce domestic credit and curb inflation, the minimum liquid assets ratio of the commercial banks was raised to 50% (it had been 20% in April 1991). The measure appeared to have been successful and the inflation rate fell until May 1993. However, the first half of 1994 saw a rise in the inflation rate, reflecting the government's price liberalization policies. This was contained by sustained tight monetary and fiscal policy. Reduced interest rates stimulated rapid growth in domestic credit, however, and in 1995 money supply grew by 38.5%.

Economic instability which emerged during 1995–96 brought into focus the relationship between the central bank and the government, and in particular, the destabilizing impact of the government's drawdown of its deposits. The government has since recommended that the central bank be given greater autonomy, and transferred its operational revenue and expenditure accounts from the central bank to commercial banks. It also froze the aggregate balance in the Bank of Jamaica at the September 1995 level in an attempt to minimize any expansionist effect of fiscal operations on money supply.

The lack of confidence in the financial sector was underlined in October 1996 when further rumors of a liquidity crisis led to a

Balance of Payments – Jamaica (2003)

(In millions of US dollars)

Current Account			-761.4
Balance on goods		-1,943.8	
Imports	-3,329.4		
Exports	1,385.6		
Balance on services		564.7	
Balance on income		-571.4	
Current transfers		1,189.1	
Capital Account			0.1
Financial Account			312.1
Direct investment abroad		-116.3	
Direct investment in Jamaica		720.7	
Portfolio investment assets		-1,105.2	
Portfolio investment liabilities		819.6	
Financial derivatives		...	
Other investment assets		-308.8	
Other investment liabilities		302.1	
Net Errors and Omissions			14.1
Reserves and Related Items			435.1

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

run on Jamaica's fourth-largest financial institution, the Citizen's Bank. Despite the bank's relatively healthy assets position, hundreds of depositors were prompted to withdraw their assets over a three-day period. Following the announcement of record losses of \$24.6 million at the National Commercial Bank (NCB) group in the nine months prior to June 1996, it was confirmed that the National Security Bank (NSB) and Mutual Security Bank (MSB), both subsidiaries of the NCG group, were to merge their operations, thus creating the island's largest commercial bank. The extent of the drain upon public finances caused by the precarious state of the financial sector became clear in mid-February 1997, when it was reported that net advances by the Bank of Jamaica to financial institutions had risen by \$17.4 million in January alone. Several financial institutions had become dependent upon the government to solve their liquidity problems.

In January 1997, the government established the Financial Sector Adjustment Company (FINSAC) to rescue the ailing financial sector. By 1998, FINSAC had already spent \$2.3 billion on the restructuring project, with annual debt financing amounting to approximately \$170 million. In order to pay for its operations, FINSAC sold shares in the Canadian Imperial Bank of Commerce, and merged Citizens, Eagle, and Island Victoria commercial banks into one entity called Union Bank. Laws were instituted to improve the solvency of Jamaican banks. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$1.2 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$3.5 billion.

In September 1968 the Jamaican Stock Exchange was incorporated. Jamaica's security market merged with the stock markets in Barbados and Trinidad and Tobago in 1989. As of 2004, a total of 38 companies were listed on the Jamaica Stock Exchange (JSE), which had a market capitalization in the year of \$14.415 billion. In 2004, the JSE rose 66.7% from the previous year to 112,655.5.

3⁴ INSURANCE

Insurance companies in Jamaica are regulated by law through the Office of the Superintendent of Insurance of the Ministry of Finance. Major life insurance companies operating in Jamaica in 2003 were Life of Jamaica, Scotia Life, and Blue Cross. General insurance companies included United General, NEM, Dyoll, and the Insurance Co. of the West Indies. In 2003, direct insurance premiums written totaled us\$410 million. In Jamaica, third-party auto liability and workers' compensation are compulsory.

3⁵ PUBLIC FINANCE

Debt servicing accounts for about 62% of the fiscal budget, which limits economic expansion. Privatization of public entities has been one of the strategies used by the government to reduce the budget deficit. In 2001, the government raised \$3.6 billion in new sovereign debt in both local and international financial markets, and used it to meet its US dollar debt obligations, quell rampant liquidity in order to maintain the exchange rate, and partially fund that current year's budget deficit.

The US Central Intelligence Agency (CIA) estimated that in 2005 Jamaica's central government took in revenues of approximately us\$3.2 billion and had expenditures of us\$3.3 billion. Rev-

Public Finance – Jamaica (2003)

(In millions of Jamaican dollars, budgetary central government figures)

Revenue and Grants	131,088	100.0%
Tax revenue	...	...
Social contributions	...	...
Grants	...	...
Other revenue	...	...
Expenditures	185,422	98.6%
General public services	107,590	58.0%
Defense	3,244	1.7%
Public order and safety	13,776	7.4%
Economic affairs	8,857	4.8%
Environmental protection	368	0.2%
Housing and community amenities	3,460	1.9%
Health	11,763	6.3%
Recreational, culture, and religion	...	...
Education	29,184	15.7%
Social protection	4,589	2.5%

(...) data not available or not significant.

SOURCE: *Government Finance Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

enues minus expenditures totaled approximately -us\$105 million. Public debt in 2005 amounted to 127.5% of GDP. Total external debt was us\$6.792 billion.

The International Monetary Fund (IMF) reported that in 2003, the most recent year for which it had data, budgetary central government revenues in millions of Jamaican dollars were 131,088 and expenditures were 185,422. The value of revenues in millions of US dollars was \$2,270 and expenditures \$3,160, based on a market exchange rate for 2003 of 57.741 as reported by the IMF. Government outlays by function were as follows: general public services, 58.0%; defense, 1.7%; public order and safety, 7.4%; economic affairs, 4.8%; environmental protection, 0.2%; housing and community amenities, 1.9%; health, 6.3%; education, 15.7%; and social protection, 2.5%.

3⁶ TAXATION

In 2005, there was a single individual income tax rate of 25% on all income over \$120,432 (up from \$50,544 in 1996). Income tax deductions include allowances for social security, retirement fund contributions, and charitable contributions. Personal allowances and deductions for medical expenses, insurance premiums, and mortgage interest are no longer applicable.

There is a single 33.33% tax on all companies except building societies which pay 30%. Life insurance companies pay a 15% rate on investment income and a 3% rate on their premium income. Special depreciation allowances, income tax incentives, and other benefits are still available. Other direct taxes include a bauxite production levy, transfer taxes, stamp duties, travel tax, duties on estates, and motor vehicle licenses. Tax reductions and exemptions are offered as incentives to hotel and resort developers, and to export manufacturers. Jamaica does not levy a tax on capital gains.

The main indirect tax is Jamaica's General Consumption Tax (GCT) with a standard rate of 16.5% on most goods and services. A higher rate of 20% applies to telephone calls. Zero-rated or exempt items include foodstuffs, raw materials, capital goods, books,

and school uniforms. The government is seeking to narrow the scope of goods that are zero-rated or exempt from the GCT. Other indirect taxes include customs on betting, gambling and lotteries, and excise duties.

The main source of local revenue is a property tax based on the unimproved value of the land.

37 CUSTOMS AND DUTIES

The importance of customs duties as a major source of government income is declining and most imports are duty-free. The remaining duties on imports from non-CARICOM nations range from 0–20% under the CARICOM common external tariff (CET). In addition, a stamp duty is levied on motor vehicles, alcohol, and tobacco, in addition to a special consumption tax. Most imported items are subject to the 16.5% GCT and is based upon cost, insurance, freight (CIF) plus duty. Special rates or exemptions on dutiable imports apply to goods from members of CARICOM and signatories of the Lomé Convention.

Licenses are required for imports of certain durable and non-durable consumer goods. License applications are reviewed by the Trade Board. Most capital goods and raw materials do not require import licenses. Jamaica has three free trade zones: the Kingston Export Free Zone, the Montego Bay Export Free Zone, and Garmex.

38 FOREIGN INVESTMENT

Foreign investment in Jamaica has accounted for a large part of the capital formation of the post-1945 period. Until the early 1960s, new US and Canadian capital was invested heavily in the bauxite industry. Capital investment in bauxite and aluminum then tapered off, but investment increased in other industries as a result of a vigorous campaign by the government. Starting in 1972, however, capital investments in the private sector fell substantially. After 1980, the JLP government of Prime Minister Seaga had some success attracting foreign capital, but then the economic downturn of the mid-1980s again produced a decline in foreign investment. By early 1987, when 120 US companies operated in Jamaica, cumulative US investment, excluding the bauxite industry, was over \$1 billion. There are no statutory restrictions on sectors open to foreign investment, but in practice most service industries are reserved for Jamaicans.

Increased investment, particularly in the private sector, has been identified by the government as an essential factor in the strategy for reviving and sustaining the economy. Government has therefore continued and initiated actions that are intended to encourage investment in a number of areas such as those that generate foreign exchange, utilize domestic raw materials, and generate employment. The government offers a wide range of incentives, including tax holidays up to a maximum of 10 years and duty-free concessions on raw materials and capital goods for approved incentive periods. There are in existence several acts that provide major benefits for foreign investors, such as the Industrial Incentives Act, the Export Industries Encouragement Act, and the Hotel Incentives Act. Additionally, since the liberalization of exchange controls in September 1991, investors are free to repatriate without prior approval from the Bank of Jamaica.

The United States continues to play a leading role in foreign investment. In late 1996, a US firm acquired control of Jamaica's

only flour manufacturer, Jamaica Flour Mills, for \$35 million. In 1997, the Financial Sector Adjustment Company privatized a large number of companies in order to support the country's financial sector.

Annual foreign direct investment (FDI) inflows into Jamaica in 1999 reached \$523 million, more than double the inflow in 1997 of \$203 million, but then fell to \$471 million in 2000. In 2001, FDI inflow rose to \$722 million. In the period 1998 to 2000, Jamaica's share of world FDI inflows was almost twice its share of world GDP (170%).

Major sources of foreign investment have been, in order, the United States, Colombia, Canada, and the United Kingdom. About half of foreign investment has gone into agriculture, 20% into films, 8% into manufacturing, 7% into the garments and textiles industry, and 5% each into tourism and information processing.

39 ECONOMIC DEVELOPMENT

Since assuming office in 1992, Prime Minister Patterson has consolidated the market-oriented reforms initiated by his predecessor, Michael Manley, to make Jamaica a regional leader in economic reform. Patterson has eliminated most price controls, streamlined tax schedules, and privatized government enterprises. Tight monetary and fiscal policies under an International Monetary Fund (IMF) program have helped slow inflation and stabilize the exchange rate, but, as a result, economic growth has slowed and unemployment remains high. Jamaica's medium-term prospects depend largely on its ability to continue to attract foreign capital and limit speculation against the Jamaican dollar.

Inevitably, the contraction of economic output impacted adversely on the employment situation. The reduced performance of the traditionally labor-intensive apparel industry contributed significantly to rising unemployment as some 7,000 jobs, amounting to 25% of the employment in the industry, were lost. Along with job losses in the financial sector and other sectors, 1996 witnessed overall losses of employment amounting to 10% of the labor force and rising unemployment above the 20% mark. The unemployment rate was 16% in 2000. Problems in the financial sector continued in the new millennium, disturbing economic development.

Inflation fell from 25% in 1995 to 7% in 2001. Low levels of investment have hampered economic development. The government offers an extensive array of incentives to investors, however, including tax holidays and duty-free access for machinery and raw materials imported for certain enterprises. The government aims to encourage economic growth by stimulating growth in tourism, pursuing increased privatization, restructuring the financial sector, and lowering interest rates. The 11 September 2001 terrorist attacks on the United States and heavy floods that November and in May 2002 hurt the tourist industry in 2002–03. Government expenditures for tourist promotion, flood relief, and wages resulted in a less-than-expected lowering of the public debt. In 2002, the public debt stood at 129% of GDP. The government's monetary policy was tight in 2002, to keep inflation in single digits. The government put forth efforts to fight crime, improve infrastructure, and strengthen the competitiveness of the economy.

The Jamaican economy has failed to recover as quickly as expected from the floods produced by Hurricane Ivan in 2004. In addition, poor weather conditions in 2005 have negatively im-

pacted the agriculture sector and seriously decreased tourist numbers. At the same time, the mining industry has suffered capacity constraints. The economy is expected to recover in 2006 however, due to investments in the tourist industry and in mining. Remittances from abroad will encourage private consumption, which will most likely lead to an increase in imports.

40 SOCIAL DEVELOPMENT

A social insurance system was first put in place in 1958 for sugar workers, and has been most recently updated in 2003 covering all employed and self-employed workers. Benefits are available for old age and disability, healthcare and maternity, workers' compensation, widows' and widowers' pensions, and grants. The program is financed by contributions from employers and employees. The government contributes as an employer. Maternity benefits amount to the minimum weekly wage for eight weeks. Workers' medical benefits include all necessary medical, surgical and rehabilitative treatment.

Jamaican women are guaranteed full equality under the constitution and the Employment Act, but cultural traditions, economic discrimination, and workplace sexual harassment prevent them from achieving it. Violence against women is widespread. The domestic violence law provides for restraining orders and other measures to combat spousal abuses. The government is committed to improving children's welfare. However, children are often forced to work due to economic hardship.

While Jamaica's human rights record has improved in recent years, serious abuses continue to occur. A major problem is lack of police accountability for human rights violations. Prison conditions are poor, but are open to inspection by international human rights organizations. Crime is a serious social problem.

41 HEALTH

The central government has traditionally provided most medical services in Jamaica through the Ministry of Health. The National Health Services Act of 1997 authorized the decentralization of the health care system through the creation of regional health authorities and the restructuring of the national Ministry of Health. In 1996, the island had 364 government-operated primary health centers offering five levels of service. There are 23 public and nine small private hospitals. There were an estimated 85 physicians, 165 nurses, and 8 dentists per 100,000 people in 2004. Health care expenditure was estimated at 5.5% of GDP.

The government conducts a broad public health program, involving epidemic control, health education, industrial health protection, and campaigns against tuberculosis, venereal diseases, yaws, and malaria. These programs have brought about a significant decrease in the death rate. As of 2002 the death rate was estimated at 5.5 per 1,000 people. The infant mortality rate was 16.33 per 1,000 live births in 2005. Tuberculosis, hookworm, and venereal diseases remain the most prevalent diseases. Approximately 7% of Jamaica's children under five years old were considered malnourished and an estimated 11% of births were low birth weight. In 2000, 71% of the population had access to safe drinking water and 84% had adequate sanitation. Life expectancy averaged 73.33 years in 2005. The maternal mortality rate was 120 per 100,000 live births in 1998.

The HIV/AIDS prevalence was 1.20 per 100 adults in 2003. As of 2004, there were approximately 22,000 people living with HIV/AIDS in the country. There were an estimated 900 deaths from AIDS in 2003.

Heterosexual transmission predominates.

42 HOUSING

Housing is one of the government's most pressing problems. While middle- and upper-income housing is comparable to that in neighboring areas of North America, facilities for low-income groups are poor by any standard. The problem has been aggravated by constant migration from the rural areas to the cities, causing the growth of urban slums. Most new urban housing is built of cinder block and steel on the peripheries of the cities. Rural housing is primarily built of wood and roofed with zinc sheeting. Squatter settlements surround the major cities of Jamaica. According to the 2001 census figures, there were 723,343 occupied private dwellings with an average of 3.6 people per household. About 137,900 housing units were added from 1991–2001.

43 EDUCATION

Education is compulsory for six years of primary education. At the secondary level, there are two stages, one of three years and one of two. After this, students may enter a two-year program known as sixth form, which leads to completion of the Caribbean Examinations Council Secondary Education Certificate. In 2001, about 87% of children between the ages of three and five were enrolled in some type of preschool program. Primary school enrollment in 2003 was estimated at about 95% of age-eligible students. The same year, secondary school enrollment was about 75% of age-eligible students. The student-to-teacher ratio for primary school was at about 30:1 in 2003.

The University of the West Indies, founded in 1948 as the University College of the West Indies, achieved full university status in 1962 and serves all British Commonwealth Caribbean territories. There are faculties of arts, natural sciences, education, general studies, medicine, law, library studies, management studies, public administration, and social work at Jamaica's Mona campus; arts, natural sciences, social sciences, agriculture, engineering, international relations, and management studies at St. Augustine in Trinidad; and arts and natural sciences in Barbados. Higher technical education is provided at the College of Arts, Science, and Technology. Jamaica also has a school of agriculture, several teacher-training colleges and community colleges, and an automotive training school. In 2003, about 17% of the tertiary age population were enrolled in some type of higher education program, with 10% for men and 25% for women.

The Jamaica Movement for the Advancement of Literacy Foundation, known as JAMAL (formerly the National Literacy Board), has reached more than 100,000 students since its founding in 1972. The adult literacy rate for 2004 was estimated at about 87.6%, with 83.8% for men and 91.4% for women. As of 2003, public expenditure on education was estimated at 4.9% of GDP, or 9.5% of total government expenditures.

44 LIBRARIES AND MUSEUMS

The Jamaica Library Service provides free public library programs throughout the island and assists the Ministry of Education in sup-

plying books to primary-school libraries. The book stock of the Public Library Service totals about 2,666,000 volumes, 1,473,000 in schools and 1,193,000 in parish libraries. There are nearly 700 service points, including parish and branch libraries, book centers, and 14 bookmobiles. There are 507,000 volumes at the Mona campus of the University of the West Indies. The National Library in Kingston was established in 1979 and holds over 46,000 books, as well as collections of maps, newspapers, manuscripts, photographs, posters, and calendars.

The Institute of Jamaica, in Kingston, has a notable collection of artifacts and materials relating to the West Indies, as well as a museum and exhibition galleries focusing on natural history, military, and maritime studies. The National Gallery of Art, the African-Caribbean Institute, and Jamaica Memory Bank are also part of the Institute of Jamaica. There is a museum celebrating the life, music, and accomplishments of Bob Marley in Kingston, while Spanish Town houses the Jamaican's People's Museum of Craft and Technology and the Old Kings House Archaeological Museum. There is a botanical garden and zoo at Hope, on the outskirts of Kingston.

45 MEDIA

The Post and Telegraphs Department provides daily postal deliveries to all parts of the island and operates Jamaica's internal telegraph service. Jamaica International Telecommunications (JAMINTEL) provides five major international services: telephone, telegraph, television, telex, and leased circuits. Telephone service is provided by the privately owned Jamaica Telephone Co. All telephone exchanges are automatic. In 2003, there were an estimated 170 mainline telephones for every 1,000 people; about 168,000 people were on a waiting list for telephone service installation. The same year, there were approximately 535 mobile phones in use for every 1,000 people.

Jamaica has two major broadcasting companies. The Radio Jamaica Limited broadcasts 24 hours a day over both AM and FM bands; it also owns an extensive wire network. Television Jamaica Limited, with similar transmitting facilities, broadcasts FM radio and television programs. Both are privately owned. As of 2001 there were 13 radio station and 3 television stations. In 2003, there were an estimated 795 radios and 374 television sets for every 1,000 people. The same year, there were 53.9 personal computers for every 1,000 people and 228 of every 1,000 people had access to the Internet. There were 24 secure Internet servers in the country in 2004.

As of 2002, there were four daily newspapers, all privately owned. The morning *Jamaica Gleaner* (circulation about 259,000 in 2002) and the evening *Daily Star* (circulation 49,500) are published by the Gleaner Co., which also publishes the *Sunday Gleaner* (est. 950,000) and the *Thursday Star* (60,000), an overseas weekly. There are also a number of weeklies and monthlies, and in addition, several papers are published by religious groups.

The constitution of Jamaica provides for free expression, including the rights of free speech and press, and the government is said to respect these rights in practice.

46 ORGANIZATIONS

The producers of the main export crops are organized into associations, and there are also organizations of small farmers. The

Jamaica Agricultural Society, founded in 1895, is concerned with agricultural and rural development and works closely with the government. The cooperative movement has grown rapidly since World War II. All cooperatives must register with the government and are subject to supervision. Savings and credit groups are the most numerous, followed by marketing organizations. Consumer cooperatives have had little success. Outside the agricultural sector, the chambers of commerce have long been the most important business groups.

Societies and associations for the study and advancement of various branches of science and medicine have developed. These include the Medical Association of Jamaica and the Science Research Council. There are several other professional associations as well.

A wide variety of national youth organizations are active, including the Girl Guides Association, Jamaican Guild of Undergraduate Students, Jamaica Youth for Christ, Jamaica Environmental Youth Network, League of Young Socialists of Jamaica, National Council of YMCA's of Jamaica, Peoples National Party Youth Organization, Scout Association of Jamaica, 4-H clubs, Student Christian Movement of Jamaica, and the Workers Party of Jamaica Youth League. There are a number of sports associations and clubs throughout the country.

International organizations with active chapters include Amnesty International, the Society of St. Vincent de Paul, Habitat for Humanity, the Salvation Army, the Red Cross, and UNITAS of Jamaica.

47 TOURISM, TRAVEL, AND RECREATION

Jamaica is firmly established as a center for tourists, mainly from North America. Greatly expanded air facilities linking Jamaica to the United States, Canada, and Europe were mainly responsible for the increase in tourism during the 1960s. Rising fuel costs and a weak international economy, as well as intermittent political unrest, contributed to a slowdown in the growth rate of the industry in the 1970s; between 1980 and 1986, however, the number of tourists increased by 68%, and tourism has continued to grow since early 2000. Some 1,350,285 tourists visited the island of Jamaica in 2003, about 79% of whom came from North America. The 20,827 hotel rooms with 43,909 beds had a 58% occupancy rate. The average length of stay was six nights.

Major tourist areas are the resort centers of Montego Bay and Ocho Rios. Cricket is the national sport, and excellent golf and water-sports facilities are available. All visitors are required to have a valid passport and some countries require a visa. Citizens of the United States, Canada, and other Commonwealth countries may stay up to six months with other valid identification. All visitors must have an onward/return ticket and proof of sufficient funds for their stay.

The US Department of State estimated the 2005 daily expenses for staying in Jamaica at US\$223.

48 FAMOUS JAMAICANS

Names associated with Jamaica's early history are those of Europeans or of little-known figures such as Cudjoe, chief of the Maroons, who led his people in guerrilla warfare against the English in the 18th century. George William Gordon (1820–65), hanged by the British as a traitor, was an advocate of more humane treatment

for blacks. Jamaica-born Marcus Garvey (1887–1940), who went to the United States in 1916, achieved fame as the founder of the ill-fated United Negro Improvement Association. In the mid-20th century, Jamaicans whose names have become known abroad have been largely political and literary figures. Sir (William) Alexander Bustamante (1894–1977), trade unionist, political leader, and former prime minister of Jamaica, and his cousin and political adversary, Norman Washington Manley (1893–1969), a Rhodes scholar and noted attorney, were leading political figures. More recently, Norman Manley's son Michael (1923–97), prime minister during 1972–80, and Edward Seaga (b.US, 1930), prime minister from 1980–89, have dominated Jamaica's political life. P.J. Patterson (b.1935) was prime minister from 1992–2006. Portia Simpson-Miller (b.1945) succeeded him in March 2006. The novelists Roger Mais (1905–55), Vic Reid (1913–87), and John Hearne (1926–94) built reputations in England, and the poet Claude McKay (1890–1948) played an important role in the black literary renaissance in the United States. Performer and composer Robert Nesta ("Bob") Marley (1945–81) became internationally famous and was instrumental in popularizing reggae music outside Jamaica.

4⁹ DEPENDENCIES

Jamaica has no territories or colonies.

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MEXICO

United Mexican States
Estados Unidos Mexicanos



CAPITAL: Mexico City (México)

FLAG: The national flag is a tricolor of green, white, and red vertical stripes; at the center of the white stripe, in brown and green, is an eagle with a snake in its beak, perched on a cactus.

ANTHEM: *Mexicanos, al grito de guerra (Mexicans, to the Cry of War).*

MONETARY UNIT: The peso (₱) is a paper currency of 100 centavos. There are coins of 1, 5, 10, 20, 50, 100, 500, 1,000, and 5,000 pesos and notes of 2,000, 5,000, 10,000, 20,000, 50,000, and 100,000 pesos. As of 1 January 1993, a new unit of currency (the new peso) was issued, worth 1,000 of the pesos that were used until 31 December 1992. ₱1 = \$0.09116 (or \$1 = ₱10.97) as of 2005.

WEIGHTS AND MEASURES: The metric system is the legal standard, but some old Spanish units are still in use.

HOLIDAYS: New Year's Day, 1 January; Constitution Day, 5 February; Birthday of Benito Juárez, 21 March; Labor Day, 1 May; Anniversary of the Battle of Puebla (1862), 5 May; Opening of Congress and Presidential Address to the Nation, 1 September; Independence Day, 16 September; Columbus Day, 12 October; Revolution Day (1910), 20 November; Christmas, 25 December. Movable religious holidays include Holy Thursday, Good Friday, and Holy Saturday. All Souls' Day, 2 November, and Our Lady of Guadalupe Day, 12 December, are not statutory holidays but are widely celebrated.

TIME: 6 AM = noon GMT.

¹LOCATION, SIZE, AND EXTENT

Situated south of the United States on the North American continent, Mexico has an area of 1,972,550 sq km (761,606 sq mi), including many uninhabited islands off the E and W coasts, which have a combined area of 5,073 sq km (1,959 sq mi). Comparatively, the area occupied by Mexico is slightly less than three times the size of the state of Texas. Mexico extends about 3,200 km (2,000 mi) SSE–NNW and 1,060 km (660 mi) ENE–WSW. Bordered on the N by the United States, on the E by the Gulf of Mexico (including the Bay of Campeche), the Caribbean Sea, Belize, and Guatemala and on the S and W by the Pacific Ocean, Mexico has a total land boundary length of 4,353 km (2,704 mi) and a coastline of 9,330 km (5,797 mi).

Mexico's capital city, Mexico City, is located in the south central part of the country.

²TOPOGRAPHY

Mexico's dominant geographic feature is the great highland central plateau, which occupies most of the width of the country, extending from the US border to the Isthmus of Tehuantepec. It averages 1,219 m (4,000 ft) in elevation in the north to over 2,438 m (8,000 ft) in the central part of the country. The plateau is enclosed by two high cordilleras (mountain chains), the Sierra Madre Oriental on the east and the Sierra Madre Occidental on the west, each separated from the coast by lowland plains. The ranges rise to over 3,000 m (10,000 ft), and some volcanic peaks exceed 5,000 m (16,400 ft); Pico de Orizaba, or Citlaltépetl (5,700 m/18,702 ft), Popocatepetl (5,452 m/17,887 ft), and Ixtaccíhuatl (5,286 m/17,342 ft) are the highest. The plateau falls to the low Isthmus

of Tehuantepec and then rises again to Chiapas Highland to the south. The lowlands of Tabasco, Campeche, and Yucatán lie north and east of Chiapas.

There are no important inland waterways. Except for the Río Grande (known as the Río Bravo del Norte in Mexico), which extends for about 2,100 km (1,300 m) of the boundary with the United States, and the Papaloapan, an important source of waterpower, the other rivers are short; they are the Lerma, Santiago, Usumacinta (part of the boundary with Guatemala), Grijalva, Balsas, Pánuco, and the Soto la Marina. The largest lake in Mexico is Lake Chapala, in Jalisco State, covering about 1,686 sq km (651 sq mi).

Located along the boundaries of the North American, Cocos, and Pacific tectonic plates, Mexico is part of the "Ring of Fire," a band of seismically active lands that surround the Pacific Ocean. One of the strongest earthquakes in history occurred in Michoacán on 19 September 1985. The 8.0 magnitude quake triggered deadly landslides and a tsunami with wave heights of up to 3 meters. The official death count was reported as about 9,500 people, with an additional 30,000 reported injuries. Another 8.0 magnitude quake occurred near the coast of Jalisco on 9 October 1995; though it was recorded as the largest earthquake of the year worldwide, only about 49 deaths were reported. A 7.6 magnitude earthquake in Colima on 22 January 2003 left about 29 dead, 300 injured, and 10,000 homeless.

³CLIMATE

The climate varies according to altitude and rainfall. The tropical and subtropical zone (tierra caliente), ranging from sea level to about 900 m (3,000 ft), consists of the coastal plains, the Yuca-

tán Peninsula, and the lower areas of southern Mexico. These areas have a mean temperature of 25–27°C (77–81°F), with a minimum of 16°C (61°F) and a maximum of almost 49°C (120°F). The temperate zone (tierra templada), at elevations of 900–1,800 m (3,000–6,000 ft), has a temperate-to-warm climate and a mean temperature of 21°C (70°F). Mexico City and most other important population centers are in the cool zone (tierra fría), starting at about 1,800 m (6,000 ft), with a mean annual temperature of 17°C (63°F). The highest mountain peaks are always covered with snow.

Most of Mexico is deficient in rainfall, but two coastal belts covering about 12% of the total area—from Tampico south along the Gulf of Mexico and from the state of Colima south along the Pacific—receive an average of from 99–300 cm (39–118 in) per year. Annual rainfall may exceed 500 cm (200 in) in Tabasco and Chiapas, while in parts of Baja California, virtually no rain falls. Precipitation is adequate in central Mexico except at altitudes above 1,800 m (6,000 ft), while the northern states are semidesert or desert. Most of the country receives its heaviest rainfall during the summer months.

4 FLORA AND FAUNA

Plant and animal life differs sharply with Mexico's varied climate and topography. The coastal plains are covered with a tropical rain forest, which merges into subtropical and temperate growth as the plateau is ascended. In the northern states there is a dry steppe vegetation, with desert flora over much of the area. Oaks and conifers are found in mixed forest regions along the mountain slopes. The Yucatán Peninsula has a scrubby vegetation.

Among the wild animals are the armadillo, tapir, opossum, puma, jaguar, bear, and several species of monkey, deer, and boar. Poisonous snakes and harmful insects are found. In the coastal marshes, malarial mosquitoes pose a problem. The only remaining elephant seals in the world are on Guadalupe Island west of Baja California. As of 2002, there were at least 491 species of mammals, 440 species of birds, and over 26,000 species of plants throughout the country.

5 ENVIRONMENT

One of Mexico's most widespread environmental problems is soil erosion; slash-and-burn agricultural practices, especially in the tropical zones, have also contributed to deforestation. Mexico loses its forest at a rate of about 1.1% annually due to agricultural and industrial expansion. Mexico has the fourth most extensive mangrove area in the world, covering approximately one million hectares. Mexico City, located more than 2,250 m (7,400 ft) above sea level and surrounded by mountains, has chronic smog, aggravated by the presence in the metropolitan region of thousands of factories, more than two million motor vehicles, and by open burning of garbage by slum dwellers.

Cities along the US-Mexican border also suffer from serious air pollution. In 1996, Mexico's level of industrial carbon dioxide emissions totaled 348.1 million metric tons. In 2000, total carbon dioxide emissions was at 424 million metric tons. Transportation vehicles are responsible for about 76% of the air pollution.

Water pollution results from the combined impact of industrial, agricultural, and public waste. Mexico's cities have produced over 12.9 million tons of solid waste per year along with about 164 mil-

lion tons of industrial waste. Mexico has 409 cu km of renewable water resources. In the north, fresh water resources are scarce and polluted; in the central southeast region they are frequently inaccessible and of poor quality. About 72% of the nation's rural dwellers have pure drinking water.

An environmental protection statute adopted in 1971 has not been widely enforced; however, SEDUE, which was created in 1982, is fostering a more coherent approach to environmental issues. In 2003, about 10% of the total land area was protected. Mexico has three natural UNESCO World Heritage Sites and 58 Ramsar wetland sites. The Secretariat for Urban Development and Ecology (SEDUE) has the principal environmental responsibility.

According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 72 types of mammals, 57 species of birds, 21 types of reptiles, 190 species of amphibians, 106 species of fish, 5 types of mollusks, 36 species of other invertebrates, and 261 species of plants. Endangered species in Mexico include the volcano rabbit, Mexican grizzly bear (possibly extinct), Lower California pronghorn, Sonoran pronghorn, imperial woodpecker, southern bald eagle, American peregrine falcon, whooping crane, light-footed clapper rail, California least tern, maroon-fronted parrot, ridge-nosed rattlesnake, five species of turtle (green sea, hawksbill, Kemp's ridley, olive ridley, and leatherback), two species of crocodile (American and Morelet's), and totoaba. At least 30 species have become extinct, including the Mexican dace, Durango shiner, Tlaloc's leopard frog, and the Caribbean monk seal.

6 POPULATION

The population of Mexico in 2005 was estimated by the United Nations (UN) at 107,029,000, which placed it at number 11 in population among the 193 nations of the world. In 2005, approximately 5% of the population was over 65 years of age, with another 31% of the population under 15 years of age. There were 96 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 1.9%, a rate the government viewed as too high. The projected population for the year 2025 was 129,381,000. The population density was 55 per sq km (142 per sq mi).

The UN estimated that 75% of the population lived in urban areas in 2005 (with 32% of the population concentrated in 14 urban areas), and that urban areas were growing at an annual rate of 1.62%. The capital city, Mexico City (México), had a population of 18,660,000 in that year. Other major cities and their estimated populations were Guadalajara, 3,905,000; Monterrey, 3,517,000; Toluca, 1,987,000; Puebla, 1,888,000; Tijuana, 1,570,000; Ciudad Juárez, 1,469,000; León, 1,438,000; Torreón, 1,057,000; San Luis Potosí, 927,000; and the Federal District, 500,000.

7 MIGRATION

As of 2000, the US Census Bureau estimated that 18,382,291 persons of Mexican ancestry were living in the United States, up from 8,740,000 in 1980. Formerly, under an agreement between the United States and Mexico, there was a large annual movement of Mexican agricultural laborers (braceros) into the United States. The United States has since banned such border crossings, and the 1986 Immigration Act imposed stiff penalties on employers who hire illegal aliens. Nevertheless, hundreds of thousands of illegal



LOCATION: 14°32' to 32°43' N; 86°42' to 118°22' W. BOUNDARY LENGTHS: US, 3,326 kilometers (2,067 miles); Gulf of Mexico and Caribbean coastline, 2,070 kilometers (1,286 miles); Belize, 251 kilometers (156 miles); Guatemala, 871 kilometers (541 miles); Pacific coastline (including Baja California), 7,339 kilometers (4,560 miles). TERRITORIAL SEA LIMIT: 12 miles.

crossings still take place annually. According to *Migration Information Source*, in 2000 more than 1.6 million people were apprehended at the US-Mexico border. Bilateral attempts to deal with migration issues disappeared after 11 September 2001. In 2004, US President George W. Bush proposed a temporary worker program, acknowledging the US economy's demand for migrants. However, these proposals held no special relationship to Mexico-US relations, nor a means for immigrants to earn US residence. The pertinence to Mexican migration is that of the estimated 6.3 million unauthorized foreigners in the United States, about 57% are Mexicans. In January 2005 the Mexican government published a guide for Mexican immigrants to enter the United States safely. In that same year President Bush supported immigration reform by improving border security and then legalizing unauthorized foreigners in the United States. Also, in that same year, the Real ID Act established national standards for drivers' licenses, requiring legal residence in the United States within three years of application.

In the 1970s, there was substantial internal migration to the frontier areas, especially to the northern border states, to Quin-

tana Roo and Guerrero in the south, and to government colonization projects such as Papaloapan, Veracruz, where the construction of irrigation, flood control, and hydroelectric projects attracted many people. Most notable, however, is the migration of rural inhabitants to Mexico's already overcrowded cities, creating huge urban slums, especially in Mexico City. Guadalajara and Monterrey, although growing rapidly, are attempting to use Mexico City's experience to plan urban and industrial growth. The great disparity between rural-zone, low-income, marginal groups producing only for their own consumption and highly developed urban and industrial sectors has produced acute social problems. Mexico remains a country of destination for Central American migrants and a country of transit for the considerable mixed migratory movement toward the North.

Mexico has long had a liberal asylum policy; the most famous exile in Mexico was probably Leon Trotsky, a revolutionary exiled from the USSR in 1929 who lived in Mexico City from 1937 until his assassination in 1940. In the 1930s and 1940s, Spanish republican refugees in the tens of thousands settled in Mexico, as did thousands of refugees from World War II. In the 1970s and 1980s,

many victims of Latin American military regimes fled to Mexico. By the end of 1993, the number of persons from Guatemala, El Salvador, and other Central American countries living in Mexico was about 400,000, not counting 45,000 Guatemalan refugees living in camps. Over 13,000 Guatemalans repatriated in 1995 and 1996. In 2004 there were 161 asylum seekers in Mexico. In the same year 3,400 Mexicans sought asylum in Canada and 15,431 in the United States.

By 30 June 1999, 42,652 Guatemalan refugees had returned to Guatemala from Mexico. At that time, about 22,500 Guatemalan refugees remained in the southeastern states of Campeche (7,100), Quintana Roo (2,900), and Chiapas (12,500). These refugees were in the process of gaining full legal and socioeconomic integration under the Mexican government's Migratory Stabilization Plan, enacted in August 1996. Nearly 2,200 refugees in Campeche and Quintana Roo had already been naturalized in 1999; another 1,800 applications for naturalization were being processed.

As of 2004, Mexico was host to some 4,343 refugees, arriving from Latin American countries, Central Asia, the Middle East, and Africa. Most were in urban areas. In addition, there were 12,000 internally displaced persons mainly in the eastern Chiapas region; there as a result of the government's suppression in 1994 of the Zapatista uprising. In November 2004, the Mexico Declaration and Plan of Action to Strengthen the International Protection of Refugees in Latin America was adopted by the governments of the region.

Mexico is the country where the greatest number of US citizens, estimated as 200,000, live outside the United States. This may be due to the growing economic and business interdependence of the two countries under the North American Free Trade Agreement (NAFTA), and also that Mexico is considered an excellent choice for retirees. The official figures for foreign-born citizens in Mexico are 493,000 (since 2004), with a majority (86.9%) of these born in the United States (with the exception of Chiapas, where the majority of immigrants are from Central America).

In 2005, the net migration rate was an estimated -4.57 migrants per 1,000 population. In 2004, Mexico ranked second among the countries of the world in the amount of remittances from migrant workers, \$17 billion up from about \$6 billion in 2000.

8 ETHNIC GROUPS

The people of Mexico are mostly mestizos, a mixture of indigenous Amerindian and Spanish heritage. There are small numbers of persons of other European heritages, and small numbers of blacks are found in Veracruz and Acapulco. At last estimates, about 60% of the population was mestizo, 30% pure Amerindian, 9% pure white, and 1% other. Amerindian influence on Mexican cultural, economic, and political life is very strong.

9 LANGUAGES

Spanish, the official language, is spoken by nearly the entire population, thus giving Mexico the world's largest Spanish-speaking community; more Mexicans speak Spanish than Spaniards. Only a small number of inhabitants, about 1% of the population according to last estimate, speak only indigenous Amerindian languages or dialects. A larger percentage, some 7.5% at last estimate, speak some Amerindian language. There are at least 31 different Amer-

indian language groups, the principal languages being Nahuatl, Maya, Zapotec, Otomi, and Mixtec.

10 RELIGIONS

According to the 2000 census, about 88% of the Mexican population were at least nominally affiliated with the Roman Catholic Church and about 6% were Protestant. Protestant denominations represented include Presbyterians, Jehovah's Witnesses, Seventh-Day Adventists, Mormons, Lutherans, Methodists, Baptists, and Anglicans. There are small Greek and Russian Orthodox communities. There are also small numbers of Jews, Buddhists, and Muslims. While professing the Roman Catholic faith, a number of indigenous people include strong pre-Hispanic Mayan elements in their religion.

Roman Catholicism has increased greatly in activity since the 1940s; there have been religious processions and considerable construction of new churches in major cities. The bitter anticlericalism of the Mexican Revolution, of the 1917 constitution, and of the administration of President Plutarco Elias Calles (1924–28) had lessened by the 1960s. However, the constitution still stipulates that members of the clergy are prohibited from holding public offices. In 1992, full diplomatic relations with the Vatican were established.

Following an amendment to the constitution adopted in 1991, ecclesiastical corporations now have legal rights and can acquire property. All church buildings, including schools, however, remain national property. Priests now have political rights, and religious control over both public and private education prohibited earlier under the 1917 constitution has been restored. Religious groups must register with the Director of Religious Affairs (DAR) of the Federal Secretariat of Government. The DAR is also responsible for promoting and enforcing rules of religious tolerance. Certain Christian holidays are recognized as national holidays.

11 TRANSPORTATION

The local, state, and federal Mexican road system amounted to 349,038 km (217,102 mi) in 2003, of which 116,928 km (72,729 mi) were paved, including 6,979 km (4,341 mi) of expressways. Most roads are engineered for year-round service. In 2003 there were 19,846,100 registered vehicles, including 13,600,100 passenger cars and 6,246,000 commercial vehicles.

The country's major railroad system is the National Railway of Mexico. In 2004, the total route length was 17,634 km (10,968 mi) all standard gauge, and consisted of six integrated lines. A railway improvement program was carried out during 1975–79, but in the mid-1980s, the network was still in disrepair. The Mexico City subway system, totaling 120 km (75 mi), suffers from overcrowding. The system's technology, however, is being exported to other developing countries.

Mexico's 2,900 km (1,802 mi) of inland waterways and lakes, while navigable, are not important for transportation, but ocean and coastal shipping is significant. Of Mexico's 102 ocean ports, the most important are Tampico and Veracruz, on the Gulf of Mexico; Mazatlan and Manzanillo, on the Pacific coast; and Guayamas, on the Gulf of California. These five ports together handle about 80% of total general cargo tonnage for Mexico. Most Mexican ships are operated by the government-owned Maritime Transport of Mexico. The merchant marine in 2005 had 57 vessels of 1,000 GRT or

more, totaling 649,389 GRT. The oil tanker fleet, owned and operated by Mexican Petroleum (Petróleos Mexicanos-PEMEX), the government oil monopoly, included 26 tankers.

Air transportation in Mexico has developed rapidly. In 2004 there were an estimated 1,833 airports and airfields. As of 2005, a total of 227 had permanent-surface runways, and there was also one heliport. Principal airports include Juan N. Alvarez at Acapulco, Cancun International at Cancun, Cozumel International at Cozumel, Miguel Hidalgo at Guadalajara, Gen. R. Buelna at Mazatlan, Manuel C. Rejon at Merida, Benito Juárez at Mexico City, Gral. Escobedo at Monterrey, and G. Diaz Ordaz at Puerto Vallarta. Mexican commercial aircraft carried about 20.688 million passengers on scheduled domestic and international flights in 2003. The main airline company is the newly privatized Aeroméxico.

12 HISTORY

The land now known as Mexico was inhabited by many of the most advanced Amerindian cultures of the ancient Americas. The Mayan civilization in the Yucatán Peninsula began about 2500 BC, flourished about AD 300–900, and then declined until its conquest by the Spanish. The Mayas had a well-developed calendar and a concept of zero; skillful in the construction of stone buildings and the carving of stone monuments, they built great cities at Chichen Itzá, Mayapán, Uxmal, and many other sites. About 1200–400 BC the Olmecs had a civilization with its center at La Venta, featuring giant carved stone heads and the first use of pyramids for worship among the Amerindians. In the early 10th century AD the Toltecs, under Ce Acatl Topiltzin, founded their capital of Tollan (now Tula) and made the Nahuatl culture predominant in the Valley of Mexico until the early 13th century. At that time, the Aztecs, another Nahuatl tribe, gained control.

The Aztec Empire, with its capital at Tenochtitlán (now Mexico City), founded in 1325, was essentially a confederation of allied and tributary communities. Skilled in architecture, engineering, mathematics, weaving, and metalworking, the Aztecs had a powerful priesthood and a complex pantheon dominated by the sun god and war god Huitzilopochtli, to whom prisoners captured from other tribes were sacrificed.

The empire was at its height in 1519, when the Spanish conquistadores, under Hernán Cortés, having set out from Cuba, landed at modern Veracruz; with superior weapons and the complicity of local chieftains, the Spaniards had conquered Mexico by 1521. First, Cortés imprisoned the emperor Montezuma II, who was wounded by stoning when he was released in an attempt to quell an uprising against the Spanish. Then Montezuma's nephew, Guatemotzin, drove the Spanish from Tenochtitlán on 30 June 1520, now called "la noche triste" ("the sad night"), during which Montezuma died, probably at the hands of the Spaniards. Eventually, Cortés returned to Tenochtitlán and defeated Guatemotzin.

The Spaniards brought Roman Catholicism to Mexico, imposed their legal and economic system on the country, and enslaved many of the inhabitants. The combination of Spanish oppression and the smallpox, influenza, and measles the conquistadores brought with them reduced the Amerindian population from an estimated 5 million in 1500 to 3.5 million a century later; not until late in the 18th century did Mexico match its pre-Columbian population. Gradually, the Spaniards extended their territory south-

ward, to include, for a time, the captaincy-general of Guatemala, and northward as far as California, Nevada, and Colorado.

Spain ruled Mexico as the viceroyalty of New Spain for three centuries. Continued political abuses and Amerindian enslavement combined with the Napoleonic invasion of Spain in 1807 and consequential political uncertainty to produce a movement for independence. In 1810, a revolt against Spain was initiated by a priest, Miguel Hidalgo y Costilla, and a captain, Ignacio José Allende. Both were captured and shot by loyalists in 1811, but the revolt continued through another priest, José María Morelos y Pavón, who proclaimed Mexico an independent republic in 1813. Morelos and his followers were defeated and he was shot in 1815, but a swing toward liberalism in Spain in 1820 altered the political picture, leading Mexico's conservative oligarchy to favor independence as a way of preserving its power. In 1821, under the leadership of a rebel, Vicente Guerrero, and a former loyalist, Agustín de Iturbide, independence was again proclaimed and this time secured. Iturbide proclaimed himself emperor in 1822 but was deposed in 1823, when a republic was established; when he returned in the following year, he was captured and shot.

In the next 25 years, there were at least 30 changes of government. Gen. Antonio López de Santa Anna, who had participated in the overthrow of Iturbide, became the dominant figure in the 1830s and 1840s and attempted to centralize the new government. Texas gained its independence from Mexico in 1836 as a result of the defeat of Santa Anna at San Jacinto; in 1845, after a period as the Republic of Texas, it joined the United States. Mexico lost the subsequent war with the United States (1846–48), which began over a dispute about the border of Texas; under the Treaty of Guadalupe Hidalgo, Mexico recognized the Río Grande as the boundary of Texas and ceded half its territory (much of the present western United States) in return for \$45 million. In 1853, the United States purchased a small portion of land from Mexico for another \$10 million, which was widely regarded as further compensation for the land lost in the war.

A reform government was established in 1855 after a revolt against Santa Anna, and a new liberal constitution was adopted in 1857. Included in the reforms were laws abolishing military and clerical immunities. Article 27 prohibited corporations from holding land, and Article 123 established federal authority in matters of worship and religious discipline. Benito Juárez, the leader of the reform movement, became president in 1858. In 1861, during a period of civil strife, French troops under Emperor Napoleon III intervened in Mexico, ostensibly because Mexico had not paid its debts; in 1863, they captured Mexico City and installed Archduke Maximilian of Austria as emperor, with his Belgian wife, Carlota, as empress. After the French troops withdrew in 1866, partly because the United States protested their presence and partly because Napoleon needed them in France, forces loyal to Benito Juárez and led by José de la Cruz Porfirio Díaz regained control of the country. Maximilian was executed and the republic restored in 1867; Carlota, who had returned to Europe to plead with Napoleon to protect her husband, was driven mad by his death.

Díaz twice ran for president, in 1867 and 1871, each time leading an abortive military uprising after his electoral defeat. Finally, in 1876, Díaz seized power and assumed the presidency, a position he held (except for 1880–84, when a subordinate exercised nominal power) until 1911. Under his dictatorship, Mexico modern-

ized by opening its doors to foreign investors and managers. At the same time, the so-called Pax Porfiriana meant suppression of all dissent, by persuasion or by force, and a complete lack of concern with improving the life of the Mexican peasant; an elite corps of mounted police, the Rurales, held the rural areas in check. As the president's aging circle of associates, called Científicos (Scientists), clung tenaciously to power, resentment among the middle classes and the peasantry continued to grow.

After Díaz was once again reelected to the presidency in 1910, the Mexican Revolution erupted. This revolution, which by 1917 had claimed perhaps one million lives, was, on the one hand, a protest by middle-class political liberals against the stultifying Díaz regime and, on the other, a massive popular rebellion of land-hungry peasants. The interests of these two groups sometimes coincided but more often clashed, accounting for the turmoil and confusion of those years. The spark that touched off the revolution was the proclamation on 5 October 1910 of the Plan of San Luis Potosí, in which the liberal politician Francisco Indalecio Madero, who had lost the vote to Díaz, called for nullification of the election. Riots in Mexico City forced Díaz to resign and leave the country in 1911, and Madero was elected president later in that year. Meanwhile, popular revolts led by Emiliano Zapata and Pancho Villa, who refused to submit to Madero's authority, led the country into chaos. Madero, accused by the Zapatistas of not giving land to the peasants, was ousted and murdered in 1913 by Gen. Victoriano Huerta, who had conspired with the rebels.

When Huerta, a corrupt dictator, was driven from power by Venustiano Carranza and Álvaro Obregón in July 1914, a full-scale civil war broke out. This phase of the revolution ended in February 1917, when a new constitution was proclaimed; this nationalistic, anticlerical document, considered by some to be the world's first socialist constitution, embodied the principle of the one-term presidency in order to prevent the recurrence of a Díaz-type dictatorship. Article 3 established government rather than church control over schools; Article 27 provided for public ownership of land, water, and minerals; and Article 123 ensured basic labor rights.

Carranza was elected president in 1917, but for the next decade Mexico was still beset by political instability and fighting between various revolutionary groups. Most of the revolutionary leaders met with violent deaths. Zapata, still regarded by many as a revolutionary hero, was assassinated in 1919, and both Carranza and Obregón (who was president during 1920–24) lost their lives in military coups.

Political stability at last came to Mexico with the formation in 1929 of an official government party that incorporated most of the social groups that had participated in the revolution; it has been known since 1945 as the Institutional Revolutionary Party (Partido Revolucionario Institucional—PRI). Although its main pillars were, at least in theory, the peasants, workers, and other popular movements, it has also been closely allied with business since the 1940s. The most outstanding political leader of the post-1929 era was Lázaro Cárdenas, president during 1934–40, who sought with some success to realize the social goals of the revolution. His reforms included massive land redistribution, establishment of labor unions with strong bargaining positions, extension of education to remote areas of the country, and in 1938, the expropriation of foreign petroleum holdings, mostly US-owned. A compensa-

tion agreement with the United States was reached in 1944, when the two nations were World War II allies.

The postwar years have been marked by political stability, economic expansion, and the rise of the middle classes, but also by general neglect of the poorest segments of the population. One serious political disturbance came in 1968, the year the Summer Olympics were held in Mexico City, when the army and police clashed with students protesting political repression and human rights abuses. The number of students shot and killed has never been revealed. Yet, for many Mexicans, the murder of the students marked the unraveling of the authoritarian PRI, which could no longer hold on to power without resorting to extreme violence.

An economic boom during the late 1970s, brought about by huge oil export earnings, benefited a small percentage of the people, but millions of peasants continued to be only slightly better off than in 1910. Declining world oil prices in 1981 led to a severe financial crisis in 1982, a year of presidential elections. Mexico's new president, Miguel de la Madrid Hurtado, immediately introduced a series of austerity measures and promised a crackdown on corruption, which has long been a problem in Mexico. After the arrest of two government officials for misuse of public funds and fraud, the anticorruption drive appeared to languish; furthermore, public resentment of austerity increased. In 1985, when the PRI was accused of electoral malpractice in local and congressional elections, resentment boiled over in violent public protest. In October 1987, the PRI named Carlos Salinas de Gortari, a 39-year-old economist, as its candidate to succeed President de la Madrid. In September 1993, changes in federal electoral law—including an autonomous Federal Electoral Institute—were designed to make future elections more tamperproof. More transparent elections made it easier for more Mexicans to believe in their electoral system.

Mexico City was devastated by a major earthquake in September 1985. The official death toll was 7,000, although unofficial estimates were as high as 20,000; in addition, 300,000 were left homeless. There was widespread protest over the fact that many of the buildings destroyed had been built in violation of construction regulations and claims that foreign emergency aid had been misappropriated by the government.

In August 1992, formal negotiations regarding the North American Free Trade Agreement were concluded, whereby Mexico would join the United States and Canada in the elimination of trade barriers, the promotion of fair competition, and increased investment opportunities. NAFTA went into effect on 1 January 1994.

In January 1994, within hours after the NAFTA agreement went into effect, a primarily Amerindian group calling itself the Zapatista Army of National Liberation resorted to an armed uprising against the government. They initially took control of four municipalities in the State of Chiapas to protest what they regarded as government failure to effectively deal with regional social and economic problems. Two months after the Zapatista uprising, the nation witnessed its first high-level political assassination in over 60 years when PRI presidential candidate Luis Donaldo Colosio was murdered in Tijuana. His replacement, Ernesto Zedillo, was elected at the end of the year in a closely monitored campaign.

The devaluation of the peso in late December of 1994 threw the nation into economic turmoil, triggering its worst recession

in over half a century. Over a million Mexicans lost their jobs, and the country's gross domestic product plummeted 10.5% in the first months of 1995. The United States responded to its neighbor's distress with a multimillion-dollar bailout that averted even worse damage to the economy.

The discontent bred by this economic crisis, together with continued high levels of poverty, rising crime and corruption, and political instability, led in 1997 to a rejection of Mexico's nearly 70-year-old system of one-party rule. In June of that year, the PRI lost its majority in the lower house of the National Congress, its control superseded by the combined power of the leftist Party of the Democratic Revolution (PRD) and the conservative National Action Party (PAN), as well as two smaller parties. The PRD obtained one of its most important victories in Mexico City, where former presidential candidate Cuauhtémoc Cardenas Solórzano was elected mayor. Both parties, especially the PAN, went on to win important gubernatorial seats throughout the country.

Traditionally, the president selected his successor from the PRI ranks, a practice known as the *dedazo*, which means pointing the presidential finger at the new candidate. But in 1999, Zedillo said there would be no *dedazo*, and replaced the practice with a presidential primary, which was won by party loyalist Francisco Labastida Ochoa. Leading to the 2 July presidential election, Labastida was facing increasing competition from PAN candidate Vicente Fox Quesada. A former Coca-Cola executive and governor of Guanajuato, Fox was gaining a wide following by openly attacking the PRI, even discussing sensitive issues that others would not touch, including the PRI's connections to illegal drug trafficking. In the meantime, Cardenas, who resigned as mayor of Mexico City in September 1999, was losing support in his third try at the presidency.

On 2 July 2000, after over seven decades of PRI rule, Fox was elected president in an upsetting victory over Labastida. Although he did not receive a majority of the votes, Fox won by a 7% margin. The vote was the cleanest in Mexico's history, passing standards of freedom and fairness, as well as remaining peaceful. Fox drew support from beyond his conservative PAN party, indicating voter support for his commitment to tackling government corruption and economic reform. Yet, by mid-2003, Fox's tenure had proven a disappointment. The president lost popularity after his two most symbolic legislative initiatives failed to pass the divided congress. First, the president failed to solve the indigenous revolt in Chiapas. Despite an effort to pass legislation championed by the Zapatista Army, Fox's own PAN party killed the initiative. Second, a tax reform aimed at increasing government revenues to beef up social spending was also significantly scaled back by the PRI and PRD opposition. President Fox's ambitious legislative and government agendas moved slowly and many Mexicans disapproved of the gridlock between the executive and the divided congress. Yet, the 2003 midterm parliamentary elections did not drastically change the composition of congress. Thus, President Fox was unable to push his reform package forward and will likely leave the presidency having fulfilled very few of his electoral promises.

The presidential elections, scheduled for 2 July 2006, were likely to reflect once again the three-way divide in the Mexican electorate. Former Mexico City mayor Andrés Manuel López Obrador stood as favorite to win with a plurality of votes. PAN's Felipe Calderón promised continuity of the good policies implemented

by President Fox but needed to fight against the perception that Fox did not fulfill all of his electoral promises. PRI candidate Roberto Madrazo Pintado hoped to recapture the presidency for his party, but accusations of corruption and other scandals that have hurt the party were expected to play against his chances. In any event, the election was likely result in a divided congress and, thus, whoever was elected president would need to work with opposition parties to advance his agenda. Ever since the PRI lost control of the presidency, politics in Mexico have been characterized by gridlock. No single party has achieved commanding control of the executive and legislative branches, and obstructionist politics have dominated relations between the president and congress.

13 GOVERNMENT

Mexico is a federal republic consisting of 31 states and the Federal District. Its basic political institutions are defined in the constitution of 1917.

The president, elected for a six-year term (by universal adult suffrage beginning at age 18) and forever ineligible for reelection, appoints the attorney-general and a cabinet, which may vary in number. Although the constitution established separation of powers, in practice the Mexican chief executive traditionally dominated the legislative and judicial branches. Since the president is head of state, head of government, and commander-in-chief of the armed forces, and since the PRI enjoyed a clear majority in congress from 1934 to 1997, it was said that the only limit placed on the power of a president of Mexico is that of time—six years in office. Yet, as the PRI lost control of congress in 1997 and lost the presidency in 2000, real separation of powers has emerged under the 1917 constitution. Congress has become more powerful, although it has in practice used the power to obstruct, rather than influence, the executive's agenda. With the approval of congress, the president may intervene in the states, restricting their independence; also, under congressional authorization, he has certain legislative authority, especially in the regulation and development of commerce and industry. There is no vice president. If the president dies or is removed from office, congress is constitutionally empowered to elect a provisional president.

The bicameral congress, also elected by direct universal suffrage, is composed of a Senate (*Cámara de Senadores*), expanded from 64 to 128 members in 1994 (four from each state and four from the Federal District), and a Chamber of Deputies (*Cámara de Diputados*) made up of 500 members. Three hundred single-member districts represent each 250,000 people or fraction above 100,000, with a minimum of two districts in each state; 200 members are allocated by proportional representation. No party is allowed to have more than 60% of the seats in the Chamber of Deputies. Senators are elected for six years (half the Senate is elected every three years) and deputies for three years, and both groups are ineligible for immediate reelection. All legislators have alternates who temporarily occupy their posts when they make use of their constitutional prerogative to request a leave of absence. The congress may legislate on all matters pertaining to the national government and the Federal District.

14 POLITICAL PARTIES

From 1929 to 1997, the majority party and the only political group to gain national significance was the Institutional Revolution-

ary Party (Partido Revolucionario Institucional—PRI), formerly called the National Revolutionary Party (Partido Nacional Revolucionario) and the Party of the Mexican Revolution (Partido de la Revolución Mexicana). Three large pressure groups operate within the PRI: labor, the peasantry, and the “popular” sector (such as bureaucrats, teachers, and small business people). In 1997, for the first time in nearly 70 years, the PRI failed to retain a majority of seats in the 500-member lower house of congress, the Chamber of Deputies.

Of the major opposition parties, Party of the Democratic Revolution (PRD) advocates active government intervention in economic matters and questions close relations with the United States. The PRD has also voiced concerns about negative side effects of free trade policies. The PRD formed in 1991 and has gained electoral strength in urban areas, particularly Mexico City, whose local government elections it has dominated.

The conservative National Action Party (PAN) favors a reduced government role in the economy, backs close ties with the United States, and is closely linked to the Catholic Church. Vicente Fox, of the conservative PAN party, was elected on 2 July 2000, becoming the first non-PRI president in 70 years. That year, PAN also became the largest party in the 500-member Chamber of Deputies, with 223 seats. In the Senate, the PRI won 60 seats in the 128-member Chamber. The PRD won 53 seats in the Chamber and 17 in the Senate. Thus, no party holds majority control on either chamber of the Mexican congress. Yet, in the 2003 midterm elections, the PRI won a plurality of votes and secured 224 seats, just short of a majority. The PAN ended up in second place with 153 seats and the PRD obtained 95 seats.

15 LOCAL GOVERNMENT

Twenty-nine states of Mexico were created as administrative divisions by the constitution of 1917, which grants them those powers not expressly vested in the federal government; Mexico's two remaining territories, Baja California Sur and Quintana Roo, achieved statehood on 9 October 1974, raising the total to 31. Each state has a constitution, a governor elected for six years, and a unicameral legislature, with representatives elected by district vote in proportion to population. An ordinary session of the legislature is held annually, and extraordinary sessions may be called by the governor or the permanent committee. Bills may be introduced by legislators, by the governor, by the state supreme court, and by municipalities (a unit comparable to a US county). In addition to the 31 states, there is also one federal district comprising Mexico City, whose governor serves as a member of the cabinet. Many state services are supported by federal subsidies.

The principal unit of state government is the municipality. Mexico's 2,378 municipalities are governed by municipal presidents and municipal councils. State governors generally select the nominees for the municipal elections. Municipal budgets are approved by the respective state governors. During the seven decades of PRI rule, some local government elections were competitive. Until 1997, the president appointed the mayor of Mexico City. Political reforms allowed the first open elections in 1997. PRD candidate Cuauhtémoc Cardenas Solórzano was elected mayor. When he resigned to run for the presidency in 1999, Rosario Robles Berlanga became the first woman mayor of Mexico City. In 2000, PRD's Andrés Manuel López Obrador became the second democratically

ly elected mayor of Mexico City. López Obrador's popularity as mayor has made him a prime candidate for the 2006 presidential election.

16 JUDICIAL SYSTEM

Mexico's judiciary, both federal and state, has been a separate branch of government since independence. Federal courts include the Supreme Court, with 11 justices; 32 circuit tribunals, and 98 district courts, with one judge each. Special courts include a fiscal tribunal and boards of conciliation and arbitration.

Supreme Court magistrates are appointed for 15-year terms by the president, with the approval of the Senate, and can be removed only by a guilty verdict after impeachment. The other justices are appointed for six years by the Supreme Court magistrates. The Supreme Court has both original and appellate jurisdiction in four divisions: administrative, civil, labor, and penal. Circuit courts hear appeals from the district courts.

The jury system is not commonly used in Mexico, but judicial protection is provided by the Writ of Amparo, which allows a person convicted in the court of a local judge to appeal to a federal judge. Capital punishment, except in the army for crimes against national security, was abolished by the penal code of 1 January 1930.

Although the judiciary is constitutionally independent and judges are appointed for life (unless dismissed for cause), there have been charges that judges are sometimes partial to the executive. Low pay and high caseloads contribute to a susceptibility to corruption in the judicial system. In unprecedented moves in 1993, the government issued an arrest warrant for obstructing justice and for bribery against a former Supreme Court Justice and three federal judges were dismissed for obstructing justice.

In 1995, congress passed a judicial reform law. The judicial reform law provides for a competitive examination for selecting most lower and appellate federal court judges and law secretaries. The Supreme Court has the authority to strike down a law for unconstitutionality. The judicial reform law provides that the Supreme Court may declare a law unconstitutional when one-third of the congress, one-third of a state congress, or the Attorney General asks the Supreme Court to review the constitutionality of the law.

The judicial trial system is based on the Napoleonic Code and consists of a series of fact-gathering hearings. The record of the proceeding is not available to the public.

After the 2000 presidential election and the end of PRI control of the presidency, the Supreme Court and the judicial power in general has shown signs of greater autonomy and more independence from the elected authorities. The judiciary has consolidated as an independent power of the Mexican state.

17 ARMED FORCES

In 2005, Mexico's armed forces had 192,770 active personnel, with reserves numbering 300,000. The Army had 144,000 personnel. Equipment included 264 reconnaissance vehicles, over 862 armored personnel carriers, and 1,774 artillery pieces. The Navy, including its naval aviation arm and Marines, had 37,000 personnel. Naval vessels included 1 destroyer, 10 frigates, and 109 patrol/coastal vessels. The Air Force had 11,770 personnel operating 107 combat capable aircraft, including 10 fighters and 17 fight-

er ground attack aircraft. The service also had 43 support and 71 utility helicopters. Paramilitary forces included an estimated 11,000 Federal Representative Police backed by a reserve rural defense militia of 14,000. The defense budget in 2005 totaled \$3.09 billion.

18 INTERNATIONAL COOPERATION

Mexico is a charter member of the United Nations, having joined on 7 November 1945, and participates ECLAC and several nonregional specialized agencies, such as FAO, IAEA, the World Bank, UNESCO, UNHCR, ILO, and the WHO. The country held a seat on the UN Security Council from 2002–03. Mexico is a member of APEC, the Caribbean Development Bank, the European Bank for Reconstruction and Development, G-3, G-6, G-11, G-15, G-19, G-24, The Inter-American Development Bank, the Latin American Economic System (LAES), the Latin American Integration Association (LAIA), the OAS, the OECD, the Association of Caribbean States (ACS), and the Río Group. The country holds observer status in the Council of Europe.

Mexico, which for many years was the only Latin American nation to recognize Fidel Castro's Cuba, has based its foreign policy on the principles of nonintervention and self-determination of peoples, which it helped incorporate into the charter of the OAS in 1948 (Articles 15–17). In 1993, Mexico signed the North American Free Trade Agreement (NAFTA), creating a free-trade zone comprising the United States, Mexico, and Canada. The agreement was ratified by all three governments in 1993 and took effect the following year.

In environmental cooperation, Mexico is part of the Basel Convention, Conventions on Biological Diversity and Whaling, Ramsar, CITES, the London Convention, the Kyoto Protocol, the Montréal Protocol, MARPOL, the Nuclear Test Ban Treaty, and the UN Conventions on the Law of the Sea, Climate Change, and Desertification.

19 ECONOMY

Traditionally, Mexico's economy has been predominantly agricultural, but by 2004 the primary sector contributed only 4% of the GDP and employed less than a fifth of the labor force. The secondary sector—industry—contributed 27.2% of GDP and employed 24% of the labor force. Services is the largest sector, accounting for 68.9% of GDP and employing 58% of the work force. Mexico both exports a substantial amount of agricultural products (10% of exports) and imports substantial amounts (10% of imports) Mexico is self-sufficient in most fruits and vegetables and in beans, rice, and sugar, and it is approaching self-sufficiency in meat and dairy products. Marginal subsistence, however, is still the lot of much of Mexico's rural population. In 2003, the CIA estimated that 40% of the population were living below the poverty line. While this is an improvement on over 50% in the early 1980s, population growth means that this constitutes an increase in absolute numbers. Further, the government of Mexico's estimate for 2002 is that 54% of the population is lacking security in basic necessities. On the other hand, in 2002 it was estimated that 35.6% of the country's wealth was concentrated in the top 10% of population; the lowest 10% of the population had 1.6% of the wealth.

A great mining nation, Mexico is the world's leading producer of silver and is well endowed with sulfur, copper, manganese,

iron ore, lead, and zinc. Since the 1920s, Mexico has been one of world's leading oil producers. From 1973 to 1982 (i.e., from the first oil shock to the Mexican default marking the onset of the Third World debt crisis) oil production increased at 50% a year and accounted for about 75% of exports. By 2002, manufacturers had long ago overtaken oil as the main economic driver: oil made up only about 10% of exports, while 80% were manufactured products, half from the maquiladora sector of assembly plants. The maquilas are plants which import semifinished goods from the United States, taking advantage both of low Mexican wages and of laws that allow the goods to be imported, processed, and re-exported free of tariff charges. The maquiladoras, however, were also in decline by 2005 due to competition from lower-wage countries and the progressive lowering of all Mexico's tariffs under the NAFTA agreement. While some moved to the southern states of Mexico, where wages were lower, others moved their operations abroad.

Led by the oil boom, from 1978 to 1981 the Mexican GDP increased by an annual rate of 8% and the government embarked on an ambitious public spending program, financed to a great extent by external borrowing in the petro-dollar market. The ambitions slammed up against a wall of falling oil prices, world-wide recession, and increasingly tight money in 1981. By August 1982, Mexico found itself unable to service its spiraling external debt. The annual inflation rate, which had hovered around 30% during 1979–81, reached almost 100% in 1982.

In December 1987, the Pact for Stability and Economic Growth (PECE) was implemented. The PECE was a series of price and wage restraint agreements between government, labor, and the private sector, which combined austere fiscal and monetary restraints with price/wage controls and freer trade possibilities. The PECE helped curb inflation to 51.6% in 1988 without incurring a recession. Gradual recovery saw the inflation rate fall to 20% in 1991, 11.9% in 1992, and to around 10% in 1993.

As the price of debt rescheduling and the maintenance of international credit worthiness, the government was brought to adopt a program of economic liberalization and privatization that culminated in the North American Free Trade Agreement (NAFTA). This agreement went into effect on 1 January 1994 and opened the domestic market to foreign trade by a phased elimination of trade barriers between Mexico, the United States, and Canada over the next 15 years. The same day, the Zapatista National Liberation Army (EZLN) led an uprising in Chiapas. That year, 1994, turned out to be a politically and economically tumultuous year for Mexico. First, the PRI candidate in the presidential race had been assassinated by old economic nationalists within the party. Second, a speculative boom in lending by US banks and businesses seeking new markets in Mexico generated an unsustainable run-up of external short-term debt. The Zedillo government sought to lance the debt by devaluing the peso in December. Then, following the devaluation, even more rapid withdrawal of foreign capital threatened to sink the peso further and to spread throughout Latin America and beyond.

In January 1995, the Clinton administration organized an international assistance package which provided \$50 billion in loans (including \$20 billion in loan guarantees from the United States). As a measure of its sincerity, the Mexican government put its oil revenues up as collateral for the loans. Also with an eye to restor-

ing its international creditworthiness, the government only used about half of the credits made available, and paid back those it did use ahead of schedule. The Mexican GDP contracted 6.9% in 1995, but by 1996 growth expanded 4.2%. By 1997, growth had increased to 6.8%. Ironically, the depreciation of the peso aided recovery by making Mexican goods less expensive and thus more competitive on world markets, and the net effect of NAFTA has been a trade deficit with Mexico, reaching \$29 billion in 2001, up \$5.3 billion from 2000. Nevertheless, the promise of the Mexican market has been kept. US exports to Mexico grew from \$46 billion in 1995 to \$112 billion in 2000, more than double the value of US exports to the EU and making Mexico the second-largest trading partner of the United States (after Canada).

Inflation and external debt remained serious problems for the economy, threatening stability. In 1997 the government adopted the National Program for Development Finance (PRONAFIDE) which outlined the government's economic policy framework for the period 1997 to 2000. It supported further privatization and deregulation of the economy. Inflation, at 20.6% in 1997, decreased steadily to 5% (est.) in 2002. External debt as a percent of GDP fell from 37% in 1997 to 24.9% in 2002, and the external debt to exports ratio fell from 113.6% to 85.9% during the same period. However, GDP growth also moderated, to 4.9% in 1998 and 3.7% in 1999, due mainly to the spreading effects of the Asian financial crisis of 1997, the Russian debt default of 1998, and the Brazilian currency crisis of 1999. In 2000, however, as Vicente Fox was elected as the first non-PRI president in 71 years, the GDP rose a sharp 6.6%.

By 2000, Mexico had, thus, improved its macroeconomy, such that Moody's and Fitch IBCA, in March 2000 and January 2002 respectively, issued investment-grade ratings for its sovereign debt. Recovery was cut somewhat short in 2001, as Mexico imported the US recession and slowdown, which carried over into 2002. The economy contracted 0.3% in 2001, and grew at only an estimated 0.9% in 2002. In 2003 and 2004, growth picked up at respective rates of 1.4 and 4.4%. The Economist Intelligence Unit estimated real GDP growth to be 3.0% in 2005, and reported the unemployment rate to be gravitating around 3.8% in 2004 and 2005. Inflation decreased steadily from 6.4% in 2001 to 5% in 2002 and hovered between 4 and 5% from 2003–05. However, damage to agriculture from Hurricane Stan, which hit the southern states of Mexico in fall 2005, is likely to cause inflationary pressures. Even so, the GDP is expected to stay afloat, despite the damage to production, because of reconstruction investment estimated at \$2.3 billion. The funds will likely be drawn from the extra oil revenue that resulted from heightened oil prices.

20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 Mexico's gross domestic product (GDP) was estimated at \$1.1 trillion. 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 based on current dollars. The per capita GDP was estimated at \$10,000. The annual growth rate of GDP was estimated at 3%. The average inflation

rate in 2005 was 4.1%. It was estimated that agriculture accounted for 4% of GDP, industry 26.5%, and services 69.5%.

According to the World Bank, in 2003 remittances from citizens working abroad totaled \$14.595 billion or about \$143 per capita and accounted for approximately 2.3% of GDP. Foreign aid receipts amounted to \$103 million or about \$1 per capita and accounted for approximately 0.0% of the gross national income (GNI).

The World Bank reports that in 2003 household consumption in Mexico totaled \$433.06 billion or about \$4,246 per capita based on a GDP of \$639.1 billion, measured in current dollars rather than PPP. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the period 1990 to 2003 household consumption grew at an average annual rate of 2.8%. In 2001 it was estimated that approximately 30% of household consumption was spent on food, 4% on fuel, 2% on health care, and 7% on education. It was estimated that in 2003 about 40% of the population had incomes below the poverty line.

21 LABOR

The labor force in Mexico numbered an estimated 37.38 million in 2005. As of 2003, the services sector accounted for 58% of those employed, with industry accounting for 24%, and agriculture the remaining 18%. Underemployment, Mexico's major labor problem, affected mainly those engaged in agriculture. Although unemployment was put at an estimated 3.6% in 2005, around 25% of the country's workforce may be classified as underemployed.

As of 2005, approximately 25% of the labor force in the formal economy was unionized. As of that same year, Mexican workers were free to organize and join unions, bargain collectively, and engage in strikes. However, independent unions must register with the government and strikes must be preceded with advance notice and some brief mediation.

Under the federal labor law, every employee is entitled to one paid day of rest after every six days of work, seven paid holidays, and at least six days of vacation after a year of employment and at least eight days after two years. An annual bonus equal to 15 days' pay is required to be paid to all employees before Christmas, and vacation pay carries a 25% premium. The workday is generally eight hours, six days per week. Double or triple pay must be paid for overtime, depending on how many overtime hours are accumulated. Compulsory overtime is prohibited. Children as young as 14 may work, but with severe restrictions as to the conditions and hours of employment, and only with parental consent. Child labor provisions are well-enforced among medium and large companies, but many children work in smaller companies, in agriculture, or in the informal economy, usually in family enterprises, where enforcement is spotty and in the informal sector, almost nonexistent.

The national minimum wage rate varies by geographical area. In 2005, the minimum wage in southeast Veracruz State was \$4.23 per day, while in Mexico City, it was \$4.36 per day. These rates do not provide a worker and family with a decent standard of living, and only a small portion of workers in the formal economy earn the minimum wage. Many workers earn less, while those employed by prosperous industrial enterprises can earn three to four

times more. Employers are required by law to observe health and safety regulations.

22 AGRICULTURE

Agriculture's contribution to GDP fell from 15.1% in 1960 to 10.7% in 1970 and 4% in 2003—yet agriculture employs about 22% of the labor force. Only about 14% of Mexico's total land area is suitable for cultivation, and only 6% is cultivated with permanent crops; over 6.3 million hectares (15.6 million acres) are irrigated.

In 1960, Mexico became self-sufficient for the first time in corn; it continues to be self-sufficient in beans, rice, sugar, and most fruits and vegetables, and fluctuates between being either a net importer or self-sufficient with wheat and corn. During the late 1960s, Mexico almost tripled the investment allocated for agriculture. The government continues to protect agriculture and to ensure domestic consumption through import and export duties and controls. The government supports the prices of corn, wheat, beans, and fresh eggs and then sells these and other farm products at minimal prices through retail stores operated by the National Corporation for Public Subsidies. In 1977, the government introduced a new program called the Mexican Alimentary System, seeking to foster food production through subsidized credit, cheap raw materials, guaranteed prices, and crop insurance. Because of a record harvest in 1981, the agricultural sector grew by 6% overall. The program was terminated in December 1982 because of what the government called its limited contribution to rural welfare and incomes. In response to increasing pressure from Mexican producers to protect agriculture, in 2002 the government announced a series of measures to make Mexican agriculture more competitive.

In 2004, the principal crops' production totals (in tons) were as follows: sugarcane, 45,126,000; corn, 20,000,000; sorghum, 6,300,000; wheat, 2,500,000; dry beans, 1,400,000; soybeans, 75,700; rice, 191,500; and barley, 1,109,000. Principal exports are coffee, cotton, fresh fruit, sugar, tobacco, and tomatoes. In 2004, the value of agricultural exports amounted to \$9,879 million, and agricultural imports totaled \$13,439 million.

At the time of the Mexican Revolution, an estimated 830 landowners held 97% of the land. The principles of land reform were incorporated into Article 27 of the constitution of 1917, which provided for division of large landholdings into small farms, communally owned by villages, known as ejidos (one individual may only own 100 hectares/247 acres of irrigated land). Much of the arable land has been expropriated for the establishment of ejidos. The Agrarian Reform Law of April 1972 formally recognizes two types of landholdings, private and ejidal (in the form of lifetime land grants, which cannot be disposed of by sale or transfer). The proportion of ejidal-owned land rose from 7.5% in 1930 to 26.3% in 1960 and 47% in 1970. By 1986, 61.1% of the farm population belonged to the ejidal system, but the system yielded only about 33% of total agricultural output, and an estimated four million peasants remained landless. Beginning in the late 1970s, the government sought to group together ejidal holdings into larger collectives to increase production.

23 ANIMAL HUSBANDRY

More than one-third of the total land area is suitable for pasture. Livestock produced in the central, southern, and southeastern

states are mostly native breeds of general-purpose cattle; in the northern and northwestern states, Herefords and other improved breeds are raised for export, mainly to the United States.

In 2005, the livestock population was estimated at 31.5 million head of cattle, 14.6 million hogs, 9 million goats, 6.8 million sheep, 6.26 million horses (third in the world), 3.26 million donkeys, 3.28 million mules, and 425 million chickens. Output of livestock products in 2005 included 9,873,000 tons of cows' milk, 154,000 tons of goats' milk, 1,543,000 tons of beef and veal, 2,225,000 tons of poultry meat, 1,058,000 tons of pork, and 1,906,000 tons of eggs. In 1996, cattle inventories declined due to lower birth rates of calves, high slaughter rates, and increased exports. One of the worst droughts in decades in northern Mexico (combined with unfavorable weather in southern Mexico) was also responsible for the decline in livestock inventories.

24 FISHING

Mexico's principal commercial catches are shrimp, sardines, bass, pike, abalone, Spanish mackerel, and red snapper. Coastal fishing is important. The 2003 catch was 1,553,925 tons. The leading species caught by volume that year were California pilchard, 620,000 tons; yellowfin tuna, 165,767 tons; jumbo flying squid, 100,000 tons; and tilapia, 61,771 tons.

The fishing industry is largely handled by cooperative societies, which are granted monopolies on the most valuable species of fish. Most fish processed in Mexico's canneries are consumed domestically. Ensenada, in Baja California, is Mexico's most important fisheries center. It produces most of the canned fish and virtually all of Mexico's abalone and spiny lobster exports. Mexico's first fisheries college, the Higher Institute of Marine Sciences, is located in Ensenada. In 2003, Mexico's exports of fish products were valued at over \$634.5 million.

25 FORESTRY

About 84.57 million hectares (209 million acres) are classified as forestland, 60% tropical and subtropical forests, and 40% temperate and cold climate forests. Palms are found at elevations up to 500 m (1,600 ft), while mahogany, cedar, primavera, and sapote are found from 500–1,000 m (1,600–3,300 ft). Stands of oak, copal, and pine grow from 1,000–1,500 m (3,300–4,900 ft), and conifers predominate in higher elevations. Mexico has 72 species of pine, more than any other country; pine accounts for over 80% of annual forestry production. About 90% of Mexico's forestry production comes from temperate forests, which are mainly found in the states of Chihuahua, Durango, Jalisco, Michoacán, Oaxaca, Chiapas, and Guerrero. Tropical forests account for only 10% of forestry production, and exist in the states of Chiapas, Quintana Roo, Yucatan, Campeche, Tabasco, and Oaxaca.

Mexico's forestry policy is designed to protect and renew these resources, so that forests may fulfill their soil-protection functions and timber reserves may be exploited rationally and productively. Only about 30% of all forests are exploited, mostly in Chihuahua, Durango, and Michoacán. Timber is often located in mountainous regions with rough terrain and few all-season roads. As a result, wood production costs are 35–40% higher than the world average. Moreover, most roundwood comes from ejido (communally owned) forests; this system has greatly inhibited the development of an integrated forest industry. Mexico's ability to supply

its own wood products needs are severely restricted by the limited timber available. Roundwood production in 2004 was estimated at 45.7 million cu m (1.6 billion cu ft) by the FAO; forestry imports exceeded exports by \$2.2 billion. Over 90% of the hardwood demand is for the manufacture of furniture.

There are also many other useful products found in Mexico's forests other than wood. Annual forestry production also includes an estimated 100,000 tons of resins, fibers, oils, waxes, and gums. The indigenous peoples living in Mexico's rain forests are estimated to utilize up to 1,500 species of tropical plants to manufacture 3,000 different products such as medicines, construction and domestic materials, dyes, and poisons. Mexico's National Autonomous University estimated the rate of annual forest loss during 1976–2000 was 0.25% for temperate forests, 0.76% for tropical forests, and 0.33% for semiarid forests, for a total average annual loss of around 545,000 hectares (1,347,000 acres).

26 MINING

Mexico's globally significant mineral sector in 2003 was dominated by hydrocarbons. However, the country ranked first in the production of bismuth (with around 24% of the world's refined total), and was the world's second-largest producer of silver and celestite (strontium mineral; 35% of world output). The country was also a major supplier of cadmium, cement, copper, fluor spar, gold, gypsum, manganese ore (metal content), molybdenum, salt, steel, sulfur, and mine zinc. Mexico is the second-largest producer of steel in Latin America.

The total value of nonfuel minerals produced was \$4.61 billion in 2003, slightly under 2002's revised total of \$4.68 billion. Metals contributed 45% of the total (\$2.06 billion), while industrial minerals accounted for \$2.55 billion or 55%. Of the latter, sand and gravel was the highest value commodity (excluding natural gas and oil) at \$842.5 million. Among metals, copper production in 2003 was first, accounting for \$578 million. Total exports in 2003 were valued at \$164.9 billion, with nonfuel minerals accounting for \$3.1 billion. Metal exports totaled \$2.7 billion. About 80% of Mexico's mineral exports went to the United States in 2003.

Silver output in 2003 was 2,568,877 kg (metal content of ore). Peñoles mined 59% of Mexico's silver. Its Fresnillo/Proaño mine, in Zacatecas, produced over 995,000 kg. Peñoles also produced almost all of the country's refined silver, and mined 58% of its lead and 57% of its zinc. Grupo Mexico mined 33% of Mexico's zinc in 2003. In 2003, Mexico produced 20,406 kg of mined gold. As with silver, Peñoles was Mexico's largest gold producer with 52% of the total. Copper output in 2003 (by cementation, concentration, and leaching) was 355,653 metric tons. Mined bismuth output that same year totaled 1,064 metric tons. Celestite output in 2003 totaled 130,329 metric tons, while fluor spar (acid grade and metallurgical grade), production 756,000 tons. Iron ore (gross weight) output in 2003 totaled 11.265 million tons, while cadmium mine production in that year, totaled 1,616 metric tons. Barite production in 2003 totaled 287,451 metric tons, while lead mine output that same year came to 139,348 metric tons. In 2003, Mexico also produced antimony; mercury; tin; natural abrasives (comprising mostly pumice stone and emery, a granular, impure variety of corundum); clays (bentonite, common clay, fuller's earth, and kaolin); diatomite; feldspar; hydrated lime and quicklime; magnesite and magnesia; mica; nitrogen; perlite; phosphate rock; so-

dium compounds; stone, sand, and gravel (including common calcite, dolomite, limestone, marble, quartzite, and glass sand [silica]); talc; and wollastonite. No tungsten was produced from 2000 through 2003. Although vermiculite was not produced from 1998 through 2001, 300 metric tons was produced in 2002 and 312 metric tons in 2003.

Mexico had 15% of the world's graphite reserves (3.1 million tons) and 13% of silver reserves (37,000 tons). The country also ranked among the highest in reserves of cadmium (35,000 tons), mercury (5,000 tons), and selenium (4,000 tons). Lead reserves totaled 1 million tons; zinc reserves, 6 million tons; molybdenum, 90,000 tons; copper, 14 million tons; and manganese, 4 million tons. Sulfur was found in the salt domes of the Isthmus of Tehuantepec—reserves of all forms amounted to 75 million tons. An area in Baja California potentially rich in gold, silver, copper, lead, and zinc was discovered by a sensor on the US space shuttle *Columbia* in 1981. Northern Mexico dominated the production of minerals. Metallic deposits were mostly in the Sierra Madre ranges; copper, gold, and manganese were mined mainly in the northwest (Sonora produced more than 80% of the nation's copper and received three-quarters of foreign investment); lead, zinc, and silver in central Mexico (Zacatecas was the principal state for silver, and Chihuahua was the leader in lead and zinc); and coal and petroleum in the east. Employment in the mineral sector totaled 220,100 in 2000, including 58,400 in metal mining, 57,200 in iron and steel, and 46,500 in nonmetallic minerals.

Under the constitution, minerals were part of the national patrimony. Nearly all formerly state-owned mines had been privatized by 1997. Although low prices for base metals (except copper) and precious metals have hurt the industry, the North American Free Trade Agreement (NAFTA) was expected to have a significant role in attracting foreign investment to the mineral sector. Amendments in 1996 to the 1992 Mining Law removed many of the restrictions regarding the participation of private and foreign companies, permitting direct investment with up to 100% ownership of equity in exploration works and activities, and allowing up to 100% foreign participation in production. Further revisions in 1999 were geared to increase participation of the private sector, and competitiveness of mining companies in the country.

27 ENERGY AND POWER

Mexico, according to most analysts, has the third-highest proven reserves of crude oil in the Western Hemisphere, following Venezuela and the United States. The country also contains deposits of natural gas that gives it the sixth-largest proven reserves of natural gas in the Western Hemisphere. Mexico also has recoverable deposits of coal.

As of 1 January 2004, Mexico is estimated to have proven oil reserves of 15.7 billion barrels, with production in 2003 estimated at 3.8 million barrels per day, of which 3.37 million barrels per day was crude oil. Domestic consumption of oil in 2003 was estimated at 2.02 million barrels per day. Net oil exports that same year were estimated at 1.78 million barrels per day. Crude oil refining capacity, as of 1 January 2004, was estimated at 1.73 million barrels per day. Although the government restricts exploration and exploitation of petroleum deposits, some foreign and private exploratory drilling has been permitted. Oil exploration and production is managed by state-owned Petroleos Mexicanos (Pemex), which

was split into four subsidiaries in 1992. While Pemex maintains exclusive rights to oil output and exploration in Mexico, the nation's hydrocarbon reserves are owned by Mexico, not Pemex.

According to the Oil and Gas Journal, Mexico's proven reserves of natural gas were estimated, as of 1 January 2004, to be 15 trillion cu ft. In 2002, natural gas output was estimated at 1.33 trillion cu ft, mostly from offshore sources. However, Mexico's demand for natural gas outstripped production in 2002. Net imports of natural gas that year came to 0.27 trillion cu ft.

Mexico, in 2001, had an estimated 1.3 billion short tons of recoverable coal reserves. In 2002, Mexico's production of coal came to an estimated 12.1 million short tons, while demand that year came to an estimated 13.8 million short tons, making Mexico a net importer of coal, which amounted to 1.7 million short tons.

Total electric power generating capacity came to an estimated 42.3 GW, as of 2002. The amount of electricity produced in 2002 was an estimated 198.6 billion kWh, of which 81% came from conventional thermal plants, and 12% from hydroelectric sources. Nuclear generating output came to 4.5%, with 2.5% from other, alternative sources. The possibilities for geothermal electrical production are extensive, with over 100 thermal springs available for exploitation.

28 INDUSTRY

Mexico has one of the best-developed manufacturing sectors in Latin America. The manufacturing sector surpassed agriculture's contribution to GDP as far back as the early 1950s. Government support of industry, via import substitution industrialization, resulted in sharp increases to satisfy increased domestic demand for manufacturing output from the 1950s through the 1970s.

In the 1980s, the Mexican government retreated from its position of dominance over the economy, and the private sector was given an expanded role. Manufacturing output increased on average by 2.3% per year during the 1980s and by 3.9% annually during 1988–98. In 1998, manufacturing contributed an estimated 22.1% to GDP, and had a growth rate of 7.4%. In 2004, industry as a whole accounted for about 27% of GDP and the industrial production growth rate was estimated to be 3.8%.

Major industrial centers are Mexico City, Guadalajara, Monterrey, Cidua Juárez, and Tijuana. Mexico City is an attractive venue for manufacturing due to its skilled work force, low distribution costs, large consumer market, and closeness to political decision makers and the nexus of Mexico's communications system. The principal manufacturing industries include food and beverages, tobacco, chemicals, iron and steel, petroleum, textiles, clothing, and motor vehicles, consumer durables, and tourism. Other industries include footwear, metalworking, furniture, and other wood products.

Manufacturing has been focused around the reexport processing industry, carried out by *maquiladoras* that have traditionally been located near the US border and owned by a foreign corporation, but have recently moved operations southward to take advantage of lower production costs. The *maquiladoras* contract to assemble or process imported goods brought in from the United States and then reexport them duty free. In 2002, there were some 3,200 *maquiladora* factories. Baja had the most export industries in 2001, at over 1,300; other leading states included Sonora, and Tijuana, which hosts the majority of electronic-related assembly

plants. However, the *maquiladora* industry was in crisis in 2003, with Mexico losing nearly 600 *maquiladoras* in 2001–02, mostly in electronics and apparel. During that period, 250,000 jobs were lost, which amounted to 15% of the *maquila* workforce. China was Mexico's chief rival in the industry. (China's hourly wage is 40 US cents, compared to approximately \$1.20 in Mexico, making it hard for Mexico to compete on the world market for reexports.) As of 2005, this continued to be a concern for the Mexican economy.

The construction sector has great potential, as major improvements in basic infrastructure—including roads, highways, railways, ports, and the airport network—are carried out.

29 SCIENCE AND TECHNOLOGY

The National Academy of Science, founded in 1884, is the principal scientific organization. Among Mexico's 36 scientific and technological learned societies and 26 scientific research institutes, the natural sciences and medicine predominate. Especially well known is the International Maize and Wheat Improvement Center, founded in Mexico City in 1966; its director, Norman Ernest Borlaug, received the Nobel Peace Prize in 1970 for his work in advancing the "green revolution." More than 60 universities and colleges in Mexico offer courses in basic and applied sciences. In 1987–97, science and engineering students accounted for 32% of college and university enrollments. In 2002, of all bachelor's degrees awarded, 23.6% were in the sciences (natural, mathematics and computers, engineering).

The primary science and technology policymaking body is the National Council for Science and Technology, a decentralized public body created in 1970 composed of researchers, scientists, academicians, and government officials. They formulate, study, evaluate, and execute national science and technology policies. In 1989, the Consultative Council on Sciences was created to advise directly the President of Mexico on science and technology. In 2002, Mexico's expenditures on research and development (R&D) totaled \$3,859.637 billion, or 0.43% of GDP. Of that amount, 61% came from government sources, while 30.6% came from the business sector. Higher education accounted for 7.1%, while nonprofit institutions and foreign sources accounted for 0.3% and 1%, respectively. In that same year, Mexico had 274 researchers and 98 technicians that were engaged in R&D per million people. High technology exports in 2002 totaled \$28.939 billion or 21% of manufactured exports.

30 DOMESTIC TRADE

Mexico City is the commercial hub of the country and is the principal distribution point for all types of commodities. Other large cities, such as Guadalajara, Monterrey, and Puebla, serve as distribution points for their respective regions. Regional marketing is dominated by the open market, with its small stalls or shops, where business is transacted on an individual bargaining basis. There are also chain stores, supermarkets, department stores (some selling by mail), and a government-operated chain of more than 2,000 discount-priced food and clothing stores.

Although most sales are for cash, the use of consumer credit is increasingly extensive, especially for automobiles, furniture, household appliances, and other expensive items. A 10–15% value-added tax applies to most imported products. Products are ad-

vertised through newspapers, radio, television, outdoor signs, and motion picture shorts and slides.

In 1999, the federal government mandated that businesses should keep operational hours between 8 AM and 6 PM. However, most establishments continue to keep traditional work and operation hours, which can vary by region. These traditional hours are from 9 or 9:30 AM to 7 PM, Monday through Friday, with one or two hours for lunch. Some offices in Mexico City have kept hours from about 10 AM to 9 PM, with a two-hour lunch. Banks are open from 9 AM to 1:30 PM.

3¹ FOREIGN TRADE

Mexico is one of the most trade-dependent countries in the world, and is especially connected to the United States, which buys about 88% of its exports, which include electronics, motor vehicle parts, and chemicals. Since the start of NAFTA in 1994, Mexico has increased its trade with the United States and Canada three-fold. It has also been a member of free trade agreements with Guatemala, Honduras, El Salvador, and the European Free Trade Area since 2001. More than 90% of Mexico's trade, then, is under free trade agreements. For this reason, Mexico participates actively in the World Trade Organization (WTO), and hosted the WTO Ministerial Meeting in Cancun in September 2003.

Not including exports from the maquiladoras, some of the most important general export commodities from Mexico are crude oil and automobiles. Mexico also exports 9.5% of the world's vegetables. The main destinations of Mexico's exports in 2004 were the United States (87.5%), Canada (1.8%), Japan (1.1%), and Spain (1.0%).

The main origins of Mexico's imports in 2004 were the United States (56.3%), China (3.8%), Germany (3.6%), and South Korea (3.0%).

3² BALANCE OF PAYMENTS

Mexico's balance of payments, in deficit throughout much of the 1960s, turned favorable in the 1970s, as inflows of foreign funds rose fast enough to offset the worsening visible trade balance. However, during the 1980s a steep rise in imports due to trade liberalization led to a growing imbalance. Mexico's external position had so deteriorated by 1986 that the IMF and World Bank coordinated a financial rescue package of \$12 billion and commercial banks agreed to reschedule \$44 billion in foreign debt; an innovative feature of the agreement was that repayment was effectively tied to Mexico's oil export earnings. Mexico began running a current account deficit in 1988, that remained through the 1990s. Following the 1994 devaluation of the peso, international lenders provided \$40 billion in economic aid, half from the United States. This influx of capital resulted in bringing the current account deficit to less than 1% of GDP in 1995, from at least 7% in 1994.

The International Monetary Fund (IMF) reported that in 2001 Mexico had exports of goods totaling \$158.4 billion and imports totaling \$168.4 billion. The services credit totaled \$12.7 billion and debit \$17.2 billion.

The US Central Intelligence Agency (CIA) reported that in 2004 the purchasing power parity of Mexico's exports was \$184 billion while imports totaled \$90 billion resulting in a trade deficit of \$94 billion. The current account balance was estimated at -\$4.113 billion. Banco de Mexico, however, reported the current account def-

icit to be -\$7.4 billion and projected the deficit would continue, approximating -\$9.0 billion in 2005.

3³ BANKING AND SECURITIES

The Bank of Mexico (established 1925), in which the government owns 51% of the capital stock, is also the central bank and bank of issue. Together with the National Banking and Insurance Commission and the Secretariat of Finance, it supervises commercial, savings, trust, mortgage, capitalization, and investment institutions. National institutions for economic development extend agricultural and long-term industrial credit and finance and develop public works, international trade, cooperatives, and the motion picture industry; they also operate savings accounts. The National Financing Agency (founded in 1934) acts as a financing and

Principal Trading Partners – Mexico (2003)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	165,394.6	171,290.8	-5,896.2
United States	147,027.5	106,081.8	40,945.7
Canada	2,835.0	4,120.8	-1,285.8
Germany	1,753.2	6,274.9	-4,521.7
Spain	1,464.8	2,288.3	-823.5
Aruba	765.6	...	765.6
Switzerland-Liechtenstein	714.2	839.2	-125.0
Japan	607.0	7,622.8	-7,015.8
Netherlands	596.1	555.7	40.4
United Kingdom	560.7	1,242.3	-681.6
Guatemala	536.2	...	536.2

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

Balance of Payments – Mexico (2003)

(In millions of US dollars)

Current Account		-9,247.0
Balance on goods		-5,624.0
Imports	-170,546.0	
Exports	164,922.0	
Balance on services		-5,521.0
Balance on income		-11,814.0
Current transfers		13,712.0
Capital Account		...
Financial Account		17,683.0
Direct investment abroad		-1,390.0
Direct investment in Mexico		10,784.0
Portfolio investment assets		91.0
Portfolio investment liabilities		3,864.0
Financial derivatives		...
Other investment assets		8,266.0
Other investment liabilities		-3,931.0
Net Errors and Omissions		1,381.0
Reserves and Related Items		-9,817.0

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

investing corporation; it also regulates the Mexican stock market and long-term credits.

There are a number of state development banks, including Nacional Financiera (Nafin, mainly for small and medium-sized businesses), Banco Nacional de Comercio Exterior (Bancomext, foreign trade), Banco Nacional de Obras y Servicios Públicos (Banobras, public works and services), Financiera Azucarera (sugar industry), Banco Nacional de Comercio Interior, and Banco Nacional de Crédito Rural. Nafin and Bancomext are by far the most important.

In September 1982, in order to stop the flight of capital, the government nationalized all 57 private banks; their combined assets were estimated at \$48.7 billion. After the inauguration of President de la Madrid in December 1982, it was announced that 34% of the shares of the nationalized banks would be sold to bank workers and users and to federal, state, and municipal agencies. No single shareholder would be allowed to purchase more than 1% of the stock, and the federal government would retain a 66% controlling interest. The government had consolidated the commercial banking system into 19 financial institutions by the end of 1986. In November 1986 the government introduced a plan that would privatize 18 of Mexico's 19 state owned commercial banks. The sale of the banks began in 1987. In 1990 the government began allowing foreigners to buy up to 30% of the state's banks. By July 1992 the banking system was completely private. The only foreign bank permitted to operate within Mexico as of 1993 was Citibank; another 100 foreign banks had representatives in Mexico, however.

The 1990s brought fundamental change to the financial sector. Apart from liberalization of interest rates and credit terms and the elimination of obligatory lending to the public sector, there was the creation of new financial instruments and institutions. At the end of 1994, there were around 50 commercial banks in operation compared with just 19 two years earlier. The newly privatized commercial banks had problems almost from the outset. The principal cause was poor asset quality which manifested itself in an increasingly serious burden of nonperforming loans.

Faced with the prospect of a wholesale banking collapse, the government came up with a succession of different measures to deal with the problem of bad debts. There had been a scheme to enable bank loans to be rescheduled using index-linked *Unidades de Inversión* (UDIs) and a program of support for bank debtors (*Apoyo a Deudores*, ADE) designed to help as many as eight million people reschedule debts of up to \$26,000. In May 1996, the government announced a further scheme to help mortgage debtors under which it was to assume 30% of monthly payments due during the year, the proportion falling progressively to 5% over 10 years.

Apart from providing relief for debtors, the government also set up a program to enable banks to meet capital and loan loss provisions (*Programa Temporal de Capitalización Temporal*), as well as a fund (*Fondo Bancario de Protección de Ahorro-Fobaproa*) to take over banks' bad debts in exchange for new capital injections by shareholders. Nevertheless, it has had to step in and take control of a number of institutions. The reserve package cost the government a considerable sum. However, it limited the damage by selling off banks in its control, mainly to foreign investors. Foreign investors also helped to capitalize banks which were in private hands. By 1999, there were \$61 billion of unpaid debts that

the Mexican government had bought from banks in order to keep them from collapsing, adding to the public debt. These bank loans equaled 20% of GDP in 1999.

In mid-March 1997, after two years of preparation, the government introduced measures to curb money laundering. Anywhere between \$4 billion and \$30 billion of drug money is laundered in Mexico every year. Starting in 1998, banks, brokerages, and large foreign exchange houses had to report all cash transactions involving \$10,000 or more to the central bank. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$56.5 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$138.3 billion. The money market rate, the rate at which financial institutions lend to one another in the short term, was 12.89%.

The National Securities Commission (founded in 1946) supervises stock transactions. The Stock Exchange of Mexico (Bolsa Mexicana de Valores), the largest stock exchange in Latin America, was organized in its present form in 1933. It lists the stocks of the most important industrial companies, as well as a few mining stocks. Two smaller exchanges at Monterrey and Guadalajara were absorbed in 1976 by the Mexico City exchange. Trading on the exchange increased tenfold between 1976 and 1981, but dropped thereafter with the prolonged recession. It recovered to its 1979 level by 1986 and rose 124% in 1987 despite a spectacular crash in October and November of that year tied to the Wall Street's crash. The greatest part of the trading is in fixed-interest, high-yield bonds and bank deposit paper. Under new rules, which came into force in November 1989, foreigners are allowed to purchase almost any stock through a "neutral" trust, although as of 1997 they still did not have voting rights. In 1992, the market behaved erratically, largely because of sensitivity to the political and economic situation in the United States and uncertainty about NAFTA.

In 1996, the recovery in the stock market strengthened as the economy began to pull out of recession, inflation and interest rates fell, and the currency held steady. As confidence grew, so foreign investment flowed back into the market. By mid-year, the total value of foreign investment in the stock exchange was \$33.8 billion compared with \$27.8 billion at the end of 1995, \$34.4 billion at the end of 1994, and \$54.6 billion at the end of 1993. As of 2004, a total of 152 companies were listed on the Stock Exchange of Mexico, which had a market capitalization \$171.940 billion. In 2004, the IPC Index rose 46.9% from the previous year to 12,917.9.

3⁴ INSURANCE

Since 1935, all life, fire, marine, automobile, agriculture, accident and health, and other insurance companies have been Mexican operated. Insurance companies must be authorized by the National Banking and Insurance Commission. In recent years, regulation has changed from rates and forms to solvency requirements. The effect of this change has been to increase product and price competition to the advantage of the consumer. The Mexican market has been divided into general and life insurers (including composites) and surety companies for purposes of regulation and government oversight. At year-end 1995, there were approximately 55 insurers, including three mutuals, two reinsurers, and two government companies. In addition, there were approximately 20

surety organizations with a total premium volume exceeding \$115 million. Government companies provide the compulsory workers' compensation insurance, which is a part of the social security scheme.

The Mexican insurance market is characterized by a relatively small number of insurers, with the top five insurers enjoying 70% of the market in terms of premiums. Thereafter, the size of insurers drops very rapidly. During 1996, two of the top five insurance organizations were expected to complete a merger, with the resulting company having 30% of the 1995 market. With the liberalization of the insurance market, a number of foreign insurance organizations have established or strengthened their presence in Mexico. In 2003, the value of direct insurance premiums written in Mexico totaled \$10.920 billion, of which nonlife premiums accounted for \$6.690 billion. As of 2003, Mexico's top nonlife insurer was ING Comercial America, which had gross written nonlife premiums (includes personal accident; figures adjusted for inflation) of \$1,481.1 million, while the leading life insurer, Metlife Mexico, had gross written life insurance premiums of \$1,598.1 million in that same year. Market penetration when compared to North America and Europe, is especially low for life insurance products.

Employee benefits (Social Security) are compulsory.

3⁵ PUBLIC FINANCE

Major sources of revenue are income taxes, a VAT, and public enterprise revenues. Among regular government departments, education receives the largest budget allocation, but outlays for debt service, subsidies to federal enterprises, and capital expenditures for highways, irrigation, and hydroelectric projects have exceeded regular departmental expenditures in recent years. The public-sector deficit usually increases sharply in the last year of a presidential term as the outgoing administration strives to complete its public works program. During the 1960s, government revenues rose at a faster rate than GDP, with revenues from income taxes (including surcharges) increasing by 170% in the 1960–69 peri-

od. Budgets in the 1970s and early and mid-1980s continued to show current-account "surpluses," or minimal apparent deficits; the fact that borrowings and transfers are built into the budget structure masked the true magnitude of annual deficits. In the late 1970s and the early 1980s, real budget deficits increased substantially, reaching nearly 18% of the GDP by 1982. By slashing public spending, the government was able to bring the deficit down to 8.9% of the GDP in 1983 and 7.1% in 1984, but the collapse of the world oil price sent it up to 16.3% in 1986. By the early 1990s, however, public finances were strengthening, and a surplus was recorded in 1992, equivalent to about 1.5% of GDP. Public revenues policy in 1992 sought to widen the tax base and simplify and enforce tax administration. At the same time, public expenditures have been reoriented to provide basic infrastructure and services. In 1997 and 1998 there was a current account deficit equaling 0.70% and 1.3% respectively.

The US Central Intelligence Agency (CIA) estimated that in 2005 Mexico's central government took in revenues of approximately \$173.2 billion and had expenditures of \$175.4 billion. Revenues minus expenditures totaled approximately -\$2.2 billion. Public debt in 2005 amounted to 21.2% of GDP. Total external debt was \$174.3 billion.

The International Monetary Fund (IMF) reported that in 2000, the most recent year for which it had data, central government revenues in millions of pesos were 810,620 and expenditures were 875,775. The value of revenues in millions of US dollars was \$85,729 and expenditures \$101,425, based on a market exchange rate for 2000 of 9.4556 as reported by the IMF. Government outlays by function were as follows: general public services, 38.4%; defense, 3.0%; public order and safety, 2.7%; economic affairs, 8.1%; housing and community amenities, 6.9%; health, 5.0%; recreation, culture, and religion, 0.6%; education, 24.7%; and social protection, 20.1%.

3⁶ TAXATION

The main sources of tax revenue in Mexico are the income tax, the value-added tax (VAT), and local levies on real property. The federal government also imposes excise taxes on alcohol and cigarettes, as well as production taxes on mining.

A new income tax law, effective 1 January 1987, retained the 1981 division of taxpayers into four groups: resident corporations; resident individuals; nonresident corporations and individuals taxed only on their Mexican-source income; and nonprofit organizations, which, though paying no taxes, are still required to file annual returns. The tax reforms of 2001 extended the requirements for reporting income to the Hacienda (the term for Mexico's tax agency) as a condition for maintaining various income tax exemptions on income from dividends, capital gains, gifts and inheritances.

As of 2005, Mexico imposed a corporate income tax of 30%, which generally aggregates all income categories into a single taxable income figure. However, in 2006, the standard corporate rate will be cut to 29% and to 28% for 2007 and beyond. A 1.8% tax on fixed assets is deductible from corporate income tax. Except for gains from sale of stock on the Mexican stock exchange, capital gains are taxed at the same rate as other corporate income. Dividend payments by Mexican companies to nonresidents are not subject to any withholding. Branches of the foreign companies

Public Finance – Mexico (2000)

(In millions of pesos, central government figures)

Revenue and Grants	810,620	100.0%
Tax revenue	640,777	79.0%
Social contributions	84,931	10.5%
Grants	...	...
Other revenue	84,912	10.5%
Expenditures	875,775	100.0%
General public services	335,966	38.4%
Defense	26,586	3.0%
Public order and safety	23,832	2.7%
Economic affairs	71,025	8.1%
Environmental protection	...	...
Housing and community amenities	60,633	6.9%
Health	43,387	5.0%
Recreational, culture, and religion	4,885	0.6%
Education	216,548	24.7%
Social protection	176,175	20.1%

(...) data not available or not significant.

SOURCE: *Government Finance Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

have the same tax obligations as domestic companies. Interest income is taxed at rates of 10%, 21%, and 30%. Royalty income from patents and trademarks are subject to a withholding tax of 30%, while royalties derived from intellectual and technical assistance are subject to a 25% withholding tax. Payments made to so-called tax havens are subjected to a withholding tax of 40%.

As of 1 January 2005, Mexico had a progressive individual income tax with a top rate of 30%. Several types of deductions are available, including lump-sum standard deductions, for housing expenses, property taxes paid, etc., but the specific mix in determining taxable income differs from region to region. The 3% Substitute Tax on Salary Credits (ISCAS) introduced in 2002 was raised to 4% for 2003. Though the tax reforms of 2001 allow state governments to impose an income tax up to 3%, as of 2003 none had a state income tax. Gifts less than about \$1,700 (calculated as the equivalent of three annual minimum wages) are tax-exempt as are gifts between spouse and linear descendants (although such gifts over one million pesos—about \$95,000—must be reported to the Hacienda to maintain the tax exemption).

The main indirect tax is Mexico's value-added tax (VAT), in effect since 1980, which has a current standard rate of 15% on most goods and services, except in border zones in which a 10% VAT applies. Medicine and food products are zero-rated. VAT-exempt goods and services include sales of animals, vegetables, and fruit for other than industrial use; sales of tractors, fertilizers, and pesticides; rentals of agricultural machinery; international freight; international air passenger service, prepaid cellular phone service, radio paging and beeper services, the sale of natural gas for car fuel, and imports and exports in Strategic Bonded Warehouse facilities. A 5% luxury tax on a rather arbitrary collection of goods (luxury cars, jet skis, salmon, golf, horseback riding, but not yachts, lobster, scuba diving or skydiving) was abolished in 2003. Though the tax reforms of 2001 give the states leeway to impose sales taxes up to 3%, none are reported to have done so as of 2005.

37 CUSTOMS AND DUTIES

Mexico, a member of NAFTA since 1994, also has free trade agreements with 32 countries and regions, among them the European Union, EFTA, Israel, and 10 nations in Latin America. The agreement with the European Union is roughly the same as the specifications afforded in the NAFTA treaty. Mexico has also implemented "Sectoral Promotion Programs (PROSEC)" that reduce tariffs for goods imported from countries with most-favored nation status by up to 5% on a wide range of manufacturing inputs. In doing so, Mexico has allowed East Asian products to be increasingly competitive with US or Canadian products in Mexican markets, undermining the efficacy of NAFTA.

Since mid-1985, Mexico has undertaken a major liberalization of its trade restrictions, departing from the import-substitution approach that had been followed since the 1940s. In the second half of 1985, the need for many import licenses was abolished and Mexico joined GATT in July 1986. Until June 1985, a license was required for 4,513 of the 8,077 items on the import tariff schedule. Trade protected in this manner represented 75% of total import value. By 1991, less than 2% of all imports (14% of total import value) were subject to licensing requirements, and in 1999 there were hardly any licensing requirements. Businesses may receive

reductions of up to 100% on duties for certain industrial imports in Mexico's free trade zones.

Mexico gives preferential treatment to some imports from the 10 other member nations of the Latin American Integration Association. The North American Free Trade Agreement (NAFTA) entered into force on 1 January 1994. It further lowered tariffs on US and Canadian goods to 0–10%. Under NAFTA, tariffs were phased out in 2005, however, many US goods already enter Mexico duty-free. There is also a value-added tax (IVA) of 10–15% (depending on the destination within the country) on most sales transactions. As of 2005, Mexican tariffs on cars, and light and heavy trucks originating in the United States or Canada, can enter duty-free. However, Canadian and US vehicles that do not meet the rules of origin as contained in NAFTA are subject to a 20% tariff, as are those vehicles from other countries.

38 FOREIGN INVESTMENT

Old federal law was aimed at attracting foreign investment without placing the nation "at the mercy of interests that are not those of Mexico and its citizens." Under the Foreign Investment Law of 1973, capital profits and dividends could be transferred to and from Mexico and the inflow of foreign funds was encouraged by allowing foreigners to make bank deposits without revealing the identity of the depositors. The current Foreign Investment Law of 1973 preceded the launch of the first phases of the implementation of the NAFTA agreement in January 1994 and opened the economy to further foreign investment. Investment in high technology and export-oriented industries is particularly welcome. About 95% of foreign investment transactions do not require official approval. The National Foreign Investment Commission rules on cases requiring government approval.

Annual foreign direct investment (FDI) in Mexico ranged from \$12 billion to \$14.7 billion from 1997 to 2000 and then soared to \$24.7 billion in 2001. In 2002, FDI inflow fell to \$13.6 billion and in the first quarter of 2003 was 2.7% below the first quarter of 2002, at \$2.6 billion. Foreign investment in 2004 was valued at \$24.5 billion, \$17.4 billion of which was FDI (the rest was portfolio investment).

Foreign portfolio investment as indicated by the total market capitalization of companies listed on the Mexican Stock Market reached a peak in 1993 at \$200.7 billion. By 2001, market capitalization had fallen to \$126 billion. In 2002, Mexican securities held by US investors totaled \$47.6 billion, with \$26.4 billion in equity shares, \$21.2 billion, in long-term debt, and about \$132 million in short-term debt.

The United States is the leading source of direct foreign investment in Mexico, reaching 86.3% in 2000, up from 55% to 66% in previous years. In 2001, there were many large foreign investments in the financial services sector, including a purchase by Citigroup of majority control in Banamex for \$12.5 billion. In 2002, FDI from the United States was 26.7% of the total, at \$3.6 billion. The European Union and EU countries account for most of the rest. From 2004–05, the foreign participation in total market capitalization was approximately 44%, according to the Economist Intelligence Unit. The US Department of State reported that, from 2000–04, the United States spent \$35,234 million out of the total FDI inflow of \$83,373 million. Manufacturing and Financial

received the most investment, respectively receiving \$5,750 and \$4,802 million in FDI.

Mexico's Foreign Investment Law identifies 704 activities, 656 of which allow 100% foreign ownership. Ten activities are reserved for the Mexican State, and five for Mexican nationals. Thirteen activities require approval by the National Foreign Investment Commission for 100% foreign ownership, and 18 activities have ceilings of 49% for foreign investment. Sectors reserved for the state, in whole or in part, include petroleum, petrochemicals, telegraphic and radio telegraphic services, radioactive materials, electric power, nuclear energy, money printing, postal service, airports, and control of ports and heliports. Sectors reserved for Mexican citizens include retail sales of gasoline, noncable radio and television services, credit unions and banks, professional and technical services, and domestic transport. Land and water within 100 km (62 mi) of Mexico's borders or 50 km (31 mi) of the coastline may not be foreign owned.

3⁹ ECONOMIC DEVELOPMENT

The government encourages local industry by giving financial support, customs protection, and tax exemption to approved or new enterprises. The National Financing Agency has supported new industries by purchasing their stock and then reselling it to the public when the firm is established. The executive branch of government may set ceiling prices on foodstuffs, drugs, and other basic necessities, such as workers' rents. Modern Mexican economic policy derives in principle from the constitution of 1917, which, in Article 27, proclaims national ownership of subsoil rights, provides for expropriation of property needed for national purposes, and provides for the breaking up of large estates and the establishment of village communal landholdings (*ejidos*). The property of foreign oil companies was expropriated in 1938, and production, refining, and distribution were placed under the government-controlled PEMEX. The government also nationalized the railway and banking systems, owns most electric power plants, and partly owns some industrial establishments. Majority Mexican ownership was required in virtually all sectors until early 1984, when restrictions on foreign investment were relaxed somewhat.

Major development projects in the 1970s included an attempt to increase agricultural productivity, modernization of the nation's railroads, expansion of the fishing fleet, and resettlement of some 50,000 families from the northern states to the southern states Campeche, Yucatán, and Quintana Roo.

When the exploitation of huge oil deposits began in the mid-1970s, the Mexican government embarked on an expansionist economic policy, which included an ambitious public-spending program financed to a great degree by foreign borrowing. A 17-point development program announced in 1978 created about three million new jobs by 1981, but it was not fully implemented because of the drop in world oil prices and the subsequent financial crisis. The crisis reached its climax in August 1982, when the government suspended all payments of foreign debt principal and had to resort to emergency credits to avoid default.

New credits from the International Monetary Fund (IMF) were conditional upon Mexico's acceptance of an austerity program that entailed reduction of the budget deficit from 17.9% of the gross domestic product (GDP) in 1982 to 8.5% in 1983. Other austerity

measures included tax increases, increases in the prices of controlled commodities, such as bread and salt, and steps to decrease tax evasion and reduce inflation. The de la Madrid administration simultaneously pursued policies to reduce the inflated value of the peso and to generate massive trade surpluses; indicative of their effectiveness were the 1983 and 1984 surpluses, over \$13 billion in each year. The government, moreover, pursued rescheduling of its foreign debt, winning agreements in 1983 (\$14 billion) and 1986 (\$43.7 billion). In 1985 and 1986, however, the earthquake and the fall in world oil prices undermined the recovery; export revenues plunged, and inflation soared. The 1986 rescheduling was conditional upon Mexico's agreement to increase development of the export sector and encourage efficient import-substitution policies, as well as foreign investment.

Since Mexico joined GATT in 1986, trade barriers were eliminated and tariffs reduced. Privatizations since 1989 include: the telephone company, Telmex; Mexico's 18 commercial banks; the airlines, Aeromexico and Mexicana; two large copper mines, Cananea and Mexicana de Cobre; and two large steel companies, Sicartsa and AHMSA. Privatizations have produced large one-time revenues for the government, while simultaneously reducing the government's role in the economy thus garnering savings by reducing its transfers to inefficient enterprises. Furthermore, these new profit-making private sector companies have widened the tax base.

The North American Free Trade Agreement (NAFTA), ratified in 1992 and implemented in 1994, culminated several years of trade liberalization efforts begun in 1986. NAFTA's goal is the creation of a market of 360 million consumers with \$6 trillion in annual output. Tariffs on most industrial and agricultural goods are to be eliminated or phased out within 15 years. NAFTA trading benefits are only given to goods produced wholly or principally in NAFTA countries. NAFTA eliminates trade barriers and investment restrictions on participating countries' autos, trucks, buses, and auto parts within 10 years. NAFTA proposed to safeguard domestic agricultural production of the dairy, egg, poultry, and sugar sectors. NAFTA opens up foreign investment possibilities in the Mexican energy sector. NAFTA has provisions for the textiles and services sectors, banking, investment, and intellectual property rights. Labor and environmental impacts are also addressed. Mexico established free trade agreements with Venezuela and Colombia as a member of the Group of Three, and with several other Central American nations. Mexico signed a free trade agreement with Chile in 1991.

The 1994–95 Mexican financial crisis demanded the government undertake major policies of economic management and reform. A buoyant financial market and large inflows of capital preceded the crisis. Capital inflow to Mexico between 1990 and 1994 amounted to \$104 billion—20% of total capital flows to developing countries during that period. Mexico's external current account deficit widened, there was a rapid growth in bank credit to the private sector, international interest rates were rising, and the country maintained an exchange rate peg. Mexico floated the peso in December 1994; the currency was attacked by speculative investors, which led to a drastic devaluation. The financial system was also very weak, and there was a massive outflow of capital from the country. After the crisis broke, the government realized major structural changes would need to be taken, and interna-

tional financial support would be needed. The US government, the IMF, World Bank, and the Inter-American Development Bank provided emergency funds, to prevent the crisis from spreading to other countries. The Mexican economy began to recover in 1996.

In 1999, the IMF approved a 17-month, \$4,123-million Stand-By Arrangement with Mexico to support the government's economic reform program. In 2000, Mexico repaid all of its obligations to the IMF. The country in the early 2000s was a recipient of large amounts of foreign direct investment, the largest recipient of FDI in Latin America in 2000 (22.5 billion). The Mexican economy weakened in 2001–02, however, marked by weak domestic demand. In 2002, the government was following an economic program (PRONAFIDE) aimed toward strengthening the country's fiscal position, enhancing competitiveness and stimulating productivity. The government was aiming for a reduction of the fiscal deficit and public debt by 2006. Although the government realized it had to maintain spending constraints, it still increased social expenditures in an effort to combat poverty. The government in 2003 was considering tax reform, opening up the telecommunications sector to more competition, and, most controversial, allowing for private investment in energy. As of 2004, the government was working to privatize port operations in order to increase trade development. At the time, Tampico and Veracruz were Mexico's primary seaports.

40 SOCIAL DEVELOPMENT

The social security system includes old age pensions, disability, medical, and work injury benefits. The system covers all workers, and consists of both social insurance and a private insurance scheme. Pensions are financed by contributions from employees, employers, and the government. Retirement is set at age 65, and benefits are determined by length of employment. Insurance for occupational accidents is financed by employer contributions, and provides for 100% of earnings for temporary disability, and 70% of salary for those permanently disabled. Insured workers and their families receive medical and maternity benefits. A funeral grant is provided. Child care is available to dependent children of poor women, widowers, and divorced working men.

An amendment to the 1917 constitution states that men and women are equal before the law, however in practice this was not respected. Women continue to earn less than men, and are concentrated in lower paying jobs. Women can own property and file for divorce. Domestic violence is widespread and is vastly underreported. It was estimated in 2004 that 47% of women experienced at least one incident of physical or emotional abuse. Organizations and women's groups are working to counter the view that spousal abuse is a private matter and normal behavior. Sexual tourism is a problem, especially in the resort areas of the country.

Indigenous peoples have full protection under the law, but in practice they face discrimination and experience economic hardship. Numerous nongovernmental organizations in Mexico are working to protect and promote the rights of indigenous peoples. The human rights of citizens are generally respected, although there are continued reports of extrajudicial killings, torture, illegal arrests, and arbitrary detention. Narcotics related killings have increased in recent years.

41 HEALTH

Mexico has made slow but measurable progress in public health. The Health Sector Reform Program, launched in 1995, has aimed at reorganizing the healthcare system to expand coverage and increase efficiency of services. In 2004 there were an estimated 171 physicians, 221 nurses, and 10 dentists per 100,000 people. Total health care expenditure was estimated at 5.3% of GDP. In 2000, 86% of the population had access to safe drinking water and 73% had adequate sanitation.

As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 22.36 and 4.99 per 1,000 people. About 65% of the married women (ages 15 to 49) were using contraception. The infant mortality rate, which was 101.7 per 1,000 live births in 1948, was reduced to 20.91 by 2005. Average life expectancy, meanwhile, rose from 32.4 years in 1930 to 57.6 in 1965; by 2005, average life expectancy was estimated at 75.19 years. Maternal mortality was 55 per 100,000 live births.

Cholera, yellow fever, plague, and smallpox have been virtually eliminated, and typhus has been controlled. Permanent campaigns are waged against malaria, poliomyelitis, skin diseases, tuberculosis, leprosy, onchocerciasis, and serious childhood diseases. Immunization rates for children up to one year of age were as follows: tuberculosis, 99%; diphtheria, pertussis, and tetanus, 93%; polio, 94%; and measles, 84%. Major causes of death were communicable diseases, neoplasms, injuries and circulatory diseases.

Since 1995, the number of new AIDS cases reported each year has stabilized. The HIV/AIDS prevalence was 0.30 per 100 adults in 2003. As of 2004, there were approximately 160,000 people living with HIV/AIDS in the country. There were an estimated 5,000 deaths from AIDS in 2003.

42 HOUSING

Government agencies that have fostered the development of low-income housing include the Fund for Housing Operations and Bank Discounts, the National Public Works and Services Bank, the Housing Credit Guarantee and Support Fund, and the Comisión Nacional de Fomento a la Vivienda (CONAFOVI). In 1974, the National Workers' Housing Fund Institute (Instituto del Fondo Nacional de la Vivienda para los Trabajadores—INFONAVIT) was created to provide housing for workers. With funds provided by employers (equal to 5% of the total salary of each worker), INFONAVIT makes direct loans to employees and provides short-term loans to finance the construction of approved multi-unit projects, which are then sold to employees covered by the program.

Government efforts have fallen short of eradicating Mexico's housing shortage, which had been exacerbated by accelerated population growth in the 1980s. The government allocated us\$1.93 billion in 1989 to build 250,000 low-cost housing units, and expected to receive an additional us\$700 million from the World Bank to build more. The 1990 National Housing Plan predicted a shortage of 6.1 million homes, to be felt most severely in the outskirts of urban areas, including Mexico City, Guadalajara, Monterrey, and cities in the northern states.

In 2000, there were about 21,954,733 housing units; in 2004 the stock was estimated at about 24 million units. About 85% are detached homes. Most dwellings are privately owned; about 84%

have running water and 78% have access to sewage services. The average household had about 4.4 members. About 50% of all new housing (about 300,000 units per year) is self-built by low-income households. However, much of this is informal housing with inadequate structure and a lack of public utilities.

43 EDUCATION

Except in the Federal District, where education is administered by the federal government, schools are controlled by the states. As of the 2004/05 academic year, 10 years of schooling are compulsory and free, beginning with one year of preschool at about age five. Primary school then covers six years of study. Secondary school studies generally last for three years. Secondary students may choose a general education program, a technical school program, or a vocational school program.

In 2001, about 76% of children between the ages of four and five were enrolled in some type of preschool program. Primary school enrollment in 2003 was estimated at about 99% of age-eligible students. The same year, secondary school enrollment was about 63% of age-eligible students. It is estimated that about 99% of all students complete their primary education. The student-to-teacher ratio for primary school was at about 27:1 in 2003; the ratio for secondary school was about 17:1.

Major universities include the National Autonomous University (founded in 1551), the National Polytechnic Institute, and Iberoamericana University (private), all in Mexico City, and Guadalajara University, the Autonomous University of Guadalajara, and the Autonomous University of Nuevo León. In each state there are other state and private institutions. In 2002, there were 1550 institutions of higher education nationwide; 606 were public and 944 were private. In 2003, about 22% of the tertiary age population were enrolled in some type of higher education program. The adult literacy rate for 2004 was estimated at about 90.3%, with 92% for men and 88.7% for women.

The government provides extracurricular education through cultural and motorized missions, community-development brigades, reading rooms, and special centers for workers' training, art education, social work, and primary education. As of 2003, public expenditure on education was estimated at 5.3% of GDP, or 24.3% of total government expenditures.

44 LIBRARIES AND MUSEUMS

The Mexican public library system has over 4,800 branches holding in total over 20 million volumes and servicing about 72 million registered library users. The National Library, now affiliated with the National University of Mexico, has about three million volumes. Other important collections include the Library of Mexico, the Library of the Secretary of the Treasury, and the Central Library of the National Autonomous University in Mexico City. In total, there are over 1,000 libraries affiliated with institutions of higher education.

The National Museum of Anthropology in Mexico City, founded in 1825, has over 600,000 anthropological, ethnological, and archaeological exhibits and a library of 300,000 volumes. Among its exhibits are the famous Aztec calendar stone and a 137-ton figure of Tlaloc, the god of rain. The National Historical Museum, attached to the National Institute of Anthropology and History,

has more than 150,000 objects ranging in date from the Spanish conquest to the constitution of 1917. The National Museum of Art exhibits Mexican art from 17th century to present, while several other art museums exhibit the works of leading European artists, including the Museum of Modern Art and the Museum of Popular Art. Also in Mexico City is the Frida Kahlo Museum in the former home of Frida Kahlo and Diego Rivera, featuring the works of the former, considered to be Mexico's finest artist. (There is another museum featuring Rivera's work in Guanajuato.) Many public buildings in Guadalajara and elsewhere display murals by famous Mexican painters.

45 MEDIA

National and international telegraphic service is furnished by the government-owned National Telegraph Co. The government also owns and operates the international radiotelegraph and radiotelephone facilities. A privately owned telephone company provides supplemental facilities in outlying areas. The largest utility is the government-owned Telephones of Mexico. In 2003, there were an estimated 158 mainline telephones for every 1,000 people. The same year, there were approximately 291 mobile phones in use for every 1,000 people. The national microwave network, now complete, cost more than \$650 million; facilities by 1968 included the central telecommunications tower in the Federal District and a land station for artificial satellite communications at Tulancingo, Hidalgo, with one of the largest antennas in the world. The network serves most of the country's larger cities.

Broadcast media is primarily under private ownership and operation. Televisa and TV Azteca are the two primary television broadcasters, accounting for about 90% of the broadcast market in 2004. The federal government owned two television stations. There were also several regional stations supported in part by the various state governments. As of 2003 there were 850 AM and 545 FM radio television stations and over 200 television stations. In 2003, there were an estimated 330 radios and 282 television sets for every 1,000 people. About 24.3 of every 1,000 people were cable subscribers. Also in 2003, there were 82 personal computers for every 1,000 people and 118 of every 1,000 people had access to the Internet. There were 634 secure Internet servers in the country in 2004.

Leading newspapers in Mexico City (with their estimated average daily circulations in 2004) include: *La Prensa* (275,000), *El Universal* (170,000), *Esto* (150,000), *Reforma* (126,000), *El Universal Grafico* (105,000), *Ovaciones* (50,000), *El Financiero* (40,000), *Tribuna* (40,000), and *La Jornada* (35,000). Leading newspapers in Monterrey in 2004 included *El Norte* (133,872), *Metro* (62,000), and *El Porvenir* (60,000). There are two major daily papers in Tampico, *El Sol de Tampico* (77,000 in 2004) and *El Heraldo de Tampico* (54,000). *El Mexicano* in Tijuana had a 2004 daily circulation of 48,000 (a significant decrease from 80,000 in 2002), while *El Sol de Tijuana* distributed 50,000 daily papers. Guadalajara has four major papers, including: *El Occidental* (49,400), *El Informador* (46,000 in 2004), *El Sol de Guadalajara* (NA), and *Ocho Columnas* (40,000). The English language paper *The News* is distributed out of Mexico City, reporting a circulation of 30,000 in 2004.

Freedom of the press is guaranteed by law and to a large extent exercised in practice. However, by controlling the supply of newsprint and by providing advertising, indirect subsidies, and out-

right payoffs to the press, the government exerts an indirect form of press censorship.

46 ORGANIZATIONS

The Mexican government supervises and promotes producer and consumer cooperatives, which are exempt from profits and dividends taxes, and are given customs protection. Producer cooperatives are active in agriculture, fishing, forestry, and mining. Consumer cooperatives buy, sell, and distribute clothing, foodstuffs, and household articles.

Chambers of commerce and of industry are located in most cities, and merchants and manufacturers are required to join either or both. Headquarters for the Confederation of National Chambers of Commerce and the Confederation of Industrial Chambers are in Mexico City. The principal employers' organization is the Employers' Confederation of the Mexican Republic, which dates from 1929. There are several trade unions and associations for particular occupations; specialized unions include the Federation of Coffee Organizations, the Mexican Association of Gifts, and the Decorative Goods and Folk Art Producers. Professional associations also exist for a variety of occupations and fields.

Cultural and educational organizations include the Academia Mexicana de la Historia, Academia Mexicana de la Lengua, and Instituto Nacional de Bellas Artes. The National Academy of Sciences and the National Council for Science and Technology are major supporters of scientific research and education. There are several other associations dedicated to research and education for specific fields of medicine and particular diseases and conditions, such as the Mexican League Against Epilepsy.

National youth organizations include the University Student Council, the Scouts Association of Mexico, Girl Guides, the Conference of Political Youth Organizations in Latin America, Junior Chamber, and YMCA/YWCA. Sports associations and clubs are popular in Mexico and many national groups are affiliated with international associations, such as the World Boxing Council, which is based in Mexico City.

Environmental groups include Conservation Mexico and a national chapter of Greenpeace.

Kinal Antzetik is an organization focusing on improving the health and welfare of women, particularly those of indigenous groups, and promoting equal rights and social justice. Centro Mujeres is a similar community health organization for women. Other social action groups include the Mexican Society for Women's Rights and the Mexican Commission for the Defense and Promotion of Human Rights. Volunteer service organizations, such as the Lions Clubs and Kiwanis International, are also present. Several national service groups network through the Mexican Association of Volunteers. International organizations with chapters in Mexico include the Red Cross, Habitat for Humanity, and Amnesty International.

47 TOURISM, TRAVEL, AND RECREATION

Mexico's tourist attractions range from modern seaside resort areas, such as Tijuana, Acapulco, Puerto Vallarta, Punta Ixtapa/Zihuatanejo, Cozumel, and Cancún, to the Mayan ruins of Chiapas State and the Aztec monuments of the south-central regions. Mexico City, combining notable features from the Aztec, colonial, and modern periods, is itself an important tourist mecca. Veneration

of the patron saints plays an important role in Mexican life, and the calendar is full of feast days (fiestas). These predominantly Roman Catholic celebrations include many ancient Amerindian rites and customs and, invariably, bands of mariachi musicians playing Mexican folk songs. Tourists from the United States and Canada are not required to have a visa for stays of up to 30 days, but must have photo identification, proof of citizenship, and a tourist card. All other visitors must have a valid passport and a visa.

Mexico was host in 1968 to the Summer Olympics and in 1970. The 1986 World Cup football (soccer) championship was also held in Mexico; the World Cup helped tourism recover from the effects of the earthquake, which kept many visitors away in 1985 and 1986. Mexico's most popular sports are baseball, soccer, jai-alai, swimming, and volleyball. Bullfights are a leading spectator sport; the Mexico City arena, seating 50,000, is one of the largest in the world, and there are about 35 other arenas throughout the country.

There were 18,665,384 tourists who visited Mexico in 2003, of whom 94% came from the United States. Hotel rooms numbered 496,292 with 992,584 beds and an occupancy rate of 48%. The average length of stay that year was three nights. Tourist expenditure receipts totaled \$10.1 billion.

The cost of traveling in Mexico varies considerably from city to city. According to the 2005 US Department of State estimates, daily expenses in Mexico City were \$285; in Nogales, \$193; in Cozumel, \$230; in Cancún, \$294; and in Tijuana, \$187.

48 FAMOUS MEXICANS

The founder of Spanish Mexico was Hernán Cortés (1485–1547), a daring and clever Spanish conquistador. One of the great heroes in Mexican history is Guatemotzin (Cuauhtémoc, 1495?–1525), the last emperor of the Aztecs, who fought the Spanish after the death of his uncle, Montezuma II (Moctezuma or Motecuhzoma, 1480?–1520). Bartolomé de las Casas (1474–1566) and Junípero (Miguel José) Serra (1713–84) were Spanish-born missionaries who tried to improve the conditions of the Amerindians in the colonial period. Two heroes of the War of Independence were the liberal priests Miguel Hidalgo y Costilla (1753–1811) and José María Morelos y Pavón (1765–1815). The first 25 years of independence were dominated first by Manuel Félix Fernández, known as Guadalupe Victoria (1786?–1843), and then by Antonio López de Santa Anna (1794–1876). Austrian-born Maximilian (Ferdinand Maximilian Josef, 1832–67) and Belgian-born Carlota (Marie Charlotte Amélie Augustine Victoire Clémentine Léopoldine, 1840–1927) were emperor and empress from 1864 to 1867, ruling on behalf of the emperor of France. Benito Juárez (1806–72), the great leader of the liberal revolution, attempted to introduce a program of national reform. The dictator José de la Cruz Porfirio Díaz (1830–1915) dominated Mexico from 1876 to 1911. He was overthrown largely through the efforts of Francisco Indalecio Madero (1873–1913), called the Father of the Revolution. Revolutionary generals and politicians included Venustiano Carranza (1859–1920) and Álvaro Obregón (1880–1928). Two other revolutionary leaders—Doroteo Arango, known as Pancho Villa (1877?–1923), and Emiliano Zapata (1879?–1919)—achieved almost legendary status. The foremost political leader after the revolution was Lázaro Cárdenas (1895–1970). Luis Echeverría Álvarez (b.1922), who held the presidency during 1970–76, made Mexico

one of the leading countries of the developing world in international forums. Miguel de la Madrid Hurtado (b.1934) was president from 1982–88. Carlos Salinas de Gortari (b.1948) was president from 1988–1994. Ernesto Zedillo Ponce de León (b.1951) was president from 1994–2000. Vicente Fox Quesada (b.1942) was elected president in the 2000 election; he became the first president elected from an opposition party since Francisco Madero in 1910, breaking the 70-year reign of the PRI. The diplomat Alfonso García Robles (1911–91) shared the 1982 Nobel Peace Prize for his work on behalf of disarmament.

Painters Diego Rivera (1883–1957), José Clemente Orozco (1883–1949), and David Alfaro Siqueiros (1898–1974) are renowned for their murals. Frida Kahlo (1907–1954) is known for her self-portraits. The Spaniards Bernal Díaz del Castillo (1496?–1590?) and Bernardino de Sahagun (1499?–1590) wrote historical accounts of the Spanish conquest. Mexican-born Juan Ruiz de Alarcón y Mendoza (1580?–1639) became a playwright in Spain. Juana Inés de la Cruz (1651–95), a nun, was a poet and proponent of women's rights. Outstanding novelists include José Joaquín Fernández de Lizardi (1776–1827), author of *El periquillo sarniento*; Mariano Azuela (1873–1952), author of *Los de abajo*; Martín Luis Guzmán (1887–1976), author of *El águila y la serpiente*; and Gregorio López y Fuentes (1897–1966), author of *El indio*. Well-known contemporary authors include Agustín Yáñez (1904–80), Octavio Paz (1914–1998), Juan Rulfo (1918–86), and Carlos Fuentes (b.1928). Poets include Salvador Díaz Mirón (1853–1928), Manuel Gutiérrez Nájera (1859–95), and Amado Nervo (1870–1919). The outstanding figure in recent Mexican literary life is the diplomat, dramatist, poet, essayist, and critic Alfonso Reyes (1889–1959). Anthropologist Carlos Castaneda (b.Brazil, 1931–1998) was widely known for his studies of mysticism among the Yaqui Amerindians. Well-known Mexican composers include Manuel Ponce (1882–1948), Silvestre Revueltas (1899–1940), Carlos Chávez (1899–1978), and Agustín Lara (1900–70). Significant figures in the motion picture industry are the comedian Cantinflas (Mario Moreno, 1911–93), Mexican-born actor Anthony Rudolph Oaxaca Quinn (1916–2001), and directors Emilio Fernández (1904–86) and Spanish-born Luis Buñuel (1900–83). Oscar-nominated Salma Hayek (b.1966) is considered to be one of Latin America's most successful actresses in Hollywood; she portrayed Frida Kahlo in the 2002 film *Frida*, which she co-produced.

Notable Mexican sports figures include Fernando Valenzuela, (b.1960), a pitcher for the Los Angeles Dodgers who won the Cy Young Award as a rookie. "Beto" or "Bobby" Avila (1924–2004), second baseman for the Cleveland Indians (1949–58); catch-

er Gerónimo Gil (b.1975); pitcher Esteban Loaiza (b.1971); and pitcher Oliver Pérez (b.1981) have all made their mark in Major League Baseball.

49 DEPENDENCIES

Mexico has no territories or colonies.

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NETHERLANDS AMERICAN DEPENDENCIES

NETHERLANDS ANTILLES

The five islands of the Netherlands Antilles are divided geographically into two groups: the Leeward Islands (Benedenwindse Eilanden) and the Windward Islands (Bovenwindse Eilanden). The Windward group, off the north coast of South America, comprises the islands of Curaçao, with an area of 444 sq km (171 sq mi), and Bonaire, 288 sq km (111 sq mi). Aruba, another Windward island, seceded from the Netherlands Antilles in 1986. The Leeward group, more than 800 km (500 mi) to the northeast, consists of the southern part of St. Martin (Sint Maarten), 34 sq km (13 sq mi); Saba, 13 sq km (5 sq mi); and Sint Eustatius, 21 sq km (8 sq mi). The islands total 800 sq km (309 sq mi).

All the Windward Islands have volcanic bases, partly covered with coral reefs; they are semiarid and flat, with little vegetation. The Leeward Islands are more mountainous and receive enough rainfall to enable crops and vegetation to flourish. Saba, the most fertile, is an extinct volcano with luxuriant vegetation in its crater, on its sides, and leading down to the sea. Temperatures average between 25° and 31°C (77° and 88°F); annual rainfall averages 107 cm (42 in) on the Windward Islands and 51 cm (20 in) on the Leeward Islands. The entire population of the Netherlands Antilles was estimated at 219,958 in mid-2005. Most of the inhabitants were born on the islands. Persons of mixed African origins account for 85% of the population, but over 40 ethnicities are represented, including Dutch, Surinamese, British, Latin Americans, French West Indians, Carib Amerindians, and US emigrants.

The official language is Dutch. Papiamentu, a lingua franca evolved from Dutch and English with an admixture of French, Spanish, Portuguese, Arawak, and African words, is also common, principally in the Leeward Islands. English is spoken, mainly in the Windward Islands. Spanish is also widely spoken. Roman Catholicism has the most adherents on the Leeward Islands and Saba, but Protestantism is dominant on St. Martin and Sint Eustatius.

Buses, private automobiles operating as small buses on fixed routes, and taxicabs provide the only public transportation. There are no rivers or railroads. Each island has a good all-weather road system. The most important port is on Curaçao, where there is a natural harbor at Willemstad. Airline connections to nearby islands and countries are provided by Royal Dutch Airlines (Koninklijke Luchtvaart Maatschappij—KLM) and other international carriers.

The European discovery of the Windward Islands was made by Columbus in 1493, and that of the Leeward Islands (including Aruba) by a young Spanish nobleman, Alonso de Ojeda, who sailed with Amerigo Vespucci in 1499; hence the claim went to Spain. The Dutch fleet captured the Windward Islands in 1632 and the Leeward Islands in 1634. Peter Stuyvesant was the first governor. In 1648, St. Martin was peacefully divided between the Netherlands and France; this division still exists. During the colonial

period, Curaçao was the center of the Caribbean slave trade. For a period during the Napoleonic wars (1807–15), Great Britain had control over the islands. Slavery was abolished in 1863.

Under a 1954 statute, the Netherlands Antilles is a component of the Kingdom of the Netherlands, with autonomy in internal affairs. A governor, appointed by and representing the crown, heads the government, with a Council of Ministers as the executive body. The ministers are responsible to the Staten, a 22-member legislature (14 from Curaçao, 3 each from Bonaire and St. Martin, and 1 each from Saba and Sint Eustatius). Members are elected by general suffrage of Dutch nationals aged 18 or older. A 1951 regulation established autonomy in local affairs for each of the then-existing island communities—Aruba, Curaçao, Bonaire, and the Leeward Islands—with responsibilities divided between an elected island council, an executive council, and a lieutenant-governor. By agreements made in 1983, St. Martin, Saba, and Sint Eustatius have separate representation in the Staten, elect their own separate councils, and have their own lieutenant-governors and executive councils. Cases are tried in a court of first instance and on appeal in the Joint High Court of Justice, with justices appointed by the crown. Defense is the responsibility of the Netherlands; a naval contingent is permanently stationed in the islands, and military service is compulsory.

The prosperity of Curaçao is inseparably linked with its oil refineries. These were built there, beginning in 1918, chiefly because of the favorable location of the islands, their good natural ports and cheap labor, and the political stability of the territory. Tankers bring crude oil from Venezuela. The economic significance of the refineries is great, not only because of their output, but also because they provide employment and stimulate other economic activities, such as shipbuilding, metal industries, shipping, air traffic, and commerce in general. The government controls the price of basic foodstuffs and participates in the setting of rates to be charged for transportation and by privately owned utilities.

The currency unit is the Netherlands Antilles guilder, or florin (NAf) of 100 cents; NAf1 = \$0.55866 (or \$1 = roughly NAf1.79). The GDP for 2003 was estimated at us\$2.45 billion, or us\$11,400 per capita. The unemployment rate was 15.6% in 2002, and 60–70% of the work force was organized in labor unions. The principal agricultural products are sorghum, orange peel, aloes, groundnuts, yams, divi-divi, and some assorted vegetables. Curaçao's favorable position at the crossing of many sea-lanes has stimulated commerce since the earliest days of European settlement. Transit trade benefits from Curaçao's improved harbors; Willemstad is a free port, as are the islands of Saba and Sint Eustatius. In 2004, exports were estimated at us\$2.076 billion and imports at us\$4.383 billion. Refined petroleum products are exported to the Netherlands and other countries from a refinery on Curaçao. Petroleum shipments dominate the country's foreign trade. In 2004, primary export partners included: the United States (20.4%), Panama



Numerous commercial banks and several savings and loan institutions that also handle financial matters. Tax treaties with the United States have encouraged US individuals and businesses to shelter their funds in the islands.

In addition to nursery schools, primary schools, and secondary schools located on the islands, the University of the Netherlands Antilles is found on Curaçao; all schools are government-supported. The language of instruction is Dutch in the Leeward Islands, except in the International School, where classes are taught in English; English is also used in the Windward Islands. The literacy rate was 96.7% in 2003.

All the islands have cable, radiotelegraph, or radiotelephone connections with one another and, via the central exchange at Curaçao, with international systems. There are 8 AM, 19 FM, and 3 TV stations on the islands. Broadcasts are in Papiamentu, Dutch, Spanish, and English. There are 2,000 Internet users. Newspapers include *La Prensa*, the *Bonaire Reporter*, *Vigilante*, *Extra*, *Antilliaans Dagblad*, the *Daily Herald* and *Amigoe*, along with several weekly and monthly periodicals.

Tourism is a significant source of revenue. Annually, some 470,000 cruise passengers visit the islands; total visitors to the islands amount to over 1,000,000.

ARUBA

The island of Aruba is located off the north coast of South America, nw of Curaçao. It has an area of 193 sq km (75 sq mi). The land is basically flat and is renowned for its white-sand beaches. The temperature is almost constant at 27°C (81°F); the annual rainfall averages 60 cm (24 in). The mid-2005 population was estimated at 71,566. The official language is Dutch, but Papiamentu, English, and Spanish are also spoken. The religion of the majority is Roman Catholic.

There are no rivers or railways. The road system connects all major cities. There are three deepwater harbors, at San Nicolas, Oranjestad, and Barcadera. Airline connections are provided by Royal Dutch Airlines (Koninklijke Luchtvaart Maatschappij—KLM) and other international carriers.

In March 1983, at the Hague, the governments of the Netherlands and Netherlands Antilles agreed to grant Aruba the status of a separate state. On 1 January 1986, Aruba seceded from the Netherlands Antilles, becoming a separate member of the kingdom. In 1990, Aruba requested and received from the Netherlands a cancellation of the agreement that would have granted independence in 1996.

The head of government is a governor appointed by and representing the crown. A Council of Ministers, led by a prime minister, has executive power. The ministers are responsible to the Staten, a legislative body of 21 members elected by universal adult suffrage for four-year terms. Cases are tried in a court of first instance and on appeal in the Common Court of Justice of Aruba, with justices appointed by the crown. Defense is the responsibility of the Netherlands; a naval contingent is stationed on the island, and military service is compulsory.

The two principal sources of revenue for the island are tourism and oil refining. Coastal Aruba Refining Co., produces asphalt,

(11.2%), Guatemala (8.8%), Haiti (7.1%), the Bahamas (5.6%), and Honduras (4.2%). The primary import partners were: Venezuela (51.1%), the United States (21.9%), and the Netherlands (5%).

The Bank of the Netherlands Antilles (Bank van de Nederlandse Antillen) issues currency, holds official reserves, regulates the banking system, and acts as the central foreign exchange bank.

diesel fuel, feedstock for other refineries, kerosene, and residual fuel oil at the Lago refinery. Since the refinery reopened in 1993, economic growth has surged, as the refinery provides a major source of employment and foreign exchange earnings. The currency unit is the Aruban florin (Af) of 100 cents, with a fixed exchange rate of Af1 = \$0.5587 (or \$1 = Af1.79) since 1986. The GDP for 2002 was us\$1.94 billion, or us\$28,000 per capita. The unemployment rate was 0.6% in 2003, leading to a large number of unfilled job vacancies despite recent sharp increases in wage rates.

In 2004, Aruban exports were valued at us\$80 million (mostly refined petroleum products), and imports at us\$875 million. The United States and the EU are Aruba's major trading partners.

There is a Central Bank of Aruba, and there are other commercial banks.

Medical care is entirely subsidized by the government; there is a modern hospital. The literacy rate is high (97%). There are 2 AM and 16 FM commercial radio stations and one television station in Aruba. There are 24,000 Internet users. There is one daily newspaper published in Dutch, one in English, and 1 in Papiamentu. There were an estimated 37,100 main telephones on the island in 2002; 53,000 mobile cellular telephones are also in use.

Tourism is the major source of revenue. Over 500,000 tourists annually visit the island, with about half coming from the United States.



NICARAGUA

Republic of Nicaragua
República de Nicaragua

CAPITAL: Managua

FLAG: The national flag consists of a white horizontal stripe between two stripes of cobalt blue, with the national coat of arms centered in the white band.

ANTHEM: *Salve a ti, Nicaragua (Hail to You, Nicaragua).*

MONETARY UNIT: The gold córdoba (c\$) is a paper currency of 100 centavos. There are coins of 5, 10, 25, and 50 centavos and 1 and 5 córdobas, and notes of 1, 2, 5, 10, 20, 50, 100, 500, 1,000, 5,000, 10,000, 20,000, 50,000, 100,000, 200,000, 500,000, 1,000,000, 5,000,000, and 10,000,000 córdobas. c\$1 = us\$0.59701 (or us\$1 = c\$1.675) as of 2005.

WEIGHTS AND MEASURES: The metric system is the legal standard, but some local units also are used.

HOLIDAYS: New Year's Day, 1 January; Labor Day, 1 May; Liberation Day (Revolution of 1979), 19 July; Battle of San Jacinto, 14 September; Independence Day, 15 September; All Saints' Day, 1 November; Christmas, 25 December. Movable religious holidays include Holy Thursday and Good Friday.

TIME: 6 AM = noon GMT.

¹LOCATION, SIZE, AND EXTENT

Nicaragua, the largest of the Central American countries, has an area of 129,494 sq km (49,998 sq mi), which includes the area covered by the waters of Lake Nicaragua (about 8,000 sq km/3,089 sq mi) and Lake Managua (about 1,025 sq km/396 sq mi). Comparatively, the area occupied by Nicaragua is slightly smaller than the state of New York. The country has a length of 472 km (293 mi) N–S and a width of 478 km (297 mi) W–E. Bounded on the N by Honduras, on the E by the Caribbean Sea, on the S by Costa Rica, and on the W by the Pacific Ocean, Nicaragua has a total boundary length of 2,141 km (1,330 mi), of which 910 km (565 mi) is coastline.

In 1980, Nicaragua unilaterally abrogated its 1928 treaty with Colombia, confirming that nation's sovereignty over the Caribbean archipelago of San Andrés and Providencia, about 190 km (120 mi) off the Nicaraguan coast. Nicaragua also disputes the Treaty of Quita Sueño, ratified by the US Senate in July 1981, according to which Colombia received the uninhabited islands of Quita Sueño Bank, Roncador Cay, and Serrana Bank.

Nicaragua's capital city, Managua, is located in the southwestern part of the country.

²TOPOGRAPHY

The Caribbean coast, known as the Mosquito (or Miskito) Coast or Mosquitia, consists of low, flat, wet, tropical forest, extending into pine savannas 80–160 km (50–100 mi) inland. The coastal lowland rises to a plateau covering about one-third of the total area. This plateau is broken by mountain ranges extending eastward from the main cordillera to within 64–80 km (40–50 mi) of the Caribbean coast. The mountainous central area forms a trian-

gular wedge pointed southeast, rising at its highest to some 2,000 m (6,600 ft).

The plains and lake region, in a long, narrow structural depression running northwest to southeast along the isthmus, contains a belt of volcanoes rising to 1,500 m (5,000 ft) and extending from the Gulf of Fonseca to Lake Nicaragua. In this region is located Lake Managua, at 41 m (136 ft) above sea level, which drains through the Tipitapa Channel into Lake Nicaragua, at 32 m (106 ft) above sea level, which, in turn, drains through the San Juan River eastward into the Caribbean. Lake Nicaragua is about 160 km (100 mi) long and 65 km (40 mi) wide at the widest point, while Lake Managua is 52 km (33 mi) long by 25 km (16 mi) wide.

The principal waterways are the Coco (or Segovia) River, navigable up to 240 km (150 mi) inland from the eastern Mosquito Coast, and the San Juan, navigable to within a few miles of the Caribbean, where a series of rapids halts transportation.

Nicaragua lies in an earthquake zone where hundreds of minor tremors, shocks, and earthquakes occur each year. More severe earthquakes have occurred periodically. Some of these are centered off the coast of Nicaragua, such as the 6.9 magnitude earthquake on 9 October 2003 and the 6.6 magnitude quake of 2 July 2005.

³CLIMATE

Except in the central highlands, the climate is warm and humid. Average humidity in Managua in June, the most humid month, is 84%; in April, the driest month, 62%. The mean temperature, varying according to altitude, is between 20° and 30°C (68° and 86°F). In Managua, monthly average temperatures range from a minimum of 23°C (73°F) and a maximum of 30°C (86°F) in January to a minimum of 26°C (79°F) and a maximum of 31°C (88°F) in

July. There are two seasons: a wet season, from May to December, and a dry season, from January through April. Rainfall, however, varies according to region, and the rainy season in the eastern area may extend 9 or even 12 months. Average annual rainfall along the Mosquito Coast reaches 254–635 cm (100–250 in) as a result of the easterly trade winds blowing in from the Caribbean; the highlands also have heavy rainfall. Managua receives 114 cm (45 in), while the Pacific coast averages over 102 cm (40 in) a year.

4 FLORA AND FAUNA

The central highlands region has extensive forests of oak and pine on the slopes, but lower valley elevations show damage from fire and agricultural activities. The largest pine savanna in the rainy tropics stands on the lowlands behind the Mosquito Coast. The wet and humid Caribbean coastal plain has an abundance of tropical forest, with wild rubber, cedar, ebony, mahogany, and rosewood attracting some exploitation.

Wildlife includes the puma, deer, monkey, armadillo, alligator, parrot, macaw, peccary, and several species of snakes (some poisonous). Lake Nicaragua contains the only freshwater sharks in the world, owing to a prehistoric geological movement that separated the lake from the Pacific Ocean, gradually changing the ocean water into fresh water.

As of 2002, there were at least 200 species of mammals, 215 species of birds, and over 7,500 species of plants throughout the country.

5 ENVIRONMENT

Nicaragua's major environmental problems are soil erosion, caused in part by cultivation of annual crops on steep slopes, and depletion of upland pine forests for lumber, fuel, and human settlement. The nation lost an average of 3% of its forest and woodland each year between 1990 and 2000. One contributing factor is the use of wood for fuel. Excessive or ineffective use of pesticides to control malaria, along with widespread agricultural use, has resulted in some environmental contamination.

Industrial pollutants have contaminated the lakes and rivers. The nation has 190 cu km of renewable water resource, with 84% of annual withdrawals used for farming and 2% in industrial activity. As of 2002, 93% of Nicaragua's city dwellers and 65% of its rural population have access to improved water sources. Dumping of sewage and chemical wastes has made Lake Managua unsuitable for swimming, fishing, or drinking. Primary responsibility for resource conservation is vested in the Nicaraguan Institute of Natural Resources and Environment (Instituto Nicaragüense de Recursos Naturales y del Ambiente—IRENA), established in October 1979.

In 2003, 17.8% of the total land area was protected, including eight Ramsar wetland sites. According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 6 types of mammals, 8 species of birds, 8 types of reptiles, 10 species of amphibians, 17 species of fish, 2 types of mollusks, and 39 species of plants. Threatened species in Nicaragua include the tundra peregrine falcon, four species of turtle (green sea, hawksbill, leatherback, and olive ridley), the spectacled caiman, and the American crocodile.

6 POPULATION

The population of Nicaragua in 2005 was estimated by the United Nations (UN) at 5,774,000, which placed it at number 105 in population among the 193 nations of the world. In 2005, approximately 3% of the population was over 65 years of age, with another 42% of the population under 15 years of age. There were 100 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 2.7%, among the highest in the region. The projected population for the year 2025 was 8,318,000. The population density was 44 per sq km (115 per sq mi).

The UN estimated that 59% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 2.91%. The capital city, Managua, had a population of 1,098,000 in that year. Other major cities and their estimated populations are Granada 450,439; León, 145,000; Chinandega, 133,700; Esteli, 119,000; Masaya, 118,000; Matagalpa, 109,100; Chichigalpa, 97,387; Tipitapa, 67,925; and Juigalpa, 54,700.

7 MIGRATION

During the 1980s, Nicaragua hosted more than 10,000 refugees, mainly from El Salvador and Guatemala. Most have since repatriated. Those who chose to remain have been naturalized or granted permanent resident status.

After the Sandinista takeover in 1979, thousands of Nicaraguans left the country. It was estimated in 1987 that 24,000 had fled to Honduras, 16,000 to Costa Rica, and over 200,000 to the United States, chiefly to Florida. After the defeat of the Sandinistas in the 1990 elections, some 200,000 Nicaraguans returned from abroad. Under the CIREFCA plan, during the period 1989–94, 70,000 Nicaraguans repatriated. In 2002 worker remittances were 29% of GDP. Worker remittances in 2004 amounted to \$810 million, or 10.8% of GDP. In 2005, the net migration rate was -1.19 migrants per 1,000 population. The government viewed the migration levels as satisfactory.

8 ETHNIC GROUPS

The Nicaraguan population is basically mestizo, a mixture of white and Amerindian. There are no census data on racial composition, but estimates place the mestizo component at 69% and the white population at 17%; blacks account for 9% and Amerindians for the remaining 5%.

Traditionally, the Atlantic littoral has been inhabited mainly by blacks from Jamaica, Belize, and various present and former British possessions in the Caribbean. The more densely populated Pacific coast highland has long been basically mestizo in composition. Most Amerindian groups in Nicaragua have been assimilated, but Miskito Amerindians, as well as Sumus, make their traditional homes on the Mosquito Coast and neighboring areas. The Garifuna and Rama are other indigenous groups with a somewhat significant number of people.

9 LANGUAGES

Spanish is the official language and is spoken by the overwhelming majority of the population. Some Nahuatl and other Amerindian



LOCATION: 10° to 15° N; 83° to 87° W. BOUNDARY LENGTHS: Honduras, 922 kilometers (573 miles); Caribbean and Pacific coastline, 910 kilometers (565 miles); Costa Rica, 309 kilometers (192 miles). TERRITORIAL SEA LIMIT: 200 miles.

words and phrases are in common use. English is often spoken as a second language at professional levels.

10 RELIGIONS

Roman Catholicism is the predominant religion, claiming about 72.9% of the population. Approximately 15.1% of the populace are members of evangelical Protestant churches. Another 1.5% are members of the Moravian Church, and 0.1% belong to the Episcopal Church. An additional 1.9% claim membership in other churches or religious groups, which include Mormons, Amish, Mennonites, and Jehovah's Witnesses; 8.5% profess no religion or are atheistic. There are small communities of Jews, Muslims, Unification Church members, Baha'is, and members in the Church of Scientology. Amerindian tribal religionists and spiritists also

practice, usually combining elements of Christianity and African religions.

Nicaragua does not have a state religion; however, the Roman Catholic Church seems to have significant political influence in the country. The political party Partidon Camino Cistiano (Christian Path Party) was formed by evangelicals. Churches register with the government for legal recognition in much the same process as other nongovernmental groups. Certain Catholic holidays are recognized as national holidays.

11 TRANSPORTATION

Main transportation arteries are concentrated in the more densely populated Pacific region. The national road network in 2002 totaled 18,712 km (11,639 mi), of which 2,126 km (1,322 mi) were

paved. The Inter-American Highway from Honduras to Costa Rica was completed in 1972. The Pacific Highway begins in Granada and passes through Managua, León, and Chinandega to Corinto. In 2003 there were 64,650 passenger cars and 99,350 commercial vehicles registered.

Pacific Railways of Nicaragua, government-owned with a length of 373 km (231 mi), was shut down in 1993. As of 2004, there were only 6 km (3.7 mi) of narrow gauge railway in operation, mostly for carrying passengers from Chichigalpa to Ingenio San Antonio.

The Naviera Nicaragüense provides regular services to Central America, the United States, and Europe. As of 2005 Nicaragua had no merchant fleet. Corinto is Nicaragua's only natural harbor on the Pacific coast and the major port, handling about 60% of all waterborne trade. Other ports include Puerto Sandino and San Juan del Sur on the Pacific and Puerto Cabezas on the Atlantic coast. A deepwater port at El Bluff/Bluefields on the Atlantic allows ships from Europe, Africa, and the Caribbean to deliver goods to Nicaragua without passing through the Panama Canal. Inland waterways total 2,220 km (1,380 mi), including Lake Nicaragua, Lake Managua and the San Juan River.

Air transportation is important because of limited road and railway facilities. In 2004, there were an estimated 176 airports, only 11 of which had paved runways as of 2005. A state-owned airline, Aerolíneas de Nicaragua (AERONICA), provides services to El Salvador, Costa Rica, Panama, and Mexico. The principal airport is Augusto Sandino, an international terminal at Las Mercedes, near Managua. In 2000 (the latest year for which data is available), 61,000 passengers were carried on scheduled domestic and international flights.

12 HISTORY

Nicaragua derives its name from that of the Amerindian chief Nicarao who once ruled the region. The first European contact came with Columbus in 1502. At that time the northern part of the country was inhabited by the Sumo Amerindians, the eastern region by the Miskitos, and the region around Lakes Nicaragua and Managua by agricultural tribes.

The first Spanish settlements in Nicaragua were founded by the conquistador Gil González de Ávila in 1522. The cities of Granada and León were founded in 1524 by Francisco Hernández de Córdoba. During the next 300 years—most of the colonial period—Nicaragua was ruled as part of the captaincy-general of Guatemala. The independence of the five provinces of Central America, including Nicaragua, was proclaimed on 15 September 1821. After a brief period under the Mexican empire of Augustín de Iturbide (1822–23), Nicaragua joined the United Provinces of Central America. Nicaragua declared its independence from the United Provinces on 30 April 1838, and a new constitution was adopted.

Nicaragua did not immediately consolidate as a nation. The Spanish had never entirely subdued Nicaragua, and the Mosquito Coast at the time of independence was an Amerindian and British enclave, especially around the Bluefields area. Britain occupied the Mosquito Coast during the 1820s and 1830s, and maintained a significant presence thereafter. Beyond that, Nicaragua was torn apart by a bitter struggle between liberals, based in León, and conservatives, based in Granada.

Yet another factor impeding Nicaragua's development was constant foreign intervention focusing on the trade route through the country. Commodore Cornelius Vanderbilt competed with the British for control of the transisthmian traffic, a rivalry settled by the Clayton-Bulwer Treaty of 1850. In 1853, liberals led by Máximo Jérez and Francisco Castellón revolted and invited the US military adventurer William Walker to help their rebellion. Walker invaded Nicaragua in 1855, capturing Granada and suppressing Jérez, and had himself elected president in 1856. He lasted only one year, and was captured and executed in Honduras in 1860. Conservatives seized control in 1863 and ruled until 1893.

The 30-year conservative reign brought increases in coffee and banana production. Liberals successfully revolted in 1893, making José Santos Zelaya dictator for 16 years. In this time, he incorporated most of the Mosquito territory into Nicaragua, developed railroads and lake transportation, enlarged the coffee plantations, and stirred up revolts among his Central American neighbors. In 1901, by the Hay-Pauncefote Treaty, Great Britain gave the United States the undisputed right to build a Central American canal.

After Zelaya was deposed in a conservative revolt in 1909, US influence on Nicaragua grew steadily until 1933, often at the behest of Conservative requests for help.

The United States placed an American agent in the customhouse in 1911, and US banks extended considerable credit to the bankrupt treasury. US marines and warships arrived in 1912 to support President Adolfo Díaz. US forces remained active in Nicaraguan politics and administered the country directly or through handpicked rulers until August 1925. During this period, the Bryan-Chamorro Treaty of 1914 allowed the United States to build a canal across Nicaragua. After the marines withdrew, the liberals revolted against the US-backed conservative government of Diego Manuel Chamorro and established a government on the Mosquito Coast. The marines returned in 1926 to reimpose Díaz and supervised the electoral victor of the liberal José María Moncada, with whom the conservatives had made peace, in 1928. However, the guerrilla hero General Augusto César Sandino had begun organizing resistance to the marine occupation force in 1927, and fought the US troops to a standstill. With the inauguration of US president Franklin D. Roosevelt's "good neighbor" policy in 1933, the marines were pulled out for the last time. But the marines left a legacy, having built the Nicaraguan National Guard, headed by Anastasio ("Tacho") Somoza García.

In 1934, the liberal Juan B. Sacasa was elected to office. In the same year, however, officers of the National Guard shot Sandino, leaving them unchallenged in Nicaragua, and paving the way for Somoza's overthrow of Sacasa three years later. The Somoza family would rule Nicaragua directly or indirectly for the next 42 years. Somoza made constitutional changes as necessary to prolong his term until he retired in 1947. He returned in 1950, and was assassinated in 1956. Tacho's son, Luis Somoza Debayle, had been president of congress, and immediately became president under the constitution. The next year, he was elected by a rather suspicious 89% of the vote. Though a law was passed in 1962 that prohibited relatives within four generations from immediately succeeding Luis Somoza as president, his younger brother Anastasio Somoza Debayle would become president in 1967 (after the brief presidencies of René Schick Gutiérrez and Lorenzo Guerrero of the National Liberation Party). Though Anastasio's term in office

was due to end in May 1972, he had worked out an agreement by March 1971 that allowed him to stand for reelection in 1974, ruling in the interim with a three-man coalition government. Anastasio and his triumvirate drew up a new constitution, signed by the triumvirate and the cabinet on 3 April 1971. Then, after declaring nine opposition parties illegal, Somoza easily won the September 1974 elections.

While Somoza consolidated his hold on Nicaragua, the Sandinista National Liberation Front (Frente Sandinista de Liberación Nacional—FSLN) began to agitate against his rule. At first the group was small and confined to the foothill and mountain regions of Nicaragua. But domestic opposition to Somoza mounted, driven by the family's monopolistic and corrupt economic practices. One powerful example of the corruption was the disappearance of half the US relief aid extended to Nicaragua after a devastating 1972 earthquake. Most of the rebuilding of Managua was done by Somoza-controlled firms on Somoza's land. Throughout the 1970s, Somoza's opposition grew and US support began to dissipate.

In December 1974, guerrillas kidnapped 13 prominent political personalities, including several members of the Somoza family. The group secured a ransom of US\$1 million and the release of 14 political prisoners. Somoza responded by declaring a martial law and unleashed the National Guard. The Guard's repressive tactics created even more enemies of the Somoza regime. Repression continued throughout the 1970s, and climaxed in January 1978 with the assassination of Pedro Joaquín Chamorro, editor and publisher of the opposition newspaper *La Prensa*. The assassins were never found, but most felt that Somoza and the National Guard were behind the killing of this moderate leader from a prominent family. By 1979, loss of support from the Catholic Church and the business community left Somoza without domestic allies. He had become isolated diplomatically, and after the administration of US president Jimmy Carter cut off military aid, his ability to remain in power further weakened. In May 1979, the Sandinistas launched a final offensive. By July, the FSLN overthrew Somoza, who fled the country and was assassinated on 17 September 1980 in Asunción, Paraguay. By this time, an estimated 30,000–50,000 people had died during the fighting.

The Sandinistas engaged in an ambitious program to develop Nicaragua under semi-socialist lines, giving priority to healthcare, improved literacy rates, and land reform. To achieve these ends, they nationalized Somoza's land and commercial interests, initiated agrarian reform, and announced a series of literacy and public health campaigns. Politically, they professed democratic ideals, but delivered only sporadically. A Statute on Rights and Guarantees was adopted, but elections were postponed. As antigovernment activity increased in response to government control of production and distribution, the government became increasingly authoritarian, as reflected by the proclamation of a state of emergency from 1982–87, censorship (particularly felt by *La Prensa*), and the dissolution of the National Guard. In 1982, a number of former guard members and Somoza supporters ("Somocistas") joined into an anti-Sandinista, counter-revolutionary group of "contras." They were aided by the administration of US president Ronald Reagan, which had also cut off Nicaragua's aid in April 1981 and introduced a trade embargo in response to Nicaragua's support of leftist guerrillas in El Salvador. Though the Sandinistas

made overtures to please the United States by pulling 2,200 advisors out of Cuba, the United States continued to support over 12,000 contras' operating out of Honduras and Costa Rica with aid channeled through the CIA and directed toward guerrilla-style offensives that disrupted Nicaragua's agriculture and oil supplies.

Daniel Ortega emerged as the leader of the Sandinistas in the 1984 presidential elections. However, in that election, the major opposition groups withdrew from the election, making it a rather hollow victory. Internationally, the Sandinistas made some gains. In 1986, the World Court ruled that the United States had violated international law by mining the harbors in Nicaragua. Though the United States refused to recognize the decision, the Congress proved more reluctant to fund the Nicaraguan resistance. In 1986, it was revealed that US government funds derived from covert arms sales to Iran had been secretly diverted to provide aid to the contras in violation of a US congressional ban on such aid.

On the domestic scene, the Sandinistas were less successful due to their failure to improve socioeconomic conditions; attempts to pin the economic woes on the civil war fell on deaf ears as the economic situation worsened. The inflation rate skyrocketed in 1988 and reserves dwindled. Price controls had led to serious shortages in basic foodstuffs. Lacking any capital for investment, the situation was becoming hopeless. Still, the Sandinistas continued to seek negotiated settlements for their internal strife. In 1986, they signed an accord with leaders of the Miskito Amerindians, granting autonomy to their region. In August 1987 Nicaragua signed the Arias peace plan for Central America. Nicaragua promised guarantees of democratic rights, and a reduction of hostilities with the contras, including a cease-fire, a reduction in the armed forces, repatriation or resettlement of refugees, and amnesty for the rebels. In exchange, the Nicaraguans were to receive guarantees of nonintervention by outside powers, and a further \$9 million from the United States and aid from other countries, tied to the holding of free elections in 1990.

The 1990 elections had a surprise winner—Violeta Chamorro. Heading a 10-party alliance called the National Opposition Union (UNO), Chamorro received 54% of the vote to Daniel Ortega's 41%. UNO also took a majority in the National Assembly. Chamorro moved to liberalize the Nicaraguan economy, but found it sluggish. Austerity measures led to dislocations and political disquiet. The United States delivered minuscule amounts of economic aid, to the disappointment of hopeful Nicaraguans. Nevertheless, Chamorro's government succeeded in driving down hyperinflation that had reached 13,500% to an acceptable single-digit level and in obtaining relief of much of the country's \$10 billion foreign debt. Stable economic growth of around 4% from 1994–96 was achieved.

Politically, Chamorro's situation was tenuous. With the Sandinistas still in control of the military, Chamorro had a difficult time achieving a reduction in force. Sandinista organizations and syndicates remained, often striking against the Chamorro government. Meanwhile, the resettlement and repatriation of the contras moved slowly. Some former contras took to the field again, resuming their previous attacks on civilian installations. Chamorro's own coalition, UNO, proved shaky, withdrawing support from her government in 1993 after she attempted to call for new elections. The beleaguered government persisted, but by 1994 the outlook

for further progress in unifying the country and implementing democratic and free-market reforms was bleak.

The prospect of a peaceful political transition in the politically polarized country were considered so shaky that international observers were called in for the October 1996 elections, as they had been in 1990. Although the results were later contested due to allegations of corruption, and some irregularities found, the elections proceeded peacefully and without incident. With 80% of the electorate voting, Arnoldo Alemán, the conservative former mayor of Managua and leader of the Liberal Constitutionalist Party (PLC), defeated Sandinista leader Daniel Ortega, with each garnering, respectively, 51% and 38% of the vote. The Liberal Party took 41 of the 93 seats in the Chamber of Deputies, while the Sandinistas took 38; the remaining seats were won by leftist and conservative groups.

President Arnoldo Alemán Lacayo and Vice President Enrique Bolaños Geyer were inaugurated into office on 10 January 1997. Alemán, who had close ties to right-wing groups and American entrepreneurs, worked to instill economic reforms focused on economic growth in an effort to establish Nicaragua's market economy. Throughout Alemán's term, the GDP steadily increased. Despite the legacy of the civil war and years of financial mismanagement, growth continued until 1998, when it was dampened by Hurricane Mitch. The hurricane devastated Nicaragua and Honduras, leaving Nicaragua, already the poorest country in Central America, with \$1 billion worth of damage. Worst hit was the agricultural sector, which the country depends on for the majority of its exports. By 1999, Alemán was forced to deal with a trade deficit approaching \$900 million. However, despite the destruction caused by Hurricane Mitch, Nicaragua's economy continued to grow slightly, possibly due in part to aid, debt relief, and free market reforms.

Alemán and Daniel Ortega (the Sandinista former president) were charged with involvement in scandals during Alemán's presidential term that made these surprising bedfellows come together in PLC-FSLN talks. In 1998, Daniel Ortega faced accusations from his stepdaughter of sexual abuse dating back to her childhood. Meanwhile, Alemán faced charges that the presidential plane he had been using was actually reported stolen in the United States and that it had been used throughout Central America and Colombia to carry cocaine. Both Ortega and Alemán denied all charges against them, but worked together to create a PLC-FSLN political pact that protected them from scrutiny. This limited the substantive democracy in Nicaragua. These scandals, as well as border disputes, growing poverty, and migration issues all continued to be challenges throughout the rest of Alemán's term.

Enrique Bolaños won the 2001 presidential elections with 56.3% of the vote. Daniel Ortega, the Sandinista leader, came second with 42.3%. Surprising supporters and observers, Bolaños quickly moved to support a judicial corruption investigation against Alemán and to break up the PLC-FSLN alliance. In August 2001, the Bolaños administration brought indictments against Alemán officials. Alemán was personally indicted in August 2002. In December 2002, Alemán was denied his parliamentary immunity, which then forced him to serve 20 years in prison when he was found guilty of corruption and money laundering in December 2003. Yet, from prison Alemán maintained control of the PLC, which kept Bolaños from making further political progress. In

2004, the FSLN and PLC renewed the political pact and worked to extend the powers of the legislature and limit those of the executive. In response to these threats to democracy, Bolaños threatened to declare a state of emergency in January 2005, promoting the UN's involvement via the National Dialogue forum, intended to avert a possible political crisis. In March 2005, the Central American Court of Justice (Corte Centroamericana de Justicia – CCJ), ruled the constitutional reforms being sought by the PLC-FSLN-dominated legislature violated the principle of separation of powers. However, the PLC-FSLN also captured Nicaragua's Supreme Court and could use it to refuse the CCJ's jurisdiction and proceed with the constitutional amendments, despite the ruling. As of June 2005, the Organization of American States was also failing in its effort to mediate negotiations between the political leaders.

During Bolaños's term, the economy expanded slowly, but the president sought to generate further growth by increasing the country's exports and liberating the national economy. Although the country possesses few comparative advantages for economic development, President Bolaños set the goal of incorporating his country into the world economy to reduce poverty and boost employment. As of 2006, experts were predicting that the ratification of the Dominican Republic-Central American Free-Trade Agreement (DR-CAFTA) would boost Nicaraguan exports and energize its economy.

13 GOVERNMENT

Although constitutionally defined as a democracy, Nicaragua was ruled by the Somoza family from 1934–79; they did not hesitate to suppress political opponents with violence. The last of the constitutions promulgated during the Somoza period, effective 3 April 1974, provided for a bicameral congress, a president elected for a six-year term, and guaranteed political rights. After the FSLN took power as the Government of National Reconstruction in July 1979, this constitution was abrogated and congress dissolved. From July 1979 until November 1984, executive power was vested in a junta composed of five members (three members after April 1980).

The 1984 electoral reforms created an executive branch with a president elected for a six-year term by popular vote and assisted by a vice president and a cabinet. (The presidential term was shortened to five years in 1995.) Legislative power is vested in a 93-member unicameral National Constituent Assembly elected under a system of proportional representation for six-year terms. The electoral process in Nicaragua is said to be one of the most complicated in the Americas as it forces voters to select candidates for the office of president, National Assembly posts, and local municipalities from a vast number of political parties. Further, vote counting is still a tedious, manual process.

As of 2006 the Sandinista constitution of 1987 was in effect; it provides for a democratic system in which elections are held every six years and there is an executive, National Assembly (legislature), judiciary, and electoral council (Consejo Supremo Electoral—CSE). It also called for two new levels of elected government—municipal councils (131 in 1987; 153 as of 2006), and the two autonomous Atlantic coast regional councils.

14 POLITICAL PARTIES

Nicaragua's traditional two parties were the National Liberal Party (Partido Liberal Nacionalista—PLN) and the Nicaraguan Conservative Party (Partido Conservador Nicaragüense—PCN). The PLN favored separation of church and state, some social legislation, no foreign interference in the political process, and limited land reform. It was supported by government employees, the National Guard, and large segments of the middle and lower classes. The PCN desired government cooperation with the Catholic Church (but also advocated freedom of religion), less government interference in private business, and a regressive tax structure.

When the leftist Sandinista National Liberation Front (FSLN), which was founded in 1962, came to power in July 1979, all political parties except those favoring a return to Somoza rule were permitted. Since the Somozas had all been liberals, the PLN was specifically banned.

Under the Sandinistas, Nicaragua's governing political coalition, the Patriotic Front for the Revolution (Frente Patriótico para la Revolución—FPR), formed in 1980, consisted of the FSLN, the Independent Liberal Party (Partido Liberal Independiente—PLI), the Popular Social Christian Party (Partido Popular Social Cristiano—PPSC), and the Moscow-oriented Nicaraguan Socialist Party (Partido Socialista Nicaragüense—PSN). Opposition parties included the Conservative Democratic Party (Partido Conservador Democrático—PCD), the Nicaraguan Social Christian Party (Partido Social Cristiano Nicaragüense—PSCN), and the Social Democratic Party (Partido Social Demócrata—PSD).

The National Opposition Union (UNO), under which Violeta Chamorro was elected president in 1990, was a 10-party coalition that included both the Conservatives and the Liberals, as well as several parties formerly aligned with the Sandinistas, including the PLI and the PSD. The PLI was also the party of Vice President Virgilio Godoy. Others included the Christian Democratic Union (UDC), the National Democratic Movement (MDN), the National Action Party (PAN), and the Neo-Liberal Party (PALI). President Arnoldo Alemán's Liberal Alliance, a conservative group that supported the Somoza dictatorship, also supported the National Opposition Union (UNO) candidate and President Violeta Chamorro during her six-year reign. Alemán's support diminished when Chamorro failed to control the UNO coalition; Alemán thus switched to the Liberal Party to launch his presidential campaign in 1996. The disbanded UNO party forced Chamorro to link with the Sandinistas in congress to maintain control of her office; she thus maintained the Sandinista control over the Revolutionary Army. Alemán's main purpose as the National Liberal Party representative was to overturn Chamorro and try to reverse some of the economic policies of her regime.

By the mid-1990s, the UNO coalition had disbanded. Nicaragua had numerous parties ranging across the political spectrum, although the country was dominated by two principal opposed groups—the Liberal Constitutionalist Party (PLC), a right-wing successor to the traditional liberal party, and, on the left, the still-active FSLN. In the October 1996 presidential election, Arnoldo Alemán, former mayor of Managua and leader of the PLC, was elected with 51% of the vote, supported by a coalition of parties and factions called the Liberal Alliance (AL). Daniel Ortega, the FSLN candidate, won 38% of the vote, with the rest going to candidates from smaller parties. In the legislative elections, 42 of the 93

seats in the National Assembly were won by the National Alliance, with the FSLN winning 36, and the remaining 15 going to candidates from nine other parties. These included the Christian Way (Camino Cristiano), the Conservative Party of Nicaragua (PCN), the center-right Nicaraguan Resistance Party (PRN), the center-left Sandinista Renovation Movement (MRS), and the center-right Independent Liberal party (PLI). Altogether, 24 political parties and popular organizations participated in the 1996 elections.

Alemán and Ortega collaborated in bringing about a PLC-FSLN political pact in 2000 that increased their political influence and reduced their vulnerability to investigation by putting the two major political parties in control of important institutions that combat corruption and could change the election rules to deter smaller parties from challenging PLC-FSLN dominance. Illustrative of this damper on democracy, only one other party was able to register to contest the elections in 2000 and 2001.

In the 2001 parliamentary elections, held concurrently with the presidential election, the PLC won 53.7% of the vote, clinching 47 seats in the 93-member Assembly. The Sandinistas gained 43 seats and the remaining seats went to the Conservative Party of Nicaragua. The 2001 elections witnessed the consolidation of Nicaragua as a two-party system, with an overwhelming majority of votes going to the rightwing PCN and the leftwing Sandinistas.

The Economist Intelligence Unit projected that the prevailing dynamic of party politics in 2006 improved Ortega's chances of winning the presidency. This was because his only opponent in FSLN, Herty Lewites, would likely be barred from running, and the right-wing vote would be split, allowing Ortega to garner enough to win in the election scheduled for November 2006.

15 LOCAL GOVERNMENT

In July 1982, the nation's departments were consolidated into six regions and three special zones, each to be administered by an official directly responsible to the central government. However, under the Chamorro government, Nicaragua returned to the old system, with fifteen departments and two autonomous regions along the Atlantic coast.

Local elections for mayoralities accompany national elections.

16 JUDICIAL SYSTEM

Constitutionally, Nicaragua's Supreme Court is an independent branch of the government. However, selection of its 16 members (who serve five-year terms) is proscribed by politics, in that selection is limited to a list submitted by the president and political parties to the National Assembly. The court appoints judges to the lower courts. The selection of magistrates (who decide the Supreme Court's president and vice-president) has been historically political, making *de facto* judicial independence from executive and legislative pressures unlikely.

The Supreme Court has administrative, criminal, civil, and constitutional matters divisions. The judicial system consists of both civilian and military courts. Military courts investigate, prosecute, and try crimes committed by or against the police or armed forces. Therefore, the military courts have jurisdiction over citizens involved in security-related offenses. In a controversial 1993 decision, a military court exercised jurisdiction to convict a former member of the EPS (Sandinista Popular Army).

In 2004, it was legislated that the judicial career system should be based on merit. This is partly in response to a public lack of confidence in the training or fairness of judges. In 2006 the Economist Intelligence Unit warned that “corruption and influence-peddling in the judicial branch puts foreign investors at a sharp disadvantage in any litigation or dispute, and legal security for business in general is among the lowest in Latin America.”

17 ARMED FORCES

In 2005 Nicaragua's armed forces numbered 14,000 active personnel. The Army had around 12,000 personnel equipped with over 127 main battle tanks, 10 light tanks, and 800 artillery pieces. The Navy had approximately 800 active personnel, operating 5 patrol/coastal vessels, and 2 mine warfare ships. The Air Force had 1,200 personnel, with 16 support helicopters but no combat aircraft. Nicaragua's defense budget in 2005 totaled \$34.7 million.

18 INTERNATIONAL COOPERATION

Nicaragua is a charter member of the United Nations, having joined on 24 October 1945; it belongs to the ECLAC and several non-regional specialized agencies, such as the FAO, ICAO, ICFTU, the World Bank, UNESCO, UNHCR, UNIDO, ILO, and the WHO. Nicaragua is a member of G-77, the Inter-American Development Bank, the Latin American Economic System (LAES), OAS, the Association of Caribbean States (ACS), and the Río Group. It is one of five members of the Central American Bank for Economic Integration (BCIE) and the Central American Common Market (CACM). The country also participates in the Central American Parliament (PARLACEN). In 2004, Nicaragua, the United States, Costa Rica, El Salvador, Guatemala, Honduras, and the Dominican Republic signed the US–Central America Free Trade Agreement (CAFTA). The agreement must be ratified by all participating countries before it enters into force.

Nicaragua is part of the Nonaligned Movement and a signatory of the 1947 Río Treaty, an inter-American security agreement. It is also a part of the Agency for the Prohibition of Nuclear Weapons in Latin America and the Caribbean (OPANAL) and the Organization for the Prohibition of Chemical Weapons. In environmental cooperation, Nicaragua is part of the Basel Convention, the Convention on Biological Diversity, Ramsar, CITES, the Kyoto Protocol, the Montréal Protocol, MARPOL, the Nuclear Test Ban Treaty, and the UN Conventions on the Law of the Sea, Climate Change and Desertification. The nation is also part of the Central American-US Joint Declaration (CONCAUSA).

19 ECONOMY

Nicaragua has long had, in effect, two economies: an export segment, producing mainly cotton, meat, coffee, and sugar, and a subsistence segment, tying a majority of both urban and rural Nicaraguans to an impoverished existence. Nicaragua has been one of the poorest countries in the western hemisphere, partially due to enormous external debt, low per-capita income, massive unemployment, and one of the most unequal income distributions in the world. Some 50% of the population lived below the poverty line. The 10% of the population with the lowest income consumed 1.2% of GDP, whereas 10% of the population with the highest in-

come consumed 45% of GDP. As of 2004, per capita GDP was \$2,300.

Agriculture and forestry remain mainstays of the Nicaraguan economy, employing about 30.5% of the labor force, but the services sector is increasingly important, employing about 52.2% of the labor force. Industry employs 17.3% of the labor force. Agriculture, industry, and services comprise 20.7%, 24.7%, and 54.6% of the GDP.

During 1960–64, the GDP increased by an annual average of 8.1%, the highest rate in Latin America. Annual growth ranged from 4–6% during 1965–73, largely because of favorable world prices for Nicaraguan commodities. The 1972 earthquake that struck Managua caused material losses estimated at \$845 million, but the agricultural sector was left largely unscathed.

The civil war of the late 1970s disrupted the economy. Infrastructure was destroyed in the war and a US blockade was put in place against Nicaragua, resulting in the near-collapse of the economy. In 1978, the GDP fell by 7.9%; and in 1979, the year of the Sandinista takeover, by 25%. Under the Sandinista regime 80% of the economy was nationalized. Massive public spending resulted in a GDP growth of 10.4% in 1980 and 7% in 1981. However, because of floods in May 1982, a weak international market for export crops, the virtual collapse of the CACM, direct and indirect economic pressure from the US government, and disruption by the *contras*, the economy suffered a GDP decline of 1.4% in 1982. Because of shortages, rationing of soap, flour, and cooking oil was introduced in 1982. In 1983, high world prices and a bumper harvest boosted GDP growth to 4.6%, but decline set in again from 1984 to 1986. Across this three year period, GDP declined 6.7%, and on a per capita basis, with population growth averaging 3.4% a year, the decline was 16.3%. The average annual inflation rate during 1980 to 1984 was about 35%, but in 1985 this inflation jumped to 219.5%. In 1986 the United States imposed a formal trade embargo on Nicaragua, and inflation (as measured by consumer prices) soared for the rest of the decade: 681.6% in 1986; 912% in 1987; 14,316% in 1988; 4,770% in 1989; and 12,338% in 2000.

In response to both domestic and international pressure, the Sandinista regime entered into negotiations with the Nicaraguan Resistance and agreed to nationwide elections in February 1990. The candidate of the National Opposition Union (UNO), Violeta Barrios de Chamorro, whose campaign received financial support from the United States, won the election. She took over a country with a controlled economy, uncontrolled inflation, and debt outstanding at 508% of GDP. During President Chamorro's nearly seven years in office, her government achieved major progress toward consolidating democratic institutions, advancing national reconciliation, stabilizing the economy, privatizing state-owned enterprises, and reducing human rights violations.

Nicaragua began free market reforms in 1991. Despite some setbacks, it made dramatic progress, privatizing 351 state enterprises, reducing inflation from 775% in 1990 to 12.4% in 1994 to 7.3% in 1997. Foreign debt had risen 638.4% as Nicaragua was given renewed access to IMF funding, but by 1997, this ratio had declined to 296.7% of GDP. The GDP continued to contract from 1991 to 1993, but 1994–97 GDP growth averaged 4.35%. As a result of the strong decline in foreign debt, the country's current account balance declined as a percentage of GDP from 60.0% in

1992 to 30.3% in 1997. In addition, the government's budget deficit in 1997 stood at 9.7% of GDP (before grants), down considerably from 20.3% in 1990. The election of Arnaldo Alemán in 1996 served to continue the social and economic reforms. (This trend was undermined somewhat when, in December 2002, Alemán was indicted for diverting \$100 million of state funds for his own and others' personal enrichment during his term in office.)

Damage caused by Hurricane Mitch in 1998 reduced the GDP to 4% for that year, and shot inflation up to 18.5%, but an in-pouring of foreign assistance and activity on reconstruction projects pushed GDP growth to 7.4% in 1999 (the highest since 1982), while inflation fell to a new low of 7.2% by the end of the year. Growth continued in 2000, up 4.3% with inflation at 9%. However, in 2001, the global slowdown, and, in particular, a glut on the coffee market, drought, and lower demand in the United States for textiles and other manufactured goods from Nicaragua, reduced growth to 2%. Inflation was at 7.3% that year.

From 2001–05, the real GDP growth rate fluctuated from year to year, while the inflation rate dipped briefly in 2002 and continued steadily upward through 2005. In 2002, real GDP growth was 0.8% and inflation was 3.7%. The years 2003 and 2004 saw an increase in both GDP growth (2.3% and 5.1%, respectively) and inflation (5.3% and 8.5%, respectively). It was projected that GDP growth would fall to approximately 3.6% in 2005, and that inflation would continue to rise to approximately 10.1%. External debt was \$4.573 billion, approximately one-third of the \$12.34 billion of GDP for that year.

20 INCOME

The US Central Intelligence Agency (CIA) reported that in 2005 Nicaragua's gross domestic product (GDP) was estimated at \$16.1 billion. 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 based on current dollars. The per capita GDP was estimated at \$2,800. The annual growth rate of GDP was estimated at 3.5%. The average inflation rate in 2005 was 10.1%. It was estimated that agriculture accounted for 16.8% of GDP, industry 27.6%, and services 55.6%.

According to the World Bank, in 2003 remittances from citizens working abroad totaled \$439 million or about \$80 per capita and accounted for approximately 10.6% of GDP. Foreign aid receipts amounted to \$833 million or about \$152 per capita and accounted for approximately 21.0% of the gross national income (GNI).

The World Bank reported that in 2003, household consumption in Nicaragua totaled \$2.99 billion or about \$546 per capita based on a GDP of \$4.1 billion, measured in current dollars rather than PPP. Household consumption included expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated during 1990–2003, household consumption grew at an average annual rate of 3.7%. It was estimated that in 2001 about 50% of the population had incomes below the poverty line.

21 LABOR

In 2005, Nicaragua's workforce was estimated at 2.17 million. As of 2003, the labor force was estimated to have been distributed as follows: services 52.2%; agriculture 30.5%; and industry 17.3%. As

of 2005, unemployment was estimated at 6.4%, although 46.5% of the workforce is said to be underemployed.

Nicaragua became a member of the ILO in 1919, withdrew in 1938, and rejoined in 1957. The former labor code, effective January 1945, was patterned on Mexican labor legislation. In establishing and protecting the rights of workers, emphasis was placed on law rather than collective bargaining. A labor code, effective as of 1996, allows all public and private-sector employees to form and join unions and legally recognizes cooperatives, as well as the right to strike. However, administrative requirements make it difficult for a union to engage in a legal strike. As of 2001, approximately 15% of the labor force was organized.

Children may not work until the age of 14 but this regulation is not effectively enforced and many children work in agriculture and in cities as urban street-peddlers. The maximum legal workweek is 48 hours, with one day of rest per week. The minimum wage varies from sector to sector throughout the formal economy. In 2001, the monthly minimum wage was \$47 in agriculture, \$118 in construction, and \$75 in manufacturing. This does not provide a family with a decent standard of living. The legal workweek is set at 48 hours with one day of rest. The labor code attempts to bring work conditions up to the international standard.

22 AGRICULTURE

Nicaragua's economy is predominantly agricultural. Arable land amounted to 2,161,000 hectares (5,340,000 acres), or about 17.8% of the total land area. Some 61,000 hectares (150,700 acres) were under irrigation in 2003. The harvest season begins in November and lasts through January; during the rest of the year, most rural laborers are unemployed. Plantings begin in May immediately before the wet season.

The main agricultural exports are coffee, cotton, sugar, and bananas. Nontraditional exports are growing and include: honeydew melons, cantaloupe, sesame seed, onions, baby corn, asparagus, artichokes, and cut flowers. Sorghum, cacao, yucca, tobacco, plantains, and various other fruits and vegetables are produced on a smaller scale for the local markets. Bananas were once nearly totally decimated by Panama disease. By the late 1960s, however, production had begun a slow recovery, reaching 135,000 tons in 1992 (up from 29,000 tons in 1970). Banana production in 2004, however, was just 61,000 tons. Cottonseed production has expanded from virtually zero prior to 1950 to 105,700 tons in 1985, before returning to 1,860 tons by 2004. During the 1980s, coffee was severely threatened by contra activities; production of 71,000 tons in 2004 was an improvement over the 28,000 tons produced in 1990. In 2004, 4,090,000 tons of sugarcane were produced. Major food crops in that year were corn, 522,000 tons; rice, 242,000 tons; sorghum, 114,000 tons; and beans, 224,000 tons.

During the Somoza era, most of the titled land was held by large landowners (with farms of 140 hectares/346 acres or more), who owned some 60% of the land while representing only 5% of the farming population. About 36% of the farm population controlled individual holdings of less than 3.5 hectares (8.6 acres). The Sandinista government expropriated almost one million hectares (2.5 million acres) of land, of which over two-thirds became state farms and 280,000 hectares (692,000 acres) were turned into peasant cooperatives. Agriculture was severely disrupted in 1979–80 because of the revolution, but by 1981 it had recuperated. In May

1982, severe floods caused damages estimated at \$180 million; the withdrawal of the Standard Fruit Co. in the following October caused losses of \$400,000 per week in foreign exchange earnings. Bad weather continued to plague the sector through 1984. An estimated 450,000 hectares (1,111,500 acres) of land were redistributed in 1985. From 1983 to 1987, the *contras* sought to destabilize Nicaraguan agriculture by damaging agricultural machinery, destroying crop storage sheds, and intimidating farm workers. After eight years of steady decline, the agricultural sector grew by a modest 1–2% in 1992. During 1990–2000 agricultural output grew by a yearly average of 5.7%. During 2002–04, output was up another 6.5% from 1999–2001. In 2004, the agricultural trade surplus was \$210.8 million.

23 ANIMAL HUSBANDRY

Nicaragua, the second-largest cattle-raising country of Central America (after Honduras), had 3.5 million head of dairy and beef cattle in 2005. There were also 268,000 horses, 123,000 hogs, and 57,000 mules and donkeys. Total beef production in 2005 was 152,000 tons. Meat exports, perennially one of Nicaragua's most important trade commodities, were valued at \$23 million in 1981 but fell to \$7 million by 1987. By 2004, meat exports had recovered, to \$111.2 million. The primary markets for Nicaraguan beef are the United States, El Salvador, and Puerto Rico. In 1990, Nicaragua access to the US beef products market was restored, and since then the livestock industry has been a profitable business and a key economic indicator for the country. Milk production in 2005 totaled 612,945 tons.

24 FISHING

Commercial fishing in the lakes and rivers and along the seacoasts is limited. In 2003, the total catch amounted to 22,331 tons, over 97% of which came from marine waters. About 80% of the marine catch comes from the Atlantic coast. Shrimp and lobster catches in 2003 amounted to 10,753 and 3,922 tons, respectively. Exports of shrimp and lobster expanded after the 1960s and by 1980 had reached an export value of \$25.9 million. In 2003, exports of fish products reached \$67.6 million. Commercial fishing was trying to diversify its catch to include more red snapper, grouper, and flounder.

After the Sandinistas took over, the fishing industry was nationalized. The fishing port at San Juan del Sur was expanded in the early 1980s to service the tuna fleet. In late 1991, the government privatized the Atlantic seafood packaging plants, causing seafood production to rise.

25 FORESTRY

About 38.6% of Nicaragua is forested. The country has four distinct forest zones: deciduous hardwood, mountain pine, lowland pine, and evergreen hardwood. Nicaragua's largest remaining timber resources, in the evergreen hardwood zone, are largely inaccessible. Nicaragua is the southernmost area of natural North American pine lands. The most well-known cloud forest in Nicaragua is Selva Negra (Black Forest), in the Matagalpa region. In 2004, roundwood production totaled 5,999,000 cu m (212 million

cu ft), with 98% burned as fuel wood. Sawn wood production was about 45,000 cu m (1.6 million cu ft) that year.

26 MINING

Gold, a leading export commodity, underwent a resurgence in the 1990s. After a long period of low production, gold output almost tripled in the late 1990s, from 1,500 kg in 1996 to 4,450 in 1999. In 2003, output was 3,029 kg. Gold and silver mines were in León, Chontales, and Zelaya departments. Mineral production for 2003 included silver, 2,040 kg, down from 2,198 kg in 2002; marine salt, 31,320 metric tons, up from 29,710 metric tons in 2002; and crude gypsum and anhydrite, 30,642 metric tons, up from 28,153 metric tons in 2002. Bentonite, lime, limestone, sand and gravel, and crushed stone were also produced. Deposits of iron, copper, lead, antimony, and zinc have been uncovered.

In the mid-20th century, Nicaragua ranked roughly 15th in the world in gold production, and the development of gold mining was emphasized during the Sandinista era, when the entire mining industry was nationalized. Gold exports reached \$39.9 million in 1980, fell to \$15 million in 1982, and were suspended through 1985. The *Corporación Nicaragüense de Minas* (INMINE), a subsidiary of the government holding company, controlled most of the country's mineral exploration and production. In 2001, the congress passed a Mining Code despite opposition from small-scale miners and environmentalists, who argued the law would unduly benefit multinational companies and lead to environmental damage; Congress was investigating ways to protect the interests of small-scale miners, and the law made submission of environmental impact statements mandatory. In 1997, the ban on new concessions was lifted.

27 ENERGY AND POWER

Although Nicaragua has no proven reserves of oil, natural gas, or coal, the country is one of only three nations in Central America (the others are Costa Rica and El Salvador) to operate an oil refinery.

Nicaragua imported all of the petroleum products it used in 2003. Imports that year averaged 27,950 barrels per day. In 2002, imports averaged 26,030 barrels per day, of which, an average of 16,560 barrels per day was crude oil. Demand for refined petroleum products averaged 25,770 barrels per day in 2003, up from 2002's average of 25,410 barrels per day. Nicaragua's refinery is the smallest of the three operated in Central America. Located in Managua, the facility has a capacity of 20,000 barrels per day. However, refined petroleum output in 2002 averaged only 17,010 barrels daily.

Nicaragua had no recorded imports or consumption of natural gas or coal in 2002.

The majority of the electric power generated in Nicaragua came from conventional thermal sources. Production of electricity in 2002 totaled 2.514 billion kWh, of which 78.2% came from fossil fuels, 11.9% from hydropower, and the rest from other renewable sources. Consumption of electricity in 2002 was 2.4p billion kWh. In 2002, Nicaragua had a total generating capacity of 0.641 million kW, of which approximately 16% was hydroelectric and 11.9% was geothermal.

28 INDUSTRY

Nicaraguan industry expanded during the 1970s but was severely disrupted by the civil war and nationalization in 1979. In 1980, the manufacturing sector began to recuperate, and modest growth continued through 1984. In 1985, however, net output again declined, by an estimated 5%. In the mid-1980s, there were still many state enterprises, some of them created by nationalization; in 1985, the government announced plans for a mixed economy. All state monopolies except for public utilities were eliminated; price controls were ended; and more than 300 state enterprises were privatized after 1990.

In 2000, the industrial sector contributed approximately 23% to the GDP and employed approximately 15% of the labor force. The industrial production growth rate in 2000 was 4.4%. In 2004, the industrial sector contributed 24.7% to the GDP and employed about 17.3% of the labor force. Among the most important industries are processed food, chemicals, metal products, textiles, clothing, petroleum refining and distribution, beverages, shoes, and wood. Nicaragua has one oil refinery, with a production capacity of 20,000 barrels per day. The services sector has become the major player in the country's economy since the reforms instituted by the Chamorro government. Services account for 52.2% of GDP and include commerce, financial services, transportation, energy and construction. The services and industrial sector share of GDP and the labor force has been growing as the shares in agriculture have decreased.

The construction sector rebounded after the destruction wrought by Hurricane Mitch in 1998, but slowed in 2000. The building of shopping centers and hotels, the industrial production of meat and poultry, and the development of transportation and communications were all growth sectors as of the early 2000s. Manufacturing in free trade zones rose 22.9% in 2000 to \$250 million in 2005. Manufacturing overall accounted for around 20% of GDP.

29 SCIENCE AND TECHNOLOGY

Among Nicaragua's scientific learned societies and research institutes are the Geophysical Observatory, founded in 1980, the Ni-

caraguan Society of Psychiatry and Psychology, founded in 1962, and the National Center of Agricultural Information and Documentation, founded in 1984. Part of the Ministry of Agriculture, all three institutes are in Managua. Nicaragua has six universities and colleges offering degrees in agricultural studies and other scientific studies. In 1987–97, science and engineering students accounted for 33% of college and university enrollments. The National Museum of Nicaragua, founded in 1896 in Managua, has exhibits concerning archaeology, ceramics, zoology, botany, and geology.

As of 2002 total research and development (R&D) expenditures amounted to \$6.011 million, or 0.05% of GDP. In that same year, there were 50 researchers and 39 technicians engaged in R&D per million people. High technology exports in 2002 totaled \$6 million or 5% of the country's manufactured exports.

30 DOMESTIC TRADE

Managua is the principal trading and distribution center and all importers and exporters have offices there. Exporters, except those concerned with cotton, coffee or lumber, are usually importers also. Managua has a variety of retail establishments, including department stores and numerous general stores; many small shops are in private homes. Managua also has a central market to which merchants come daily with all types of produce and domestic and imported consumer goods. Retail sales are mainly for cash. Price controls apply to pharmaceuticals, sugar, domestically produced soft drinks, national cigarettes, and liquefied natural gas.

The usual business hours are from 8 AM to noon and from 2:30 to 5:30 PM, Monday through Friday, with a half-day on Saturday. Banking hours are from 8:30 AM to noon and from 2 to 4 PM on weekdays; from 8:30 to 11:30 AM on Saturday.

31 FOREIGN TRADE

Nicaragua's total trade volume grew considerably during the 1970s because of the country's membership in the CACM and because of worldwide inflation. Following the Sandinista revolution and the virtual collapse of the CACM because of political instability in the region, Nicaragua's imports and exports fell by more than half from 1976 to 1985.

By 1986, Latin America and EC member countries, particularly Germany, accounted for the bulk of Nicaragua's trade volume; the Communist bloc had filled the breach opened by the shutting down of US commerce. The Chamorro government changed Nicaragua's trading partners as it reduced trade barriers in 1991. The government issued export promotion incentives with special tax benefits for products sold outside Central America. The Communist bloc was discarded in favor of the United States and South American countries, but Germany remained an important partner. By the Law of Free Trade Zones, Nicaragua waived all duties for imports used in the free zones. The result was widespread availability of US goods in several newly established Managua supermarkets.

One of the key engines of economic growth has been production for export. Although traditional products such as coffee, meat, and sugar continue to lead the list of Nicaraguan exports, the fastest growth was in nontraditional exports: maquila goods

Principal Trading Partners – Nicaragua (2003)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	584.5	1,835.8	-1,251.3
United States	201.3	477.7	-276.4
El Salvador	104.2	83.6	20.6
Costa Rica	49.1	164.4	-115.3
Honduras	43.4	32.4	11.0
Mexico	27.9	154.4	-126.5
Guatemala	25.9	127.9	-102.0
Canada	21.3	12.6	8.7
United Kingdom	16.8	14.4	2.4
Spain	15.9	26.8	-10.9
Russia	14.5	14.4	0.1

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

(apparel), bananas, gold, seafood, and agricultural products such as sesame, melons, and onions.

The most important commodity export from Nicaragua is coffee (28%), followed by shellfish (19%) and meat (9.4%). Other exports include sugar (5.8%), oil seeds (5.2%), and gold (3.6%).

Money spent on principal imports well outweighed money earned from exports in 2004. Nicaragua spent \$733.8 million on consumer goods, \$646.1 million on intermediate goods, \$404.6 million on capital goods, and \$425.9 million on oil and derivatives. This contrasts with exports: \$126.8 million earned from coffee, \$110.4 million from beef, \$80.5 million from shrimp and lobster, and \$36.8 million from sugar.

In 2004, Nicaragua's exports were absorbed by the United States (64.8%), El Salvador (7%), and Mexico (3.6%). In the same year, 22.6% of imports came from the United States, 8.5% from Costa Rica, 8.4% from Venezuela, 6.8% from Guatemala, 5.8% from Mexico, 4.9% from El Salvador, and 4.5% from South Korea. Exports totaled approximately \$750 million and imports totaled approximately \$2.02 billion, resulting in a substantial trade deficit of \$1.27 billion.

Nicaragua has been reducing trade barriers and working towards integration with its Central American neighbors, the United States and the Dominican Republic in the Dominican Republic-Central American Free-Trade Agreement (DR-CAFTA). The DR-CAFTA was expected to take effect in 2006, but ratification had not yet been accomplished by midyear. Nicaragua has a free trade agreement with Mexico and trade links with Taiwan.

3² BALANCE OF PAYMENTS

An adverse balance of trade with Nicaragua's major trading partners is the major factor in its deficit. Incoming capital in the form of public and private loans, as well as foreign capital investment and tourism, traditionally offset amortization and interest payments abroad. (The tourist industry has grown substantially in re-

cent years and has become the third-largest source of foreign exchange.) The current account balance sustained a deficit averaging 30% of GDP throughout the 1990s.

The US Central Intelligence Agency (CIA) reported that in 2004 the purchasing power parity of Nicaragua's exports was \$750 million while imports totaled \$2.02 billion, resulting in a continued substantial trade deficit.

3³ BANKING AND SECURITIES

The banking system, nationalized in July 1979, is under the supervision of the comptroller general. The National Bank of Nicaragua, established in 1912, has been government-owned since 1940. In 1979, the bank was reorganized to become the National Development Bank. The Central Bank of Nicaragua (Banco Central de Nicaragua), established in 1961, is the bank of issue and also handles all foreign exchange transactions. As of 1979, deposits in foreign banks were prohibited, but in May 1985, the establishment of private exchange houses was permitted. In 1990, legislation was passed that allowed for the establishment of private banks. There are no state-owned commercial banks in Nicaragua.

By 2002, there were at least seven private banks operating, after several mergers in the first few years of the new millennium. Three banks closed in 2000, and another was absorbed into another bank the following year. Banco de la Producción (BANPRO) assumed the performing loans in INTERBANK's portfolio, while the Central Bank took over control of the nonperforming loans. Banco de Finanzas (BDF) assumed BANCAFE's good loans in a similar deal. Also, Primer Banco Inmobiliario (PRIBANCO) merged with BANPRO, and Banco Mercantil (BAMER) merged with Banco de Crédito Centroamericano (BANCENTRO). The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$338.7 million. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$2.1 billion.

A small stock market began operations in the late 1990s.

3⁴ INSURANCE

In 1979, the Nicaraguan Institute of Insurance and Reinsurance took over all domestic insurance companies. There were five domestic insurance companies operating in 2000, including the government-owned Iniser; Seguros America, Seguros Centroamericanos, Seguros Metropolitana, and Seguros Pacificano. All private insurance companies were majority owned by Nicaraguan banks.

3⁵ PUBLIC FINANCE

Since the mid-1960s, government spending has consistently exceeded revenues. During the Sandinista regime, detailed public finance budgets were not a priority. The government budget deficit shrank from 18% of GDP in 1987 to 4% in 1998, while government revenues consistently reflected almost one-third of GDP. Nicaragua reached the decision point under the Heavily Indebted Poor Countries (HIPC) debt relief initiative in late 2000.

The US Central Intelligence Agency (CIA) estimated that in 2005 Nicaragua's central government took in revenues of approximately \$1.1 billion and had expenditures of \$1.3 billion. Revenues minus expenditures totaled approximately -\$224 million. Public

Balance of Payments – Nicaragua (2003)

(In millions of US dollars)

Current Account		-779.5
Balance on goods		-972.1
Imports	-2,021.2	
Exports	1,049.1	
Balance on services		-123.1
Balance on income		-203.2
Current transfers		1,817.3
Capital Account		261.6
Financial Account		-9.2
Direct investment abroad		...
Direct investment in Nicaragua		201.3
Portfolio investment assets		...
Portfolio investment liabilities		...
Financial derivatives		...
Other investment assets		-16.0
Other investment liabilities		-194.5
Net Errors and Omissions		26.4
Reserves and Related Items		500.7

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

Public Finance – Nicaragua (2003)

(In millions of cordobas, central government figures)

	15,893	100.0%
Revenue and Grants		
Tax revenue	9,422	59.3%
Social contributions	2,468	15.5%
Grants	3,002	18.9%
Other revenue	1,001	6.3%
Expenditures	16,559	100.0%
General public services	...	...
Defense	...	...
Public order and safety	...	...
Economic affairs	...	...
Environmental protection	...	...
Housing and community amenities	...	...
Health	...	...
Recreational, culture, and religion	...	...
Education	...	...
Social protection	...	...

(...) data not available or not significant.

SOURCE: *Government Finance Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

debt in 2005 amounted to 100.3% of GDP. Total external debt was \$4.054 billion.

The International Monetary Fund (IMF) reported that in 2003, the most recent year for which it had data, central government revenues in córdobas were c\$15,893 million and expenditures were c\$16,559 million. The value of revenues in US dollars was us\$1,053 million, based on a principal exchange rate for 2003 of us\$1 = c\$15.10 as reported by the IMF.

36 TAXATION

As of 2005, the standard corporate income tax rate was 30%. Capital gains are treated as ordinary income and are taxed at the corporate rate. Dividends are subject to a 10.5% withholding rate, but if distributed by an entity that has already paid income tax, the dividends are not considered taxable income. Interest and royalties are subject to withholding taxes of 22.5% and 21%, respectively. However, income received from motion pictures and radio and television shows are subject to a 9% withholding rate.

The individual income tax ranged from 10–25%. The main indirect tax is Nicaragua's value-added tax (VAT), introduced in January 1975 with a standard rate of 6%. As of 2005, the standard rate had risen to 15%. Basic necessities were zero-rated such as water and power, as well as exports and some imports. Exempted from VAT were finance, petroleum products, publications and medicines. Other taxes included a luxury tax; a 1% municipal tax levied on sales; and a 1% real estate tax on 80% of assessed value.

37 CUSTOMS AND DUTIES

In 1990, the government's liberalized import schedule allowed private sector imports for the first time in 11 years. Import licenses are only required for the import of sugar. Nicaragua follows the CACM common import tariff schedule with rates ranging from 5–15%. Duties are set on an ad valorem basis, and there are specific consumption (usually less than 15%) and sales taxes (15%). However, a small number of agricultural products are subject to

higher rates, among them are chicken parts and rice. A VAT of 15% is placed upon most items based upon the item's CIF (cost, insurance and freight) value plus the duty. Agricultural raw materials are exempt. An industrial free zone operates at Las Mercedes near the Managua international airport.

Nicaragua has free trade agreements with Mexico and the Dominican Republic; and is a member of the Central American Common Market (CACM). The country is also a Caribbean Basin Initiative beneficiary.

38 FOREIGN INVESTMENT

Until the 1979 revolution, Nicaragua encouraged private investment. Virtually no restrictions were imposed on the remittance of profits or the repatriation of capital. The economic and political climate for foreign investors in the 1980s was bleak, despite the claim that the Sandinista government was prepared to offer more favorable investment terms (including 100% foreign ownership and repatriation of profits) than the Somoza government had provided. As of 1984, direct US investment in Nicaragua had stopped completely. However, in the 1990s Nicaragua began free market reforms, privatized over 350 state enterprises, decreased inflation from 13,500% to 5.3%, and cut foreign debt in half.

Under the New Foreign Investment Law, the government of Nicaragua has concentrated most of its efforts on the expansion and promotion of foreign and national investment. This law, among other things, guarantees the repatriation of invested capital and generated capital. Also, it allows for 100% foreign ownership in all areas. Foreign private capital inflows doubled from \$97 million in 1996 to \$184 million in 1998 and peaked at \$300 million in 1999. For the period 1998–2000, Nicaragua's share of world FDI inflows was over three times its share of world GDP. In the global slowdown in 2001, FDI inflows to Nicaragua fell to \$132 million in 2001, and then to an estimated \$95 million in 2002. Most of the FDI during those years was invested in cellular communications, maquila operations, and tourist projects.

About 25 US companies, wholly or partly owned subsidiaries, do business in Nicaragua. The largest investments are in the energy, communications, manufacturing, fisheries, and shrimp farming sectors. In addition to those sectors, opportunities for further investment abound in tourism, construction, services, mining, and agriculture.

Foreign investment in commercial establishments in Nicaragua has been on the rise. Modern shopping malls have been built by investors from Taiwan and El Salvador, and supermarkets have been built by Costa Rican investors. US fast-food franchises have prospered and car sales from Asia have proliferated since 1999. However, formal commerce growth potential is limited by low income levels. Furthermore, property disputes, a corrupt judiciary, political unease, and a low-skilled workforce are all factors that serve to discourage further investment in Nicaragua.

39 ECONOMIC DEVELOPMENT

The Somoza government's 1975–79 National Reconstruction and Development Plan had as its major objective the improvement in living conditions through increased employment, continuing reconstruction of Managua, reduction in the economy's dependence on the external sector, acceleration of regional development, and

strengthening of the country's role in CACM. The plan was disrupted by the civil strife in the late 1970s.

After the 1979 revolution, the government nationalized banking, insurance, mining, fishing, forestry, and a number of industrial plants. Although the government officially favored a mixed economy, in practice the private sector took second place in a development strategy that focused on public investment and control.

In response to the macroeconomic problems that arose in 1992, a series of measures were adopted by the Chamorro administration aimed at consolidating the stabilization process, increasing the competitiveness of exports and establishing a base for the promotion of growth. However, long-term success at attracting investment, creating jobs, and reducing poverty depends on its ability to comply with International Monetary Fund (IMF) programs, resolve the thousands of Sandinista-era property confiscation cases, and open its economy to foreign trade.

In 1999 the Alemán government was faced with poverty (over 70%), unemployment and underemployment (over 50%), one of the highest per capita debt ratios in the world (\$6 billion), and one of the highest population growth rates of the hemisphere (2.8%). Alemán signed an IMF Structural Adjustment Program for Nicaragua that aimed at cutting the fiscal deficit, continuing liberalization, and maintaining monetary stability.

Nicaragua received at least \$2.5 billion for reconstruction in the aftermath of Hurricane Mitch, debt deferral until 2001, and debt forgiveness through the Highly Indebted Poor Countries (HIPC) Initiative. In December 2002, the IMF approved a three-year \$129 million Poverty Reduction and Growth Facility (PRGF) Arrangement for Nicaragua. However, in 2003, the IMF threatened to sever financial assistance to the country in the midst of a budget dispute between President Enrique Bolaños and the National Assembly. Bolaños had submitted his 2003 budget—in accordance with IMF criteria—to the National Assembly, which revised it, violating terms of the agreement with the IMF. The IMF also stipulated the government would have to sell off state-owned hydroelectric dams and the hydroelectric company, and 51% of the shares in the national telephone company, ENITEL. In 2002, the government began privatizing management of water systems. Despite the IMF threats to cut its aid to the country, Nicaragua still received \$541.8 million in total foreign aid in 2003.

The Bolaños administration undertook macroeconomic policies that contributed to 5.1% growth in GDP in 2004. With increased tax collection and less public spending, fiscal deficits declined. Yet, unemployment and underemployment remain high at 12.2% and 35.4%, respectively. Foreign aid (donations and debt relief) comprised 42% of Nicaragua's GDP in 2004. In 2005, G-8 finance ministers agreed to forgive Nicaragua's foreign debt due to its HIPC classification. While debt relief under the HIPC program of the World Bank will continue, the debt relief by the G-8 countries was dependent upon Nicaragua's putting a PRGF (Poverty Reduction and Growth Facility) back in place. It was hoped that involvement in Dominican Republic-Central American Free-Trade Agreement (DR-CAFTA) would attract foreign, provide jobs, and spur steady economic development and growth.

40 SOCIAL DEVELOPMENT

A system of mandatory individual accounts replaced the social insurance system in 2004. All working persons are covered. These programs are financed by a 6% of payroll contribution from employers and a 4% of earnings contribution from employees. Retirement is set at age 60 for most workers. Employers cover the entire cost of work injury insurance. Medical care is provided to treat work injuries and occupational diseases. Family allowances vary depending on earnings and the age of the children.

There is no official discrimination against women and a number of women hold government positions. However, women continue to suffer de facto sex discrimination in many segments of society. They tend to hold traditionally low-paid jobs in the health, education, and textile sectors while occupying few management positions in the private sector. Sexual harassment in the workplace is prevalent despite laws designed to protect women. Domestic and sexual violence are common, and the perpetrators are seldom prosecuted. Dire economic circumstances force many children to work to contribute to household income. Many children work for low wages on banana or coffee plantations, while in urban areas, children often work as vendors in the streets.

Human rights abuses have been on the decline but there are continued reports of the mistreatment of detainees, although torture is punishable by law.

41 HEALTH

As of 2004, there were an estimated 164 physicians and 107 nurses per 100,000 people. Total health care expenditure was estimated at 12.5 % of GDP. Approximately 79% of the population had access to safe drinking water and 84% had adequate sanitation.

Slow progress in health care was made from the 1960s through the 1980s, as the crude death rate dropped from 19 per 1,000 people in 1960 to an estimated 4.8 in 2002. During 2005, the infant mortality rate was 29.11 per 1,000 live births and average life expectancy was 70.33 years. The maternal mortality rate was 150 per 100,000 live births. The fertility rate was 3.5 births per woman in 2000; 44% of married women (ages 15 to 49) used some form of contraception.

Malnutrition and anemia remain common, as do poliomyelitis, goiter, and intestinal parasitic infections (a leading cause of death). The prevalence of child malnutrition was 25% of children under five. The goiter rate was 4.3 per 100 school-age children. Immunization rates for children up to one year old were as follows: tuberculosis, 99%; diphtheria, pertussis, and tetanus, 94%; polio, 99%; and measles, 94%.

The HIV/AIDS prevalence was 0.20 per 100 adults in 2003. As of 2004, there were approximately 6,400 people living with HIV/AIDS in the country. Common diseases reported in Nicaragua were malaria, cholera, and tuberculosis.

42 HOUSING

Both urban and rural dwellers suffer from a dire lack of adequate housing. As a result of the 1972 earthquake, approximately 53,000 residential units were destroyed or seriously damaged in the Managua area. The Sandinistas launched housing-construction and tree-planting programs, but were hampered by a shortage of hard

currency to pay for the construction equipment required. Hurricane Mitch in 1998 also destroyed thousands of dwellings.

At the last census in 1995, there were only about 751,637 dwellings to serve over 4.3 million people. Most dwellings are detached houses. Many rural residents live in *ranchos* or *cuartes* (private units with some common facilities). Estimates in 2005 indicated that there was a housing deficit of over 500,000 dwellings and that about 3.75 million people were living in substandard housing.

4³ EDUCATION

Primary and secondary education is free and compulsory for 6 years between the ages of 6 and 12. Basic secondary education covers three years of study, after which students may continue in a two-year diversified secondary program or a three-year technical school program. The academic year runs from March to December.

In 2001, about 26% of children between the ages of three and six were enrolled in some type of preschool program. Primary school enrollment in 2003 was estimated at about 85% of age-eligible students. The same year, secondary school enrollment was about 39% of age-eligible students; 36% for boys and 42% for girls. It is estimated that about 74.6% of all students complete their primary education. The student-to-teacher ratio for primary school was at about 35:1 in 2003; the ratio for secondary school was about 34:1. In 2003, private schools accounted for about 15.5% of primary school enrollment and 29% of secondary enrollment.

The National Autonomous University of Nicaragua offers instruction in 10 faculties: medicine, law and social sciences, dentistry, chemistry, and humanities in León; and agriculture, education, economics, physical and mathematical sciences, and humanities in Managua. The Central American University, affiliated with Georgetown University, opened in Managua in 1961, and the privately controlled Polytechnic University of Nicaragua, also in Managua, attained university status in 1977. Some others include the Central American Institute for Business Management, affiliated with the Harvard Business School; the University of Mobile, affiliated with Mobile College, Alabama; Nicaraguan Catholic University; and the National Engineering University. There were a total of 14 universities in Nicaragua in 1998. In 2003, about 18% of the tertiary age population were enrolled in some type of higher education program. The adult literacy rate for 2004 was estimated at about 76.7%.

As of 2003, public expenditure on education was estimated at 3.1% of GDP, or 15% of total government expenditures.

4⁴ LIBRARIES AND MUSEUMS

The National Library in Managua is the largest library in the country, holding a collection of 120,000 volumes. The National Autonomous University of Nicaragua in León holds the largest university collection with 36,700 volumes. Nicaragua has about 13 branch public libraries holding a total of 187,000 volumes. The largest branch is in León, and holds 32,000 volumes. There is a Central American Institute in Managua with 39,000 volumes focusing on the social and economic conditions of the region.

The National Museum, founded in 1896 and featuring archaeology and history, is in Managua at the National Palace, which houses the National Library and the National Archives as well. There is

an archeological museum in Granada and three provincial historical and archeological museums.

4⁵ MEDIA

Postal, telegraph, and telephone facilities are government-owned. Since 1990, TELCOR, the national communications company, has invested over \$100 million on upgrading its facilities. Telephone service is limited to the heavily populated west coast and, except for Managua (where there is an automatic dial system), is inadequate. In 2003, there were an estimated 37 mainline telephones for every 1,000 people. The same year, there were approximately 85 mobile phones in use for every 1,000 people.

In 2004, there were 210 chartered radio stations in the country, 52 AM stations and 158 FM. The Voice of Nicaragua is the primary government station. There were 10 television stations based in Managua and 63 cable television franchises. In 2003, there were an estimated 270 radios and 123 television sets for every 1,000 people. The same year, there were 27.9 personal computers for every 1,000 people and 17 of every 1,000 people had access to the Internet. There were 17 secure Internet servers in the country in 2004.

There were two major daily newspapers in 2004 including, *La Prensa*, with a circulation of 37,000, and *El Nuevo Diario*, circulation 30,000. *La Prensa*, a harsh critic of Somoza rule and of the Sandinista regime, was closed in 1986 but, in accordance with the Arias peace plan, was allowed to resume publication in 1987. Press censorship ended with the departure of the Sandinista government. *Confidencial* is a popular weekly.

The constitution provides for freedom of speech and the press, and the government is said to be supportive of these rights in practice. The privately owned print media and the broadcast media openly discuss diverse viewpoints without government interference.

4⁶ ORGANIZATIONS

Three cooperative organizations for cotton growers, shoemakers, and leather workers operate in the country. Of the four employers' associations, the most important was the Higher Council of Private Enterprise (Conejos Superior de la Empresa Privada—COSEP). The Nicaragua Chamber of Commerce is in Managua. The Augusto Cesar Sandino Foundation offers technical and methodological assistance to grassroots organizations for local development.

National youth organizations include the Union Nacional de Estudiantes de Nicaragua, Juventud Sandinista 19 de Julio, the Scout Association of Nicaragua, Girl Guides, and chapters of YMCA/YWCA. There are several sports associations active within the country. Fundacion Puntos de Encuentro is a national women's organization.

Volunteer service organizations, such as the Lions Clubs International, are also present. There are national chapters of the Red Cross, the Society of St. Vincent de Paul, UNICEF, and Habitat for Humanity.

4⁷ TOURISM, TRAVEL, AND RECREATION

Although Nicaragua has beaches on two oceans, magnificent mountain and tropical scenery, and the two largest lakes in Central America, a decade of military conflict retarded the development of the tourist industry. The government, however, has made the development of its tourism industry a top priority. Foreign na-

tionals must possess a passport valid for at least six months after entry. Tourist cards instead of visas are used for travelers from most countries. Baseball is the national sport. Basketball, cock-fighting, bullfighting, golfing, and water sports are also popular.

In 2003, about 526,000 foreign visitors arrived in Nicaragua. Hotel rooms numbered 4,418 with 7,669 beds and an average stay of two nights. Tourism expenditure receipts totaled \$155 million.

In 2002, the US Department of State estimated the daily cost for food, hotel, and other expenses in Managua at \$176.

48 FAMOUS NICARAGUANS

International literary fame came to Nicaragua with the publication of *Azul*, a collection of lyric poetry and short stories by Rubén Darío (Félix Rubén García-Sarmiento, 1867–1916). Born in Meta-pa (renamed Ciudad Darío in his honor), Darío created a new literary style in Spanish, exemplified by “art for art’s sake” and a revelry in the senses. Miguel Larreynaga (1771–1845) was an outstanding figure during the colonial period and later an ardent independence leader, teacher, jurist, and author. Santiago Arguëllo (1872–1940) was a noted poet and educator. Three modern poets are Fray Azarías Pallais (1885–1954), Alfonso Cortés (1893–1963), and Salomón de la Selva (1893–1959). Luis Abraham Delgado (1887–1961), a writer, educator, and musical conductor, was also Nicaragua’s leading composer.

The Somoza family, which ruled Nicaragua 1934–79, included Anastasio Somoza García (1896–1956), president during 1937–47 and again during 1950–56; his oldest son, Luis Somoza Debayle (1922–67), president during 1956–63; and a younger son, Anastasio Somoza Debayle (1925–80), president during 1967–72 and again from 1974–79 revolution. The Sandinistas, who overthrew the Somoza dynasty, take their name from the nationalist Gen. Augusto César Sandino (1895–1934). José Daniel Ortega Saavedra (b.1945) emerged as the leading figure in the junta that governed Nicaragua from 1979 to 1990.

49 DEPENDENCIES

Nicaragua has no territories or colonies.

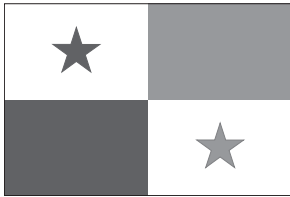
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PANAMA

Republic of Panama
República de Panamá



CAPITAL: Panama City

FLAG: The national flag is divided into quarters. The upper quarter next to the staff is white with a blue star; the upper outer quarter is red; the lower quarter next to the staff is blue; and the lower outer quarter is white with a red star.

ANTHEM: *Himno Nacional*, beginning “Alcanzamos por fin la victoria” (“We reach victory at last”).

MONETARY UNIT: The balboa (B) of 100 centésimos is the national unit of account. Panama issues no paper money, and US notes are legal tender. Panama mints coins of 0.05, 0.10, 0.25, 0.50, 1 and 5 balboas which are interchangeable with US coins. B1 = \$1.00000 (or \$1 = B1) as of 2005.

WEIGHTS AND MEASURES: The metric system is official, but British, US, and old Spanish units also are used.

HOLIDAYS: New Year’s Day, 1 January; Martyrs’ Day, 9 January; Labor Day, 1 May; National Revolution Day, 11 October; National Anthem Day, 1 November; All Souls’ Day, 2 November; Independence from Colombia, 3 November; Flag Day, 4 November; Independence Day (Colón only), 5 November; First Call of Independence, 10 November; Independence from Spain, 28 November; Mother’s Day and Immaculate Conception, 8 December; Christmas, 25 December. Movable religious holidays are Shrove Tuesday and Good Friday.

TIME: 7 AM = noon GMT.

¹LOCATION, SIZE, AND EXTENT

The Republic of Panama, situated on the Isthmus of Panama, has an area of 78,200 sq km (30,193 sq mi). Comparatively, the area occupied by Panama is slightly smaller than the state of South Carolina. The Canal Zone (1,432 sq km/553 sq mi), over which the United States formerly exercised sovereignty, on 1 October 1979 was incorporated into Panama, with the United States retaining responsibility for operation of the Panama Canal and the use of land in the zone for maintenance of the canal until the year 2000.

Panama extends 772 km (480 mi) E–W and 185 km (115 mi) N–S. Bordered on the N by the Caribbean Sea, on the E by Colombia, on the S by the Pacific Ocean, and on the W by Costa Rica, Panama has a total boundary length of 555 km (345 mi), of which 2,490 km (1,547 mi) is coastline.

Panama’s capital city, Panama City, is located where the Panama Canal meets the Gulf of Panama.

²TOPOGRAPHY

Panama is a country of heavily forested hills and mountain ranges. The two principal ranges are in the eastern and western sections of the country, and a third, minor range extends southward along the Pacific coast into Colombia. The eastern Cordillera de San Blas parallels the Caribbean coastline, while the Serranía de Tabasará ascends westward, culminating in the Barú volcano (3,475 m/11,401 ft), formerly known as Chiriquí. Between these ranges, the land breaks into high plateaus, ridges, and valleys. The Panama Canal utilizes a gap in these ranges that runs northwest to southeast and averages only 87 m (285 ft) in altitude.

Panama has more than 300 rivers, most of which flow into the Pacific, with only the Tuira River in Darién Province of any com-

mercial importance. Both coasts of the isthmus have deep bays, but the Gulf of Panama is especially well provided with deepwater anchorages. Panama also has more than 1,600 islands, including the Amerindian-inhabited San Blas Islands in the Caribbean (366) and the Pearls Archipelago (Archipiélago de las Perlas) in the Gulf of Panama (over 100). Its largest island is the penal colony Coiba, which is south of the Gulf of Chiriquí.

Panama rests upon the Caribbean Tectonic Plate near its convergence with the Cocos, Nazca, and South American plates. The same motion of these plates, which created the Isthmus of Panama, continues to cause frequent tremors and earthquakes in the region; most of these are of low magnitude and cause little damage.

³CLIMATE

Panama is tropical, but temperatures vary according to location and altitude. The annual average temperature on both coasts is 29°C (81°F), and it ranges from 10° to 19°C (50 to 66°F) at various mountain elevations. There is little seasonal change in temperature, with warm days and cool nights throughout the year. Humidity is quite high, however, averaging 80%. Rainfall averages 178 cm (70 in) in Panama City and 328 cm (129 in) in Colón. The period of lightest rainfall is from January to March.

⁴FLORA AND FAUNA

Most of Panama is a thick rain forest, with occasional patches of savanna or prairie. On the wet Caribbean coast, the forest is evergreen, while on the drier Pacific side the forest is semi-deciduous. Species of flowering plants total over 9,900 and include the national flower, the Holy Ghost orchid. Mammals inhabiting the

isthmus are the anteater, armadillo, bat, coati, deer, opossum, peccary, raccoon, tapir, and many varieties of monkey. Reptiles, especially alligators, are numerous along the coasts. Bird life is rich and varies according to the presence of migratory species. Fish abound, with the Pacific coast being a favored region for sport fishing. As of 2002, there were at least 218 species of mammals and 302 species of birds throughout the country.

5 ENVIRONMENT

Soil erosion and deforestation are among Panama's most significant environmental concerns. Soil erosion is occurring at a rate of 2,000 tons per year. During 1990–2000, the annual average rate of deforestation was 1.6%. Air pollution is also a problem in urban centers due to emissions from industry and transportation. In 2000, the total of carbon dioxide emissions was at 6.3 million metric tons. Pesticides, sewage, and pollution from the oil industry cause much of the pollution.

Agencies with environmental responsibilities include the Ministry of Health and Ministry of Rural Development. The Smithsonian Tropical Research Institute, in Balboa, conducts studies on the conservation of natural resources.

According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 17 types of mammals, 20 species of birds, 7 types of reptiles, 52 species of amphibians, 17 species of fish, 2 species of invertebrates, and 195 species of plants. Endangered species include the red-backed squirrel monkey, tundra peregrine falcon, spectacled caiman, American crocodile, and four species of sea turtle (green sea, hawksbill, olive ridley, and leatherback).

6 POPULATION

The population of Panama in 2005 was estimated by the United Nations (UN) at 3,232,000, which placed it at number 130 in population among the 193 nations of the world. In 2005, approximately 6% of the population was over 65 years of age, with another 29% of the population under 15 years of age. There were 102 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 1.8%, a rate the government viewed as too high; it was addressing the relatively high fertility rate with family life and sexuality education programs in primary and secondary schools. The projected population for the year 2025 was 4,239,000. The population density was 43 per sq km (111 per sq mi).

The UN estimated that 62% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 2.31%. The capital city, Panama City (Panamá), had a population of 930,000 in that year. Other major cities and their estimated populations include Colón, 187,705; and David, 112,000.

7 MIGRATION

Immigration and emigration have been roughly in balance in recent years. In the 1990s, there were 61,400 foreign-born persons in Panama, of which 13,644 were Colombians. In 1999, the United Nations High Commissioner for Refugees (UNHCR) urged Panamanian authorities to take a more flexible approach toward Colombians who arrived after February 1998 and were under a Temporary Protection plan. The total number of migrants in the country in 2000 was 82,000. In 2004 worker remittances were \$231

million. In 2004 there were 1,608 refugees in Panama and 271 asylum seekers. In 2005, the net migration rate was an estimated -0.86 migrants per 1,000 population. The government viewed the migration levels as satisfactory.

8 ETHNIC GROUPS

The racial and cultural composition of Panama is highly diverse. According to recent estimates, about 70% of the inhabitants are mestizo (mixed Amerindian and white) or mulatto (mixed white and black); 14% are Amerindian and mixed (West Indian); 10% are white (mostly Europeans); and 6% are Amerindian. There is also a Chinese community of about 150,000. The indigenous tribes include the Embera-Wounaan, Ngobe-Bugle, and the Kona, all of which reside in tribal-led reservations within the country. The Bri-Bri and the Naso are smaller tribes found near the Costa Rica border.

9 LANGUAGES

Spanish, the official language of Panama, is spoken by over 90% of the people, but English is a common second language, spoken by most Panamanian professionals and businesspeople. The Amerindians use their own languages. Many Panamanians are bilingual.

10 RELIGIONS

At the last census in 1998, an estimated 82% of the people were Roman Catholic; 10% were evangelicals; and 3% were unaffiliated with any religious group. More recent, but unofficial, estimates suggest that the Catholic population is declining in favor of the evangelicals, which may account for up to 20% of the population. Mainstream Protestant groups include Lutherans, Southern Baptists, and Methodists (United Methodist and the Methodist Church of the Caribbean and the Americas). There are small groups of Latter-Day Saints (Mormons), Seventh-Day Adventists, Jehovah's Witnesses, Episcopalians, and other Christians. Buddhists, Jews, Muslims, and Baha'is also had small communities. Panama is home to one of the world's seven Baha'i Houses of Worship.

Although Roman Catholicism is recognized by the constitution of 1972 as the majority religion, it is not designated as an official religion of state and religious freedom, as well as separation of church and state, are guaranteed. The Panamanian Ecumenical Committee is a nongovernmental group that encourages interfaith dialogue and charitable service.

11 TRANSPORTATION

Motor vehicles transport most agricultural products. In 2002, there were 11,592 km (7,203 mi) of roads, of which about 4,079 km (2,534 mi) were paved, including 30 km (19 mi) of expressways. The principal highway is the National (or Central) Highway—the Panamanian section of the Pan American Highway—which runs from the Costa Rican border, via Panama City and Chepo, to the Colombian border. The 80-km (50-mi) Trans-Isthmian Highway links Colón and Panama City. Panama's rugged terrain impedes highway development, and there are few good roads in the republic's eastern sections. In 2003 there were 266,900 registered passenger cars and 171,800 commercial vehicles.

As of 2004, there were a total of 355 km (220 mi) of standard and narrow gauge railway lines, all government-run. Of that to-

tal, narrow gauge accounted for 279 km (174 mi). The Panama Railroad parallels the canal for 77 km (48 mi) between Colón and Panama City. Other lines connect Pedregal, David, Puerto Armuelles, and Boquete and unify Bocas del Toro Province.

In 2005, the Panamanian merchant marine registered 5,005 ships of 1,000 GRT or more, totaling 122,960,929 GRT. Most of the ships are foreign-owned but are registered as Panamanian because fees are low and labor laws lenient. International shipping passes almost entirely through the canal ports of Cristóbal, which serves Colón, and Balboa, which serves Panama City.

Panama is a crossroads for air travel within the Americas. As of 2004, there were an estimated 105 airports, 47 of which had paved runways as of 2005. The most widely used domestic airline is Compañía Panameña de Aviación (COPA), which also flies throughout Central America. Air Panama International serves passenger traffic to the United States and South America. Internacional de Aviación (INAIR) is an international passenger and cargo carrier. Panama has two international airports: the largest, Tocumen International Airport is in Panama City; the smaller, Omar Torrijos International Airport, is 19 km (12 mi) east of Panama City. In 2003, about 1.264 million passengers were carried on scheduled domestic and international airline flights.

The Panama Canal traverses the isthmus and is 82 km (51 mi) in length from deepwater to deepwater and is part of the nation's 800 km (497 mi) of navigable internal waterways. The great technical feat involved in constructing the canal was to cut through the mountains that span the region, dam the Chagres Lake, and then design and build the three sets of double locks that raise and lower ships the 26 m (85 ft) between lake and sea levels. The first passage through the canal was completed by the S.S. *Ancon* on 15 August 1914. As of 1 October 1979 when the US-Panama treaties went into effect, the canal was administered by the joint Panama Canal Commission, on which the United States had majority representation through the end of 1989. The United States turned over complete control of the canal to Panama on 31 December 1999. The canal takes ships of up to 67,000 tons. An oil pipeline across the isthmus was opened in 1982 to carry Alaskan oil. Its capacity is 830,000 barrels per day. The Bridge of the Americas across the canal at the Pacific entrance unites eastern and western Panama as well as the northern and southern sections of the Pan American Highway. Panama, the United States, and Japan have commissioned a \$20-million study to search for alternatives to the canal. The feasibility of building a new canal at sea level was to be examined. Alternatively, the Panama Canal Commission has indicated its intention to increase the width of the Gaillard Cut (Corte Culebra), since larger ships are restricted to one-way daylight passage due to the narrowness. Panama also plans to consolidate the ports of Balboa on the Pacific and Cristóbal on the Caribbean into a single container terminal system.

12 HISTORY

The isthmian region was an area of economic transshipment long before Europeans explored it. It was also the converging point of several significant Amerindian cultures. Mayan, Aztec, Chibcha, and Caribs had indirect and direct contact with the area. The first European to explore Panama was the Spaniard Rodrigo de Bastidas in 1501. In 1502, Columbus claimed the region for Spain. In 1513, Vasco Nuñez de Balboa led soldiers across the isthmus and

made the European discovery of the Pacific Ocean. Despite strong resistance by the Cuna Amerindians, the settlements of Nombre de Dios, San Sebastián, and, later, Portobelo were established on the Caribbean coast, while Panama City was founded on the Pacific coast. In 1567, Panama was made part of the viceroyalty of Peru. English buccaneers, notably Sir Francis Drake in the 16th century and Henry Morgan in the 17th, contested Spanish hegemony in Panama, burning and looting its ports, including Panama City in 1671.

From the 16th until the mid-18th century, the isthmus was a strategic link in Spanish trade with the west coast of South America, especially the viceregal capital of Lima. In 1740, the isthmus was placed under the jurisdiction of the newly recreated viceroyalty of New Granada.

Panama declared its independence from Spain in 1821 and joined the Republic of Gran Colombia, a short-lived union of Colombia, Venezuela, and Ecuador, founded in 1819. In 1826, it was the seat of the Pan American Conference called by the liberator, Simón Bolívar. When Gran Colombia was dissolved in 1829–30, Panama still remained part of Colombia. Secessionist revolts took place in 1830 and 1831, and during 1840–41.

The discovery of gold in California in 1848 brought the isthmus into prominence as a canal site linking the Atlantic and Pacific oceans. After the French failed to build one in the 1880s, they sold those rights to the United States for \$40 million. The United States then negotiated the Hay-Herrán Treaty with Colombia in 1903. After Colombia refused to ratify the treaty, Panama seceded from Colombia and, backed by US naval forces, declared its independence on 3 November 1903. Panama then signed a canal agreement with the United States and received a lump sum of \$10 million and an annual rent of \$250,000. The Hay-Bunau-Varilla Treaty (1903) granted the United States in perpetuity an 8-km (5-mi) strip of land on either side of the canal and permitted the United States to intervene to protect Panamanian independence, to defend the canal, and to maintain order in the cities of Panama and Colón and in the Canal Zone.

The United States intervened to establish order in 1908—while the canal was under construction—and, after the canal had opened to traffic, in 1917 and again in 1918. In 1936, however, the United States adopted a policy of nonintervention, and in 1955, the annuity was raised to \$1,930,000.

During the postwar decades, the question of sovereignty over the Canal Zone was a persistent irritant in Panamanian politics. On 9 January 1964, riots broke out in the Canal Zone as Panamanians protested US neglect of a 1962 joint Panama-US flag-flying agreement. On the following day, Panama suspended relations with the United States and demanded complete revision of the Canal Zone treaty. Thereafter, Panama sought sovereignty over the Canal Zone and the elimination of the concept of perpetuity on any future arrangement. Diplomatic relations were restored in April, but negotiations went slowly thereafter.

The Panamanian government turned to dictatorship in October 1968, when National Guard Brig. Gen. Omar Torrijos Herrera deposed the elected president and established a dictatorship.

Final agreement on the future of the canal and the Canal Zone came on 7 September 1977, when Gen. Torrijos and US president Jimmy Carter signed two documents at OAS headquarters in Washington, DC. The first document, the Panama Canal Treaty,

abrogated the 1903 Hay-Bunau-Varilla accord, recognized Panama's sovereignty over the Canal Zone (which ceased to exist as of 1 October 1979), and granted the United States rights to operate, maintain, and manage the canal through 31 December 1999, when ownership of the canal itself would revert to Panama. Panama would receive a fixed annuity of \$10 million and a subsidy of \$0.30 (to be adjusted periodically for inflation) for every ton of cargo that passed through the canal, plus up to \$10 million annually from operating surpluses. The second document, the so-called Neutrality Treaty, guaranteed the neutrality of the canal for "peaceful transit by the vessels of all nations" in time of both peace and war. An additional provision added in October denied the United States the right of intervention into Panamanian affairs. The treaties were ratified by plebiscite in Panama on 23 October 1977 and, after prolonged debate and extensive amendment, by the US Senate in March and April 1978. When both treaties came into force in 1979, about 60% of the former Canal Zone's total area immediately came under Panama's direct control, including 11 of 14 military bases, the Panama City-Colón railway, and ports at both ends of the canal.

The Torrijos regime was populist, with a wide appeal to the neglected lower and lower middle classes of Panama. Moreover, Torrijos established nationalist credentials by standing up to the United States and demanding recognition of Panama's positions on the Canal Zone. Torrijos resigned as head of government in 1978 but continued to rule behind the scenes as National Guard commander until his death in a plane crash on 31 July 1981. Over the next few years, the National Guard, now renamed the Panama Defense Forces (PDF), came under the influence of Gen. Manuel Noriega.

On the civilian side, Aristedes Royo was elected president by the Assembly in October 1978, and was later forced out of office in July 1982. His successor was the vice president, Ricardo de la Escriella, who resigned in February 1984, just three months before scheduled presidential elections. In those elections, the economist and former World Bank official Nicolás Ardito Barletta, the military's approved candidate, won a close victory over former president Arnulfo Arias Madrid (running for the fifth time), in an election marked by voting irregularities and fraud. Barletta soon lost the confidence of the military and was forced out in September 1985. Vice President Eric Arturo Delvalle assumed power.

By 1987, Noriega had been accused by close associates and the United States of falsifying the 1984 election results, plotting the deaths of prominent opposition leaders and Gen. Torrijos, drug trafficking, giving aid to the Colombian radical group M-19 and Salvadoran rebels, and providing intelligence and restricted US technology to Cuba. Opposition forces, including the Roman Catholic Church, intensified and the government responded by banning public protest. The US Senate approved legislation cutting off aid to Panama in December 1987. In February 1988, following indictments of Noriega in US courts for drug trafficking, President Delvalle announced Noriega's dismissal. Noriega refused to step down, and the Legislative Assembly voted to remove Delvalle from office and replace him with Manuel Solís Palma, the minister of education. Delvalle went into hiding, and Panama entered a two-year period of instability and conflict.

Noriega also had problems within the PDF. Dissident military leaders, with either tacit or direct US approval, attempted coups in March 1988 and in October 1989. Unable to rely on the loy-

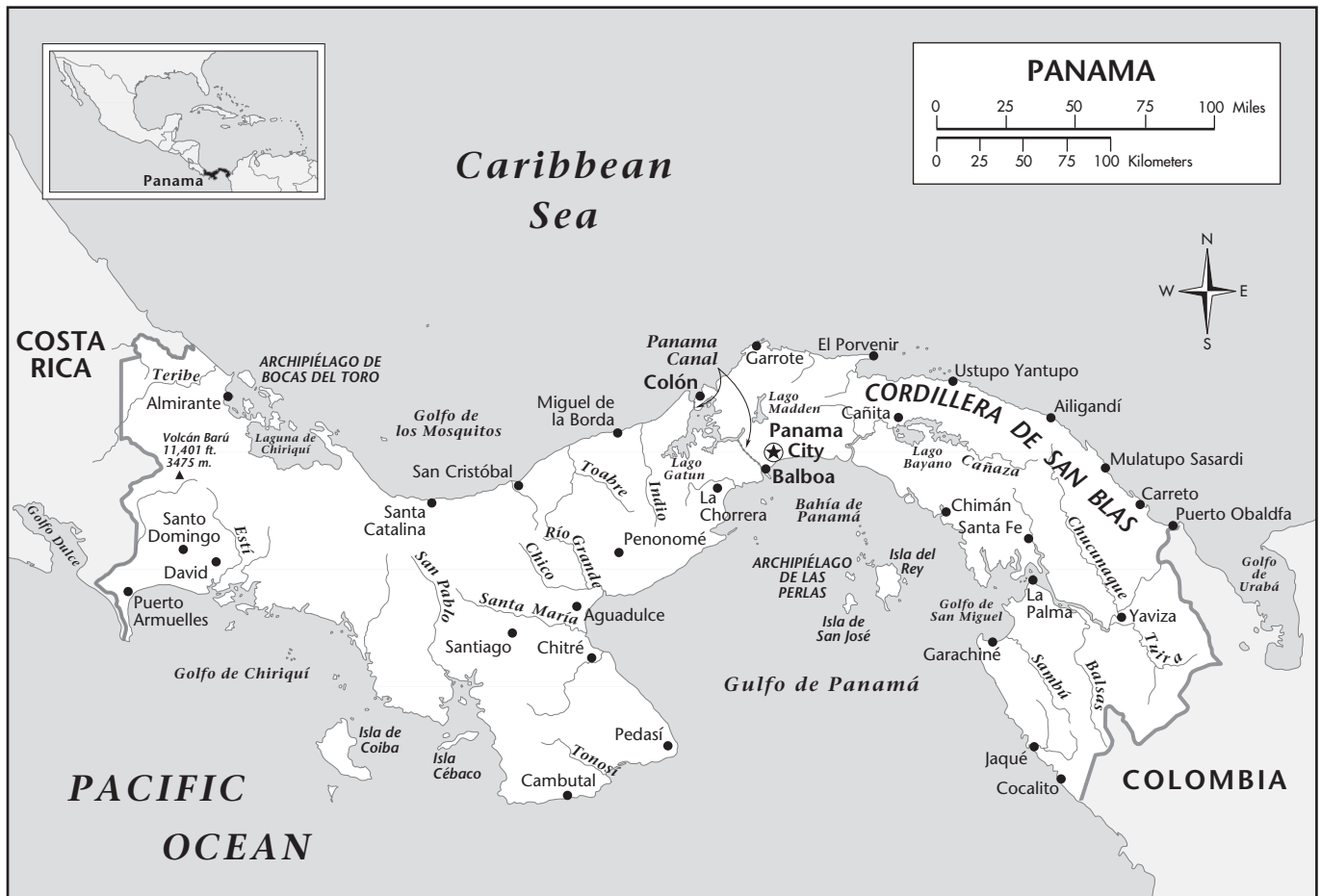
alty of the PDF, Noriega created his own paramilitary force, called the "Dignity Battalions," which were nothing more than freelance thugs called in at the dictator's whim. Domestically, Noriega suffered from a lack of support. In March 1987, a general strike occurred for several weeks. Emboldened by US efforts to remove Noriega, opposition forces coalesced, even as the government became more repressive. In elections held in May 1989, opposition candidates scored overwhelming victories, forcing Noriega to annul the elections and rely on intimidation and force.

Finally, the United States was engaged in a series of moves calculated to bring down the Noriega regime, which eventually led to a showdown. In March 1988, President Ronald Reagan suspended preferential trade conditions and withheld canal-use payments. In April, Reagan froze US-held Panamanian assets and suspended all private payments to Panama. Negotiations to allow Noriega to step down dissolved in May, when Noriega refused to abide by an agreement between the United States and Noriega's assistants. The administration of President George H. W. Bush continued pressure on Noriega, but itself came under criticism for its inability to resolve the problem. Finally, in December 1989, Noriega played his final card, declaring war on the United States and ordering attacks on US military personnel.

President George H. W. Bush responded quickly, ordering the US military into Panama. The troops remained for a week, delayed when Noriega sought sanctuary in the residence of the Papal Nuncio. Noriega surrendered and was returned to the United States for trial. Immediately, the Panamanian Electoral Tribunal declared the 1989 elections valid and confirmed the results. Guillermo Endara became president, Ricardo Arias Calderón first vice president, and Guillermo "Billy" Ford second vice president. Legislative elections were confirmed for most Legislative Assembly seats, and in January 1991 a special election filled the remaining seats.

Under President Endara, Panama made some strides toward economic recovery, but these were only impressive because the situation under Noriega had become so desperate. Politically, Endara lacked nationalist credentials, especially since he was installed by US military might. His administration was widely criticized for the continuing poor economic conditions.

In May 1994, a new president, Ernesto Pérez Balladares, was elected in the country's first free and fair elections since 1968. His opponent, Mireya Moscoso, entered political life in 1964 when she worked on the campaign of Arnulfo Arias, whom she eventually married. After Arias's death in 1988, Moscoso returned to Panama, where she formed the Arnulfista party, named for Arnulfo Arias. Balladares's Democratic Revolutionary Party (PRD) was closely associated with the Noriega dictatorship but the new president identified himself with the populist Torrijos regime. The years of Pérez Balladares's rule were characterized by a multiparty cabinet that included several members who publicly denounced former dictator Manuel Noriega. Pérez Balladares set in motion various economic reforms and continued close collaboration with the United States to implement treaties regarding the eventual turnover of the Panama Canal to Panamanian rule (which occurred 31 December 1999). A law ratified in 1997 created the Canal Authority to administer the Canal after the United States relinquished control. Though Pérez Balladares worked to pass a referendum to allow his reelection, it failed.



LOCATION: 7°12'9" to 9°37' 57" N; 77°9'24" to 83°3'7" W. BOUNDARY LENGTHS: Caribbean coastline, 963 kilometers (596 miles); Colombia, 225 kilometers (140 miles); Pacific coastline, 1,527 kilometers (950 miles); Costa Rica, 330 kilometers (206 miles). TERRITORIAL SEA LIMIT: 200 miles.

Presidential campaigns ensued. The PRD, with its majority in congress, campaigned fiercely with its candidate Martin Torrijos Espino, son of the late dictator. The main opposition was the Arnulfista Party. Its candidate, Mireya Moscoso (who is the widow of Arias) swept the elections on 2 May 1999. Moscoso thus became the first woman to take the office. After having run in 1994 and lost to Pérez Balladères), Moscoso defeated Torrijos in what was considered a fair election: 75% of the country's 2.7 million citizens voted. Moscoso took office on 1 September 1999.

As the end of the decade neared, the country prepared for the withdrawal of the US military on 31 December 1999, under the terms of the Panama Canal Treaty. Moscoso officiated, with former US president Jimmy Carter, at the formal ceremony where the United States relinquished power over the Canal. The Panama Canal was officially handed over to Panamanian rule on 31 December 1999; this marked an end to 80 years of US occupation. Though the accompanying ceremony took place a week prior to the historic date due to potential complications with millennium celebrations, the significance was nonetheless grand. The ceremony included King Juan Carlos of Spain and several Latin American leaders. Carter, who began the process to grant Panama control over the waterway more than 20 years prior under a treaty with then-president General Omar Torrijos, signed over the United States rule. President Bill Clinton declined invitations to attend

the ceremony. The celebrations that ensued were overshadowed somewhat by concerns from US conservative politicians that the canal will not be secure in Panamanian hands. However, President Clinton pledged continued collaboration with Panama to ensure the canal's security.

In 2004, on a strong "zero tolerance" anticorruption platform that called for increased transparency, Martin Torrijos won the presidency, and his PRD party won a majority in the National Assembly over the Panameñista (formerly Arnulfista) party. After his inauguration in September of that year, he created a broad coalition of labor, religious, and civil society, as well as government leaders to form the Anti-Corruption Council to crack down on the corruption endemic to previous administrations.

Since regaining control of the canal, Panama has experienced difficulties turning the canal into an engine for economic growth. The economy expanded by less than 3% in 2001 and 2002, but GDP increased to approximately 4% in 2004 and 6% in 2005. Despite being the country with the highest per capita income in Central America, roughly 40% of Panamanians live in poverty.

13 GOVERNMENT

Under the constitution of 1972, Panama is a republic in which the president, assisted by a cabinet, exercises executive power. Reforms adopted in April 1983 changed the election of the president

from an absolute majority of the National Assembly of Municipal Representatives to a direct popular vote, and a second vice president was added. The president and the two vice presidents must be at least 35 years of age and native Panamanians; they serve for five years and are not eligible for immediate reelection. For the 2009 national elections the executive branch will be reduced to including only one vice president. The constitution was ratified to reflect these changes in 2004.

Legislative power is vested in the unicameral Legislative Assembly, which replaced the National Assembly of Municipal Representatives in 1984. The 78 members are elected for five-year terms by direct popular vote. However, as per the 2004 constitutional changes, assembly membership will be capped at 71 representatives for the 2009 elections. Regular sessions are from 11 October–11 November annually, and special sessions may be called by the president. Suffrage is universal for Panamanians 18 years of age or over. The next national elections were scheduled to take place 3 May 2009.

The 1972 constitution conferred extraordinary decision-making powers upon the commander of the Panama Defense Forces (PDF), who was allowed to participate in sessions of all executive and legislative organs, to direct foreign policy, to appoint Supreme Court magistrates, and to appoint and remove ministers of state, among other responsibilities.

The PDF was subsequently converted into a civilian group called the Public Forces. Following a purge of PDF senior officials, the Public Forces were placed under the cabinet-level Minister of Government and Justice.

14 POLITICAL PARTIES

Personalities rather than ideological platforms tend to be the dominating force in Panamanian politics. The traditional political parties were the Liberals and the Conservatives, and their differences lay initially in the issue of church and state power. More recently, parties tended to be coalitions of the many splinter groups that had formed around local leaders. Military interventions frequently led to the banning of political parties. Such interruptions have led to an extremely splintered party system, which held together only insofar as they opposed the military regimes.

The coalition that came to power in 1990 consisted of President Endara's Arnulfista Party, led by Dr. Arnulfo Escalona, the National Liberal Republican Movement (MOLIRENA), led by second vice president Guillermo Ford; and the Christian Democratic Party (PDC), led by first vice president Ricardo Arias. Subsequently, Arias broke from the coalition, and the PDC, which held a plurality of seats in the Legislative Assembly, became the leader of the opposition.

With the election of Ernesto Pérez Balladares to the presidency in May 1994, the Democratic Revolutionary Party (PRD), which had been closely linked to the country's former military regime, was returned to power, as part of a coalition that also included the Liberal Republican Party (PLR) and the Labor Party (PALA). This coalition gained effective control of the National Assembly as well as the executive branch.

Although the PRD was defeated with the election of Mireya Moscoso in 1999, in 2004 the PRD came back with a victory fueled by a much-awaited anticorruption campaign, and a coalition with the Popular Party (PP). The other six constituted political

parties are the former Arnulfista party of the Partido Panameñista (PA), MOLIRENA, Democratic Change (CD), Solidarity Party (PS), National Liberal Party (PLN), and the Liberal Party (PL).

15 LOCAL GOVERNMENT

Panama is divided into nine administrative provinces, each headed by a governor appointed by the president, and one Amerindian territory. The provinces are subdivided into 67 municipal districts, each of which is governed by a mayor and a municipal council of at least five members, including all that district's representatives in the National Assembly. There are 511 municipal subdistricts in all.

16 JUDICIAL SYSTEM

Judicial authority rests with the Supreme Court, composed of nine magistrates and nine alternates, all appointed by the president (subject to approval by the Legislative Assembly) for 10-year terms. The Supreme Court magistrates appoint judges of the superior courts who in turn appoint circuit court judges in their respective jurisdictions. There are four superior courts, eighteen circuit courts (one civil and one criminal court for each province), and at least one municipal court in each district.

At the local level, two types of administrative judges—*corregidores* and night (or police) judges—who hear minor civil and criminal cases involving sentences under one year. Appointed by the municipal mayors, these judges are similar to Justices of the Peace. Their proceedings are not subject to the Code of Criminal Procedure and defendants lack procedural safeguards afforded in the regular courts.

The constitution guarantees a right to counsel for persons charged with crimes and requires the provision of public defenders for indigent criminal defendants. Trial by jury is afforded in some circumstances.

The 1996 amendment to the constitution abolished the standing military and contains a provision for the temporary formation of a "special police force" to protect the borders. The Judicial Technical Police perform criminal investigations in support of public prosecutors. The constitution also provides for an independent judiciary; however, the judiciary is susceptible to corruption.

The legal system is based on the civil law system. Panama accepts the compulsory jurisdiction of the International Court of Justice with reservation.

17 ARMED FORCES

The Panamanian Defense Force disappeared with the US intervention in 1989. The National Police Force numbers approximately 11,800 members, supported by a maritime service (estimated at 400 with 39 patrol boats) and an air service (400 staff, 12 aircraft, and 34 utility helicopters). In 2005, Panama's defense budget totaled \$158 million.

18 INTERNATIONAL COOPERATION

Panama is a charter member of the United Nations, having joined on 13 November 1945, and participates in ECLAC and several nonregional specialized agencies, such as the FAO, IAEA, the World Bank, the IFC, UNESCO, UNIDO, and the WHO. Panama is also a member of the Inter-American Development Bank, G-77, the Latin American Economic System (LAES), the Latin Ameri-

can Integration Association (LAIA), the OAS, the Association of Caribbean States (ACS), and the Río Group. Panama is also a part of the Central American Parliament (PARLACEN). The nation is part of the Nonaligned Movement.

In environmental cooperation, Panama is part of the Basel Convention, Conventions on Biological Diversity and Whaling, Ramsar, CITES, the London Convention, International Tropical Timber Agreements, the Kyoto Protocol, the Montréal Protocol, MARPOL, the Nuclear Test Ban Treaty, and the UN Conventions on the Law of the Sea, Climate Change and Desertification. The nation is also a part of the Central American-US Joint Declaration (CONCAUSA).

19 ECONOMY

Panama depends largely on its privileged geographical position: the economy is based on a well-developed services sector, including the Panama Canal, banking, insurance, government, the trans-Panamanian oil pipeline, and the Colón Free Zone. The Panama Canal and the monetary regime anchored in the use of the US dollar as legal tender spurred the rapid development of the service economy which offset markedly unfavorable terms of trade. The unique monetary system played a significant role in the creation of an International Banking Center and the Colón Free Zone.

Whereas many countries were characterized by a growing protectionism in the late 1940s, Panama launched the Colón Free Zone (the world's largest free zone, with Hong Kong as the largest free port). Panama also earned substantial rents through the construction of the trans-Panamanian oil pipeline and by the licensing of the Panamanian flag to merchant ships from around the world.

The economy generated annual growth of more than 6% during the period 1950–81. However, economic growth stagnated to 1.9% annually over 1977–87, caused by the aftermath of the second oil shock and the debt crisis. In the early 1990s, Panama rebounded from an excruciating recession brought about by a US embargo and subsequent military invasion. The US objective was the capture of General Manuel Noriega, who had installed puppet governments and was responsible for an increase in drug trafficking and money laundering. After Noriega was captured, extradited and condemned at a Miami federal court, Guillermo Endara assumed office. Nevertheless, his administration was widely criticized for not fulfilling Panamanians' hope for a rapid and bountiful recovery.

In May 1994, Armando Perez Balladares was elected president. The economy continued to grow, but at a slower pace during the first half of the 1990s. Panama's main engines of economic growth (the Panama Canal, the Colón Free Zone, and International Banking Center) continued to lose competitiveness in the context of an open economy throughout the world. The Balladares administration responded in 1996 with a solid program of economic reforms. These included the privatization of two seaports (Cristóbal and Balboa), the promulgation of an antimonopoly law, the renegotiating of foreign debt with commercial banks, the privatization of the electricity and water companies, and a banking reform law. These economic reforms were accompanied with the recovery of the majority of traditional sectors, with the exception of the construction sector.

Between 1988 and 1998, the economy grew at 5% annually. In 1999, Mireya Moscoso was elected to the presidency. She did not intend to privatize the few remaining state enterprises, and wanted to raise protectionist tariffs to help local farmers, but membership in the WTO forbade this action. In December 1999, in accordance with the 1977 Panama Canal Treaty, the Panama Canal and all American bases were returned to the Panamanian government, comprising 364,000 acres and estimated to be worth \$4 billion. Real GDP growth fell to 3.2% in 1999 (down from 4.4% in 1998) and then to 2.5% in 2000. A major cause of the slowdown was a decline in foreign direct investment (FDI), which had run at about \$1.3 billion in 1997 and 1998, but fell to \$.65 billion in 1999 and \$.60 billion in 2000. Real GDP growth fell to 2.5% in 2000.

In 2001, growth declined further as declining export demand and a dramatic drop in tourism following the 11 September 2001 terrorist attacks on the United States were added to declining domestic demand. Real GDP annual growth fell to 0.3% in 2001, and is estimated to have reached only 1.2% in 2002. Inflation has been held in control, falling from 1.5% in 1999 to 0.3% in 2001, and estimated at 0.8% for 2002. Unemployment remains in double digits, reaching 14.4% in 2001. In 2001 Panama was removed from both the United States and the OECD lists of noncooperating countries on money laundering, having been certified as compliant with 23 of 25 Basel Core Principles by the IMF Offshore Financial Center Module II assessment in August 2001. However, in 2002 and 2003, Panama remained one of 23 countries on the US list of major illicit drug producing and/or drug transit countries.

The economy expanded by 7.6% in 2004, up from 4.3% in 2003; in 2005, the GDP growth rate was estimated at 5.5%, while the GDP per capita, at purchasing power parity, reached \$7,300. Most of this growth has been fueled by export-oriented services, and the construction boom, which in turn were backed up by tax incentives. The inflation rate was fairly stable and at 0.2% in 2004 it did not pose a major problem to the economy. The unemployment rate was modest in 2005 (8.7%), and as such was not a key concern for the government.

20 INCOME

The US Central Intelligence Agency (CIA) reported that in 2005 Panama's gross domestic product (GDP) was estimated at \$22.2 billion. 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 based on current dollars. The per capita GDP was estimated at \$7,300. The annual growth rate of GDP was estimated at 4.3%. The average inflation rate in 2005 was 2.5%. It was estimated that agriculture accounted for 7.6% of GDP, industry 17.9%, and services 74.5%.

According to the World Bank, in 2003 remittances from citizens working abroad totaled \$85 million or about \$28 per capita and accounted for approximately 0.7% of GDP. Foreign aid receipts amounted to \$30 million or about \$10 per capita and accounted for approximately 0.3% of the gross national income (GNI).

The World Bank reported that in 2003 household consumption in Panama totaled \$8.07 billion or about \$2,703 per capita based on a GDP of \$12.9 billion, measured in current dollars rather than PPP. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods

and services, excluding purchases of dwellings. It was estimated that for the period 1990 to 2003 household consumption grew at an average annual rate of 4.9%. In 2001 it was estimated that approximately 22% of household consumption was spent on food, 18% on fuel, 14% on health care, and 4% on education. It was estimated that in 1999 about 37% of the population had incomes below the poverty line.

2¹ LABOR

In 2005, Panama's workforce was estimated at 1.39 million. As of 2003, the services sector accounted for 65.2% of the labor force, with 17.51% in agriculture, 17.2% in industry, and 0.1% in undefined occupations. Panama's workforce is marked by an abundance of unskilled laborers, but a shortage of skilled workers. The unemployment rate rose from 11.8% in 1985 to 17% in 1990, and then declined to 13% by 2000. In 2005, the unemployment rate was estimated at 8.7%.

In 1999, Panama had over 250 unions with about 80,000 private sector members, organized into 48 federations and 7 confederations. The province of Panama is where more than two-thirds of the total number of unions are found. About 10% of the workforce was unionized as of 2001. The Confederation of Workers of the Republic of Panama, formed in 1963, is an affiliate of the ICF-TU, and the National Center of Panamerican Workers is affiliated with the WFTU. Strikes are permitted, and collective bargaining is widely practiced.

The law provides for an eight-hour day, a six-day week, minimum wages, a month's vacation with pay, maternity benefits and equal pay for women, and restrictions on the employment of minors. The minimum wage ranged from \$0.80 to \$1.50 per hour in 2001. All employees are entitled to a one-month annual bonus in three equal installments, two of which the worker receives directly and one of which is paid into the Social Security Fund. The law prohibits children under the age of 14 from working, but child labor continues to be widespread.

2² AGRICULTURE

About 9.3% of the total land area was classified as arable in 2003. Farming methods are primitive, and productivity is low. The best lands are held by large owners. Agriculture contributes about 7% to GDP and accounted for 34% of exports in 2004.

Panama is self-sufficient in bananas, sugar, rice, corn, and coffee, but imports large quantities of other foods. Bananas are the leading export product and the banana industry is an important source of rural employment; exports were valued at \$108.2 million in 2004, about half destined for the German market. In 2004, crop production (in tons) included sugarcane, 1,650,000; bananas, 525,000; rice, 296,000; corn, 80,000; and coffee, 8,700.

2³ ANIMAL HUSBANDRY

The Panamanian livestock industry produces sufficient meat to supply domestic demand and provides hides for export. Most cattle and hogs are tended by small herders, and dairy farming has expanded in recent years. In 2005 there were 1,600,000 head of cattle, 272,000 hogs, and about 14 million chickens. Milk production in 2005 was reported at 187,000 tons. Panama imports a sub-

stantial amount of its dairy needs (powdered milk, butterfat, and cheese), primarily from New Zealand.

2⁴ FISHING

The offshore waters of Panama abound in fish and seafood, and fisheries are a significant sector of the national economy. There is freshwater fishing in the Chiriquí River and deep-sea fishing along the Pacific and Caribbean coasts for amberjack, barracuda, bonito, corbina, dolphinfish, mackerel, pompano, red snapper, sailfish, sea bass, and tuna.

In 2006, the fish catch totaled 229,652 tons, as compared with 131,514 tons in 1986. The main commercial species caught that year were Pacific anchoveta (78,618 tons), Pacific thread herring (55,730 tons), yellowfin tuna (28,694 tons), and skipjack tuna (11,474 tons). Exports of fish products were valued at nearly \$412.3 million in 2003.

2⁵ FORESTRY

Forests cover about 39% of the country's area but have been largely unexploited because of a lack of transportation facilities. Nearly all forestland is government-owned. Hardwood, particularly mahogany, is produced for export in Darién and along the Pacific coast in Veraguas. Abacá fiber, which is obtained in Bocas del Toro and is used in the making of marine cordage, is a valuable forest product. Approximately 30% of Panama's natural forests are still unused. The average annual deforestation rate was 1.6% during 1990–2000. In order to protect and preserve native forests, the National Association for the Conservation of Nature has begun a vast reforestation program. Production of roundwood was 1,372,000 cu m (48.4 million cu ft) in 2004, 89% used as fuel wood.

2⁶ MINING

Panama had a small-to-moderate mineral sector, with known deposits of copper, manganese, iron, asbestos, gold, and silver. Construction materials were a leading industry, including cement, clays, lime, limestone, and sand and gravel. There was no recorded gold or silver production from 2000 through 2003, nor was there any copper output that year. Salt, produced by evaporation of seawater at Aguadulce, was a major mineral product. Output was in 2003 was estimated at 23,000 metric tons. Cement production in 2003 was estimated at 770,000 metric tons in 2003.

2⁷ ENERGY AND POWER

Panama has no proven reserves of oil, natural gas, or coal, nor any oil-refining capacity. As a result, the country is totally dependent upon imports to meet its fossil fuel needs.

In 2002, Panama's petroleum imports, including crude oil, averaged 88,980 barrels per day, of which 28,000 barrels per day consisted of crude oil. Demand for refined oil products averaged 76,580 barrels per day. Refinery output that year averaged 19,790 barrels per day. However, in that same year, Panama closed its sole refinery. As a result, the country must import all of its refined petroleum products.

There were no recorded imports of natural gas in 2002, although Panama did import 50,000 tons of hard coal that year.

Panama had a total installed electric capacity of 1,260,000 kW in 2002, of which conventional thermal facilities accounted for 51.3% of capacity, with hydroelectric dedicated capacity account-

ing for the rest. Production of electric power that year totaled 5.162 billion kWh, of which 34.4% was from fossil fuels, 65.2% from hydropower, and the rest from other renewable sources. Consumption of electricity in 2002 was 4.786 billion kWh.

28 INDUSTRY

The performance of Panama's industry as a whole was negative during the 1980s, but garnered a 7% growth rate during the 1990s. Construction, manufacturing, mining, and utilities together accounted for 17% of GDP in 2000, but industrial activity decreased by 1.5% that year. The government and the private sector have invested large amounts in the construction of ports, roads, and bridges. Thus, the production of construction-related materials and finished wood products have all risen considerably in recent years. Construction activity itself rose 7.5% in 2000.

Limited by a small domestic market, Panamanian manufacturing represents around 8% of GDP. Growth in production reached an average 1.1% annually between 1978 and 1988, rising to 5.4% between 1988 and 1998 due to an import-substitution high tariff regime that ended in 1998. Manufacturing of mainly nondurable goods consists principally of food-processing plants and firms for the production of: alcoholic beverages, sugar, ceramics, tropical clothing, cigarettes, hats, furniture, shoes, soap, and edible oils. Other manufactured products include clothing, chemicals, cement, and construction products for domestic consumption.

Panama has potential to further develop its mining industry. The country has one oil refinery with a production capacity of 60,000 barrels per day. The government's privatization program was largely complete as of 2002.

The industrial production growth rate in 2005 year was 3.5%, lower than the overall GDP growth rate and an indicator that industry was not an economic growth engine. In 2005, industry accounted for 17.9% of the GDP and was bested by services—which comprised 74.5% of the economy; agriculture was the smallest economic sector although it employed more people than the industrial sector. Panama currently suffers from a shortage of skilled labor, but has an oversupply of unskilled labor.

29 SCIENCE AND TECHNOLOGY

Although the shipping technology of the Panama Canal is owned and operated by the United States, technicians from the United States who operated the canal's facilities were replaced gradually by Panamanian personnel before the canal was officially turned over to Panama. The National Academy of Sciences of Panama (founded in 1942) advises the government on scientific matters, and the National Research Center (1976) coordinates scientific and technological research. The Smithsonian Institution has had a tropical research institute in Balboa since 1923. The University of Panama, founded in 1935 in Panama City, has faculties of agriculture, medicine, sciences, dentistry, nursing, and pharmacy. Santa María La Antigua University, founded in 1965 at El Dorado, Panama, has a department of technology and natural science. The Technological University of Panama, founded in 1984 at El Dorado, has colleges of civil, mechanical, industrial, electrical, and computer-science engineering. The Nautical School of Panama, founded in 1959 at Patilla, offers courses in nautical engineering. In 1987–97, science and engineering students accounted for 29% of college and university enrollments. The Museum of Natural Sci-

ences, founded in Panama in 1975, is concerned with natural history and the fauna of Panama and other countries.

In 2001, spending by Panama on research and development (R&D) totaled \$68.432 million or 0.37% of GDP. Of that amount, foreign sources accounted for the largest portion (55.1%), followed by the government sector (32.8%). Business accounted for 10.2%, with higher education and nonprofit organizations at 0.6% and 1.2%, respectively. In that same year, Panama had 95 researchers and 213 technicians engaged in R&D per million people. In 2002, Panama's high technology exports totaled \$1 million, or 1% of its manufactured exports.

30 DOMESTIC TRADE

About 65% of the total national sales of consumer goods occurs in Panama City. The cities of David, Colón, Santiago, and Chitre sponsor nearly all of the rest. Marketing and distribution are generally on a small scale, with direct merchant-to-customer sales. Some wholesalers also act as retailers. Many shops in Panama City and Colón sell both native handicrafts and imported goods. Luxury items are generally untaxed in order to attract tourist sales. There are also US-style variety stores. In rural districts, agricultural products and meat are sold at markets. A 5% value-added tax (VAT) applies to most goods and services.

The usual business hours are 8 AM to 5 PM, Monday through Friday; and 8 AM to noon on Saturday. Government offices are open weekdays from 8:30 AM to 4:30 PM, Monday through Friday. Banking hours in Panamanian urban centers are generally from 8:00 AM to 3 PM, Monday through Friday, and most banks are open on Saturdays from 9 AM to 12 noon.

31 FOREIGN TRADE

The leading agricultural export—mainly controlled by foreigners—is bananas, followed by shrimp. The decline in exports of almost 11% from 1997 to 1998 can be explained by quotas imposed on banana exports by the EU (bananas represent nearly one-fifth of all exports). Light industry exports (clothing and manufacturing textiles) have been increasing due to the free trade zone; but competition from Mexico starting in 1996 and the reduction of protective tariffs in 1998 stunted growth. All of Panama's main ex-

Principal Trading Partners – Panama (2003)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	798.7	3,124.1	-2,325.4
United States	415.6	1,093.5	-677.9
Sweden	48.3	17.1	31.2
Spain	45.6	48.7	-3.1
Costa Rica	33.5	151.1	-117.6
Portugal	27.5	...	27.5
Nicaragua	24.8	...	24.8
Belgium	24.3	...	24.3
Netherlands	15.4	15.9	-0.5
Honduras	13.4	...	13.4
Guatemala	13.3	71.1	-57.8

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

port commodities are foods, including bananas (19%), fish (18%), shrimp (10%), sugar (2.6%), and coffee (2.1%).

In 2005, exports reached \$7.4 billion (FOB—free on board), while imports grew to \$8.7 billion (FOB). In 2004, the bulk of exports went to the United States (50.5%), Sweden (6.6%), Spain (5.1%), the Netherlands (4.4%), and Costa Rica (4.2%). Imports included capital, food products, and petroleum products, and mainly came from the United States (33.3%), Netherlands Antilles (8.1%), Japan (6%), Costa Rica (5.7%), Mexico (4.6%), and Colombia (4.2%).

3² BALANCE OF PAYMENTS

Panama's adverse balance of trade is largely made up by invisible foreign exchange earnings from sales of goods and services in the Colón Free Trade Zone and from the Panama Canal. Nonetheless, Panama has had one of the highest amounts of goods and services export earnings in the region, relative to GDP. A strong services sector and foreign direct and financial investments have usually offset large merchandise trade deficits. In addition, Panama's debt traditionally trades with less volatility and a lower risk premium than most other Latin American issues.

The US Central Intelligence Agency (CIA) reported that in 2001 the purchasing power parity of Panama's exports was \$5.9 billion while imports totaled \$6.7 billion resulting in a trade deficit of \$800 million.

The International Monetary Fund (IMF) reported that in 2001 Panama had exports of goods totaling \$5.88 billion and imports totaling \$6.71 billion. The services credit totaled \$1.82 billion and debit \$1.14 billion.

Exports of goods reached \$8.8 billion in 2004, up from \$7.6 in 2003. Imports increased from \$7.4 billion in 2003 to \$8.4 billion in 2004. The resource balance was consequently positive in both years, improving from \$171 million in 2003 to \$395 million in 2004. The current account balance was negative however, reach-

ing -\$408 million in 2003, and -\$274 million in 2004. Foreign exchange reserves (including gold) reached \$1.1 billion in 2004, covering more less than two months of imports.

3³ BANKING AND SECURITIES

Panama was considered the most important international banking center in Latin America in the late 1980s. In 1970, 28 banks operated in Panama's international banking center; by 1987 there were 120, with assets of nearly \$39 billion. Liberalized banking regulations and use of the dollar made Panama one of Latin America's major offshore banking centers.

Since 1983, the year of the onset of Latin America's financial crisis, the Panamanian banking sector has contracted, both in number of banks and total assets. In 2001 there were about 85 banks in Panama, holding \$38 billion in total assets. Fifty of the banks in Panama have general licenses, 25 banks have offshore licenses, eight foreign banks have representative offices, and two banks are government owned. The National Bank of Panama (Banco Nacional de Panamá—BNP), founded in 1904, is the principal official (but not central) bank and also transacts general banking business. Banking activities are supervised by the National Banking Commission (Comisión Bancaria Nacional—CBN).

The balboa is fully convertible with the dollar at a fixed rate of 1:1. The government cannot, therefore, implement a monetary policy. Most monetary developments are exogenously determined by the balance of payments.

Panama's banking center has allegedly been the main money-laundering point for proceeds from international drug-trafficking. In March 1994, it was decreed that persons entering Panama had to declare money or financial instruments in excess of \$10,000. For deposits and withdrawals in excess of this amount from local banking institutions, a form had to be completed, providing details about the person carrying out the transaction. In 1998, a banking law was enacted in order to modernize the banking system and increase government supervision. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$1.3 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$9.4 billion.

Panama's international stock exchange, the Bolsa de Valores de Panama, began operations in June 1990. In 2003, there were a total of 94 listed companies. Companies rarely issue stock on the stock market and investment is small because of a 10% withholding tax. Panama's Central de Custodia de Valores (Panaclear) began operations in November 1996. A rating agency began operations in early 1997.

3⁴ INSURANCE

There were about 41 national insurance companies in Panama in 1997. Domestic companies include the General Insurance Co., the International Insurance Co., and the International Life Insurance Co. For a firm to qualify as a national insurance company, 51% of the capital must be Panamanian. In Panama, third-party automobile liability and workers' compensation are compulsory insurance. Only the government provides workers' compensation, as it is a part of the social security scheme. All firms must be approved by the Superintendency of Insurance. In 2003, the value of all di-

Balance of Payments – Panama (2003)

(In millions of US dollars)

Current Account		-408.0
Balance on goods		-1,092.0
Imports	-6,143.3	
Exports	5,051.3	
Balance on services		1,262.6
Balance on income		-819.9
Current transfers		241.3
Capital Account		...
Financial Account		25.4
Direct investment abroad		...
Direct investment in Panama		791.5
Portfolio investment assets		-59.3
Portfolio investment liabilities		139.6
Financial derivatives		...
Other investment assets		464.1
Other investment liabilities		1,310.5
Net Errors and Omissions		228.1
Reserves and Related Items		154.5

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

Public Finance – Panama (2001)

(In millions of balboas, central government figures)

Revenue and Grants		
	3,041	100.0%
Tax revenue	1,093.4	36.0%
Social contributions	594.9	19.6%
Grants	23.5	0.8%
Other revenue	1,329.2	43.7%
Expenditures		
	2,934.4	100.0%
General public services	808.3	27.5%
Defense	...	...
Public order and safety	195.6	6.7%
Economic affairs	175.9	6.0%
Environmental protection	...	...
Housing and community amenities	107.5	3.7%
Health	527.5	18.0%
Recreational, culture, and religion	39.2	1.3%
Education	476.7	16.2%
Social protection	603.7	20.6%

(...) data not available or not significant.

SOURCE: *Government Finance Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

rect insurance premiums written totaled \$388 million, of which nonlife premiums accounted for \$261 million. Panama's top non-life insurer in 2003 was ASSA, which had gross written nonlife premiums of \$44.8 million, while the nation's leading life insurer, Aseguradora Mundial had gross written life insurance premiums of \$48.1 million.

35 PUBLIC FINANCE

Panama does not issue its own currency; US dollar notes circulate as the paper currency. Panama's local currency, the balboa, established in 1904, is issued only in coins. One balboa equals one US dollar.

The US Central Intelligence Agency (CIA) estimated that in 2005 Panama's central government took in revenues of approximately \$3.4 billion and had expenditures of \$3.9 billion. Revenues minus expenditures totaled approximately -\$533 million. Public debt in 2005 amounted to 73.2% of GDP. Total external debt was \$9.859 billion.

The International Monetary Fund (IMF) reported that in 2001, the most recent year for which it had data, central government revenues in millions of US dollars were 3,041 and expenditures were 2,934.4. Government outlays by function were as follows: general public services, 27.5%; public order and safety, 6.7%; economic affairs, 6.0%; housing and community amenities, 3.7%; health, 18.0%; recreation, culture, and religion, 1.3%; education, 16.2%; and social protection, 20.6%.

36 TAXATION

As of 2005, Panama's corporate tax rate stood at a flat rate of 30%. However, companies not declaring any dividends during the tax year are subject to a minimum dividend tax of 4% of taxable income, minus the income tax. For companies registered in Panama's tax-free processing zones (TFPZs), which are modeled after the long-standing Colón Free Trade Zone (CFTZ), a much-vaunted 0% rate is applied on all profits arising outside of Panama. The

0% corporate tax rate goes with an exemption from all export and import duties on reexports. Companies in TFPZs have tax liability only for sales within Panama's fiscal jurisdiction which, by statute, can make up no more than 40% of their business. Capital gains are generally taxed as income and at the corporate rate. Interest income and royalties are subject to withholding taxes of 15% and 30%, respectively.

Personal income tax in Panama, as of 2005, was taxed according to a progressive schedule that has a top rate of 30%. Dividends received by individuals are subject to a 10% withholding tax on nominative shares, and 20% if issued to the bearer. There are targeted deductions for mortgage interest, loans to pay school fees, medical expenses, health insurance, and donations to charity among others that reduce taxable income for individuals. Gift taxes depend on the amount, unless the gift was between linear descendants, in which case, the gift is tax-exempt.

The main indirect tax is Panama's value-added tax (VAT) with a standard rate of 5%, and a reduced rate of 0% applied to basic foodstuffs, trade and medical services. Tobacco-related products are subject to a 15% excise tax, with alcohol subject to a 10% rate. Other levies include license fees, stamp and education taxes, and property taxes. Property improvements are tax-exempt for the first five years.

37 CUSTOMS AND DUTIES

Panama imposes tariffs ranging of 0–15% on most manufactured goods. A 3% rate is applied to industrial equipment, industrial production inputs and raw materials. Agricultural inputs, agricultural machinery and agricultural chemicals pay no import duties. However, automobiles are subject to a 15–20% duty, while dairy products and rice are subject to duties of 40% and 50%, respectively. There is also a 5% value-added tax (VAT) on imports.

Panama has a free port in the Colón Free Trade Zone, the world's second-largest free trade zone, where foreign goods enter without going through customs. Goods may be stored, assembled, processed, or repackaged for sale or shipment to another country free of duty. Panama is a part of the Caribbean Basin Initiative and has bilateral preferential trade agreements with Costa Rica, El Salvador, Honduras, Guatemala, Nicaragua, and the Dominican Republic. The country also has special arrangements with Mexico, Colombia, and Chile.

38 FOREIGN INVESTMENT

Increased private sector investment and inflows from lending agencies should offset lower public expenditure and help to stimulate economic growth. The government sold the electricity generation and distribution utilities in 1996. In addition, the government partially sold the telephone company. The United Kingdom's Cable and Wireless bought a 49% stake in INTEL, the national telecommunications monopoly. Privatization of the state water utility was put on hold in 1998 due to violent protests. Other parastatal sales included the transisthmian railroad, both canal ports, two sugar companies, a casino, a cement company, a fruit company, and a horse racetrack.

The government encourages industrialization by granting special tax concessions to new enterprises and imposing protective duties on competing foreign manufacturers. The Industrial Development Bank, equivalent to the US Small Business Adminis-

tration, promotes small industries and facilitates credit on a long-term basis. A 1986 law on industrial incentives grants industrial investors a wide range of benefits, the foremost of which is tax exceptions that vary according to whether all or part of the output is earmarked for the export or domestic market.

In 1997 and 1998, annual inflows of foreign direct investment (FDI) peaked at almost \$1.3 billion a year. Total FDI reached 40% of GDP in 1998. In 1999, as sovereignty over the canal was transferred from the United States to Panama, FDI flows declined by more than half, to \$652 million in 1999, \$603 million in 2000, and \$513 million in 2001. Major investors include the United States, the United Kingdom, Mexico, and Taiwan. The majority of foreign investments in Panama are in the transport, storage, services, and communication sectors.

In 2003, total capital inflows reached \$792 million (or 5.72% of the GDP), up from \$98.6 million in 2002. Most of the investments went to Colón Free Zone businesses and banks.

39 ECONOMIC DEVELOPMENT

The Panamanian economy is the most stable and among the most prosperous in the region. But the economy is highly segmented between its dynamic, internationally oriented service sector and the domestically oriented sector, which is beset with policy-induced rigidities and low productivity. About 14% of the labor force is unemployed despite the preponderance of services in the economy, low growth of the economically active population and relatively slow rural-urban migration. The protected poor performance of the economy has impeded job creation and contributed to high poverty levels and income inequality.

Despite Panama's relatively high per capita income, distribution of the wealth is highly skewed and had become progressively more evident in the 1990s. In 1979, the poorest 20% of the population received 4% of income; in the early 1990s that share had plunged to 2%, leaving Panama with one of the most unequal distributions in the hemisphere. The government's strategy for mitigating poverty and inequality rests primarily on reviving sustainable growth; its economic program emphasizes reforms that will mitigate the bias against employment creation (unemployment surpassed 14% in 2002), increase agricultural productivity, and reduce the high cost of the basic consumption basket.

In 2000, the International Monetary Fund (IMF) approved a 21-month, \$85.5-million Stand-By Arrangement with Panama, to support the government's economic reform program. Economic growth slowed in the early 2000s, due in part to the global economic downturn, and weak domestic demand that resulted from the completion of large investment projects and a decline in bank credit to the private sector. The government in 2002 invested in infrastructure projects and strengthened the banking system.

The economy expanded at healthy rates in 2005, due to strong world trade growth, and good performance in the primary sectors. By 2006 and 2007 this trend was expected to dampen following a slower world trade growth.

40 SOCIAL DEVELOPMENT

The Social Security Fund, established by the government in 1941, provides medical service and hospitalization, maternity care, pensions for disability or old age, and funeral benefits. Retirement is

set at age 62 for men and age 57 for women. This program is financed by an alcohol tax, in addition to employee and employer contributions. Employed women receive 14 weeks of maternity leave at 100% pay. Compulsory workers' compensation legislation covers employees in the public and private sectors. This program is funded entirely by employer contributions.

Despite constitutional equality, women generally do not enjoy the same opportunities as men. While Panama has a relatively high rate of female enrollment in higher education, many female graduates are still forced to take low-paying jobs. Women's wages are, on average, 30% lower than those of men. Women also face sexual harassment in the workplace, although it is prohibited by the Labor Code. Domestic violence remains a widespread problem. Convictions for domestic abuse are rare; victims generally choose counseling over prosecution. The Ministry of Women, Youth, Family, and Childhood was established to focus national attention on social issues affecting women and families. In 2004, child labor and trafficking in children continued.

Indigenous peoples in Panama are increasingly demanding more participation in decisions that affect their land. Semiautonomous status has been given to some tribal groups. Despite these provisions, many indigenous groups feel that existing reserves are too small. Human rights abuses include prolonged pretrial detention, poor prison conditions, and internal prison violence.

41 HEALTH

Public health services are directed by the Ministry of Health, whose programs include free health examinations and medical care for the needy, health education, sanitation inspection, hospital and clinic construction, and nutrition services. Health care expenditure was estimated at 7.3 % of GDP.

In 2004, Panama had 168 physicians, 48 dentists, and 152 nurses per 100,000 people. In 2000 there were close to 2,000 beds in public hospitals at the national, regional, and municipal levels.

Proceeds from a national lottery support state hospitals, asylums, and public welfare. Assistance has been received from such organizations as the World Health Organization, the US Institute of Inter-American Affairs, the Pan American Sanitary Bureau, the Institute of Nutrition of Central America and Panama, and UNICEF.

During the first two decades of the 20th century, when the Panama Canal was being built, the major health threats were yellow fever, malaria, smallpox, typhoid, dysentery, and intestinal parasites. Through the efforts of Col. William Crawford Gorgas, a US military surgeon and sanitary officer, malaria was controlled and the yellow fever mosquito was virtually eliminated. In the early 2000s, the principal causes of death were cancer, heart disease, cerebrovascular disease, pneumonia and bronchopneumonia, enteritis, and diarrhea.

Col. Gorgas pioneered in providing Panama City and Colón with water and sewer systems; in some areas of Panama, poor sanitation, inadequate housing, and malnutrition still constitute health hazards. In 2000, 87% of the population had access to safe drinking water and 94% had adequate sanitation. However, in the same year, 18% of children under five years old were considered malnourished. The government of Panama is currently increasing distribution of vitamin A capsules to populations with high risk of vitamin A deficiency, mostly the Indians in the western region

of Panama. Immunization rates for children up to one year old were: tuberculosis, 99%; diphtheria, pertussis, and tetanus, 95%; polio, 99%; and measles, 92%. Polio, measles, and neonatal tetanus were at extremely low numbers during 1994. Goiter was present in 13.2% of school-age children.

As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 18.6 and 5 per 1,000 people. The infant mortality rate in 2005 was 16.73 per 1,000 live births. Maternal mortality was 70 per 1,000 live births in 1998. Average life expectancy in 2005 was 75 years.

The HIV/AIDS prevalence was 0.90 per 100 adults in 2003. As of 2003, there were approximately 16,000 people living with HIV/AIDS in the country. AIDS and pneumonia were the only communicable diseases among the ten leading causes of death in Panama.

42 HOUSING

Housing in urban areas has been a permanent problem since US construction in the Canal Zone brought a great influx of migrant laborers into Colón and Panama City. The government-established Bank of Urbanization and Rehabilitation began to build low-cost housing in 1944, and by 1950, it had built more than 1,500 units to house 8,000 people near Panama City. A 1973 housing law, designed to encourage low-income housing construction, banned evictions, froze all rents for three years, and required banks to commit half their domestic reserves to loans in support of housing construction projects. By the early 1980s, however, the shortage of low-income housing remained acute, particularly in Colón. A construction boom in the early 1980s was mainly confined to infrastructure projects and office space.

In 2000, there were 793,732 dwellings units nationwide with an average of 3.6 people per dwelling. Though most homes are made of brick, stone, or concrete blocks, about 4% of the total housing stock was made of straw and thatch.

43 EDUCATION

Education is free for children ages 6 through 15. Primary school covers the first six years of compulsory studies. Secondary education has two stages, each lasting three years. At secondary, vocational, and university levels, fees may be charged for the development of libraries and laboratories. The academic year runs from April to December.

In 2001, about 50% of children between the ages of four and five were enrolled in some type of preschool program. Primary school enrollment in 2003 was estimated at about 100% of age-eligible students. The same year, secondary school enrollment was about 63% of age-eligible students. It is estimated that about 97.5% of all students complete their primary education. The student-to-teacher ratio for primary school was at about 24:1 in 2003; the ratio for secondary school was about 16:1. In 2003, private schools accounted for about 10% of primary school enrollment and 14.5% of secondary enrollment.

The leading institution of higher education, the state-run University of Panama, was founded in Panama City in 1935. A Catholic university, Santa María la Antigua, was inaugurated in May 1965, with an initial enrollment of 233. In 2003, about 43% of the tertiary age population were enrolled in some type of higher edu-

cation program; (32% for men and 55% for women). The adult literacy rate for 2004 was estimated at about 91%.

As of 2003, public expenditure on education was estimated at 4.5% of GDP, or 7.7% of total government expenditures.

44 LIBRARIES AND MUSEUMS

The National Library of Panama, located in Panama City, was founded in 1892 as Biblioteca Colón and reorganized as the National Library in 1942. It is a branch of the Ministry of Education's public library system and has over 200,000 volumes. There are more than 40 other public libraries and branches. The National Archives, established in 1924, contain historical documents, books, and maps, as well as administrative papers of government agencies and a judicial section with court records. The Biblioteca Pública Morales has 280,000 volumes, while the Simón Bolívar Library at the University of Panama has holdings of over 267,000 volumes. The Smithsonian Tropical Research Institute in Balboa has 44,000 volumes.

The Instituto Panameño de Arte, founded in 1964, displays excellent collections of pre-Columbian art. Newer museums in Panama City include the Museum of Nationhood (dedicated in 1974); the Museum of Colonial Religious Art (1974); the Museum of the History of Panama (1977), which exhibits documents and objects of historical value; and the Museum of Panamanian Man (1976), with archaeological, ethnographic, and folkloric displays. Panama City also hosts the Museum of Contemporary Art, the Afro-Antillean Museum, the Museum of Natural Sciences, the Postal Museum, and the Anthropological Museum Reina Torres de Arauz. The Museum of History and Tradition of Penonome is in Cocle.

45 MEDIA

The Instituto Nacional de Telecomunicaciones (INTEL) operates Panama's telephone and telegraph systems. In 2003, there were an estimated 122 mainline telephones for every 1,000 people. The same year, there were approximately 268 mobile phones in use for every 1,000 people. Telegraph cables link Panama to the United States, to Central and South America, and to Europe.

In 2004, there was one government-owned educational television station. The same year, there were 8 television stations and 120 radio stations that were privately or institutionally owned. In 2003, there were an estimated 300 radios and 191 television sets for every 1,000 people. The same year, there were 38.3 personal computers for every 1,000 people and 62 of every 1,000 people had access to the Internet. There were 149 secure Internet servers in the country in 2004.

There were five major daily newspapers in 2004. With their estimated circulations, they were: *El Siglo*, 42,000; *Crítica Libre*, 40,000; *La Prensa*, 40,000; *La Estrella de Panama*, NA; and *El Panama America*, 40,000. The constitution provides for freedom of speech and the press, and the government is said to respect these rights in practice.

46 ORGANIZATIONS

The cooperative movement in Panama is limited. Producers' organizations are small, local, uncoordinated groups concerned mainly with practical education in techniques to improve production. The Chamber of Commerce, Industry, and Agriculture is in Pan-

ama City. There are some professional associations, including the National Medical Association.

National youth organizations include the Student Federation of Panama, the National Scout Association of Panama, and the YMCA. There are several sports associations organizing amateur competitions for such pastimes as baseball, tennis, squash, and track and field.

There are several associations dedicated to research and education in health and medicine, including the National Cancer Association and branches of Planned Parenthood. The Panama Association of University Women promotes career and education opportunities for women. Kiwanis and Lion's Clubs have programs in the country. There are national chapters of the Red Cross, UNICEF, and Habitat for Humanity.

47 TOURISM, TRAVEL, AND RECREATION

Travel facilities within Panama are good; Panama City and Colón are only one hour apart by road or rail. In addition to the Panama Canal itself, tourist attractions include Panama City, beach resorts in the Pearls Archipelago and San Blas Islands, the ruins of Portobelo, and the resort of El Valle in the mountains. Water sports, tennis, golf, and horse racing are popular. Nature treks and historic tours also attract visitors to Panama. Citizens of the United States and Canada need only a valid passport and tourist card to enter Panama. Other foreign nationals are required to have a valid passport, and either a visa or tourist card; both card and visa are valid for up to 90 days.

The government encourages tourism through the Panamanian Tourist Bureau. In 2003, about 534,000 tourists arrived in Panama, with about 88% of travelers from the Americas. That year there were 16,766 hotel rooms with 33,532 beds and an occupancy rate of 44%. The average length of stay per visit was two nights.

In 2005, the US Department of State estimated the daily cost of staying in Panama City and Colón at \$186.

48 FAMOUS PANAMANIAN

Outstanding political figures of the 19th century include Tomás Herrera (1804–54), the national hero who led the first republican movement, and Justo Arosemena (1817–96), a writer and nationalist. The international lawyer Ricardo J. Alfaro (1882–1971) and the rector of the University of Panama, Octavio Méndez Pereira (1887–1954), were well-known Panamanian nationalists. The

most important political leader of the 20th century was Omar Torrijos Herrera (1929–81), who ruled Panama from 1969 until his death and successfully negotiated the Panama Canal treaties of 1979 with the United States.

Important poets were Tomás del Espíritu Santo (1834–62), nationalist Amelia Denis de Icaza (1836–1910), Federico Escobar (1861–1912), Darío Herrera (1870–1914), and Ricardo Miró (1888–1940). Panamanian-born José Benjamin Quintero (1924–1999) was a noted stage director in the United States. Narciso Garay (1876–1953) founded the National Conservatory of Music and served as a foreign minister. Harmodio Arias (1886–1962) was the prominent owner of the newspaper *El Panamá-América*. Leading Panamanian painters include Epifanio Garay (1849–1903), Roberto Lewis (1874–1949), Sebastián Villalaz (1879–1919), and Humberto Ivaldi (1909–47). Noteworthy among Panamanian athletes is the former world light- and welter-weight boxing champion Roberto Durán (b.1951); the former baseball star Rod (Rodney) Carew (b.1945) is also of Panamanian birth.

49 DEPENDENCIES

Panama has no territories or colonies.

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PARAGUAY

Republic of Paraguay
República del Paraguay

CAPITAL: Asunción

FLAG: The national flag, officially adopted in 1842, is a tricolor of red, white, and blue horizontal stripes. The national coat of arms appears in the center of the white stripe on the obverse, and the Treasury seal in the same position on the reverse.

ANTHEM: *Himno Nacional*, beginning “Paraguayos, república o muerte” (“Paraguayans, republic or death”).

MONETARY UNIT: The guaraní (G) is a paper currency of 100 céntimos. There are notes of 1, 5, 10, 50, 100, 500, 1,000, 5,000, and 10,000 guaraníes. G1 = \$0.00016 (or \$1 = G6,158.47) as of 2005.

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

HOLIDAYS: New Year’s Day, 1 January; San Blas Day, 3 February; National Defense Day, 1 March; Labor Day, 1 May; Independence Days, 14–15 May; Peace Day, 12 June; Founding of Asunción, 15 August; Constitution Day, 25 August; Victory Day (Battle of Boquerón), 29 September; Columbus Day, 12 October; All Saints’ Day, 1 November; Our Lady of Caacupé, 8 December; Christmas, 25 December. Movable religious holidays are Holy Thursday, Good Friday, and Corpus Christi.

TIME: 8 AM = noon GMT.

¹LOCATION, SIZE, AND EXTENT

One of South America’s two landlocked countries, Paraguay has a total area of 406,750 sq km (157,047 sq mi). Comparatively, the area occupied by Paraguay is slightly smaller than the state of California. The western 246,925 sq km (95,338 sq mi) of the country constitute a dry, sparsely populated region known as the Chaco, while the remaining 159,827 sq km (61,709 sq mi) lie in the more verdant east. Paraguay extends 992 km (616 mi) SSE–NNW and 491 km (305 mi) ENE–WSW. Bounded on the NE and E by Brazil, on the SE, S, and W by Argentina, and on the NW and N by Bolivia, Paraguay has a total boundary length of 3,920 km (2,436 mi).

Paraguay’s capital city, Asunción, is located in the southwestern part of the country.

²TOPOGRAPHY

The eastern part of Paraguay contains luxuriant hills, meadows, and forests. The western three-fifths is a waterless prairie covered with dry grass and sparsely dotted with shadeless trees. The southward-flowing Paraguay River, the nation’s most important waterway, divides the two sections; this river, which for a long time was Paraguay’s principal contact with the outside world, rises in southwestern Brazil and extends for a total length of 2,549 km (1,584 mi). The Pilcomayo River, which rises in the mountains of southern Bolivia and extends about 1,600 km (1,000 mi), flows south-east, forming the southwestern border between Argentina and Paraguay, and joins the Paraguay near Asunción.

The eastern sector of Paraguay comprises the western part of the great Paraná Plateau, varying from 300 to 610 m (1,000 to 2,000 ft) in altitude. The Paraná River—called Upper (Alto) Paraná in Paraguay—flows southward from south-central Brazil through the center of the plateau, dropping in the Guairá Falls at the easternmost point in the Paraguay-Brazil frontier. Between the Guairá

Falls and the confluence with the Paraguay River at the southwestern tip of the country, the Paraná passes through a deep canyon that forms the eastern and southern frontier with Argentina.

Just west of the plateau is an area of gently rounded hills descending to the low plains that stretch westward to the Paraguay River. These hills occur in two series, one extending northwestward to the Paraguay River just north of Concepción, and the other meeting the river at Asunción. The remaining territory east of the Paraguay River is composed of lowland plain, much of it subject to annual floods.

West of the Paraguay River is the Chaco, part of the larger Gran Chaco, which includes portions of Argentina, Bolivia, and Brazil. The Gran Chaco, a vast alluvial plain composed of unconsolidated sands and clays, is crossed by the Pilcomayo and Bermejo rivers, but over much of the area there are no surface streams. The water table, however, is only a few feet below the surface, and patches of alkali frequently appear during the long dry season. In many places the groundwater is salty.

³CLIMATE

Two-thirds of Paraguay is within the temperate zone, one-third in the tropical zone. The climate varies from mild to subtropical. During the winter months (roughly May through August), the temperature range is 16–21°C (60–70°F); nights are occasionally colder. During the summer (October through March), the temperature range is 25–38°C (77–100°F), with extremes of 43°C (109°F) and above in the west. Paraguay is open to dry, cold polar winds from the south and to hot, humid north winds from southwestern Brazil; sudden sharp drops in temperatures are not uncommon. Rainfall averages about 152 cm (60 in) a year along the eastern frontier with Brazil, gradually diminishing toward the west to an average of 127 cm (50 in) along the Paraguay River and

76 cm (30 in) in the Chaco. Asunción has an annual average of about 130 cm (50 in), which is moderate for its latitude. There is no definite rainy season, although violent thunderstorms sometimes occur in the summer.

4 FLORA AND FAUNA

The vegetation, like the rainfall, is concentrated in the Paraná Plateau and diminishes toward the west. Tall broadleaf trees, some evergreen and some deciduous, cover eastern Paraguay, thinning out on the red sandy soils of the hilly perimeter. Scrub woodland and palm also dot the sandy plateau areas. Between the semideciduous forest and the Paraguay River, the vegetation is mostly the savanna type mixed with scattered palms. In contrast, the Chaco supports primarily deciduous scrub woodlands, luxuriant along the Paraguay River but becoming more and more xerophytic as the rainfall decreases toward the west.

The eastern forests abound in hardwoods, including indigenous varieties such as urunday, cedron, curupay, and lapacho. Softwoods are scarce. In the northern Chaco, along the Paraguay River, there are scattered stands of quebracho and many large, spreading trees, such as the ceiba. Medicinal herbs, shrubs, and trees abound, as well as some dyewoods. Yerba maté, a holly popularly used in tea, grows wild in the northeast.

Animals found in Paraguay include the jaguar (especially numerous in the Chaco), wild boar, capybara, deer, armadillo, ant-eater, fox, brown wolf, carpincho, and tapir. Paraguay abounds with crocodiles along its watercourses, and the boa constrictor thrives in the west. The carnivorous piranha is common.

As of 2002, there were at least 305 species of mammals, 233 species of birds, and over 7,800 species of plants throughout the country.

5 ENVIRONMENT

Agencies responsible for environmental protection include the National Environmental Health Service, the Ministry of Public Health, and the Ministry of Public Works and Communications.

Nearly all forests are privately owned and little was done to develop a national forest policy until the establishment in 1973 of the National Forest Service. Paraguay's forests are currently threatened by the expansion of agriculture. At most recent estimate, about a third of the nation's forest and woodland area has been lost. The absence of trees contributes to the loss of soil through erosion.

Water pollution is also a problem. Its sources include industrial pollutants and sewage. The nation has 94 cu km of renewable water resources with 78% of the annual withdrawal used to support farming and 7% used for industrial purposes. Only about 62% of the rural people have access to improved water sources. Some of Paraguay's cities have no facilities for waste collection.

According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 11 types of mammals, 27 species of birds, 2 types of reptiles, and 10 species of plants. Threatened species include the black-fronted piping guan, black caiman, spectacled caiman, and broad-nosed caiman. The glaucous macaw has become extinct.

6 POPULATION

The population of Paraguay in 2005 was estimated by the United Nations (UN) at 6,158,000, which placed it at number 100 in population among the 193 nations of the world. In 2005, approximately 4% of the population was over 65 years of age, with another 32% of the population under 15 years of age. There were 102 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 1.7%, a rate the government viewed as too high. The projected population for the year 2025 was 8,565,000. The overall population density was 15 per sq km (39 per sq mi), but over 98% of the population is located in the eastern two-fifths of the country; the vast western Chaco region is virtually uninhabited.

The UN estimated that 54% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 3.25%. The capital city, Asunción, had a population of 1,639,000 in that year. Other leading cities and their estimated populations include Ciudad del Este, 239,000; Pedro Juan Encarnación, 72,300; Caballero, 66,400; Concepción, 62,000; and Pilar, 26,352.

7 MIGRATION

Emigration was a problem historically for Paraguay. During 1955–70, some 650,000 Paraguayans emigrated, mainly to Argentina, Uruguay, or Brazil. Much of the labor force of agricultural regions in Argentine border provinces is made up of Paraguayan nationals. The greatest exodus occurred after the 1947 civil war, but in the 1960s there were new waves of political emigration.

Immigration to Paraguay was limited to a few thousand Europeans during the 19th century. A major attempt by the Paraguayan government to encourage new settlers led to negotiations with Japan in 1959 for the immigration of 85,000 Japanese by 1990, but only about 8,000 arrived. An immigration agreement was signed with the Republic of Korea (ROK) in 1966. In 1985, the immigrant population totaled 199,500; the leading immigrant groups were Germans, Japanese, Koreans, Chinese, Brazilians, and Argentines. It was believed, however, that the actual number of Brazilians was 300,000–350,000. The number of migrants residing in Paraguay in 2000 was 203,000. The net migration rate in 2005 was an estimated -0.08 migrants per 1,000 population. Worker remittances in 2004 amounted to \$506 million. The government views the migration levels as satisfactory.

8 ETHNIC GROUPS

About 95% of the population is mestizo, principally a mixture of Spanish and Guaraní Amerindian. The others are pure Amerindian (1–3%), black, or of European or Asian immigrant stock. The Guaraní Amerindians, belonging to the Tupi-Guaraní linguistic group, had spread throughout a large area of South America east of the Andes before the Spaniards arrived. Within Paraguay, extensive intermarriage between the races resulted in almost complete assimilation.

9 LANGUAGES

Paraguay is a bilingual nation. Spanish, the dominant language, is taught in the schools and is spoken by slightly more than half of the people. However, the great majority of Paraguayans speak Guaraní, an Amerindian language that evolved from the southern



LOCATION: 19°17' to 27°30' s; 54°30' to 62°28' w. BOUNDARY LENGTHS: Brazil, 1,290 kilometers (806 miles); Argentina, 1,880 kilometers (1,170 miles); Bolivia, 750 kilometers (460 miles).

dialect of the Tupi-Guaraní group. It is also the language of widely esteemed literature, drama, and popular music. Both Spanish and Guaraní are official languages.

10 RELIGIONS

Roman Catholicism is the dominant religion, accounting for about 90% of the total population. The remaining 10% consisted of mainline Protestant, evangelical Christian, Jewish, Mormon,

Muslim, and Baha'i groups. There are also substantial Mennonite communities, whose practitioners originally came to the country in several waves between 1880 and 1950 in order to avoid religious persecution.

The constitution provides for freedom of conscience and recognizes no official religion. Religious groups must register through the Ministry of Education and Culture. Certain Catholic holidays are recognized as national holidays.

1¹ TRANSPORTATION

Inadequate transportation facilities have been a major impediment to Paraguay's development. For a long time, some 3,100 km (1,925 mi) of domestic waterways provided the chief means of transportation, with most vessels owned by Argentine interests. Hampered by the high costs and slow service of Argentine riverboats transporting cargo to and from Buenos Aires, the Paraguayan government put its own fleet of riverboats in operation. This remedy, however, did not solve the underlying problems of Paraguayan transport. Drought conditions frequently affect navigation, and while the Paraguay is open to river traffic as far as Concepción (about 290 km/180 mi north of Asunción), passage is sometimes hazardous to vessels of even medium draft. The inland waterways and the Río de la Plata handle more than half of Paraguay's foreign trade with Argentina, Brazil, Chile, Europe, Japan, and the United States.

Asunción, the chief port, and Concepción can accommodate oceangoing vessels. In 2005, Paraguay had 21 merchant vessels of 1,000 GRT or more, totaling 31,667 GRT. In addition, Paraguay has been given free port privileges at Santos and Paranaguá, Brazil. More than 90% of Paraguay's foreign trade passes to Asunción through ports in Argentina and Uruguay.

Road construction is another critical focus of development. In 2001, highways totaled an estimated 29,901 km (18,580 mi). Of these roads, however, only 3,067 km (1,906 mi) were paved. Two major road projects of the 1960s were the Friendship Bridge on the Brazilian border in the Iguazu Falls area, inaugurated in 1961, and the 770-km (480-mi) all-weather Trans-Chaco Road, which extends from Asunción to Bolivia. The Friendship Bridge permits highway travel from Asunción to the Brazilian Atlantic port of Paranaguá. A bridge over the Paraguay River, linking the western and eastern parts of the country, was inaugurated in 1978. All-weather roads connecting Asunción with Buenos Aires and Puerto Presidente Stroessner with Paranaguá have also been completed. In 2003, there were 81,837 passenger cars and 80,400 commercial vehicles in use.

In 1961, the 441-km (274-mi) British-owned Paraguayan Central Railroad was sold to Paraguay for \$560,000. It was subsequently renamed Ferrocarril Presidente Carlos Antonio López Railroad. There is a direct line between Asunción and Buenos Aires. Altogether as of 2004 there were some 441 km (274 mi) of standard gauge trackage, excluding narrow gauge industrial lines in the Chaco.

In 2004, there were an estimated 878 airports and airfields, only 12 of which had paved runways as of 2005. S. Pettrossi is the principal airport at Asunción. Paraguayan Air Lines (Líneas Aéreas Paraguayas—LAP) provides both domestic and international service. Three carriers provide domestic service. In 2003, about 313,000 passengers were carried on scheduled domestic and international airline flights.

1² HISTORY

The original inhabitants of present-day Paraguay were Guaraní Amerindians of the Tupi-Guaraní language family. As many as 150,000 Amerindians may have been living in Paraguay at the time of the earliest European contacts. The first European known to have explored Paraguay was the Italian Sebastian Cabot, sail-

ing from 1526 to 1530 in the service of Spain. The first permanent Spanish settlement, Nuestra Señora de la Asunción (Our Lady of the Assumption, present-day Asunción), was founded at the confluence of the Paraguay and Pilcomayo rivers on Assumption Day, 15 August 1537.

Paraguay's next two centuries were dominated by Jesuit missionaries, whose efforts to protect the Amerindians from Portuguese slave traders and Spanish colonists resulted in one of the most remarkable social experiments in the New World. Shortly after the founding of Asunción, missionary efforts began. The priests organized Guaraní families in mission villages (*reducciones*) designed as self-sufficient communes. Amerindians were taught trades, improved methods of cultivation, and the fine arts, as well as religion. Above all, they were protected from exploitation by the Spanish colonists. As the settlements prospered and grew in number to around 30 (with over 100,000 Amerindians), the jealousy of the colonists sparked a campaign to discredit the Jesuits. Eventually, the king of Spain became convinced that the order was trying to set up a private kingdom in the New World, and in 1767, he expelled the Jesuits from the New World. Once they had left, the *reducciones* disappeared. As for the Spanish colony at Asunción, it dominated the area of the Río de la Plata throughout this period. However, in 1776, when Buenos Aires became the capital of the new viceroyalty of La Plata, Asunción was reduced to an outpost.

In achieving independence, Paraguay first had to fight the forces of Argentina. Buenos Aires called on Paraguay in 1810 to follow its lead in a virtual declaration of independence. Paraguay declared independence from Spain but rejected the leadership of Buenos Aires. An Argentine expedition was decisively defeated, and Paraguay completed its move toward independence by deposing the last of its royal governors in 1811.

Since then, Paraguay has been dominated by dictatorships or near-dictatorships. The first and most famous of the dictators was José Gaspar Rodríguez de Francia (known as "El Supremo"), originally a member of the five-man junta elected in 1811 to govern the newly independent nation. He was granted full dictatorial powers for three years in 1814 and thereafter had the term extended for life. Francia attempted to cut Paraguay off from all contact with the outside world. Commerce was suspended, foreigners were expelled, relations with the papacy were broken off, and an anticlerical campaign was begun. All criticism was stifled, and a widespread spy network was developed. However, at the same time, Francia was honest and tireless in his devotion to his personal concept of the country's welfare. Francia governed until his death in 1840. Today, he is regarded as Paraguay's "founding father."

The next dictator was Carlos Antonio López. López loosened the ties of dictatorship only slightly, but reversed Francia's paranoid isolationism. He reestablished communications with the outside world and normalized relations with the papacy. López encouraged road and railway building, improved education somewhat, and became the largest landowner and the richest man in Paraguay. He made his son Francisco Solano López commander-in-chief of the army, thereby ensuring the younger López's succession to power in 1862, when the elder López died.

During his dictatorship, Francisco Solano López provoked quarrels with Argentina, Brazil, and Uruguay, who allied and attacked Paraguay. The War of the Triple Alliance (1865–70), sometimes

called the Paraguayan War, was the bloodiest in Latin American history. López, who fancied himself a Latin Napoleon, drafted virtually every male in Paraguay over the age of 12, with no upper age limit, and insisted that his troops never surrender. The war was a disaster for Paraguay, which lost two-thirds of all its adult males, including López himself. Paraguay's population fell from about 600,000 to about 250,000. The war also cost Paraguay 142,000 sq km (55,000 sq mi) of territory, its economic well-being, and its pride.

For the next 50 years, Paraguay stagnated economically. The male population was replaced by an influx of immigrants from Italy, Spain, Germany, and Argentina. Politically, there was a succession of leaders, alternating between the Colorado and Liberal parties. Then, a long-smoldering feud with Bolivia broke into open warfare (1932–35) after oil was discovered in the Chaco, a desolate area known as the “green hell.” Although outnumbered three-to-one, the Paraguayans had higher morale, were brilliantly led, and were better adapted to the climate of the region. Moreover, they regarded the conflict as a national undertaking to avenge the defeat of 1870. Paraguayans conquered three-fourths of the disputed territory, most of which they retained following the peace settlement of 1938.

Although President Eusebio Ayala emerged victorious from the Chaco War, he did not last long. The war produced a set of heroes, all of whom had great ambitions. One such man, Col. Rafael Franco, took power in February 1936. In 1939, after two more coups, Gen. José Felix Estigarribia, commander-in-chief during the Chaco War, was elected president. Estigarribia was killed in an airplane crash only a year later, and Gen. Higinio Morínigo, the minister of war, was appointed president by the cabinet. Through World War II, Morínigo received large amounts of aid from the United States, even though he allowed widespread Axis activity in the country. Meanwhile, he dealt harshly with domestic critics.

Morínigo retired in 1948, but was unable to find a successor. After a one-year period of instability, Federico Chávez seized control, and ruled from 1949 until 1954. In May 1954, Gen. Alfredo Stroessner, commander-in-chief of the armed forces, used his cavalry to seize power. He had himself elected president as the candidate of the Colorado Party, and then was reelected in another single-slate election in 1958, although he did permit the Liberal Party to hold its first convention in many years. With help from the United States, he brought financial stability to an economy racked by runaway inflation, but he used terrorist methods in silencing all opposition. Exiles who invaded Paraguay simultaneously from Argentina and Brazil in December 1959 were easily routed. Six other small invasions during 1960 were also repulsed. Stroessner won a third presidential term in February 1963, despite the constitutional stipulation that a president could be reelected only once. In August 1967, a constitutional convention approved a new governing document that not only provided for a bicameral legislature but also established the legal means for Stroessner to run for reelection. Stroessner did so in 1968, 1973, 1978, 1983, and 1988, all with only token opposition permitted. On 17 September 1980, the exiled former dictator of Nicaragua, Anastasio Somoza Debayle, who had been granted asylum by the Stroessner government, was assassinated in Asunción, and Paraguay broke off relations with Nicaragua.

During the 1980s, Stroessner relaxed his hold on Paraguay. The state of siege, which had been renewed every three months since 1959 (with a partial suspension from February 1978 to September 1980), was allowed to lapse in April 1987. Opponents of the regime gave credit for the ending of the state of siege to the United States, which had kept pressure on the Stroessner administration. However, allegations of widespread human rights abuses continued to be made. In April 1987, Domingo Laíno, an opposition leader exiled in December 1982 who had tried unsuccessfully to enter the country on five earlier occasions, was allowed to return to Paraguay. Part of this liberalization may have been in response to mounting criticism from the Roman Catholic Church, whose position moved closer to that of the various dissident groups.

On 3 February 1989 Stroessner's 35-year dictatorship came to an end at the hand of Gen. Andrés Rodríguez, second in command of the Paraguayan military. Immediately after the coup, Rodríguez announced that elections would be held in May. With only three months to prepare, little opposition beyond Domingo Laíno was mounted, and Rodríguez won easily with 75.8% of the vote. There followed an immediate easing of restrictions on free speech and organization. Labor unions were recognized and opposition parties allowed to operate freely. Rodríguez promised and delivered elections in 1993. In those elections, Colorado candidate Juan Carlos Wasmosy was elected to the presidency, the first time a civilian had become president through popular election since 1954. Paraguay had experienced an unprecedented transfer of political power through a constitution from one elected government to another. Wasmosy began to push for economic liberalization, including the sale of state-owned enterprises, but it was unclear whether the military was willing to support such measures.

In April 1996, General Lino Cesar Oviedo staged a brief rebellion when asked by Wasmosy to resign his post as army commander, but a coup was averted and Oviedo was eventually acquitted of charges of armed insurrection. Oviedo, now a civilian, has become the leader of an opposing faction of Wasmosy's Colorado Party. Other than Oviedo's short-lived rebellion, however, no serious threats to Wasmosy's economic and political reforms have been offered. In fact, the more democratic environment was tested and proven in 1993 by the first general labor strike in 35 years. Although the government responded with some force to this first strike, subsequent strikes have been met with a much gentler governmental hand. Unfortunately, the economy itself has been slow to respond to the new reforms. In the 1990s, Paraguay experienced 0% economic growth.

In the 1998 presidential elections, Raúl Cubas of the Colorado Party became president with 55.3% of the vote, but a year later he had to resign after the assassination of Vice President Luis Argaña. Cubas was closely associated with General Oviedo and the latter was linked to the political assassination. Upon Cubas' resignation, the president of the Senate, Luis González Macchi, was sworn in as president. Cubas sought exile in Brazil and Oviedo sought refuge in Argentina. González was correctly considered as a caretaker until new elections were held in 2003.

On 27 April 2003, Colorado Party candidate Oscar Duarte won the presidential election with 37.1% of the vote. Duarte promised to fight corruption in his party and the country. He sought to distance himself from former Colorado Party leaders and sought to portray himself as a modernizer and democratizing leader that

would open Paraguay to the world economy. Yet, his tenure had been rather modest in accomplishments. Duarte's party commanded support from 37 of the 80 members of the Chamber of Deputies and from 16 of the 45 members of the Senate. Thus, in order to advance his legislative initiative, he had to seek support from minority parties. Because he promised to fight corruption and promote transparency, it was difficult to bargain with corruption-prone parties. Moreover, because he failed to command majority control of congress, many of his anticorruption initiatives failed to materialize. The economy grew due primarily to a strong growth in Brazil, Paraguay's most important trade partner. Yet, government reform did not follow suit. The country remained somewhat isolated from the world and failed to seize trade opportunities. Poverty remained high and despite the good intentions, Duarte's tenure did not deliver on many of the promises made during the campaign. Yet Duarte helped consolidate democratic order and brought about stability which was threatened under the Cubas government.

13 GOVERNMENT

Under the constitution of 25 August 1967, Paraguay was a republic, with substantial powers conferred on the executive. The Constituent Assembly revised the constitution on 20 June 1992, but kept most of the structure from the previous document, while limiting many of the powers Stroessner used during his administration. The judicial system was also slated for overhaul.

The president is directly elected for a five-year term. The president is commander-in-chief of the military forces and conducts foreign relations. He appoints the 11-member cabinet, most administrators, and justices of the Supreme Court. He is advised by the Council of State, consisting of the cabinet ministers, the president of the National University, the archbishop of Asunción, the president of the Central Bank, and representatives of other sectors and the military.

The 1967 constitution provided for a bicameral legislature, consisting of the 45-member Senate and the 80-member Chamber of Deputies. Representatives must be at least 25 years of age and are elected for five-year terms. Voting is by secret ballot and is compulsory for all citizens ages 18–60. Women were first allowed to vote in 1963.

14 POLITICAL PARTIES

Since the end of the War of the Triple Alliance, two parties have dominated politics—the National Republican Association (Asociación Nacional Republicana), generally known as the Colorado Party, and the Liberal Party. Both parties have exemplified the uncompromising nature of Paraguayan politics and used their position to stifle the opposition. Consequently, changes of administration have been effected principally by armed revolt.

The Colorado Party governed from its founding in 1887 until 1904, and again after 1947. Conservative and nationalistic, the Colorados split during the 1950s into two factions: the “officialist” Colorados supported the Stroessner dictatorship, while the People's Colorado Movement (Movimiento Popular Colorado—MOPOCO) styled itself a supporter of “representative democracy.” Most of the MOPOCO leadership chose exile in 1959. In the 1980s the Colorados became even more divided. Three groups emerged: a “militant” pro-Stroessner faction; “traditionalists,” pushing for

Stroessner to step down; and a reformist “ethical” faction, which is interested in cleaning up government corruption.

The 1989 coup was engineered by a leader of the “traditionalist” faction. Wasmosy, the first freely elected civilian president who took office in 1993, was more reformist in his approach. Raúl Cubas was elected party president in 1998. He ran against his fellow party member Wasmosy and was supported by Gen. Lino Oviedo, who had attempted a military coup against Wasmosy in 1995. After the assassination of Colorado Party vice president Luis Argaña in 1999, Cubas had to resign. Senate president Luis González, also from the Colorado Party, became president. González faced accusations of corruption but an effort to impeach him failed in 2002. Even with the hefty parliamentary majority—45 out of 80 seats in the Chamber and 24 out of 45 seats in the Senate—the Colorados remained badly split and in disrepair until 2003. That year, the Colorado Party only won 37 seats in the Chamber and 16 seats in the Senate, falling short of a majority control in either chamber.

The Liberal Party, like the Colorados, appeared in 1887. They seized power in 1904 and governed until 1936. Banned in 1942, the Liberals were reconstituted during the 1960s. There has never been a recognizable ideological distinction between the Liberals and Colorados, but the two parties are similar in their disunity. Liberals had, by 1982, split into three factions: the Authentic Radical Liberal Party (Partido Liberal Radical Auténtico—PLRA), the Liberal Teeté Party (Partido Liberal Teeté—PLT), and the Radical Liberal Party (Partido Liberal Radical—PLR). After 1989, the PLRA and the PLR reemerged to compete for votes, with the PLRA considerably stronger. The PLRA, led by Domingo Laíno, was the largest opposition party in 1996. In the 1998 presidential and parliamentary elections Laíno obtained 43.9% of the vote and his party secured 27 out of 80 seats in the Chamber of Deputies and 13 out of 45 seats in the Senate. The 2003 presidential candidate, Julio César Franco, obtained a disappointing 24% of the vote, and the Liberal Party secured 21 seats in the Chamber and 12 seats in the Senate.

A number of short-lived parties have formed. The National Encounter Party (PEN), which appealed to the urban middle class, consisted of an alliance of several smaller parties and civic organizations. The PEN won eight seats in the Senate and nine seats in the Chamber of Deputies in the 1993 elections. But in 2003, it failed to win seats in either chamber. In 2003, three smaller parties—the populist Movement Fatherland of the Best, the conservative National Union of Ethical Citizens, and the left-wing Party for a Country of Solidarity—also won 10, 10, and 2 seats respectively in the Chamber and 8, 7, and 2 seats respectively in the Senate.

Electoral reform has purged the voter rolls of the deceased (who usually “voted” for Colorado Party members), made voting more than once in an election a punishable crime, and established a tribunal to oversee the electoral process. These reforms appear to be working, as evidenced by fair municipal elections in 1996 and presidential and parliamentary elections in 1998 and 2003.

15 LOCAL GOVERNMENT

Paraguay is divided into 17 departments, which are subdivided into districts, which, in turn, comprise municipalities (the minimum requirement for a municipality is 3,000 persons) and rural districts (*partidos*). A governor, elected by popular vote, runs each department. Municipal government is exercised through a

municipal board, chosen by direct election, and an executive department. In the principal cities and capitals, the executive department is headed by a mayor appointed by the minister of the interior; in other localities, the mayor is appointed by the presidents of the municipal boards. Police chiefs are appointed by the central government.

16 JUDICIAL SYSTEM

The five-judge Supreme Court exercises both original and appellate jurisdiction. There are four appellate tribunals: civil/commercial, criminal, labor, and juvenile. There are special appellate chambers for civil and commercial cases and criminal cases. Each rural district (*partido*) has a judge appointed by the central government to settle local disputes and to try accused persons and sentence those found guilty. Federal judges and magistrates are appointed by the executive for a term of five years coinciding with the presidential term, so that the judges of the Supreme Court and lesser tribunals are always named by the president in power. The Council of State must approve the appointment of members of the Supreme Court and may remove them by impeachment. Justices of the peace deal with minor cases. The judicial system has been modernized and has been identified as the main tool to end widespread corruption historically associated with the government bureaucracy. Because Paraguay has been historically considered a safe haven for smuggling of goods (with Argentina and Brazil being the final destinations), an independent and powerful judiciary is deemed essential to instill the rule of law in trade and commerce in Paraguay.

The 1992 constitution provides for selection of judges by an independent body working with the congress and the executive. As of 1997 based on recommendations from the Magistrates Council, the Supreme Court nominated 215 lower court judges and magistrates. There is also a military court system for the armed forces. The judicial system is based on civil law, mainly influenced by French and Argentine codes.

17 ARMED FORCES

Paraguay's armed forces in 2005 amounted to 10,300 active personnel, and was supported by some 164,500 reservists. The Army numbered 7,600, and whose equipment included 12 main battle tanks and 5 light tanks, all of World War Two vintage. The Navy of 1,400 included 900 Marines and 100 naval aviation personnel. Major naval units included 28 patrol/coastal vessels and 2 amphibious landing craft. The Air Force had 1,100 active personnel with 10 combat capable, including 4 fighter ground attack aircraft. It had no armed helicopters. The country's paramilitary force consisted of the 14,800-member Special Police Service. Paraguay had compulsory military service of one year for all males 18 years of age. The defense budget in 2005 totaled \$57.6 million.

18 INTERNATIONAL COOPERATION

Paraguay is a charter member of the United Nations, having joined on 24 October 1945; it participates in ECLAC and several nonregional specialized agencies, such as the IAEA, the World Bank, ICFTU, ILO, IMF, UNESCO, UNIDO, and the WHO. Paraguay is also a member of the South American Community of Nations, G-77, the Inter-American development Bank, the Latin American

Economic System (LAES), the Latin American Integration Association (LAIA), Mercosur, the OAS, and the Río Group.

Paraguay has offered support to UN missions and operations in Ethiopia and Eritrea (est. 2000), Liberia (est. 2003), Burundi (est. 2004), Côte d'Ivoire (est. 2004), and the DROC (est. 1999). The country is a signatory of the 1947 Río Treaty, an inter-American security agreement. Paraguay belongs to the Agency for the Prohibition of Nuclear Weapons in Latin America and the Caribbean (OPANAL) and the Organization for the Prohibition of Chemical Weapons.

In environmental cooperation, Paraguay is part of the Basel Convention, the Convention on Biological Diversity, Ramsar, CITES, the Kyoto Protocol, the Montréal Protocol, and the UN Conventions on the Law of the Sea, Climate Change, and Desertification.

19 ECONOMY

Landlocked Paraguay has a limited economy based predominantly on agriculture (cotton and soy), livestock production, forestry, and the basic processing of materials. The country has vast hydroelectric resources, including the world's largest hydroelectric generation facility built and operated jointly with Brazil (Itaipú Dam), but it lacks significant mineral or petroleum resources. Partnering with Brazil on the Itaipú, with Argentina on the Yacyreta, and operating the Acaray dam on the Acaray River, allows Paraguay to generate all of the country's electrical power from hydroelectric plants, and even export the remaining to neighboring countries. The relative importance of agriculture has declined, and the value of services has risen; however, cattle raising remains a key economic activity. The large informal sector consists mainly of the reexport of consumer goods from Asia and the United States to neighboring countries, and of the many small street vendors and businesses that provide services.

Paraguay suffered for years from runaway inflation. The International Monetary Fund (IMF) joined with the US government in 1957 to provide stabilization loans which enabled Paraguay to establish a free exchange system and to accelerate the pace of public investment. During the 1960s, inflation ranged between 2% and 3%, but the rate increased during the following decade to 28.2% in 1979. The rate was estimated to be 30–40% through the 1980s, fueled by rapid expansion of the money supply.

During the 1980s, construction of the Itaipú hydroelectric project (which was finished in 1982) stimulated Paraguay's economic expansion. At the end of the Itaipú building boom, currency devaluations in Argentina and Brazil (and thus the relative overvaluation of the guaraní), and declining international market prices for Paraguay's agricultural products led to an economic slowdown that was exacerbated by the impact of adverse weather on the agricultural sector.

An economic reform package instituted in the early 1990s included judicial reform, a macroeconomic stabilization program featuring fiscal austerity, liberalization of the exchange rate, and efforts to privatize state-owned enterprises. But the banking crisis of 1995 required a government bailout and sent shock waves through the economy, causing a sharp drop in commercial sales. Progress on the reforms continued in 1996 but at a slow pace due to stiff political opposition. Reforms were all but abandoned in 1997 and 1998. The economy grew at a rate of 2.7% between 1988 and 1998, but GDP contracted by 0.4% in 1998, when the financial

crisis was aggravated by El Niño crop damage. Inflation was at 7% in 1997, but rose to 14.6% in 1998, mainly because of the impact of the Brazilian currency devaluation, which led to a devaluation of the local currency, Paraguay's third banking crisis since 1995.

Similar to many Latin American countries during the 1980s and 1990s, Paraguay experienced small contractions alternating with slow growth; however, in 2002, the contraction in real GDP was estimated at 4.4% as the political situation became increasingly unstable. Unemployment rose to 16% in 1999, to 18% in 2000, and to 25% in 2001. An estimated 65% of the population was living below the poverty line in 2001. The integration into Mercosur (Southern Cone Common Market), did not bring the hoped-for benefits of increased foreign investment and increased exports, primarily because of the melt-down of the Argentinean economy in 2001 and 2002.

The election of President Duarte Frutos in August 2003 stabilized the situation. Aided by a firmer exchange rate and perhaps a greater confidence in the economic policy of the Duarte administration, the economy rebounded from 2003 to 2005, posting modest growth each year. Paraguay's real GDP in 2004 of \$7.98 billion (in 1994 dollars) represented an increase of 3.9% from 2003 (IMF data using the prior base year of 1982 shows real GDP growth of 2.9% in 2004). Official foreign debt rose slightly in 2005, to \$2.35 billion, but inflation dropped to 2.8%, down from 9.3% in 2003, the lowest rate since 1970. However, given the importance of the informal sector, accurate economic measures are difficult to obtain.

2⁰ INCOME

The US Central Intelligence Agency (CIA) reported that in 2005 Paraguay's gross domestic product (GDP) was estimated at \$30.9 billion. 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 based on current dollars. The per capita GDP was estimated at \$4,900. The annual growth rate of GDP was estimated at 3.3%. The average inflation rate in 2005 was 7.5%. It was estimated that agriculture accounted for 27.5% of GDP, industry 24%, and services 48.5%.

According to the World Bank, in 2003 remittances from citizens working abroad totaled \$222 million or about \$39 per capita and accounted for approximately 3.7% of GDP. Foreign aid receipts amounted to \$51 million or about \$9 per capita and accounted for approximately 0.8% of the gross national income (GNI).

The World Bank reported that in 2003 household consumption in Paraguay totaled \$5.29 billion or about \$937 per capita based on a GDP of \$6.0 billion, measured in current dollars rather than PPP. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the period 1990 to 2003 household consumption grew at an average annual rate of 2.8%. It was estimated that in 2005 about 32% of the population had incomes below the poverty line.

2¹ LABOR

In 2005, Paraguay's labor force totaled an estimated 2.68 million. As of 2003, agriculture accounted for 31.5% of the workforce, with 15.8% in the industrial sector and 52.7% in the ser-

vices sector. In 2005, it was estimated that 16% of the labor force was unemployed.

The constitution provides Paraguayans in both the public and private sector the freedom to form and join unions without government interference. The constitution also protects fundamental worker rights, including the right of association. There also are provisions for antidiscrimination, employment tenure, severance pay, collective bargaining, and the right to strike. As of 2001, 15% of the labor force (about 121,000 workers) belonged to unions, which numbered approximately 1,600.

Labor laws provide for a maximum workweek of 48 hours for day work and 42 for night work, with one day of rest. The law also provides for an annual bonus of one month's salary. The minimum wage was \$170 per month in 2001 for the private sector; the public sector has no mandated minimum. It is estimated that 50% of workers earn less than the minimum amount. The minimum working age is 15, although minors as young as 12 may work in family enterprises. In reality these provisions are not effectively enforced and thousands of children work both on farms and in urban areas.

2² AGRICULTURE

Cultivation utilizes about 7.9% of Paraguay's total land area. The total area under cultivation rose from 245,636 hectares (606,976 acres) in 1940–41 to an estimated 3,136,000 hectares (7,749,000 acres) in 2003. Primary agriculture accounts for 20% of GDP and about 35% of employment. The principal areas of cultivation are in the clearings around Asunción and Encarnación. Arable land outside these regions is sparsely settled, and inhabitants there rely principally on livestock and forestry for a living.

The two most widely cultivated crops are manioc (cassava) and corn, which, with meat, are the staples of the Paraguayan diet. Cotton, tobacco, and sugarcane are among the leading cash and export crops. A national wheat program increased production from 7,000 tons in 1965 to 23,000 tons in 1973, 55,000 tons in 1981, and 715,000 tons in 2004, eliminating the need for wheat imports. Enough beans, lentils, sweet potatoes, peanuts, coffee, and fruits are grown for home use, and slightly more than enough rice. Crops yielding edible oils are widely grown, and yerba maté is cultivated on plantations. Production of principal crops for 2004 (in tons) included sugarcane, 3,637,000; manioc, 5,500,000; soybeans, 3,583,000; corn, 1,120,000; yerba maté, 115,000; cotton, 109,000; and tobacco, 16,500. In 2004, Paraguay exported \$1.35 billion in agricultural products, 68% of total exports.

2³ ANIMAL HUSBANDRY

During the 1960s and 1970s, the meat-packing industry developed appreciably, with meat and related products constituting Paraguay's most important single export. Since the late 1970s, however, market conditions for beef exports have deteriorated, and the value of exported meat products has declined significantly. Exports of livestock and livestock products typically account for 7% of total exports and in some years comprise as much as 14%. In 2004, meat exports amounted to \$159.7 million. About 70–80% of beef exports are sent to Mercosur countries.

In 2005, livestock totaled 9,622,000 head of cattle, 1,600,000 hogs, 500,000 sheep, and 360,000 horses. There were also an estimated 17 million chickens that year. Beef production was about

215,000 tons. Other livestock products in 2005 included 372,400 tons of cow's milk and 100,000 tons of eggs.

24 FISHING

Paraguay has no appreciable fishing industry, and the consumption of fresh fish is low. The country has potential resources for fisheries, however. Dorado weighing up to 18 kg (40 lb) are caught in the Upper Paraná River, and the Paraguay River yields salmon, surubi, pacú, boga, and mandi. The catch was 25,000 tons in 2003.

25 FORESTRY

Although forest resources are immense, exploitation is limited by lack of roads and mechanized transport facilities. About 59% of Paraguay's total land area consists of forest (23.4 million hectares/57.7 million acres in 2000). However, much of that lies in the western Chaco, the forest resources of which have never been exploited. Roundwood cuttings totaled 9.99 million cu m (352.6 million cu ft) in 2004, with 60% used for fuel wood.

Exportation of logs was banned in 1973 in order to encourage the domestic lumber industry; forest products earned \$37.5 million on the export market during 2004.

The chief forest products are quebracho, various cabinet and other tropical hardwoods, and oil of petitgrain. Quebracho, the source of the tannin used by the leather-tanning industry, is the wood of the greatest commercial importance. Paraguay is the world's largest producer of petitgrain oil, a perfume base distilled from the leaves and shoots of the bitter orange tree. Since wood and charcoal are the only fuels produced in Paraguay, about two-thirds of all wood cut is used for burning.

26 MINING

Paraguay's mining potential has been restricted by limited exploration, inadequate infrastructure, large fiscal and trade deficits, scarcity of foreign exchange, and limited private investment, and the reforms deemed necessary to alleviate the country's economic stagnation were impeded by political uncertainty. The mineral industry in 2003 accounted for less than 1% of GDP, and was focused on the production of cement, and the extraction of industrial minerals such as clays, gypsum, kaolin, limestone, marble, ocher, ornamental stone, silica sands, and pryophyllite soapstone talc. No minerals were among the country's top export commodities. Production for 2003 included an estimated 66,600 metric tons of kaolin and an estimated 16,300 metric tons of limestone for cement and lime. In 2003, Paraguay also produced lime, rock, dimension stone, other stone, and hydraulic cement. In addition, sandstone, mica, copper, and salt have been exploited modestly in recent years.

There were small deposits of iron ore, and a few mines were worked before 1865, but there was no evidence, until recently, of any metallic mineral deposits of commercial value. Lateritic iron ore deposits along the Paraná River near Encarnación were estimated at 300 million tons with 35% iron. Manganese deposits were known to exist near the Guairá Falls. Excellent limestone, found in large quantities along the Paraguay River north of Concepción, was quarried for the cement industry. There were also known deposits of azurite, barite, lignite, malachite, peat, pyrite, pyrolusite, and uranium. Under Paraguayan law, all mineral rights

belong to the government, which has sought to encourage mining development by the privatization of some state-owned companies. A diamond-drilling and igneous exploration program begun in 1997 was completed, and there was ongoing exploration throughout the country by foreign companies.

27 ENERGY AND POWER

Paraguay has no known proven reserves of oil or natural gas. However, it is a major exporter of hydroelectric power.

Hydroelectric power accounts for nearly all of the country's electric power capacity. In 2002, electric power generating capacity totaled 7.416 million kW, of which hydroelectric capacity accounted for 7.410 million kW, with the remaining capacity dedicated to conventional thermal generation. Electric power output in 2002 totaled 47.774 billion kWh, of which hydroelectric plants generated 47.730 billion kWh. Geothermal/other sources generated 0.030 billion kWh, and conventional thermal sources 0.14 billion kWh. However, domestic demand for electric power totaled only 2.660 billion kWh. Exports of electric power that year came to 41.770 billion kWh.

Although Paraguay has no reserves of oil, it does have a modest crude oil refining capacity. As of 1 January 2004, the country's refining capacity was estimated at 7,500 barrels per day. Crude oil imports in 2002 averaged 2,020 barrels per day, while imports of all petroleum products, averaged 25,340 barrels per day, for that year. Demand for refined petroleum products in 2002, averaged 25,050 barrels per day.

28 INDUSTRY

Paraguay is one of the least industrialized countries in South America. Because of the limited quantities of proven mineral reserves, there is mining only of limestone, gypsum, and clays, mostly for the building trade. Manufacturing is generally small-scale and directed toward processing agricultural products. The principal industry of Paraguay is farming; agriculture accounted for 24.1% of GDP in 2004. The leading agricultural products are cotton, sugarcane, corn, soybeans, potatoes, bananas, oranges, wheat, beans, tobacco, mandioca (yucca), and yerba maté (Paraguayan tea, which is very popular among country residents). Livestock breeding is also a major occupation, and the most favored areas are located at the Chaco and southern oriental region. Forestry is also important to the economy, while tourism plays a minor role. Most visitors are from Brazil and Argentina, demonstrating the strong economic ties with those countries.

Processing of agricultural, animal, and forestry products, mainly for export, and small-scale manufacture of consumer goods for local needs are of greatest importance. Most manufacturing is done in the Asunción area; some plants, however, are near the source of their respective raw materials. Import-substitution industries encouraged by the government include petroleum refining, foodstuffs, wood processing, and chemicals. The re-export of imported consumer goods to neighboring countries is a recent economic development. Maquila assembly operations began in 2000, with the export of leather car seats to France. Manufacturing accounted for 14.5% of GDP in 2004.

Industries include two cement plants, at Vallemí and Itapucumi, and a Paraguayan-Brazilian steel mill at Villa Hayes. Food-processing plants include slaughterhouses; flour mills; sugar mills;

oil mills producing cottonseed and peanut oils for domestic consumption, as well as castor, tung, cocoa, and palm oils for export; related industries that process the by-products of oil extraction; and mills that produce yerba maté. There are numerous sawmills. A considerable but decreasing number of hides are also produced for export. Although there is a considerable textile industry, imports still run high.

2⁹ SCIENCE AND TECHNOLOGY

In 1993, there were eight scientific and technological research institutes and learned societies in Paraguay, all of them located in Asunción. Notable among them are the Paraguayan Scientific Society, founded in 1921, and the South American Union of Engineers' Associations, established in 1935. The Nuestra Señora de la Asunción Catholic University, founded in 1960 at Asunción, has a faculty of science and technology. The National University of Asunción, founded in 1889, has faculties of medicine, dentistry, chemistry, exact and natural sciences, physical sciences and mathematics, veterinary sciences, and agricultural engineering. The Higher School of Philosophy, Sciences and Education, also in Asunción, was founded in 1944. In 1987–97, science and engineering students accounted for 20% of college and university enrollments.

In 2002, Paraguay's expenditures on research and development (R&D) totaled \$24.852 million, or 0.10% of GDP. Of that amount, 63.1% came from government sources, followed by 21.8% from foreign investors. Higher education accounted for 12.7% and private nonprofit groups accounted for 2.3%. In that same year there were 83 researchers and 118 technicians that were engaged in R&D per million people. High technology exports in 2002 totaled \$7 million, or 3% of the country's manufactured exports.

3⁰ DOMESTIC TRADE

Offices that deal with foreign concerns and most important retail establishments are in Asunción, the only significant commercial center. Most retail trade is in small shops dealing in a limited variety of goods.

Legislation in 1961 provided for governmental and private commercial credit companies to aid in the development of agricultural, livestock, and industrial activities. Consumer credit facilities have been expanding. Many of the larger Asunción stores offer installment credit.

Most commercial activity is focused on reexport of items from Asia and the United States to Argentina and Brazil. Much of this activity takes place through an underground market system, which some business groups claim is just as large as Paraguay's formal economy. The informal sector features thousands of small enterprises and urban street vendors, along with reexports of select imported consumer goods (electronics, whiskeys, perfumes, cigarettes, and office equipment).

3¹ FOREIGN TRADE

Paraguay's foreign trade is typical for an agricultural country, but the re-export trade on the black market is the country's largest foreign exchange earner. Over a third of Paraguay's reported commodity export returns comes from oil seeds (34%), while another

Principal Trading Partners – Paraguay (2002-2003)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	1,241.5	1,672.1	-430.6
Brazil	424.9	511.5	-86.6
Uruguay	243.1	61.5	181.6
Cayman Islands	119.8	...	119.8
Switzerland-Liechtenstein	97.1	67.0	30.1
Argentina	66.4	344.6	-278.2
United States	45.0	83.6	-38.6
Italy-San Marino-Holy See	40.4	14.9	25.5
Bolivia	21.4	...	21.4
Peru	17.9	...	17.9
China	16.7	211.4	-194.7

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

9.1% comes from cotton. Other exports include meat (8.3%), leather (6.0%), wood and plywood (5.5%), and vegetable oil (4.8%).

The main imports are machinery, petroleum and petroleum products, chemicals, automobiles and buses, principally from Brazil and the United States. Bilateral European Union-Paraguay trade represented 10.8% of GDP in 2004, with imports decreasing and exports increasing as a percentage of GDP for the last five years.

3² BALANCE OF PAYMENTS

The US Central Intelligence Agency (CIA) reported that in 2001 the purchasing power parity of Paraguay's exports was \$2.2 billion while imports totaled \$2.7 billion resulting in a trade deficit of \$500 million. The International Monetary Fund (IMF) reported that in 2001 Paraguay had exports of goods totaling \$2.41 billion

Balance of Payments – Paraguay (2003)

(In millions of US dollars)

Current Account			146.0
Balance on goods		-260.2	
Imports	-2,520.7		
Exports	2,260.5		
Balance on services		241.7	
Balance on income		-0.1	
Current transfers		164.6	
Capital Account			15.0
Financial Account			217.6
Direct investment abroad		-5.5	
Direct investment in Paraguay		90.8	
Portfolio investment assets		...	
Portfolio investment liabilities		-0.4	
Financial derivatives		...	
Other investment assets		202.3	
Other investment liabilities		-69.6	
Net Errors and Omissions			-145.8
Reserves and Related Items			-232.8

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

and imports totaling \$2.95 billion. The services credit totaled \$580 million and debit \$410 million.

Paraguay presently maintains a balance-of-payments surplus. It runs a deficit in the trade of goods, but a large surplus in services, reflecting large exports of electricity from Paraguay's two large hydroelectric dams shared with Brazil and Argentina. In 2004, official foreign exchange reserves increased almost 50% from 2002.

33 BANKING AND SECURITIES

The Central Bank of Paraguay (BCP) was founded in 1952 as a state-owned, autonomous agency charged with establishing the government's monetary credit and exchange policies. Recommendations in early 1961 by an economic mission of the IDB and IBRD led to the establishment of the National Development Bank to provide an effective source of medium- and long-term agricultural and industrial credits. Savings and loan institutions are regulated by the superintendent of banks. There are two state-owned banks, some locally owned banks, and nine foreign banks. Foreign-owned banks account for 86% of total deposits and 83% of all loans, and the two largest banks—Banco de Asunción and Citibank—are foreign-owned.

In 1995, there were 35 banks operating in Paraguay, 9 of which had opened since 1990. During the same period the number of finance companies nearly doubled, to 68. The increase in the number of banks and finance companies, out of all proportion to the size of the economy, was generally believed to be related to the rapid increase in "hot money" flows through Paraguay associated with drug smuggling. In late 1995, the Central Bank announced a freeze on the opening of new banks and finance companies on the grounds that the local market was saturated. In the same year, a currency crisis caused the collapse of ten institutions, requiring \$400 million in government subsidies. The 1996 Banking Law strengthened supervision of the banking system; in 1997 Banco Union was liquidated, as were two of the largest public banks due to poor performance. There are now 40 finance companies. The International Monetary Fund (IMF) reported that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$668.1 million. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$2.6 billion. The money market rate, the rate at which financial institutions lend to one another in the short term, was 13.45%. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 20%.

Paraguay's first stock market began trading in October 1993. There are 60 local companies traded on the exchange. All companies have a minimum paid-up capital of \$50,000. However, the tradition of family ownership and almost universal practice of "double accounting" for tax evasion purposes places limits on the growth of a capital market. In 1998, the stock market handled approximately \$10–15 million per a month in transactions.

34 INSURANCE

All insurance business in Paraguay is regulated by the government through the superintendent of banks. Foreign companies are permitted to operate in the country, but are under stringent requirements calling for the investment of capital and reserves. In 1995, there were 40 insurance companies operating in Paraguay. Work-

Public Finance – Paraguay (2003)

(In billions of guaraníes, budgetary central government figures)

Revenue and Grants	6,065.6	100.0%
Tax revenue	3,676.4	60.6%
Social contributions	369.4	6.1%
Grants	163.3	2.7%
Other revenue	1,856.4	30.6%
Expenditures	6,299.8	100.0%
General public services	...	...
Defense	...	...
Public order and safety	...	...
Economic affairs	...	...
Environmental protection	...	...
Housing and community amenities	...	...
Health	...	...
Recreational, culture, and religion	...	...
Education	...	...
Social protection	...	...

(...) data not available or not significant.

SOURCE: *Government Finance Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

ers' compensation and public transport liability are both compulsory insurances in Paraguay, with the government providing workers' compensation as a part of the social security scheme.

35 PUBLIC FINANCE

The Paraguayan government depends upon import duties for revenue, especially from the reexport trade. The government is the largest employer, and the budget represents 40% of GDP. The majority of the budget (80%) goes to public employee salaries, 15% to servicing the foreign debt, and 5% for investment.

The US Central Intelligence Agency (CIA) estimated that in 2005 Paraguay's central government took in revenues of approximately \$1.3 billion and had expenditures of \$1.3 billion. Revenues minus expenditures totaled approximately -\$36 million. Public debt in 2005 amounted to 36.1% of GDP. Total external debt was \$3.535 billion.

The International Monetary Fund (IMF) reported that in 2003, the most recent year for which it had data, budgetary central government revenues in guaraníes were G6,065.6 billion and expenditures were G6,299.8 billion. The value of revenues in US dollars was US\$1 million, based on a market exchange rate for 2003 of US\$1 = G6,424.3 as reported by the IMF.

36 TAXATION

In 2005 the basic corporate tax rate was 30%, but there are a number of exceptions. Reinvested income and investment in reforestation are taxed at 10%, and stock exchange companies are taxed at a reduced rate of 15% until 2008. In addition, the corporate rate was scheduled to be cut to 20% in 2006 and to 10% in 2007 and beyond. Capital gains on all assets are taxed at 30%, but in tandem with the corporate rate, was to be reduced to 20% in 2006 and to 10% in 2007. In 2005, dividends to resident shareholders were not taxed, but dividends paid to nonresident shareholders were subject to a 5% withholding tax. However, in 2006 the withholding tax rate on dividends paid abroad to nonresidents was scheduled

to increase to 15%. In 2007, and onward, dividends paid to residents and nonresidents will be 5% and 15%, respectively. Branches of foreign companies established in Paraguay, apart from the maquila, free zone, and investment incentives regimes, are subject to a 35% corporate income tax rate for 2005 and 2006, which was slated to drop to 30% in 2007. There is a license tax payable by all persons and entities engaged in permanent forms of business.

Paraguay only directly taxes "high-level" executives on their income, but this may be handled through the corporation tax if the company only deducts the amount of executive salaries held to be tax-exempt under the law. If the company deducts all executives' salaries, individual executives are subject to income tax. Social security taxes total 25.5% of payroll, with 16.5% from the employer and 9% from the employee. All land and buildings are also subject to an annual property tax proportional to the fiscal valuation of real estate.

The main indirect tax is Paraguay's value-added tax (VAT) with a standard rate of 10%.

37 CUSTOMS AND DUTIES

In general, Paraguayan customs duties have been viewed as a source of revenue and a means of conserving foreign exchange, with relatively few of the high duties being intended as protection for manufactured products. Tariff rates, under the Mercosur common external tariff (CET) agreement, range from 0% for raw materials to 20% for automobiles. Import duties are specific, ad valorem, or both. Import pressures are such that the government has not kept a tight control on the purchase of nonessentials. In 2005, Paraguay imposed consumption taxes of 5% on imported luxury items such as perfumes, toilet waters, cosmetics, precious and semiprecious stones and on watches, arms, ammunition and parts. A 1% rate will be applied to certain consumer appliances and electronic products. Toys, games, and musical instruments (and parts) will be zero-rated.

Paraguay has free port privileges in Brazil at Paranaguá, Santos, and Río Grande do Sul; in Argentina at Buenos Aires and Rosario; in Chile at Antogagasta; and in Uruguay in Montevideo and Nueva Palmira. Most trade is done through the Brazilian ports.

38 FOREIGN INVESTMENT

Paraguay's economy historically has been dominated by foreign interests, in particular by those of wealthy Argentineans, Britons, and Brazilians. Nevertheless, the Paraguayan government has encouraged foreign investment in recent years, as a means of developing the country. Foreign direct investment (FDI) inflows into Paraguay were approximately \$100 million per year in 1993 and 1994. By 1997, FDI inflow had increased to \$230 million, peaking at \$336 million in 1998. FDI inflows fell sharply in 1999 to only \$66 million amid the political violence and chaos that ensued after President Cubas released General Lino Oviedo from prison. FDI inflows increased to \$95 million in 2000, and to \$152 million in 2001. During the period of August 2003 through July 2004 the Paraguayan government approved foreign investment projects worth \$45.2 million, which represented 29% of all investment projects, foreign and national, approved during that period.

Government efforts to attract foreign investment through privatization have progressed slowly because of political opposition and uncertainty about the transparency of the process. Political

realities impede the process even further, as the large state-run companies most attractive to foreign buyers (such as telecommunications, water/sewage, and electrical companies) employ thousands of potential voters and are outlets for political patronage. The telephone and utilities company were in the process of being privatized before the government suspended the process in June 2002, after bowing to political pressure. In 2004, Congress tried to reverse legislation that prohibited privatization but discontinued its efforts in the face of public demonstrations against privatization.

Currently, the United States has the largest foreign investment in Paraguay, with a total of US investments in Paraguay exceeding \$440 million. Foreign investment was strongly concentrated in the services sector, mainly cellular telephones and hotels.

Foreign investment laws are among the most liberal in Latin America. Private property has historically been respected in Paraguay but despite the incentives, private investment has been insufficient to maintain a sustainable pace of growth.

39 ECONOMIC DEVELOPMENT

Paraguay has sought to develop closer economic ties with Brazil, the United States, and Western European nations, largely to reduce the country's dependence on trade with Argentina.

Economic planning is the responsibility of the Technical Planning Secretariat for Economic and Social Development, established in 1962. The first national plan covered 1965–66; the second, 1967–68. The third plan, a medium-term, five-year program for 1969–73, was replaced by a 1972–77 development scheme calling for a 26% increase in public investment in agriculture. Regional development, also given high priority, was to be accomplished through Paraguay's utilization of its water resources in the Itaipú hydroelectric project; a parallel development program for the Alto Paraná region was retarded by delays in the Yacyretá power project. The 1977–81 development plan aimed to achieve a more equitable distribution of social resources. A plan announced in September 1986 provided for comprehensive reform in exchange rates and in investment and fiscal policies. Government economic reforms during the 1990s were generally subsumed by opposition parties. Reforms in 1999 centered on a diversification of the economy, away from the re-exportation business, and on fighting corruption, which the government's comptroller office estimated to have cost \$2.3 billion in 1997.

Foreign debt rose in early 2003 to \$2.28 billion, inflation rose to 14.6%, and the currency lost over 50% of its value against the US dollar in 2002. In the early 2000s, the country's economy was marked by slow economic growth, increasing unemployment, and rising poverty rates. Paraguay was in arrears with the World Bank and the Inter-American Development Bank in 2003. That year the IMF encouraged the country to revive its privatization program and to strengthen the banking system.

Macroeconomic performance has improved significantly under the Duarte administration, with inflation falling significantly, and the government clearing its arrears with international creditors. Unemployment remains stubbornly high and the living standard of most households has not improved. However, the administration has placed a strong emphasis on participating in international institutions and has used diplomacy to promote the opening of international markets to Paraguayan products. To curb corruption,

the president identified respected apolitical officials to head the ministries of finance and industry. The ministry of industry has created a transparent, internet-based government procurement system that has won the praise of the private sector. Six Supreme Court justices were selected with input from civil society and public hearings in the congress, both a first for Paraguay.

40 SOCIAL DEVELOPMENT

All employed persons are covered by the social insurance system, first established in 1943, and most recently updated in 1992. The program is funded by a contribution of 9% of earnings from employees and a contribution of 14% of payroll by employers, and a contribution of 1.5% of earnings by the government. The program provides for free medical, surgical, and hospital care (not always available) for the worker and dependents, maternity care and cash benefits, sickness and accident benefits, retirement pensions for people ages 55–59, and funeral benefits. Coverage for work injury is also available for all employees including domestic servants and teachers.

Although women have full legal rights, in practice they face discrimination in education and employment, and their literacy rates are much lower than those of men. Domestic violence and sexual harassment remain serious problems for women and have been targeted as key issues by both the government and nongovernmental organizations. Spousal abuse is common and punishable only by a fine. The majority of women face harassment in the workplace. As of 2004, women had a higher illiteracy rate than men. The secretariat of women's affairs sponsors programs to increase opportunities for women.

Human rights abuses include arbitrary arrest and detention, corruption in the judiciary, and poor prison conditions. Discrimination against indigenous people continues.

41 HEALTH

Hospital and medical facilities are generally concentrated in Asunción and other towns. There were an estimated 117 physicians, 36 dentists, and 20 nurses per 100,000 people in 2004. Total health care expenditure was estimated at 5.2% of GDP.

Average life expectancy in 2005 was 74.89 years; the infant mortality rate averaged 25.63 per 1,000 live births. As of 2003, the crude birth rate and overall mortality rate were estimated at, respectively, 30.5 and 4.7 per 1,000 people. Maternal mortality was 190 per 100,000 live births. More than half of the married women ages 15–44 used contraceptives. The principal causes of death are bacillary dysentery and other intestinal diseases, heart disease, pneumonia, and cancer. Approximately 79% of the population had access to safe drinking water and 95% had adequate sanitation. Immunization rates for children up to one year old were: tuberculosis, 87%; diphtheria, pertussis, and tetanus, 82%; polio, 82%; and measles, 60%. About 26% of children under five years old were considered malnourished.

There were an estimated 600 deaths from AIDS in 2003. The HIV/AIDS prevalence was 0.50 per 100 adults in 2003. As of 2004, there were approximately 1,500 people living with HIV/AIDS in the country.

42 HOUSING

As of 1998, the country continued to face serious housing shortages with a cumulative deficit of about 350,000 dwelling units. About 30% of the population live with overcrowded conditions; the average number of people per dwelling is 4.6. A majority of housing units lack basic utilities. At the 2002 census, there were about 1.1 million housing units.

A government agency, the Paraguayan Housing and Urban Institute, was created in 1964 with an IBRD loan of \$3.4 million to aid in the construction of living units for low-income families. In 1973, a National Housing Bank was established to finance low-income housing development.

43 EDUCATION

Elementary education is compulsory and free for 9 years, usually for children ages 6–14 (ages 9–14 in rural areas). Primary education lasts for nine years followed by three years of secondary or professional school. The academic year runs from March to November.

In 2001, about 30% of children between the ages of three and five were enrolled in some type of preschool program. Primary school enrollment in 2003 was estimated at about 89% of age-eligible students. The same year, secondary school enrollment was about 51% of age-eligible students. It is estimated that about 92.8% of all students complete their primary education. The student-to-teacher ratio for primary school was at about 27:1 in 2003; the ratio for secondary school was about 12:1.

The National University of Paraguay is located in Asunción, the capital city. Nuestra Señora de la Asunción Catholic University, a private institution, was founded in 1960. There are at least 12 other universities within the country. In 2003, about 27% of the tertiary age population were enrolled in some type of higher education program. The adult literacy rate for 2004 was estimated at about 91.6%.

As of 2003, public expenditure on education was estimated at 4.4% of GDP, or 11.4% of total government expenditures.

44 LIBRARIES AND MUSEUMS

Paraguay's modest cultural life is centered in Asunción, which has the nation's principal libraries and museums. The National Library and Archives, established in 1869, are located in Asunción and hold 44,000 volumes. The National University of Asunción holds 26,100 volumes, and the Natural and Ethnographic History Museum, also in Asunción, holds 30,000 volumes. The Centro Cultural Paraguayo-Americano has a 12,000-volume library with both Spanish and English titles and includes one of the country's most complete collections of Paraguayan works.

Asunción is the site of 13 historical, scientific, and art museums. Prominent art museums include the National Museum of Fine Arts and Antiquities; the Andrés Barbero Ethnographic Museum, devoted to Amerindian art; the Julián de la Herrería Ceramics and Fine Arts Museum; and the Museum of Modern Art of the Ministry of Education. There is an historic house museum in Yaguaron.

45 MEDIA

In 2003, there were an estimated 46 mainline telephones for every 1,000 people. The same year, there were approximately 299 mobile phones in use for every 1,000 people.

Radio Nacional del Paraguay is the primary state-owned station. Other stations for radio and television are privately owned. In 2000, there were 218 television sets for every 1,000 people. In 2003, there were 188 radios for every 1,000 people. The same year, there were 34.6 personal computers for every 1,000 people and 20 of every 1,000 people had access to the Internet. There were nine secure Internet servers in the country in 2004.

Newspaper readership in Paraguay is among the lowest in Latin America. There were four major daily papers in circulation in 2004. The circulation of *Ultima Hora*, founded in 1973, was 40,000 in 2004. *Noticias* had a circulation of 50,000 in 2004 and *ABC Color* had a circulation of 35,000 (down from 75,000 in 2002). *Diario Popular* began publication in 1967; circulation figures in 2004 were unavailable.

As of 2006, the constitutionally guaranteed freedom of speech and the press is said to be respected by the government to a greater degree than any time in the country's recent history. An increasing amount of the media is independently owned.

46 ORGANIZATIONS

Several chambers of commerce promote local and international trade. Active trade associations include the Federation of Production, Industry, and Commerce, an importers' association, and various organizations of particular trades. Professional associations are also active, particularly in the field of healthcare.

The Paraguayan Athenaeum sponsors lectures, concerts, and recitals, as well as courses in foreign languages, art, and music. The Paraguayan-American Cultural Center and the Argentine-Paraguayan Institute are important binational centers. Paraguay has an Academy of Language and several organizations devoted primarily to Guaraní culture, including the Academy of Guaraní Culture and the Indian Association of Paraguay.

Other organizations include the Women's Center and the Youth Athenaeum. The Paraguay Association of Scouts and Guides, Junior Chamber, and the YMCA/YWCA are also active. Sports associations offer programs for all ages and there are active organizations of the Special Olympics.

Amnesty International, Caritas, Habitat for Humanity, and the Red Cross have national chapters.

47 TOURISM, TRAVEL, AND RECREATION

The monuments, museums, and parks of Asunción are the main tourist attractions. Also of interest are the Amerindian markets in and around the capital; at the famous market of Itauguá about 30 km (18 mi) from Asunción, the makers of ñandutí lace sell their wares. Other popular tourist attractions include the world famous Iguazu Falls at Paraguay's borders with Brazil and Argentina, the San Bernardino resort, on Lake Ypacarai, and the modern boom town of Ciudad del Este (formerly Puerto Presidente Stroessner). Football (soccer) is Paraguay's national sport, with some 30 clubs

in Asunción alone. Tennis, horse racing, boxing, basketball, and rugby football are also popular.

Foreign tourists entering Paraguay are required to present a valid passport and visa. Visitors may be required to show proof of vaccinations against yellow fever. Strong precautions are recommended against typhoid and malaria.

In 2003, there were 268,175 tourist arrivals in Paraguay, of whom 66% came from Argentina. Tourist receipts totaled \$81 million. That year there were 4,899 rooms in hotels and other facilities with 10,565 beds and a 38% occupancy rate. The average length of stay was 2.5 nights.

In 2004, the US Department of State estimated the daily cost of staying in Asunción at \$153; in Encarnación, \$47; and in Ciudad del Este, \$122.

48 FAMOUS PARAGUAYANS

Paraguay acclaims—despite their reputations as dictators—the first three leaders of the independent nation: José Gaspar Rodríguez de Francia (El Supremo, 1761?–1840), his nephew Carlos Antonio López (1790–1862), and the latter's son Francisco Solano López (El Mariscal, 1827–70). Of nearly equal prominence is José Félix Estigarribia (1888–1940), president and Chaco War commander. Manuel Gondra (1872–1927), twice president of Paraguay, was a literary critic, educator, and diplomat. Eusebio Ayala (1875–1942), another president, was an authority on political economy and international law. Alfredo Stroessner (b.1912) was president of Paraguay from 1954 to 1989.

Leading writers include Juan Silvano Godoi (1850–1926), Manuel Domínguez (1869–1935), Pablo Max Ynsfrán (1894–1972), Justo Pastor Benítez (1895–1962), former president Juan Natalicio González (1897–1966), Gabriel Casaccia (1907–80), Augusto Roa Bastos (1917–2005), and Hugo Rodríguez Alcalá (b.1917). Pablo Alborno (1877–1958) and Juan Domínguez Samudio (1878–1936) were noted artists, while in music, José Asunción Flores (1904–1972) is best known.

49 DEPENDENCIES

Paraguay has no territories or colonies.

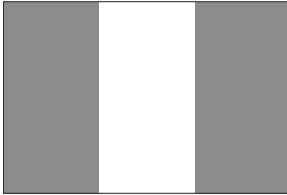
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PERU

Republic of Peru
República del Perú



CAPITAL: Lima

FLAG: The national flag consists of red, white, and red vertical stripes.

ANTHEM: *Himno Nacional*, beginning “Somos libres, seámoslo siempre” (“We are free; let us remain so forever”).

MONETARY UNIT: The nuevo sol (ML), a paper currency of 100 céntimos, replaced the inti on 1 July 1991 at a rate of 11,000,000 = ML1, but, in practice, both currencies are circulating. There are coins of 1, 5, 10, 20, and 50 céntimos and 1 nuevo sol, and notes of 10, 20, 50, and 100 nuevos soles and 10,000, 50,000, 100,000, 500,000, 1,000,000, and 5,000,000 intis. ML1 = \$0.30395 (or \$1 = ML3.29) as of 2005.

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

HOLIDAYS: New Year’s Day, 1 January; Labor Day, 1 May; Day of the Peasant, half-day, 24 June; Day of St. Peter and St. Paul, 29 June; Independence Days, 28–29 July; Santa Rosa de Lima (patroness of Peru), 30 August; Battle of Anzamos, 8 October; All Saints’ Day, 1 November; Immaculate Conception, 8 December; Christmas, 25 December. Movable holidays include Holy Thursday and Good Friday.

TIME: 7 AM = noon GMT.

¹LOCATION, SIZE, AND EXTENT

Peru is South America’s third-largest country, with an area of 1,285,220 sq km (496,226 sq mi), extending about 1,287 km (800 mi) SE–NW and 563 km (350 mi) NE–SW. Comparatively, the area occupied by Peru is slightly smaller than the state of Alaska. It is bounded on the N by Ecuador and Colombia, on the E by Brazil and Bolivia, on the S by Chile, and on the W by the Pacific Ocean, with a total land boundary length of 5,536 km (3,440 mi) and a coastline of 2,414 km (1,500 mi).

Various offshore islands, chiefly the Chincha Islands off Pisco in southern Peru, are uninhabited, but at least 21 of these are important to the Peruvian economy and are protected by the government’s guano monopoly.

Peru’s capital city, Lima, is located on the Pacific coast.

²TOPOGRAPHY

Peru is divided into three contrasting topographical regions: the coast (costa), the highlands (sierra), and the eastern rain forests (selva). The coastline is a narrow ribbon of desert plain from 16 to 160 km (10 to 100 mi) broad. It is scored by 50 rivers, which water some 40 oases. Only a few of these rivers, which have their source in the Andean snowbanks, reach the sea in all seasons. Although the coastal region constitutes only 12% of the national territory, it contains the ports and chief cities of Peru.

Inland, the low costa rises through the steep wastes of the high costa (760–2,000 m/ 2,500–6,500 ft), then ascends abruptly to the western cordillera (Cordillera Occidental) of the Andes, which, with its ridge of towering peaks, runs parallel to the coast and forms the Peruvian continental divide. The less regular Cordillera Central and Cordillera Oriental merge in central Peru with the Cordillera Occidental. They branch off to the southeast, meeting

a transverse range that becomes a crescent of peaks forming the drainage basin of the 8,288 sq km (3,200 sq mi) Lake Titicaca, the highest large navigable lake in the world (about 3,810 m/12,500 ft high), which is bisected by the Peruvian-Bolivian border. Of the 10 Peruvian peaks that rise above 5,800 m (19,000 ft), Huascarán, 6,768 m (22,205 ft), is the highest.

The intermontane basins, deep-gashed canyons, and high treeless plateaus (punas) of the Andes form the sierra and constitute 27% of the country’s surface. The most important rivers draining the Andes on the Atlantic watershed, such as the Marañón, Hualaga, and Ucayali, flow north or south and eventually east to form the Amazon Basin. The selva covers 61% of Peru and consists of the low selva (the Amazon rain forest) and the high selva, a steeply sloping transition zone about 100–160 km (60–100 mi) wide between the sierra and the rain forest.

Peru lies near the boundary of the Nazca and South American Tectonic Plates, which is a seismically active area. An 8.4 magnitude earthquake occurred near the coastal region on 23 June 2001, triggering a tsunami that affected parts of Chile and Bolivia. Over 100 people were killed by the event and over 2,600 more were injured. It was recorded as the largest earthquake of the year worldwide. One of the countries most devastating quakes on record occurred in May 1970 when a 7.9 magnitude earthquake killed 66,000 people.

³CLIMATE

Although Peru’s seaboard is situated well within the tropical zone, it does not display an equatorial climate; average temperatures range from 21°C (70°F) in January to 10°C (50°F) in June at Lima, on the coast. At Cuzco, in the sierra, the range is only from 12°C (54°F) to 9°C (48°F), while at Iquitos, in the Amazon region, the

temperature averages about 32°C (90°F) all year round. The cold south–north Humboldt (or Peruvian) Current cools the ocean breezes, producing a sea mist with the inshore winds on the coastal plain. Only during the winter, from May to October, does this sea mist (garúa) condense into about 5 cm (2 in) of rain.

Latitude has less effect upon the climate of the sierra than altitude. The rainy season in the Andes extends from October to April, the reverse of the coastal climate. Temperatures vary more from day to night than seasonally. The snow line ranges from 4,700 to 5,800 m (15,500 to 19,000 ft). In the eastern rain forest, precipitation is heavy, from 190 to 320 cm (75 to 125 in) annually; rain falls almost continuously between October and April.

A warm Pacific west-to-east current called El Niño appears near the Peruvian coast every four to ten years around Christmastime (the name is a reference to the Christ child), occasionally causing serious weather disturbances.

4 FLORA AND FAUNA

Peru's several climates and contrasting surface features have produced a rich diversity of flora and fauna. Where the coastal desert is not barren of life, there are sparse xerophytic shrub, cactus, and algarroba, and a few palm oases along the perennially flowing rivers from the Andes. Where the sea mist (garúa) strikes against the rising slopes between 800 and 1,400 m (2,600 and 4,600 ft), a dense belt of lomas, flowering plants, and grasses (important for grazing) grows. Perennial shrubs, candelabra cacti, and intermontane pepper trees account for much of the western slope vegetation in the higher altitudes and forests of eucalyptus have been planted.

High-altitude vegetation varies from region to region, depending on the direction and intensity of sunlight. Tola grows in profusion at 3,400 m (11,000 ft) in the southern volcanic regions; bunch puna grasses may be found at 3,700 m (12,000 ft). On the brow (ceja) of the eastern slopes, mountain tall grass and sparse sierra cactus and low shrub give way at 900 m (3,000 ft) to rain forests and subtropical vegetation. As the eastern slopes descend, glaciers are remarkably close to tropical vegetation.

The 601,000 sq km (232,000 sq mi) of eastern selva, with 18 rivers and 200 tributaries, contain the dense flora of the Amazon basin. Such native plants as sarsaparilla, barbasco, cinchona, coca, ipecac, vanilla, leche caspi, and curare have become commercially important, as well as the wild rubber tree, mahogany, and other tropical woods.

For centuries, vast colonies of pelicans, gannets, and cormorants have fed on the schools of anchovies that graze the rich sea pastures of the Humboldt Current and have deposited their excrement on the islands to accumulate, undisturbed by weather, in great quantities of guano. This natural fertilizer was used by the pre-Inca peoples, who carried it on their backs to the sierra. Forgotten during the days of colonial gold greed, guano attracted the attention of scientists in 1849, when its rich nitrogen content was analyzed as 14–17%. For 40 years thereafter, Peru paid many of its bills by exporting guano to exhausted croplands of Europe. Guano has since been largely replaced in the international market by synthetic fertilizers.

The rich marine plant life off the Peruvian coast attracts a wealth of marine fauna, the most important of which are anchoveta, tuna, whale, swordfish, and marlin. Characteristic of the Andes are the

great condor, ducks, and other wild fowl. The vizcacha, a mountain rodent, and the chinchilla are well known, as is the puma, or mountain lion. Peru is famous for its American members of the camel family—the llama, alpaca, huarizo, and guanaco—all typical grazing animals of the highlands. The humid forests and savannas of eastern Peru contain almost half the country's species of fauna, including parrots, monkeys, sloths, alligators, paiche fish, piranhas, and boa constrictors, all common to the Amazon Basin.

As of 2002, there were at least 460 species of mammals, 695 species of birds, and over 17,000 species of plants throughout the country.

5 ENVIRONMENT

Peru's principal environmental problems are air pollution, water pollution, soil erosion and pollution, and deforestation. Air pollution is a problem, especially in Lima, due to industrial and vehicle emissions. Carbon dioxide emissions from industrial sources totaled 26.1 million metric tons in 1996. In 2000, the total of carbon dioxide emissions was at 29.5 million metric tons.

Water pollution is another of Peru's environmental concerns. Its sources are industrial waste, sewage, and oil-related waste. The nation has 1,616 cu km of renewable water resources with 86% of the annual withdrawal used to support farming and 7% used for industrial activity. Only 87% of city dwellers and 66% of the rural population have access to improved water sources. Soil erosion has resulted from overgrazing on the slopes of the costa and sierra.

The National Office for the Evaluation of Natural Resources is the principal policymaking body for resource development, while the General Department of the Environment, part of the Ministry of Health, deals with control of pollution problems; water, forest, and wildlife resources are the province of the Ministry of Agriculture. Numerous environmental protection measures have been passed, but enforcement is lax and hampered by inefficient management and scarce fiscal resources. A major environmental challenge for Peru in the 1980s had been opening the selva for agricultural development without doing irreparable harm to the ecology of the Amazon Basin.

According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 46 types of mammals, 94 species of birds, 6 types of reptiles, 78 species of amphibians, 8 species of fish, 2 species of invertebrates, and 274 species of plants. Threatened species included the yellow-tailed woolly monkey, black spider monkey, puna rhea, tundra peregrine falcon, white-winged guan, arrau, green sea turtle, hawksbill turtle, olive ridley turtle, leatherback turtle, spectacled caiman, black caiman, Orinoco crocodile, and American crocodile. The red-throated wood rail has become extinct.

6 POPULATION

The population of Peru in 2005 was estimated by the United Nations (UN) at 27,947,000, which placed it at number 40 in population among the 193 nations of the world. In 2005, approximately 5% of the population was over 65 years of age, with another 32% of the population under 15 years of age. There were 101 males for every 100 females in the country. According to the UN, the annual



LOCATION: 0°1' to 18°20'S; 68°39' to 81°19' W. BOUNDARY LENGTHS: Ecuador, 1,420 kilometers (880 miles); Colombia, 2,900 kilometers (1,800 miles); Brazil, 1,560 kilometers (975 miles); Bolivia, 900 kilometers (560 miles); Chile, 160 kilometers (100 miles); Pacific coastline, 2,414 kilometers (1,497 miles). TERRITORIAL SEA LIMIT: 200 miles.

population rate of change for 2005–10 was expected to be 1.6%, a rate the government viewed as too high. The projected population for the year 2025 was 35,725,000. The overall population density was 22 per sq km (56 per sq mi), with some 53% of the inhabitants living in the coastal region; 36% living in the Andean sierra; and 11% living in the eastern rain forest.

The UN estimated that 73% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of

1.86%. The capital city, Lima, had a population of 7,899,000 in that year. Other important cities are Trujillo, Arequipa, and Chiclayo.

7 MIGRATION

In the 1860s and 1870s, the Peruvian government imported Chinese laborers to mine guano deposits, build railroads, and work on cotton plantations. Since then, Peru has not attracted large numbers of immigrants, although there are Japanese as well as Chinese

enclaves in the coastal cities. In 1991, some 377,485 Peruvians left the country, and 309,136 returned. The United States was the leading country of destination (38%), with Chile second. In 1999, Peru continued to produce more refugees than it received, due particularly to human rights violations. As of 2004, there were 766 refugees recognized by the United Nations High Commissioner for Refugees (UNHCR), and 232 asylum seekers, the latter mainly from Colombia. In that same year, 1,593 Peruvians sought asylum in Canada, Ecuador, and the United States.

For decades, the government encouraged the movement of people into the empty areas of the eastern Andean slopes (the high selva) in order to bring the eastern provinces into the national economic mainstream. Since the 1950s, however, the main trend has been in the reverse, from the sierra to the coastal cities. Lima has received the bulk of rural migrants, and by the mid-1990s the metropolitan area of Lima supported nearly one-third of the total national population.

The total number of migrants living in Peru in 2000 was 46,000. In 2004, remittances were \$1.3 billion, 5% of GDP. In 2005, the net migration rate was an estimated -1.0 migrants per 1,000 population. The government views the migration levels as satisfactory.

⁸ETHNIC GROUPS

According to the latest estimates, about 45% of the inhabitants are Amerindian, 37% are mestizo (of mixed Amerindian and Spanish or other European ancestry), 15% are white, and 3% are black, Asian, or other. Small groups of Germans, Italians, and Swiss are important in commerce, finance, and industry. Chinese and Japanese operate small businesses, and some Japanese have been successful in agriculture.

Of the 4–7 million sierra Amerindians under Inca domination, fewer than one million were left when the first colonial census was taken in 1777. A failing food supply and new diseases, such as smallpox, scarlet fever, and measles, were lethal to the young. Despite continuing disease and poverty found among the Amerindians today, they have increased to more than eight million. The main groups are the Quechua- and Aymará-speaking tribes, but there are also some other small tribes in the highlands. Peru's lowland forest Amerindians were never subjugated by Incas or by Spaniards and continue to be fishermen, hunters, and foragers.

In the mid-1980s, at least 225,000 rain forest Indians were grouped in 37 tribes. A 20-year plan announced in 1968 called for the full social, economic, and political integration of Peru's Amerindian population. Nevertheless, in the 1980s, sociocultural distinctions based on ethnic background were endemic to Peruvian society, with whites (especially the criollos, those of early Spanish descent) at the top of the hierarchy, mestizos and cholos (acculturated Amerindians) below them, and monolingual Quechua- or Aymará-speaking Amerindians at the bottom.

⁹LANGUAGES

Spanish is spoken, as in all Latin America, without the use of the sound represented by *th* in *thing* characteristic of Castilian. The majority of the population speaks only Spanish. At least seven million Amerindians, as well as many mestizos, speak Quechua, the native tongue of the Inca peoples, the use of which was outlawed following an Amerindian revolt in 1780. A decree of 27 May 1975 granted Quechua the status of an official language,

along with Spanish. Some words in modern English usage derived from Quechua are *alpaca*, *condor*, *pampa*, *coca*, *guano*, *Inca*, *llama*, *guanaco*, *vicuña*, *puma*, and *quinine*. Aymará is spoken by at least 700,000 people, especially in the department of Puno and around Lake Titicaca, and various other languages are spoken by tribal groups in the Amazon Basin.

¹⁰RELIGIONS

Although about 80% of the population is nominally Roman Catholic, it has been estimated that only about 15% of all Catholics actively participate in religious services. The practice of Catholicism in Peru is often imbued with Amerindian elements. Between 7% and 12% of the populations are Protestants, including evangelical Christians (Lutherans, Calvinists, Anglicans, Methodists, Baptists, Presbyterians, Pentecostals, members of the Assemblies of God, the Christian Missionary Alliance, The Evangelical Church of Peru, and the Church of God) and non-evangelical Christians (Mormons, Seventh-Day Adventists, and Jehovah's Witnesses). Approximately 2.5% of the populace are members of other religions, including Jews, Muslims, Buddhists, and Shintoists. Atheists and agnostics account for 1.4%.

The constitution guarantees religious freedom, but it also recognizes the Roman Catholic Church as an "important element in the historical, cultural, and moral development" of the country. A 1980 concordat signed with the Vatican grants special recognition, and preferential treatment, to the Catholic Church as well.

¹¹TRANSPORTATION

The system of highways that was the key to the unification of the Inca Empire was not preserved by the Spanish conquerors. The lack of an adequate transportation system is still a major obstacle to economic integration and development.

As of 2004, Peru's railroad system consisted of 3,462 km (2,153 mi) of standard and narrow gauge railway lines. Of that total, the standard gauge accounts for 2,962 km (1,842 mi). Nationalized in 1972, the system is subject to landslides and guerrilla attacks. Operation of the system was given in concession in July 1999, for 30 years, to two companies: Ferrovias Central Andina S. A. (central railway); and Ferrocarril Transandino S. A. (south and southeast railways). The two principal railway systems, the Central and Southern railways, were built during the second half of the 19th century and were at one time owned and operated by British interests. The Central Railway, the world's highest standard-gauge railroad, connects Lima-Callao with the central sierra. The Southern Railway links Arequipa and Cuzco with the ports of Mollendo and Matarani and runs to Puno on Lake Titicaca, where steamers provide cross-lake connections with Bolivia. The Tacna-Arica Railway, totaling 62 km (39 mi) and linking Peru with Chile, is also a part of the nationalized system.

In 2002, of the estimated 72,900 km (45,300 mi) of existing roads, only 8,700 km (5,406 mi) were paved. The nation's highways are deteriorating, especially in the mountains, where landslides and guerrilla attacks often occur. The two primary routes are the 3,000 km (1,864 mi) north-south Pan American Highway, connecting Peru with Ecuador, Bolivia, and Chile, and the Trans-Andean Highway, which runs about 800 km (500 mi) from Callao to Pucallpa, an inland port on the Ucayali River. The 2,500-km (1,550-mi) Jungle Edge Highway, or Carretera Marginal de la Sel-

va, spans most of Peru along the eastern slopes of the Andes and through the selva. In 2003, there were 346,300 automobiles and 234,800 commercial vehicles. About 60% of inland freight and 90% of all passengers are carried by road.

The Amazon River with its tributaries, such as the Marañón and the Ucayali, provides a network of waterways for eastern Peru. Atlantic Ocean vessels go 3,700 km (2,300 mi) up the Amazon to Iquitos and, at high water, to Pucallpa. As of 2004, there were 8,808 km (5,473 mi) of waterways, of which 8,600 km (5,349 mi) consist of tributaries of the Amazon River and 208 km (129 mi) on Lake Titicaca. Peru has 11 deepwater ports and in 2005 its merchant fleet consisted of four vessels of 1,000 GRT or more, totaling 13,666 GRT. Only Peruvian ships may engage in coastal shipping. Callao, Peru's chief port, and Salaverry, Pisco, and Ilo have been expanded.

Much of Peru would be inaccessible without air transport. In 2004 there were an estimated 234 airports. In 2005, a total of 54 had paved runways, and there was also one heliport. The two principal airports are Col. Fco. Secada at Iquitos and Jorge Chavez at Lima. Faucett Airlines is the older of the two main domestic air carriers, which serve 40 airports and landing fields. The recently privatized Aeroperú, created in May 1973, provides both domestic and international services. In 2003, about 2.233 million passengers were carried on scheduled domestic and international flights. The Peruvian Air Force also operates some commercial freight and passenger flights in rain forest areas.

12 HISTORY

Archaeological evidence indicates that Peru has been inhabited for at least 12,000 years. Perhaps as early as 6,000 years ago, the first primitive farmers appeared. Between 500 BC and AD 1000 at least five separate civilizations developed. The Paracas, on the southern coast, produced elaborately embroidered textiles and performed brain surgeries, in Spanish “*trepanaciones craneanas*.” The Chavin, in the highlands, were noted for their great carved stone monoliths. The Mochica, on the north coast, produced realistic pottery figures of human beings and animals. The Nazca in the south were noted for the giant figures of animals in the ground that can be seen only from the sky. The Chimú were the most developed of these groups.

The Quechua Empire, whose emperors had the title Sapa Inca, was established in the 13th century. During the next 300 years, the extraordinary empire of the Incas, with its capital at Cuzco, spread its spiritual and temporal power to northern Ecuador, middle Chile, and the Argentine plains. By means of a system of paved highways, the small Cuzco hierarchy communicated its interests to a population of 8–12 million. The intensive agriculture of scarcely tillable lands, held in common and controlled by the state, created a disciplined economy. The *ayllu*, a kinship group that also constituted an agrarian community, was the basic unit of the Inca Empire, economically and spiritually. The Incas were sun worshipers and embalmed their dead. Their highly developed civilization used a calendar and a decimal system of counting and advanced architecture, but never developed a wheel.

Francisco Pizarro's small band of Spaniards arrived in 1532, shortly after a civil war between the Inca half-brothers Huáscar and Atahualpa. The empire collapsed in 1533. Lima was established in 1535 and promptly became the opulent center of the Viceroyalty

of Peru. It held jurisdiction over all Spanish South America except Venezuela. The Spanish imperial economy, with its huge land grants given by the crown and its tribute-collecting *encomiendas*, brought vast wealth and a new aristocracy to Peru. To Spain, Peru was a gold bank. Mines were exploited, and overworked Indians perished by the millions as food supplies declined.

Peru remained a Spanish stronghold into the 19th century, with modest internal agitation for independence. One notable exception was the abortive revolt led by a mestizo known as Tupac Amaru II in 1780. Otherwise, Peruvian royalists helped the crown suppress uprisings in Peru and elsewhere. In the end, Peru was liberated by outsiders—José de San Martín of Argentina and Simón Bolívar of Venezuela. San Martín landed on Peruvian shores in 1820 and on 28 July 1821 proclaimed Peru's independence. The royalists were not quelled, however, until the Spaniards were defeated by forces under Bolívar at the battle of Junín and under Antonio José de Sucre at Ayacucho in 1824. The victory at Ayacucho on 9 December put an end to Spanish domination on the South American continent, although the Spanish flag did not cease to fly over Peru until 1826.

Between 1826 and 1908, Peruvian presidents ruled an unstable republic plagued by rivalries between military chieftains (*caudillos*) and by a rigid class system. Marshal Ramón Castilla, president from 1845 to 1851 and from 1855 to 1862, abolished Amerindian tributes and introduced progressive measures. Between the 1850s and the mid-1880s, Peru experienced an economic boom financed by sales of guano to Europe. A program of road building was implemented, and an American entrepreneur, Henry Meiggs, was hired by the government to build a railroad network in the Andes. In 1866, a Spanish attempt to regain possession of Peru was frustrated off the port of Callao. An 1871 armistice was followed in 1879 by the formal recognition of Peruvian independence by Spain. The War of the Pacific (1879–84) followed, in which Chile vanquished the forces of Peru and Bolivia and occupied Lima from 1881 to 1883. Under the Treaty of Ancón, signed in October 1883, and subsequent agreements, Peru was forced to give up the nitrate-rich provinces of Tarapacá and Arica.

Peru entered the 20th century with a constitutional democratic government and a stable economy. This period of moderate reform came to an end in 1919, when a businessman, Augusto Leguía y Salcedo, who had served as constitutionally elected president during 1908–12, took power in a military coup and began to modernize the country along capitalistic lines. It was in opposition to Leguía's dictatorship, which had the backing of US bankers, that a Peruvian intellectual, Víctor Raúl Haya de la Torre, founded the leftist political party “American Popular Revolutionary Alliance” (APRA). In 1930, after the worldwide depression reached Peru, Leguía was overthrown by Luis M. Sánchez-Cerro, who became Peru's constitutional president in 1931 after an election which the Apristas (the followers of APRA) denounced as fraudulent. An Aprista uprising in 1932 was followed by the assassination of Sánchez-Cerro in April 1933, but the military and its conservative allies maneuvered successfully to keep APRA out of power. Manuel Prado y Ugartache served as president during World War II, a period which also brought the eruption of a border war with Ecuador in 1941. The 1942 Protocol of Río de Janeiro, which resolved the conflict on terms favorable to Peru, was subsequently repudiated by Ecuador.

In 1945, Prado permitted free elections and legalized APRA. Haya de la Torre and the Apristas supported José Luis Bustamante y Rivera, who won the elections, and APRA (while changing its name to the People's Party) received a majority in congress. In 1948, military leaders charged the president with being too lenient with the Apristas and dividing the armed forces. A coup led by Gen. Manuel A. Odría ousted Bustamante, and APRA was again outlawed. Several hundred Apristas were jailed, while others went into exile. In January 1949, Haya de la Torre found refuge in the Colombian embassy, where he lived for the next five years. Under the rule of Odría and his military board of governors, the Peruvian economy flourished. Odría announced his retirement in 1956, and promoted his own candidate for the presidency. In a free election, the opposition candidate, former President Prado (tacitly supported by the outlawed APRA) returned to office.

Peru under the Prado regime was characterized by deep-rooted social unrest and political tension. Prado himself faded into the background, allowing Premier Pedro Beltrán to rule. Beltrán's economic moves stabilized Peru's financial picture, but the political problems remained. The election of 1962 was a three-way race between Haya de la Torre; Odría, back from retirement; and Fernando Belaúnde Terry, leader of the Popular Action Party (AP). Although Haya de la Torre got the most votes, he did not receive the constitutionally required one-third of the votes cast. The parties then went into negotiations, and a deal was struck giving Odría the presidency with an APRA cabinet. The military thereupon intervened, annulled the vote, and suspended the newly elected congress. The governing junta then announced new elections for July 1963, and the same candidates ran. This time, Belaúnde received 39% of the votes cast to become president.

Belaúnde embarked on a program of agrarian reform, as well as tax incentives to promote manufacturing. However, he was caught in a crossfire between the Odristas, who considered him a radical, and the Apristas, who believed he was not doing enough. Belaúnde's AP formed a coalition with the Christian Democratic Party to control the senate, but APRA and the Odría National Union controlled the Chamber of Deputies. On top of all this, Belaúnde had to deal with two separate leftist insurgencies in Peru's highlands. As Peru approached new presidential elections, the AP began to quarrel, and opposition parties continued to sabotage Belaúnde's programs. Then a scandal concerning the granting of oil concessions to the International Petroleum Co., a subsidiary of Standard Oil of New Jersey, rocked the government. A military junta exiled Belaúnde on 3 October 1968 in a bloodless coup.

In 1969, the military government, under the presidency of Gen. Juan Velasco Alvarado, began enacting a series of social and economic reforms. This time, they did not worry about opposition, ruling instead by decree. By 1974 they had converted private landholdings into agricultural cooperatives, nationalized a number of basic industries, and had mandated profit-sharing schemes for industrial workers. The military also reached out to Peru's long-neglected Amerindian population, making Tupac Amaru a national symbol, and recognizing Quechua as an official national language.

In August 1975, Velasco, whose health and political fortunes had both declined, was removed from office in a bloodless coup and replaced by Gen. Francisco Morales Bermúdez Cerruti, formerly his prime minister. The new regime moved to liberalize the

system, declaring a general amnesty for post-1968 political exiles and the legalization of some previously banned publications. They subsequently announced a return to civilian government and the creation of a "fully participatory social democracy." Some state-controlled enterprises were sold and worker-participation programs were scaled down. A Constituent Assembly was elected, and under the leadership of the perennial candidate Haya de la Torre they drew up a new constitution in 1979. New elections were held in 1980, and the AP and Belaúnde returned to power.

Belaúnde's second term was even less a success than his first. Adverse weather conditions and the world recession accompanied ill-conceived policies that led to triple-digit inflation. Austerity programs caused increased rates of unemployment and currency problems pinched the Peruvian middle-class. Perhaps most disturbing of all, a small Maoist guerrilla group, Sendero Luminoso (Shining Path) was operating openly in the Andes, especially around Ayacucho. Despite passage of an antiterrorist law in 1981, terrorist activities intensified. The AP's tenuous hold on the government was slipping. The AP won only 15% of the vote in the 1983 municipal elections. By 1985, with Peru on the brink of an economic collapse, the AP received a mere 7% of the vote.

The election of 1985 was historic in two ways: it was the first peaceful transfer of power in 40 years, and it brought the first president from APRA since the party's founding in 1928. Alán García Pérez, secretary-general of APRA, won with 53% of the vote and brought with him an APRA majority in both houses. The new president pursued populist economic policies aimed at controlling inflation, stimulating the economy, and limiting external debt repayments. To get inflation under control, García established a strict set of price controls, dropping inflation precipitously. Salaries were then allowed to increase, which led to a dramatic surge in the production of industrial and consumer goods. García also announced that external debt service would be set at 10% of export earnings, when several times that amount would have been required to keep up with interest payments alone.

While initially successful, these programs eventually ran aground. The IMF, a constant target of García, declared Peru ineligible for any further borrowing because of the size of Peru's external debt. After its initial boom, industrial production began to sag. Food shortages became common as suppliers refused to produce with artificially low prices. By 1990, inflation had climbed to four-digit levels.

García had some success in dealing with Peru's democratic left, but the militant left was another story. By increasing the stridency of his rhetoric, especially against the United States, García was able to capture leftist votes, seriously damaging the power of the United Left (Izquierda Unida—IU). However, Sendero escalated its attacks, coming down out of the mountains and striking at urban and suburban targets around Lima and Callao. In addition, the Tupac Amaru Revolutionary Movement (MRTA) merged with the Movement of the Revolutionary Left (MIR), and struck with increasing intensity. Although García had promised to get the military under control, it was soon clear that he could not function without them, and authorized a set of brutal counter-insurgent campaigns.

By 1990, Peruvians began to cast about for someone to deliver the country from its economic and social woes. Neither APRA nor the AP had any credibility left. In a surprise, Alberto Fujimori, the

son of Japanese immigrants, defeated conservative novelist Mario Vargas Llosa by 57% to 34%. Other candidates totaled a little over 9%. Fujimori immediately imposed a draconian set of austerity measures designed to curb inflation, which he had promised not to do during his candidacy. These measures caused a great deal of economic dislocation, but did reduce inflation to pre-1988 levels.

Fujimori moved aggressively to combat Sendero and the MRTA-MIR. He organized and armed rural peasants to counter the increased guerrilla presence, and gave the military a broad mandate to crack down on the insurgents. The capture of Abimaél Guzmán, leader of Sendero Luminoso, was hailed as a major blow against the movement, but the violence continued. Human rights continued to deteriorate, and the military became stronger.

Domestic opposition increased as Fujimori became increasingly isolated politically. Then, in April 1992, Fujimori shut down Congress and refused to recognize any judicial decisions. The autogolpe ("self-coup") received widespread popular approval and, most significantly, the military supported Fujimori's moves. In 1992, elections were held to create a Constituent Assembly charged with making constitutional reforms, including allowing Fujimori to run for a second five-year term in 1995. Both APRA and AP refused to participate, and Fujimori's New Majority/Change 90 party took a majority of seats. With full executive powers and a legislature full of supporters, Fujimori was able to enact whatever reforms he deemed necessary to improve Peru's economic and social situations.

A border war with Ecuador in early 1995 (in which both sides claimed victory) boosted Fujimori's popularity to a level that enabled him to win his unprecedented second-consecutive presidential election by a landslide, roundly defeating former UN secretary general Javier Perez de Cuellar. In May 1999, Fujimori and Ecuadorian President Jamil Mahuad formally ended the border dispute that dated from 1941. The accord gave Ecuador a small piece of Peruvian territory and navigation rights on some Peruvian rivers. In Ecuador, the peace treaty was considered a capitulation, turning the army against Mahuad.

Fujimori continued to rule by martial law, and took decisive steps to end terrorist opposition and violence in Peru. In 1996, the second-highest leader of Sendero, Elizabeth Cardenas Huayta, was arrested. The Tupac Amaru rebel movement was decimated in April 1997 when military commandos stormed the Japanese Embassy, where the rebels had been holding hostages since December 1996, and killed all 14 of the Tupac Amaru guerrillas who had carried out the siege (one hostage died in the raid, from a heart attack as a result of a gunshot wound).

Although the success of the embassy raid and the end of the hostage crisis at first raised Fujimori's popularity, it soon began to decline as Peruvians wearied of Fujimori's strong-arm tactics. Government attacks on the press and on certain members of the business community created a mounting dissatisfaction with the Fujimori regime. When Fujimori fired three Constitutional Tribunal judges for rejecting his claim to a third consecutive presidential term, Peruvians' tolerance was pushed beyond its breaking point and protests erupted. Continuing widespread poverty (despite recent years of economic growth), coupled with governmental abuses of power and violence eroded Fujimori's popular support. As the April 2000 elections came near, Fujimori at first remained silent on whether he would seek a third term. However,

political maneuvering by his supporters had ensured that no viable candidate would rise to face him.

Opposition parties were weak and divided. Former President Alan García, who had fled the country in 1992 and faced corruption charges, became a possible candidate. Fujimori's supporters in congress quickly approved a law banning any former officeholder facing criminal charges from running for election. But Fujimori did remain vulnerable; a two-year recession and widespread unemployment had left one of every two Peruvians living in poverty by mid-1999. Fujimori also was under a great deal of international pressure to rectify undemocratic conduct. In June 1999, members of the US House of Representatives said they were concerned at the "erosion of democracy and the rule of law" in Peru. A Senate subcommittee said it should be consulted before the White House gave any more American intelligence to Peru. Later that year, the Inter-American Court of Human Rights rejected Peru's bid to withdraw from its jurisdiction, saying it would continue to summon Peruvian officials to declare on reported abuses.

Within weeks of the April 2000 elections, Fujimori seemed all but certain of winning the presidency for a third term. Yet, a virtual unknown had suddenly become a viable candidate, winning support from throughout the country. Alejandro Toledo, a 54-year-old business school professor, was soon ahead of other challengers trying to defeat Fujimori. Toledo had a modest upbringing. His father was a bricklayer, and his mother sold fish at a street market. Of indigenous ancestry, Toledo quickly gained an important following in Peru's Amerindian communities, where Fujimori had found support. The election was held on 9 April, with several international organizations monitoring polling stations.

It soon became clear that Fujimori's supporters were trying to steal the election. There were unexplained delays in revealing the results, and widespread reports of voter fraud. The United States, the Organization of American States, the Atlanta-based Carter Center, and several other international organizations monitoring the election agreed that widespread fraud had tainted the elections and demanded a second presidential election between Fujimori and Toledo. Tens of thousands of Peruvians marched in peaceful protests demanding a second round. The other presidential candidates backed Toledo. Three days after the election, the electoral office said Fujimori had obtained 49.8% of the vote, not enough to capture the 50% plus one he needed to avoid a second round. Toledo received 40.3% of the vote.

The political crisis resulting from the rigged election became uncontrollable after Fujimori's chief advisor, Vladimiro Montesinos, was shown nationwide in a video, which he had produced, bribing an opposition congressman to join with Fujimori in September 2000. Dissenting politicians had leaked the tape to the media and with the knowledge that hundreds of similar tapes existed, Montesinos fled the country to Panama, which did not grant him political asylum. Montesinos then returned to Peru, but his whereabouts were unknown. Fujimori enacted a far-fetched search for the runaway Montesinos, but in the process Montesinos escaped by yacht to Costa Rica and later Venezuela. In a last hope to stabilize the political environment, Fujimori offered to hold new presidential elections in April 2001 in which he would not run. However, such gestures did not prevent the deepening of the institutional crisis and in an official APEC meeting in November, Fujimori flew to Japan and resigned via facsimile. He remained in

exile in Japan, and the Japanese government subsequently recognized him as a Japanese citizen. Congress impeached Fujimori, judging him “morally unfit to govern” and selected congressman Valentin Paniagua to be the president of the interim government (after the sitting vice president also resigned). During Paniagua’s presidency, Montesinos was found and extradited to Peru, and political calm was restored for a brief period.

A new presidential election was held in April 2001. Alejandro Toledo came in first with 36.5% of the vote, but he was forced into a runoff with former president Alan García (25.8%) who had returned to the country after Fujimori’s resignation. Toledo went on to win the runoff with 53.1% of the vote. But García’s impressive 46.9% transformed the former discredited president into a powerful actor in Peruvian politics.

Toledo became the first Peruvian of indigenous heritage to become president. Yet, his popularity and support during the first months of his administration began to fall as accusations of corruption and moral improprieties tainted his presidency. After failing to keep his campaign’s main promise to create jobs for all Peruvians within 90 days after his inauguration, protests and national strikes plagued the country as people demanded better services and wages, as well as less corruption. No real advancement in the economy was perceived, and further resentment was sparked by criminal acts of Toledo’s family and symbolic acts of government, such as increasing the president’s salary and attempting to increase the sales tax twice in one year. Security declined as crowds in poorer areas took the law in their own hands, even lynching corrupt local bureaucrats or criminals. Toledo’s efforts to prosecute those responsible for corruption and human rights violations during the Fujimori government also distracted him from the urgent social and economic challenges facing his country.

During his tenure, Toledo suffered from dismal approval ratings, ranging in the single digits. Politically, his party quickly crumbled, with many key followers leaving or beginning new parties. The political turmoil brought by his style of leadership led him to change presidents of congress five times, in vain attempts to appease the opposition and Peruvian citizens. His ineffectual leadership and the lack of discipline within his political party also hindered the process of democratic restoration in Peru.

13 GOVERNMENT

Prior to the military coup in 1968, Peru was governed under the constitution of 1933, which declared Peru to be a republic with a centralized form of government. Legislative powers were vested in a Senate and a Chamber of Deputies, of variable number. Both senators and deputies served their electoral districts for a period of six years. Under the constitution, executive power was held by the president, who, with two vice presidents, was elected for a six-year term, with a minimum of one-third of the vote, but could not be reelected until an intervening term had passed. Voting was obligatory for all literate Peruvian citizens aged 21 to 60.

The military leaders who seized control of the government in 1968 immediately disbanded the bicameral Congress. For the following decade, Peru was ruled by a military junta consisting of the president and the commanders of the three armed forces. The return to civilian rule began with the election of a Constituent Assembly in June 1978 and the promulgation of a new constitution

on 12 July 1979. Presidential elections were held in May 1980, and Peru’s first civilian government in 12 years took office in July.

After the *autogolpe* in 1992, the constitution was suspended. A new Constituent Assembly was elected and a new constitution was written. For the most part, all the major elements of the 1979 constitution were preserved, but presidents were allowed to run for one immediate reelection. Under the 1979 constitution, the president was popularly elected for a five-year term and could not be reelected to a consecutive term. The winning candidate had to win at least 50% of the vote or face a runoff election against the second-place candidate. The National Congress consisted of a 60-member Senate and a 180-member Chamber of Deputies. All elected legislators had five-year terms. The 1979 constitution eliminated literacy as a qualification for voting and made suffrage universal at age 18. In addition, there are more than 160 locally elected government councils.

14 POLITICAL PARTIES

Throughout most of Peru’s modern political history, personalities and power politics have counted for more than party platforms. There are nevertheless several parties with origins at least as far back as the 1950s.

The American Popular Revolutionary Alliance (*Alianza Popular Revolucionaria Americana*—APRA) was begun in 1924 by Víctor Raúl Haya de la Torre as a movement of and for Latin American workers. The five planks in its original platform were opposition to “Yankee imperialism,” internationalization of the Panama Canal, industrialization, land reform, and solidarity among the world’s oppressed. Controlling most of unionized labor, APRA was anti-Communist and anti-imperialist. Outlawed in 1931 and again in 1948, APRA was legalized in 1956. APRA has been historically opposed to the military, and political conditions in Peru from the 1930s until the mid-1980s have been dominated by hostility between APRA and armed forces leaders. After the death of Haya de la Torre in 1979, APRA was weakened by internal dissension. By 1985, new leadership and the failure of the Belaúnde government allowed APRA its first experience in power. Yet, the economic crisis experienced during the Alan García government severely hurt the party. Lack of leadership within APRA also hindered that party electorally. After Fujimori’s demise, APRA reemerged as a strong and unified party. In the 2001 presidential and parliamentary elections, APRA obtained 20% of the vote (26 seats in the 120-member chamber), consolidating its position as the second-largest and the most disciplined party in Peru.

The Popular Action Party (*Partido de Acción Popular*, or AP) was founded in 1956. Originally a reform party, it competed with APRA for the support of those favoring change in Peru. After an impressive campaign in 1956, the AP won the presidency in 1963, thanks to the military’s hatred of APRA. In the 1980 presidential election, Belaúnde received 45.4% of the votes cast, compared with 27.4% for APRA candidate Armando Villanueva del Campo. After Belaúnde’s tenure, AP has lost electoral appeal. In the most recent election, AP only obtained 4% of the vote and three seats in the chamber.

After the dissolution of congress by the 1968 military coup, political parties continued to exist, although they were denied any role in government until the late 1970s. Ideologically, the military

rulers between 1968 and 1980 reflected both strong socialist and nationalist principles.

The left has undergone a number of changes, partly as a result of military intervention, and most recently has been undermined by the activities of leftist guerrillas. The Peruvian Communist Party (Partido Comunista Peruano) was formed in 1929. Outlawed in 1948, it changed its name to the Revolutionary Labor Party (Partido Obrero Revolucionario—POR), which split in the 1980s into a number of small factions. The United Left (Izquierda Unida—IU), which formed to support the candidacy of Alfonso Barrantes Lingán, took 21.3% of the 1985 ballot. Barrantes was mayor of Lima until APRA unseated him in 1986, whereupon Barrantes resigned as IU president and the coalition dissolved.

The largest active guerrilla party is Sendero Luminoso (Shining Path), a Maoist group founded in 1964. Its founder, Abimael Guzmán, a former college professor, was captured by the government and is still imprisoned. Sendero's strength is concentrated around Ayacucho, in the sierra southeast of Lima. Its program includes not only attacks on bridges, power lines, and urban centers but also attempts to organize highland peasants. Sendero collects tribute from peasants in exchange for protection and encourages peasants not to sell their food crops to the cities.

A smaller group, the Tupac Amaru Revolutionary Movement (Movimiento Revolucionario Tupac Amaru—MRTA), merged with the Movement of the Revolutionary Left (MIR) to form a group that has been increasingly active. The MRTA-MIR is more urban-oriented and follows a more orthodox Marxist line than the eccentric Sendero.

President Alberto Fujimori came to office in 1990 as an independent, calling his party Change 90-New Majority. In the 1995 elections, Fujimori was reelected in a landslide victory and his party took 67 of the 120 congressional seats, giving it a clear majority (the next-highest number of seats, 17, went to the Union for Peru party, led by former UN secretary general Javier Perez de Cuellar who came in second in the presidential election).

Current president Alejandro Toledo also formed his own party before the 2001 election. Peru Posible was formed in 2001 around the then-popular figure of Toledo. With 26.3% of the vote, it captured 45 seats in the Assembly. But Peru Posible has shown little party discipline and it is unlikely that the party will survive beyond Toledo's own political career.

By 2005 the Popular Christian Party (Partido Popular Cristiano—PPC), aligned with former Prime Minister Antero Flores Arao, led in the political arena against Fujimori's newly named party Si Cumple and APRA which came in second and third. However, with growing discontent with the more traditional political parties, several new options emerged. Business leaders from the manufacturing conglomerate commonly known as Gamarra created their own political party named Solución Nacional. Another political party growing from the small and medium business sector is Proyecto Pais and Somos Peru, started by the former Mayor of Lima Alejandro Andrade. For the 2006 elections, 28 candidates were formally registered. Because political parties represent small constituencies and have uncertain political futures, the prospect of party politics remains uncertain.

¹⁵ LOCAL GOVERNMENT

In March 1987, President García promulgated a regionalization law that would replace the nation's 24 departments (and the constitutional province of Callao) with 12 regions having economic and administrative autonomy. Each region was to have an assembly of provincial mayors, directly elected members, and representatives of various institutions. However, due to inadequate funding and an uncertain political picture, these regions did not function and existed alongside the departmental structure, which was never dismantled. The 148 provincial subdivisions remained intact.

The 1979 constitution confirmed the legal status of about 5,000 Indian communities. The first local elections since 1966 took place in November 1980 and occur at three-year intervals. The 1993 constitution reaffirmed those indigenous rights and divided the country into 25 departments.

¹⁶ JUDICIAL SYSTEM

The Peruvian legal system is based generally on the Napoleonic Code. The 1993 constitution guarantees the independence of the judiciary. Peru's highest judicial body, the 16-member Supreme Court, sits at Lima and has national jurisdiction. The nine-member Court of Constitutional Guarantees has jurisdiction in human rights cases. Superior courts, sitting in the departmental capitals, hear appeals from the provincial courts of first instance, which are divided into civil, penal, and special chambers. Judges are proposed by the National Justice Council, nominated by the president, and confirmed by the Senate; they serve permanently until age 70. Justices of the Peace hear misdemeanor cases and minor civil cases.

The 1993 constitution abolished the death penalty (except for treason in time of war) and limited the jurisdiction of military tribunals; it also established the Public Ministry, including an independent attorney general, to serve as judicial ombudsman. Despite such reforms, the Peruvian judicial system still suffers from overcrowded prisons and complex trial procedures. Many accused persons (especially those accused of drug trafficking or terrorism) may spend months or even years in prison before they are brought to trial.

Although the judicial branch has never attained true independence, provisions of the 1993 constitution establish a new system for naming judges which may lead to greater judicial autonomy in the future. The 1993 constitution also provides for a human rights ombudsman (the Office of the Defender of the People), a Tribunal of Constitutional Guarantees empowered to rule on the constitutionality of legislation and government actions, a National Judiciary Council, and a Judicial Academy to train judges and prosecutors. The Tribunal of Constitutional Guarantees has seven members; three of them are in some way associated with the president or his party. To declare a law unconstitutional, at least six of the judges must agree.

¹⁷ ARMED FORCES

Peru's armed forces in 2005 totaled 80,000 active personnel, supported by 188,000 reservists. The Army numbered 40,000 members, whose equipment included 275 main battle tanks and 110 light tanks. The Navy had 25,000 active personnel including 4,000 Marines, 1,000 Coast Guard members, and 800 naval aviation per-

sonnel. The Air Force numbered 15,000 personnel, with 89 combat capable aircraft, including 18 fighters, over 73 fight ground attack aircraft, and 16 attack helicopters. The Navy operated 6 tactical submarines, 1 cruiser, 4 frigates, and 13 patrol/coastal vessels. About 77,000 paramilitary troops comprise the national police force. The defense budget in 2005 totaled \$1.08 billion.

18 INTERNATIONAL COOPERATION

Peru is a charter member of the United Nations, having joined on 31 October 1945; it belongs to ECLAC and several nonregional specialized agencies, such as the FAO, IAEA, the World Bank, ILO, IMF, UNESCO, UNIDO, and the WHO. Peru is a member of the WTO, APEC, the South American Community of Nations, the Arab Bank for Economic Development in Africa, the Andean Community of Nations, G-15, G-24, G-77, the Inter-American Development Bank, the Latin American Economic System (LAES), the Latin American Integration Association (LAIA), the OAS, and the Rio Group.

Peru is part of the Nonaligned Movement and a signatory of the 1947 Rio Treaty, an inter-American security agreement. The government has supported UN missions and operations in Ethiopia and Eritrea (est. 2000), Liberia (est. 2003), Burundi (est. 2004), Côte d'Ivoire (est. 2004), and the DROC (est. 1999). The country belongs to the Agency for the Prohibition of Nuclear Weapons in Latin America and the Caribbean (OPANAL) and the Organization for the Prohibition of Chemical Weapons.

In environmental cooperation, Peru is part of the Antarctic Treaty, the Basel Convention, Conventions on Biological Diversity and Whaling, Ramsar, CITES, International Tropical Timber Agreements, the Kyoto Protocol, the Montréal Protocol, MARPOL, the Nuclear Test Ban Treaty, and the UN Conventions on Climate Change and Desertification.

19 ECONOMY

Since World War II, the Peruvian economy has developed rapidly, exhibiting a rate of growth that has been among the highest in Latin America. The strength of Peru's economy lies in the diversity of its natural resources. Silver and gold were the prized commodities of colonial Peru. In more recent times, lead, copper, zinc, iron ore, and since the late 1960s, petroleum have become important export earners. Fishing, including the production of fish meal, has become a major undertaking. Agriculture, which occupies about 4.9% of the work force, is sharply divided between two sectors: small-scale farming, producing food crops for subsistence and the domestic market, and export-oriented production.

Policies from 1960 to 1990 were aimed at social reform, but worsened and perpetuated poverty. Repeated experiments in social engineering created economic and institutional uncertainty and a prolonged decline in governance. Government spending grew steadily in the 1980s—until it collapsed in 1989—but spending in the production of public services fell. As a result, there was a steady degradation of the civil service and the provision of public goods that undermined productivity, fostered anarchy and public turmoil, and, ultimately, made poverty reduction impossible.

By 1990 per capita income was below that of 1966; political violence was claiming 3,000 lives each year; tax collections were less than 5% of GDP; and prices had increased by a factor of 27 million over three decades. In fact, Peru's economy had all but collapsed.

It was the finale of 30 years of misguided policies, economic mismanagement, and since 1980, rampant and escalating terrorism.

Since 1990 and the Fujimori regime, the government has pursued a bold reform agenda. It has strengthened the authority of the state throughout the country, defeating terrorism and fighting drug trafficking. It liberalized interest rates, the exchange rate, and international capital flows. It established the independence of the central bank and eliminated credit from the central bank to the government. It increased competition by opening the economy to trade with the rest of the world and eliminating public monopolies and price controls. It improved labor market efficiency by addressing tenure regulations and establishing more flexible terms for probationary periods and fixed-term contracts. It facilitated private ownership of land and developed a vast privatization program. It eliminated the state monopoly in social security and established the framework for a private pension fund system. And it eliminated public development banks and state intervention in the allocation of credit.

Since the reform program, Peru has enjoyed macroeconomic success, but the reforms have done little to alleviate poverty. Between 1993 and 1996, Peru's economy grew by 32%, in part due to the privatization of state companies; but thousands of Peruvians lost their jobs as a result. The rate of inflation fell steadily as a result of stringent monetary and fiscal measures. It dropped from over 7,650% in 1990 to about 40% in 1993; and 4% in 2000, one of the lowest inflation rates in Latin America. The Peruvian economy grew by 7.3% in 1997, but in 1998 and 1999 growth slowed to an estimated 1.8% and 3.8% respectively. A combination of El Niño weather that hurt the fishing and agricultural industries, and the Asian financial crisis which depressed metal prices, contributed to the Peruvian economic downturn. Growth for 2000 was forecast at over 5%.

In 2004, the economy expanded by 4.8%, up from 4.0% in 2003, but down from 4.9% in 2002; in 2005, the GDP growth rate was estimated at 4.7%. These steady growth rates contrasted with the erratic development patterns displayed by Peru in previous years. The country's overdependence on minerals and metals makes its economy susceptible to world market price fluctuations. Inflation has been fairly stable, and at 2.1% in 2005 it did not pose any major problems to the economy. In the same year, the unemployment rate has reached 8.4%, and while it is not endemic, it remained a matter of concern to policy makers.

20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 Peru's gross domestic product (GDP) was estimated at \$168.9 billion. 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 based on current dollars. The per capita GDP was estimated at \$6,000. The annual growth rate of GDP was estimated at 5.6%. The average inflation rate in 2005 was 2.1%. It was estimated that agriculture accounted for 8% of GDP, industry 27%, and services 65%.

According to the World Bank, in 2003 remittances from citizens working abroad totaled \$860 million or about \$32 per capita and accounted for approximately 1.4% of GDP. Foreign aid receipts

amounted to \$500 million or about \$18 per capita and accounted for approximately 0.9% of the gross national income (GNI).

The World Bank reports that in 2003 household consumption in Peru totaled \$43.00 billion or about \$1,587 per capita based on a GDP of \$60.6 billion, measured in current dollars rather than PPP. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the period 1990 to 2003 household consumption grew at an average annual rate of 3.5%. In 2001 it was estimated that approximately 26% of household consumption was spent on food, 17% on fuel, 13% on health care, and 5% on education. It was estimated that in 2003 about 54% of the population had incomes below the poverty line.

2¹ LABOR

In 2005, Peru's labor force was estimated at 9.06 million. As of 2001 (the latest year for which data was available), 9% of the population was employed in agriculture, 18% in industry, and 73% in the services sector. In 2005, the unemployment rate in metropolitan Lima was estimated at 8.7%. However, there was widespread underemployment across the country as a whole.

About 5% of the total labor force was unionized in 2001. Although unions have played an important role in Peruvian politics in recent decades, membership has declined as the informal labor sector grows. Begun in 1944 under Communist domination, the Workers' Confederation of Peru was reorganized in 1956 as the national central labor organization, now known as the Peruvian Revolutionary Workers' Center (Central de Trabajadores de la Revolución Peruana—CTRP). In 1980, this organization was incorporated into the Democratic Trade Union Front, which also includes the Communist-led General Confederation of Peruvian Workers, the National Workers' Confederation, and the APRA-affiliated General Confederation of Peruvian Workers (Confederación General de Trabajadores Peruanos—CGTP), which dates from 1944. In 1999, the CGTP called a one-day general strike, supported by 400,000 transit workers and other public-sector employees that paralyzed normal activity in Peru's major cities.

An eight-hour day and a 48-hour week are the maximum in Peru, with a weekly day of rest mandated. Legislation has been uneven, but the law requires in most cases that employers create healthy and safe working conditions. Dangerous and night work are regulated. The civil code prohibits labor by minors under 14; nevertheless, a recent study indicated that 8% of the workforce was between the ages of 8 and 16. Peru's labor stability laws provide that after three months of employment a worker may be dismissed only for a "serious offense." As of 2002, the minimum wage was \$128 a month.

2² AGRICULTURE

Only 4.3 million hectares (10.6 million acres), or 3.4% of the total land, was under cultivation in 2003. The area of available agricultural land per capita is one of the lowest in the nonindustrialized world. The major portion of the coastal farmland is devoted to the raising of export crops, while the sierra and the selva are used primarily for the production of food for domestic consumption. In various communities, the Inca system of cooperative labor and

land use still remains; fields are communally planted and harvested, and the produce or the profits divided.

The Agrarian Reform Law (ARL) of 1969 profoundly affected the whole of Peruvian agriculture. By 1973, most of Peru, except for the rain forest on the eastern side of the Andes, was brought under the reform program. Large private landholdings were abolished. Contrary to the expectations of farm workers, however, the appropriated land was not redistributed in small individual parcels. The large estates expropriated by the government were instead reorganized into cooperatives that maintained their administrative unity and were often incorporated into still larger units, known as social-interest agricultural societies, through which they were linked on a cooperative basis. By 1980, the expropriation and redistribution of land were largely complete. Out of the nine million hectares (22.2 million acres) of cropland and pasture originally expropriated, 8.8 million hectares (21.7 million acres) were allocated to 379,000 families. In addition, 2.9 million hectares (7.2 million acres) reverted to the state, and 1.1 million hectares (2.7 million acres) were distributed to 10,706 families in the selva. The bulk of land went to cooperatives, and only about 43,000 families received land, totaling 683,000 hectares (1,688,000 acres), in the form of private holdings. The government justified this program by arguing that the supply of arable land in inhabited zones of Peru is so small that equal distribution of the land would permit an allotment of less than 0.5 hectares (1.2 acres) per rural inhabitant; that community ownership of land accords with Peruvian traditions, especially the proto-socialist Inca heritage; and that improved equipment and technique are more easily implemented in larger enterprises. As it turned out, inadequate distribution systems and lack of technical expertise limited the productivity of the cooperatives, and by 1981, about 80% of them were operating at a loss. The free market policies of President Fujimori played an important role in Peruvian agriculture during the 1990s, virtually undoing the expropriative and redistributive policies of the ARL. In 1996, the Land Tenure Law was instituted, which was a step toward allowing land to be titled and used as collateral. The Water Law no longer ties water usage with land area, and mandates that farmers must pay for their use of water. Water is an extremely expensive commodity in the coastal valleys.

Peru's agriculture is highly diversified but not well integrated. In an irrigated section of the coastal desert lowlands, more than 1,195,000 hectares (2,953,000 acres) are cultivated with cotton, sugar, rice, soybeans, pulses, fruits, tobacco, and flowers. Modern methods are widely used in this area, and as a result, output has risen at a much faster rate than population growth. The sierra, in contrast, is relatively dormant, its lands being inferior or impractical to till. The selva contributes cocoa, fruits and nuts, tea, coffee, tobacco, and forest products.

In the 1980s, a combination of weak financing, heavy overseas borrowing, poor pricing policy, bad weather, and outmoded equipment contributed to a serious deterioration in the performance of the sugar industry. In 1996, the sugar industry's twelve collective farms were forced to change their management and ownership structure. Most had been inefficient, overloaded with administrative workers, and together owed the government \$250 million in back taxes and social security payments. Some of the collective farms began to sell portions of their capital to the private sector. Staples are potatoes and corn, grown throughout Peru, but with

very low yields. The leading commercial crops are rice, cotton, sugar, and barley. The principal agricultural deficiencies—wheat, livestock and meat, animal and vegetable fats, and oils—are covered by imports. Production of major crops (in thousands of tons) in 2004 included rice, 1,816; corn, 1,180; coffee, 145; wheat, 168; and beans, 83. Sugarcane and potato production in 2004 amounted to 7.9 million tons and 3 million tons, respectively.

Cultivation for illicit purposes of the coca leaf (the source of cocaine), which has long been used habitually and ritually by Andean Amerindians, has been a problem recognized by the Peruvian government and by the International Narcotics Control Board since the 1980s. The US government estimated there were 31,150 hectares (76,970 acres) of managed coca in 2003 (67% growing in the Upper Huallaga and the Apurimac valleys), the lowest level of coca cultivation in Peru since 1986. The total cocaine economy in Peru may amount to \$1.2–2.4 billion annually (2–4% of Peru's GDP). Nearly all of the wealth derived from the cocaine economy accrues to narcotics traffickers and other criminal elements.

2³ ANIMAL HUSBANDRY

The cattle, sheep, hogs, goats, horses, and poultry brought by the Spaniards to Peru were strange to the Amerindians, whose only domestic animals were the hunting dog and the American members of the camel family—the llama, alpaca, and their hybrids—which served as carriers and for food, clothing, and fuel. Only recently domesticated, the vicuña is protected by law, and limited quantities of its fine fleece are marketed. Most Amerindians of the southern highlands are herders.

The southern Andes contain the major cattle ranges. Brown Swiss, zebu, and Holstein have been imported, and agronomists are crossbreeding stock to attain herds of greater weight or of more milk on less feed. Although 16.9 million hectares (41.7 million acres), or 13% of Peru's land area, are permanent natural pasture and meadow, areas suitable for dairy cattle are few. In 2005, the livestock population included 14,009,000 sheep, 5,100,000 head of cattle, 2,900,000 hogs, and 2,000,000 goats. Living at altitudes of 10,000 ft above sea level, Peru has an estimated three million alpacas, or 80% of the world's alpaca population. There are also about 150,000 vicuñas, up from 5,000 in the 1960s. Production of alpaca hair fiber amounts to about 4,000 tons per year. Livestock output in 2005 included 152,000 tons of beef, 90,000 tons of pork, 34,000 tons of mutton, 650,000 tons of poultry, 180,000 tons of eggs, and 1,311,000 tons of milk.

2⁴ FISHING

Commercial deep-sea fishing off of Peru's coastal belt of over 3,000 km (1,860 mi), is a major enterprise. Peruvian waters normally abound with marketable fish: bonito, mackerel, drum, sea bass, tuna, swordfish, anchoveta, herring, shad, skipjack, yellowfin, pompano, and shark. More than 50 species are caught commercially. There are over 40 fishing ports on the Peruvian coast, Paita and Callao being the most important centers.

The Peruvian fishing industry, primarily based on the export of fish meal, used in poultry feed, is among the largest in the world. Fish meal production in 2004/05 was 1.5 million tons; fish oil, 210,000 tons. Only 90 of the 110 fish meal plants on Peru's coast were operating in 2004. Peru's fishing sector led the world during the mid-1960s, although production since then has fluctuated

radically. In the 1970s, overfishing nearly led to the disappearance of the anchovy resource. The fish meal and fish-processing industry is managed by Pescaperú, which was founded in 1973.

The key to Peru's fishing industry in any given year is the presence or absence of El Niño; this warm ocean current displaces the normally cool waters deep in the Pacific, thereby killing the microorganisms upon which other marine life depends. The recurrence of El Niño causes the disappearance of anchoveta and a sharp fall in the catch of other species. The average annual catch during 1991–2000 was 8,515,000 tons. The total catch in 2003 was 6,089,660 tons, second highest in the world after China. That total included 5,347,187 tons of anchoveta, and 217,734 tons of Chilean jack mackerel. Exports of fish products in 2003 amounted to \$1.03 billion, with fish meal accounting for 72%. The major export markets are China, Germany, Japan, and Taiwan.

To suppress invasion of their rich fishing grounds by foreign powers, Peru made formal agreements with Chile and Ecuador to extend the rights to their coastal waters out to 200 nautical mi. Violations of the proclaimed sovereignty by Argentine and US fishing fleets in 1952 and 1954 gave rise to shooting incidents. Since then, US fishing boats have occasionally been seized and fined or required to purchase fishing licenses; after eight US tuna boats were taken in November 1979, the United States retaliated by imposing a temporary embargo on Peruvian tuna.

2⁵ FORESTRY

About 51% of Peru's land area, or approximately 65.2 million hectares (161.1 million acres), is covered by tropical rain forests. Most of Peru's exploitable timberlands lie on the eastern slopes of the Andes and in the Amazon Basin; the arid Pacific watershed cannot support forestlands. The trees of commercial importance on the coastal plain are amarillo, hualtaco, and algarroba (cut for railway ties and for charcoal fuel). Lumber from planted eucalyptus is used locally in the sierra for ties and for props by the mining industry. Eastern Peru, however, with its abundance of rain, consists of approximately 70 million hectares (173 million acres) of forestland (more than half the country's area), most of it uncut. A precise indication of Peru's volume of standing timber has never been ascertained. The selva contains Peru's only coniferous stand, where ulcumano is logged. Cedar, mahogany, moena, tornillo, and congona (broadleaf hardwoods) are also logged. The rain forests of the Amazon lowlands contain cedar, mahogany, rubber (wild and plantation), and leche caspi (a chewing-gum base). Commercially important are tagua nuts, balata, coca, fibers, and a wide range of medicinal plants.

Lumbering is conducted chiefly in the selva, where Pucallpa and Iquitos are the main sawmill centers. Mahogany is now the principal lumber export product, sent mainly to the United States and Europe; mahogany and Spanish cedar trees supply about half of Peru's lumber output, which falls far short of the nation's needs. In 2004, production of roundwood totaled 10,486,000 cu m (370 million cu ft).

2⁶ MINING

The mining of metals was Peru's leading industry in 2003. Among the minerals exported in that year were gold, copper, zinc, lead, silver, tin, and iron. In 2003, the country's mining industry accounted for \$4.6 billion or more than 51% of total export revenues,

which came to \$9 billion in that year. Peru was the second-largest producer of silver, after Mexico, the third-largest producer of zinc, after China and Australia, and the fourth-largest producer of lead, after Australia, China, and the United States. Peru's zinc output represented 12% of world concentrate output, almost 62% of Latin America's concentrate, and 29% of refined zinc. Other leading industries were cement, steel, and metal fabrication in 2003.

Gold output (from mines and placers) was about 172,000 kg in 2003, up from 157,530 kg in 2002. Of that total, 159,770 kg came from mines. Reserves (metal content) totaled 3.5 million tons, excluding placer deposits. The southeastern Andes had well-known gold placers on the Inambari River and its tributaries. Placer gold production, which accounted for about 14% of total gold output, was concentrated in the Inca and the Mariategui regions, and gold was also recovered from placers in rivers and streams throughout the jungle.

Copper mine output in 2003 (metal content) was 842,578 metric tons, down slightly from 844,553 metric tons in 2002. The country's copper reserves totaled 57.4 million tons (metal content). Southern Peru Copper Corp. (SPCC) remained the largest copper producer, with a total output of 326,900 metric tons of copper metal from its mine operations at the Cuajone open pits and its solvent extraction and electrowinning cathode plant at Toquepala. Peru's second-largest copper producer, Compañía Minera Antamina S.A., owned the \$2.3 billion copper-zinc Antamina megaproject (Huari, Ancash Department), which could become the world's third-largest producer of zinc (163,000 tons per year) and seventh-largest producer of copper (272,000 tons per year). The project included the Antamina open pit and concentrator, a 302-km slurry pipeline, port facilities in Huarney, and a new access road, power line, and town site. The new mine had a capacity of 275,000 tons per year; the concentrator, 70,000 tons per day. Antamina's revised proven and probable ore reserves were 559 million metric tons at a grade of 1.24% copper, 1.03% zinc, 13.71 grams per ton of silver, and 0.029% molybdenum, or 1.8% equivalent copper.

Zinc mine output (metal content) was 1,372,790 metric tons in 2003, up from 1,232,997 metric tons in 2002. Mined lead output was 308,874 metric tons in 2003, up from 305,651 metric tons in 2002. Cía Minera Volcán S.A. (CMA) was Peru's largest private producer of zinc. CMA had operations in the Yauli mining district and the Paragsha property, in Cerro de Pasco. Total reserves of zinc (metal content) amounted to 16 million tons; lead, 3.5 million tons.

In 2003 Peru produced 2,921 metric tons of mined silver (metal content), up from 2,870 metric tons in 2002. Medium-sized companies accounted for three-quarters of production. Reserves totaled 36 million tons (metal content).

Production of iron ore and concentrate (gross weight) was 5,239,000 tons in 2003, up from 4,594,000 tons in 2002. Shougang Hierro Perú S.A., a subsidiary of China's Shougang Corp., continued to be Peru's sole iron ore producer. Iron ore reserves (metal content) totaled 830 million tons. Exploitation of iron ore, centered in southern Peru, was exclusively for export until the steel mills at Chimbote began operations in 1958.

The metals antimony, white arsenic, bismuth, indium, manganese, molybdenum, and tin were extracted in various parts of

Peru. No cadmium or chromium was mined in 1998–2001, or in 2003, nor was any tungsten mined in 1999–2001, or 2003.

Of the 30 industrial minerals mined commercially in Peru, the most important were salt, gypsum, marble, and limestone. Peru also produced barite, bentonite, boron materials (borates), hydraulic cement, chalk, common clay, fire clay, diatomite, dolomite, feldspar, flagstone, granite, kaolin, lime, nitrogen, onyx, phosphate rock, pyrophyllite, quartz, quartzite, sand and gravel (including silica sand), marl shell, slate, sulfur, talc, and travertine. Minero Perú had proven reserves of 550 million tons of phosphate rock at its Bayóvar Project, in the Sechura Desert. The Bayóvar Project had tremendous export opportunities to the Asia-Pacific region via the port of Paita.

Peru has long been famous for the wealth of its mines, some of which have been worked extensively for more than 300 years. Through modern techniques and equipment, a vast potential of diverse marketable minerals was gradually becoming available from previously inaccessible regions. Because many of the richest mines were found in the central Andes, often above 4,300 m, their operations have been wholly dependent on the Andean Indians' adaptation to working at high altitudes. Copper, iron, lead, and zinc were mined chiefly in the central Andes, where all refining was done at La Oroya, the metallurgical center.

The government no longer had exclusive control over exploration, mining, smelting, and refining of metals and fuel minerals, although, in principle, all mineral and geothermal resources belonged to the government. The role of the government has been limited to that of a regulator, promoter, and overseer. Individuals and private companies were allowed to hold mining permits. As of 2001, the government has privatized 90% of its assets in mining, a greater rate than in any other sector, with some mining tenders still pending, and several mining prospects waiting to be privatized, which could generate \$2.14 billion. The promotion of domestic and foreign private investment via a sweeping privatization process and the formation of joint ventures started off at a vigorous pace in 1991 and has continued at a slower pace. Private firms, most of which were controlled by local interests, dominated medium- and small-sized mining operations. More than 100 foreign mining companies have been established in Peru since 1990. Of the \$10.02 billion of foreign direct investment in 2001, \$3.32 billion was in the minerals sector, \$1.67 billion of it in mining. In 2001, \$1.4 billion worth of mine and facility expansions were completed, and \$2.6 billion worth of mine projects were completed. In addition, \$3.3 billion of investment were projected for mine projects with feasibility studies, and \$1.3 billion were expected in projects with advanced exploration work. The state was expecting Minero Perú's projects pending privatization to generate \$2.1 billion of investment. Mining, energy, telecommunications, and related industries were the most attractive sectors of the Peruvian economy. Privatization of Centromín, Electrop Perú S.A., Minero Perú, Petro Perú, and the banking sector was expected to continue to generate investments in every sector of the economy, particularly in the mining and energy sectors. Future foreign investments in the minerals sector were projected to be \$17 billion, the largest amount of capital committed to date, with \$9.1 billion expected in the mining sector for the 2001–2009 period.

Peru was facing political upheavals, and the mining industry was increasingly on the defensive. Development of MYSAs Cerro

Quilish gold deposit was stalled by the city of Cajamarca to protect its major watershed. The citizen group Coordinadora Nacional de Comunidades Afectadas por la Minería (Conacami) indicated that it had the right to participate and to be consulted on mineral policies that involved communities affected by mining operations.

The junta that came to power in 1968 pursued a steady program of nationalization. In 1971, state mining rights were assigned to the government enterprise *Mínero Perú*. The General Mining Law of 1992 made legal procedures to obtain mining rights easier, and amendments in 1996 guaranteed protections to mining ventures and contracts. These laws have ensured more favorable exploration and production contract terms for investors. Within the framework of four 1990s laws promoting investment in mining and natural resources and dealing with foreign and private investment, more than 250 domestic “Stability and Guarantee” contracts have been signed since 1993.

27 ENERGY AND POWER

Peru, as of 1 January 2005, had proven oil reserves of 253 million barrels, a crude oil refining capacity of 192,950 barrels per day, and proven natural gas reserves of 8.7 trillion cu ft.

Oil production in 2004, was estimated at 94,120 barrels per day, with crude oil production accounting for 79,900 barrels per day. However, domestic oil demand averaged an estimated 161,000 barrels per day in 2004, making Peru a net oil importer. Net oil imports in 2004 averaged an estimated 66,880 barrels per day.

Natural gas production and domestic demand in 2002 were each estimated at 15.5 billion cu ft. However, Peru’s *Camisea* project, when it does come fully on-stream, is seen as making Peru a net exporter of natural gas. September 2004 marked the first full month of production for the *Camisea* field, producing 3.68 billion cu ft of natural gas.

Peru’s electric power generating capacity in 2002 totaled 5.912 million kW, of which hydroelectric capacity came to 2.965 million kW and conventional thermal capacity accounted for 2.940 million kW. Geothermal/other capacity accounted for 0.007 million kW. Electric power output in 2002 totaled 21.749 billion kWh, with hydroelectric generation providing the largest share at 17.860 billion kWh. Conventional thermal sources provided 3.705 billion kWh, and geothermal/other 0.184 billion kWh. Demand for electric power in 2002 totaled 20.227 billion kWh.

28 INDUSTRY

Manufacturing in Peru began with the establishment of consumer goods industries, which still dominate the sector. Smelting and refining are among Peru’s most important industrial enterprises. As part of a long-term industrial program through hydroelectric power development, the *Chimbote* steel mills began to function in 1958; by 1965, capacity reached 350,000 ingot tons. A number of foundries, cement plants, automobile assembly plants, and installations producing sulfuric acid and other industrial chemicals have also come into operation. The expansion of the fish meal industry necessitated the construction of new plants as well as the establishment of many subsidiary industries: boatyards, repair and maintenance installations, and factories for the production of tinplate and cans, paper, jute bags, and nylon fishnet. Once a ma-

ior guano exporter, Peru now produces synthetic fertilizers high in nitrogen and related industrial chemicals.

The country’s sustained economic growth has been the result of a well diversified economic base. In 1996, the most dynamic area was agriculture, with crop production rising by 7% due to substantial increases in industrial crops like cotton, soy bean, tea, and asparagus. Other industries showing important growth during the late 1990s were the mining of metals, petroleum, and construction. In 1998, it was estimated that an average of 11 new oil wells would be drilled per year until 2003, but in 1999 oil exploration slowed when a couple of dry wells were drilled. There are five oil refineries operating in Peru, with a production capacity of 182,000 barrels per day. In 2000, a concession was signed to develop the 13 trillion cubic foot (Tcf) *Camisea* natural gas field, and the development of this field may lead to the establishment of a natural gas market in Peru. Growth in construction during 1998 skyrocketed by 12%, with projects related to the repair of an estimated \$1 billion in *El Niño* damage, and road building projects. Revenues from manufacturing production fell by 3%, however, because of low agricultural production and low world metals prices. By 2003, the economy was recovering. Textile production was an increasingly important sector, as was the production of leather goods, shoes, and the *Alpaca* and *Vicuna* sectors. In 2003, it was expected that 150,000 new jobs would be created in textile manufacturing.

The industrial production growth rate in 2005 was 6.6%, higher than the overall GDP growth rate, and an indicator that industry was an economic growth engine. In 2005, industry accounted for 27% of the GDP and it employed less than 20% of the labor force. Services were by far the largest sector, with a 65% share of the economy, while agriculture was the smallest one, with an 8% share.

29 SCIENCE AND TECHNOLOGY

The *Lima Academy of Exact, Physical, and Natural Sciences* was founded in 1939. In 1996, Peru had 18 other scientific and technological learned societies and 15 scientific and technological research institutes. The *Natural History Museum of the National University of San Marcos*, founded in 1918, and the *Geological Museum of the National University of Engineering* are both located in Lima. In 1996, Peru had 34 universities that offered courses in basic and applied sciences. In 1987–97, science and engineering students accounted for 34% of college and university enrollments. According to the *Industrial Law of 1982*, enterprises may invest up to 10% of their income tax-free in research and development (R&D) projects approved by the *National Council of Science and Technology* and carried out by the national universities.

In the period 1990–2001 there were 233 scientists and engineers and 1 technician engaged in research and development (R&D) per million people. In 2002 spending on R&D totaled \$138.196 million, or 0.10% of GDP. High technology exports in that same year totaled \$24 million, or 2% of the country’s manufactured exports.

30 DOMESTIC TRADE

A disproportionate amount of Peru’s purchasing power is concentrated in the *Lima-Callao* area, where selling practices increasingly follow the pattern of more commercially developed Western countries. In the highlands, where more than 60% of the population lives, retailing is done at the market level. Only about 17% of

Peruvians shop in supermarkets. The fiesta day, or weekly market, for the Andes Amerindian is an important social commercial affair, where objects made at home are bartered. Barter is also the method of exchange among the first Amerindians of the Amazon Basin. Cooperative retail outlets have been established in the large mining concerns and agricultural estates. Installment sales are increasing on vehicles, refrigerators, television sets, and agricultural and industrial equipment. Franchising has grown slowly in recent years, with US-based companies predominating. Direct market for services has become popular as well. An 18% value-added tax applies to most imported goods.

Shops and some businesses are open from 10:00 AM to 1 PM, and 4 to 8 PM, Monday through Saturday. Banks transact public business from 8:30 AM to 4:00 PM. Business hours are normally 9 AM to 5:30 PM, Monday through Friday. In the provinces, openings and closing are usually one hour earlier.

31 FOREIGN TRADE

In general, Peru exports raw materials and imports capital goods and manufactures. The United States is Peru's largest trading partner, and exports include mineral fuel oil, refined silver and jewelry, lead ore, and concentrated coffee. Main imports from the United States include cereals, refined oil, machinery parts, chemicals, and electrical machinery.

Peru's major export commodities are gold (17%), copper and its ores (15%), animal feed (13%), and zinc (8.3%). Other exports include refined petroleum products (4.0%), coffee (3.3%), refined silver (2.6%), and lead (2.4%).

In 2005, exports reached \$16 billion (FOB—Free on Board), while imports grew to \$12 billion (FOB). In 2004, the bulk of exports went to the United States (29.5%), China (9.9%), the United Kingdom (9%), Chile (5.1%), and Japan (4.4%). Imports included intermediate goods, capital goods, and consumer goods, and mainly came from the United States (30.3%), Spain (11.5%), Chile (7.2%), Brazil (5.4%), and Colombia (5.2%).

32 BALANCE OF PAYMENTS

Peru's export earnings depend heavily on world market prices in metals and fish meal. Peru maintained a favorable balance of trade from 1966 to 1973; but a surge in the price of oil imports, a decline in world copper prices, and a drop in fishing exports reversed this trend. The trade balance began to improve in 1976 and 1977, but rising interest payments kept current accounts at a loss. An austerity program was adopted in 1978; by the end of the year, Peru had reduced the deficit on current accounts, thanks in part to IMF loans. The surplus rose in 1979 and 1980 because of an extremely favorable trade performance and an additional infusion of public-sector capital. During the 1980s, however, Peru's export position was negatively affected by the worldwide recession and by lower world mineral prices, resulting in a negative trade balance, which, together with rising interest payments on the foreign debt to the IMF, led once again to an overall payments deficit. During 1990, Peru experienced a trade and capital surplus, but a deficit in the current account. Exports fell, while imports grew largely due to overvalued exchange and because government subsidies promoting exports were eliminated. With the reforms of the Fujimori government during the 1990s, trade liberalization more than doubled the overall trade volume during the decade. Unfor-

tunately, the current account balance remained low; between 1992 and 1999 the balance of payments deficit was over 5% of GDP. In 2002, the IMF approved a two-year \$316 million standby agreement with Peru.

The US Central Intelligence Agency (CIA) reported that in 2001 the purchasing power parity of Peru's exports was \$7.3 billion while imports totaled \$7.4 billion resulting in a trade deficit of \$100 million.

The International Monetary Fund (IMF) reported that in 2001 Peru had exports of goods totaling \$7.11 billion and imports totaling \$7.2 billion. The services credit totaled \$1.5 billion and debit \$2.3 billion.

Exports of goods and services reached \$15 billion in 2004, up from \$11 billion in 2003. Imports increased from \$11 billion in 2003 to \$13 billion in 2004. The resource balance was consequent-

Principal Trading Partners – Peru (2003)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	8,749.4	8,414.1	335.3
United States	2,318.5	1,565.8	752.7
United Kingdom	1,082.4	77.4	1,005.0
China	675.3	640.0	35.3
Switzerland-Liechtenstein	672.0	60.9	611.1
Chile	416.1	429.3	-13.2
Japan	390.2	368.8	21.4
Spain	288.8	177.8	111.0
Germany	254.6	242.4	12.2
Brazil	231.3	549.4	-318.1
Italy-San Marino-Holy See	187.2	190.3	-3.1

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

Balance of Payments – Peru (2003)

(In millions of US dollars)

Current Account		-1,061.0
Balance on goods		731.0
Imports	-8,255.0	
Exports	8,986.0	
Balance on services		-930.0
Balance on income		-2,082.0
Current transfers		1,221.0
Capital Account		-93.0
Financial Account		1,061.0
Direct investment abroad		-60.0
Direct investment in Peru		1,377.0
Portfolio investment assets		-1,435.0
Portfolio investment liabilities		1,211.0
Financial derivatives		...
Other investment assets		328.0
Other investment liabilities		-361.0
Net Errors and Omissions		655.0
Reserves and Related Items		-561.0

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

ly slightly negative in 2003 (-\$18 million), and positive in 2004 (\$2 billion). The current account balance followed a similar path, improving from -\$935 million in 2003 to -\$10 million in 2004. Foreign exchange reserves (including gold) grew to \$12.7 billion in 2005, covering more than a year of imports.

3³ BANKING AND SECURITIES

The Central Reserve Bank, the sole bank of issue, was established in Lima in 1931 to succeed the old Reserve Bank. Also created in 1931 was the Superintendency of Banks and Insurance, an agency of the Ministry of Finance, which defines procedure and obligations of banking institutions and has control of all banks. The government-owned National Bank (Banco de la Nación) not only acts as the government's tax collector and financial agent, but also is Peru's largest commercial bank. Another government agency, the Caja de Ahorros, provides secured loans to low-income borrowers. The government-owned development bank is COFIDE. There are 15 commercial banks in Peru.

Peru's banking sector has grown rapidly as a result of the economic recovery and capital inflows into the financial system. A decade ago, in 1987, the president of Peru was contemplating nationalizing the entire system. Shortly after his election, Mr. Fujimori decreed the abolition of the state's development and mortgage credit banks. Today, only COFIDE offers state-regulated development assistance, but as a second-tier bank channeling funds from other institutions and without the powers to raise financing on its own account. Along with the subsidized state development banks, a host of savings and loans cooperatives have disappeared, victims of financial mismanagement, hyperinflation, and embezzlement. With them went the savings of many lower and middle-class Peruvians, who have been left with a distrust of the financial system.

Financial operations and assets remain concentrated: four banks account for over 60% of all loans, and almost three-quarters of all deposits in the system. During 1997, commercial bank loan portfolios grew by approximately one-third. Total assets of the banking system amounted to \$18.8 billion in 2001. Peru is severely underbanked. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$6.1 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$17.4 billion. That year, the discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 14%.

The privately owned Lima Stock Exchange (Bolsa de Valores de Lima—BVL) regulates the sale of listed securities. Securities exchanges actually began in Lima in 1860, but the stock exchange in its current form was founded in 1971. There was a long bull run in 1992 as the economy stabilized after the coup and progress towards pacification was made. After falling by 27% in 1999 and 34% in 2000, the dollar value of the index dropped only 2.6% in 2001. At the end of 2001, 207 companies were listed on the BVL, and the market capitalization was \$11.1 billion. As of 2004, there were 194 companies listed on the BVL, which had a market capitalization of \$20.115 billion. In 2004, the IGBVL Index rose 52.4% from the previous year to 3,710.4.

3⁴ INSURANCE

Insurance companies are controlled through the Superintendency of Banks and Insurance of the Ministry of Finance. According to a law of 1952, branches controlled by foreign insurance companies may not be established in Peru, although foreign insurers may operate through Peruvian subsidiaries in which they hold only minority interest. A majority of stockholders and directors of locally incorporated stock companies must be Peruvian nationals. The National Bank assumes exclusive control of all foreign reinsurance operations, as well as the writing of export credit insurance. In 2003, a total of \$873 million in direct premiums were written, with \$507 million of the total comprised of nonlife and \$366 million of the total was life insurance. For that same year, Peru's top nonlife insurer was Rimac Internacional, which had gross written nonlife premiums of \$174.5 million, while the country's leading life insurer, El Pacifico Vida, had gross written life insurance premiums of \$94 million. Worker's compensation and employees' life insurance are compulsory.

3⁵ PUBLIC FINANCE

The central government publishes an annual budget representing the government's consolidated accounts (including budgetary and extrabudgetary transactions). Indirect taxes, including import and export duties, constitute the major source of government revenues. In the early 1970s, the number of state enterprises increased rapidly, which led to increased public-sector spending. As the revenues from state enterprises lagged behind expenditures, the budget deficit increased to about 10% of GDP during 1975–77, as compared to 1.7% during 1970–72. As a result of a fiscal stabilization program, the deficit was reduced to 6.5% of GDP in 1978, and to 2.5% in 1985. In 1990, the Fujimori administration began to pursue tighter fiscal policies and attempted to avoid domestic financing of the deficit. The consolidated public sector deficit, which in 1990 was 6.5% of GDP, fell to 2.5% by 1992, despite the suspension of most foreign financing after the 5 April 1992 coup.

Public Finance – Peru (2003)

(In millions of nuevos soles, central government figures)

Revenue and Grants	34,742	100.0%
Tax revenue	27,257	78.5%
Social contributions	2,502	7.2%
Grants	544	1.6%
Other revenue	4,439	12.8%
Expenditures	38,542	
General public services	...	...
Defense	...	...
Public order and safety	...	...
Economic affairs	...	...
Environmental protection	...	...
Housing and community amenities	154	0.4%
Health	4,867	12.6%
Recreational, culture, and religion	...	...
Education	2,584	6.7%
Social protection	15,508	40.2%

(...) data not available or not significant.

SOURCE: *Government Finance Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

The IMF program allowed a foreign-financed deficit of 2.9% of GDP in 1993 for increased social sector spending and investment in infrastructure. However, with lower than expected foreign financing and tax collection, the deficit that could be maintained while meeting the public sector external debt obligations was only equivalent to about 2% of GDP. The privatization of state enterprises fattened the government's coffers between 1992 and 2000. The budget deficit for 2000 was 2.5% of GDP due to a rise in public sector wages of 16%, and lower-than-expected revenues from privatization that year.

The US Central Intelligence Agency (CIA) estimated that in 2005 Peru's central government took in revenues of approximately \$21.8 billion and had expenditures of \$22.4 billion. Revenues minus expenditures totaled approximately -\$600 million. Public debt in 2005 amounted to 41.8% of GDP. Total external debt was \$30.18 billion.

The International Monetary Fund (IMF) reported that in 2003, the most recent year for which it had data, central government revenues in millions of nuevos soles were 34,742 and expenditures were 38,542. The value of revenues in millions of US dollars was \$9,988 and expenditures \$6,645, based on a market exchange rate for 2003 of 3.4785 as reported by the IMF. Government outlays by function were as follows: housing and community amenities, 0.4%; health, 12.6%; education, 6.7%; and social protection, 40.2%.

36 TAXATION

The basic corporate tax rate is 30%. However, incentives are available to investments made in mining, oil and gas licensing, and services contracts, for investments in manufacturing located in jungle areas, in tax-free zones, and in border areas. Capital gains are generally taxed as income at the corporate rate. Also, a special regime for small businesses and for some low-income companies imposes a monthly income of 2.5%. There is also a 4.1% tax on the distribution of dividends to nonresidents and individuals. However, dividend payments are not taxed if they are made between resident companies. Foreign dividends are part of taxable income. Branches of foreign companies are subject to the same taxes as Peruvian companies.

The personal income tax is charged at progressive rates of 15%, 21%, and 30%. Various deductions and allowances reduce the individual's taxable income. 20% of the salary and wages paid by a company to its employees is tax-exempt.

The main consumption tax is Peru's value-added tax (VAT) with a standard rate of 19%, of which 2% goes to the local level as a municipal promotion tax. Exports of goods, services, and chattels are exempt for VAT. Other taxes include excise, social security, healthcare pension fund, and profit-sharing taxes.

37 CUSTOMS AND DUTIES

Import licenses are not required on most products. Ad valorem duties are levied at 4% (on 23% of products), 12% (on 45% of products), or 7% (on 15% of products, especially textiles, footwear, and some agricultural products) of CIF value (cost, insurance, and freight). The remaining items are assessed duties rang-

ing from 17–20%. Tariffs range from a total of 4–20%, averaging 11.6%.

Export processing free zones offer investors exemptions from customs duties for imports and exports. Peru does not adhere to the common external tariff of the Andean Community, but is a member of the group, which opened a free trade zone with MERCOSUR in 2000.

38 FOREIGN INVESTMENT

The British were the first to gain prominence as investors in Peru, when they took power of the railways in payment of debt to Peruvian bondholders in 1890. They developed oil fields and a long distance telephone and cable service. In the mid-1950s, Swiss, German, and Canadian interests became active in the transportation and communication services. Private US interests ventured capital and technical aid to all sectors, especially the oil and mining industries. The fishing industry from the beginning was fostered by the United States. Private companies operated tuna fleets in Peruvian waters, as well as canneries.

Between 1959 and 1961, following passages of industrial development laws and the signing of an investment guarantee treaty with the United States, under which private US investors could obtain federal risk insurance against currency inconvertibility, total foreign investment almost doubled, rising from \$686 million to \$1,274 million. US investments continued their rapid growth rate until the 1968 coup, after which Peru's military rulers pursued a nationalist course, characterized by selective expropriation of foreign-held interests in sectors such as mining, finance, and infrastructure. In addition, a variety of strictures were placed on the uses of foreign capital, as well as on the relative proportion of foreign-to-local control. US-linked firms were the hardest struck by these measures, causing a strain in relations. In February 1974, a US-Peruvian agreement provided a compensation schedule for properties taken over during 1968–73. At the end of 1973, the US investment column stood at \$793 million, less than half of the total a decade earlier. Private investments in the 1970s continued to lag, although some new funding was being advanced in mining and petroleum. From 1977 through 1980, net direct capital investment totaled only \$177 million, or less than the total for 1981 (\$263 million), the first year after the restoration of civilian rule. In 1984 and 1985, after the economic slump, net direct investment was \$89 million and \$53 million, respectively.

After 1980, the official attitude toward foreign investment changed substantially. The 1979 constitution guarantees protection of private property, whether Peruvian or foreign, and permits foreign jurisdiction for international financial contracts. The agency responsible for foreign investment is the National Commission of Foreign Investment and Technology (Comite Nacional de Inversion Extranjera y Tecnologia, or CONITE). In late 1986, the Andean Group relaxed its regulations on foreign investment; this change was expected to benefit Peru. About 1,000 foreign companies were represented in Peru in the 1980s, either directly or through subsidiaries or affiliates.

The trade and investment climate in Peru improved significantly after President Fujimori assumed office in July 1990. Foreign investor confidence in Peru should be maintained with Fujimori as the key element in sustaining capital inflows. The Foreign Investment Promotion Law and the Framework Law for Private Invest-

ment Growth outlined the government's support for privatization and foreign investment in 1991. From 1991 to 1997, privatization sales totaled over \$7 billion, most of which came from foreign investors. There are no restrictions on remittances, but there is a mandatory affirmative action program for Peruvian employees. Activities in export processing zones are tax and customs duty exempt for 15 years.

In 1998, total foreign direct investment (FDI) stock totaled about \$7.3 billion. FDI inflow to Peru in 1998 was over \$1.8 billion, up from nearly \$1.7 billion in 1997, and then peaked at \$2.3 billion in 1999. Due mainly to political turmoil and uncertainty in the country, FDI flows to Peru fell to \$681 million in 2000. In 2001, FDI flows increased to \$1.1 billion, and in 2002 were approximately \$2 billion. The major sources of FDI have been Spain (particularly in telecommunications), the United States, and the United Kingdom (in the energy and industry and mining sectors). Cumulative FDI as of 2002 was over \$10 billion.

In 2004, the stock of FDI was \$12.6 billion, up from \$12.46 in 2003. Most of the investments went to communications (29%), industry (14.7%), finance (14.7%), mining (13.5%), and energy (13%). In June 2004, PetroPeru was excluded from the privatization list by a congress law, and it was authorized to conduct exploration and production activities. A series of major mining and energy projects (the Camisea natural-gas field being one of the most important ones), were likely to attract important investors from abroad.

3⁹ ECONOMIC DEVELOPMENT

After World War II, President Odría discontinued import licensing and certain price controls and enacted the Mining Code of 1950, the Petroleum Law of 1952, and the Electrical Industry Law of 1955, all with a view to reassuring sources of foreign and domestic capital of reasonable taxation and an adequate rate of earnings under liberal exploitation concessions. Given this stimulus to capital ventures, the economy expanded, and new exports, such as iron and coal, were developed.

After the coup of 1968, Peru's military rulers sought a profound restructuring of the country's economic life. The overall objectives were the establishment of effective state control of natural resources; redistribution of foreign participation; creation of manageable balance among governmental, private, and foreign sectors; and redistribution of productive sources more broadly throughout the population. Nationalization, coupled with a redistribution of ownership and management authority in major enterprises, was the cornerstone of the new policy from its incipient stages in 1968 through 1975. A five year plan was announced in December 1968, emphasizing a reorientation from an agricultural to an industrial economy and stressing the expropriation of large estates, with redistribution of land to peasants in the sierra. In early 1969, tax and credit incentives for the formation of cooperatives and the consolidation of smaller landholding were enacted. In nonagricultural sectors, the government began, in 1969, selective nationalization of major foreign holding in the mining, petroleum, and infrastructure sectors. In several areas, a government presence was asserted through the creation of state-owned commercial enterprises, the most notable of which included Induperu, in industry; Mineroperu, in mining; Pescaperu, in fishing; Petroperu, in petroleum; En-

telperu, in telecommunications; and COFIDE (Corporacion Financiera de Desarrollo), in investment.

Industrial enterprises in general were required to adopt profit-sharing and co-ownership schemes for their employees. Although strict limits were placed on foreign participation in Peruvian industry, such investments were not ruled out in principle, and in 1974, the government acted to guarantee fair settlement for US holdings expropriated during 1968–73.

In the mid-1970s, the regime began to moderate the rigid price control system instituted in its formative years. The prices of petroleum and basic consumer goods were increased, while wage increases were fixed and agricultural subsidies removed. In September 1975, the sol was devalued and financial controls were imposed to help stem inflation (reaching 40% in 1975) and to ease the trade imbalance. The Tupac Amaru Development Plan, announced in 1977, limited the structural reforms of the Inca Plan, calling for economic decentralization and encouragement of foreign investment.

In the late 1970s, a number of state-controlled enterprises were sold, and worker participation was curtailed. The civilian leaders who came to power in 1980 sought to reduce government participation in the economy and to improve the efficiency of state enterprises. Import tariffs and export taxes were reduced, and a new investment program for 1980–85 emphasized power and irrigation projects and the construction of housing and health care facilities. These attempts to revitalize the economy were hampered by the worldwide recession and by the soft market of Peru's commodity exports. In response, the García Administration reverted to an interventionist policy, imposing import controls and regulating foreign-exchange availability, as well as influencing the financial sector by threatening to nationalize the banks.

On 28 July 1974, the government announced its Inca Plan (which may actually have been drawn up before the 1969 coup), a master plan that envisioned eventual transformation of all economic entities along prescribed socialist lines. Three types of enterprises were to be permitted to operate in Peru: state-owned enterprises, worker-owned collectives (industrial communities), and social-property companies (entities managed by workers but financed by the state).

In late 1975, the Central Bank set up a line of credit to aid the formation of social-property companies through the National Fund for Social Property. The Agrarian Bank, which had been created in July, was authorized to handle the credit requirements of the reorganized agricultural sector, as well as to ease the transformation of cooperatives and farmers' associations, many of which had existed for only a few years, into social-property entities. The order of priorities for industry placed basic industries—notably steel, nonferrous metals, chemicals, fertilizers, cement, and paper—at high rung, followed by manufacturers of capital good, such as machine tools, and industrial research. Reinvestment of profits was stressed throughout.

The decade of the 1990s, with an administration in favor of a market economy, attracted more investment into Peru's economy. With foreign capital flowing, Peru was poised for economic recovery. Privatization and the rapidly growing economy were providing the government with funds to spend on infrastructure and social programs.

In August of 1990, the government implemented an economic program based on (1) an economic stabilization plan, (2) a structural reform program and (3) a set of initiatives aimed at reintegrating the Peruvian economy into the international economic system. As a direct result economic growth in the 1990s was quite strong.

The economic stabilization plan focused on achieving an inflation rate comparable to international levels, and to foster an environment favorable for savings, investment and sustained economic growth. The plan was based on strict fiscal discipline in accordance with an austere monetary policy. The inflation rate was about 6% in 1999. Structural reforms resulted in capital amounting to \$7 billion between 1991 and 1999, resulting in a massive inflow of foreign investment. The reinsertion of Peru into the international financial system, beginning in 1991, was intended to restore normal relations between the country and its international creditors. Peru normalized its relations with multilateral bodies, the Paris Club, and with commercial banks.

Upon being elected in 2001, President Toledo implemented an economic recovery program, to revive an economy that had stagnated from 1998–2001. He took measures to revive the privatization program and to attract investment. The production, refining, and distribution of coca engages approximately 200,000 Peruvians, but the government has taken steps to curtail the narcotics industry. These include promoting alternative development programs in coca-growing areas, in order to convince coca farmers not to grow the crop.

In 2002, the International Monetary Fund (IMF) approved a two-year \$347 million Stand-By Arrangement with Peru, to support the government's plans for economic recovery and a lowered rate of inflation.

The consistent economic growth was likely to continue in 2006 and 2007, although at more moderate rates. The growth was expected to be fueled by higher consumption rates, which in turn would be positively influenced by consumer confidence and employment growth in export-oriented industries. A series of planned public development projects were expected to trigger a boom in the construction industry, which would also be reflected in the overall growth pattern of the country.

40 SOCIAL DEVELOPMENT

A modern system of social security (referred to as SNP) has evolved from initial legislation provided in the 1936 constitution. Coverage and benefits were substantially broadened after the 1968 coup. Workers were entitled to receive benefits covering disability, medical attention, hospitalization, maternity, old age, retirement, and widows and orphans. In 1991, the government introduced a new system of individualized capitalization through private pensions (SPP), which exists along side the national social security system.

Social insurance is compulsory for all employees up to the age of 60. The national social security and pension funds (SNP) are endowed by 13% of employee earnings, with the balance of funds supplied by the government. The private system is funded entirely by contributions from employees amounting to 10% of earnings. Sickness and maternity benefits are funded by 9% of employer payroll, with a special credit for employers who use the newer pri-

ivate system. Working mothers are entitled to maternity leave of 90 days at 100% pay. A funeral grant is provided.

Women are often kept from leadership roles in the public and private sectors by the force of tradition, although they are equal under the constitution. A government-supported program to provide credit to female entrepreneurs encourages women to pursue ventures. Racial and sexual discrimination are specifically prohibited by law in hiring, but in practice it continued to occur. Sexual harassment continued despite new legislation adopted in 2003. Domestic abuse and violence against women is a widespread problem which is exacerbated by insensitivity on the part of authorities, although there are some special police stations staffed by women to assist female victims of violence.

Human rights violations have been committed by the government and terrorist groups. There are restrictions on freedom of speech and of the press. Prison conditions are poor and the physical abuse of prisoners is common. The native population of the Amazon region continued to suffer discrimination.

41 HEALTH

Although Peru has made significant advances toward reducing epidemic disease, improving sanitation, and expanding medical facilities, much remained to be done. Approximately 77% of the population had access to safe drinking water and 76% had adequate sanitation. Health services are concentrated around metropolitan Lima. A health care plan initiated in 1981 called for the establishment of 100 health centers in rural areas and shantytowns. The central administration of all health services lies with the Ministry of Health. A General Health Law enacted in 1997 restructured and reformed the health care sector. As of 2004, there were an estimated 117 physicians, 67 nurses, and 11 dentists per 100,000 people. Total health care expenditure was estimated at 6.2% of GDP.

The infant mortality rate in 2005 was estimated at 31.94 per 1,000 live births. As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 23.3 and 5.8 per 1,000 people. Maternal mortality was high at 265 per 100,000 live births. Some 69% of married women used contraception during 2000. Average life expectancy in 2005 was estimated at 69.53 years.

Leading causes of death included acute respiratory infections, intestinal infectious diseases, circulatory system and cardiovascular disease, and tuberculosis. Serious vitamin A deficiency was documented in 22% of children ages four and under and an estimated 48% of all children aged six to nine suffering from malnutrition. Goiter rates in school-age children were high.

Peru has repeatedly reported the highest number of yellow fever cases in the Americas. Other common diseases included malaria and tuberculosis. Immunization rates for children up to one year old were: tuberculosis, 98%; diphtheria, pertussis, and tetanus, 98%; polio, 97%; and measles, 95%.

The HIV/AIDS prevalence was 0.50 per 100 adults in 2003. As of 2004, there were approximately 82,000 people living with HIV/AIDS in the country. There were an estimated 4,200 deaths from AIDS in 2003.

42 HOUSING

Successive governments since the 1950s have recognized the importance of slum clearance and public housing programs in com-

bating disease and high mortality rates. Most housing development programs carried out by the government and by private enterprise have been in the Lima area. In Lima and other towns, several “neighborhoods” (*unidades vecinales*) have been completed through government efforts since the early 1960s. Each such housing complex is designed to be a self-sufficient community. A typical neighborhood is built to house 6,000 persons at moderate rentals.

One of the revolutionary government’s early decrees gave the Housing Bank control over financing low-cost housing. Construction grew rapidly during 1970–73, to the point of depleting local cement supplies.

In 2002, there were about 6 million dwelling units nationwide. About 88.7% of all units were single-family detached houses. Rapid urbanization has resulted in housing shortages in urban areas. Shanty towns called *pueblos jóvenes* have developed in these areas as families build temporary structures out of straw mats, scrap wood, and other disposable materials.

43 EDUCATION

The government has been responsible for public education since 1905; free secondary education began in 1946, but with far too few public schools to meet the need. In March 1972, new education legislation enhanced the central authority of the Ministry of Education, granting the government control over all teaching appointments in the public schools and increasing its authority over the private sector. The legislation provided for adult literacy instruction and instituted the concept of a fully staffed six-grade “nuclear” school to serve the rural population. The 1972 law also established Quechua and Aymará as languages of instruction for non-Spanish-speaking Amerindians, especially in the lowest grades.

Education is compulsory for 12 years, including one year of preprimary education. Primary school covers six years and is followed by two years of general secondary school. Students then attend either a three-year general academic secondary school (studying either arts or sciences) or a three-year technical school. Students planning to enter university may take an additional year of preparatory studies, but this is not an entry requirement. The academic year runs from April to December.

In 2001, about 50% of children between the ages of three and five were enrolled in some type of preschool program. Primary school enrollment in 2003 was estimated at about 100% of age-eligible students. The same year, secondary school enrollment was about 69% of age-eligible students. Nearly all students complete their primary education. The student-to-teacher ratio for primary school was at about 25:1 in 2003; the ratio for secondary school was about 19:1. In 2003, private schools accounted for about 13.7% of primary school enrollment and 17.3% of secondary enrollment.

There is a national university in virtually every major city; the oldest is the National University of San Marcos of Lima, originally founded in 1551. The National University of Engineering and the National University of Agriculture are specialized governmental institutions. The University of San Cristóbal de Huamanga in Ayacucho, founded in the 17th century, was reopened in 1960 and offers mainly technical training. Peru’s hard-pressed universities can accept only a fraction of each year’s applicants. As of 2005, the government was in the process of organizing a university for the

indigenous people of the Northern Amazon region. This school would offer course in such fields as forestry management and medicinal plants, with classes conducted in indigenous languages. In 2003, about 32% of the tertiary age population were enrolled in some type of higher education program. The adult literacy rate for 2004 was estimated at about 87.7%, with 93.5% for men and 82.1% for women.

As of 2003, public expenditure on education was estimated at 3% of GDP, or 17.1% of total government expenditures.

44 LIBRARIES AND MUSEUMS

The National Library in Lima, with 736,000 volumes, is the largest in Peru. More than 450,000 volumes may be found in the various libraries of the University of San Marcos. The library at the National University of San Agustín at Arequipa contains over 430,000 volumes. The library at the Pontifical Library has over 350,000 items. There are nearly 200 public libraries in Peru, the largest of them in Callao, Arequipa, and Lima.

Peru has endeavored to restore and maintain the aesthetic and historical evidences of its pre-Columbian and colonial civilizations in more than 250 public and private museums. The City Hall in Lima contains a full record of the city’s official acts since its founding. The Cathedral of Lima, with its silver-covered altars and carved stalls, contains priceless historical, and religious relics. A chapel near the entrance contains the alleged remains of Francisco Pizarro. Two colonial residences, the Palacio Torre Tagle and the Quinta de Presa, have been maintained to exhibit antiques and to serve as examples of the architecture of traditional Lima. There is no law protecting old houses, however, and many have been removed to make way for new downtown buildings. Some have been privately restored, such as the headquarters of the Association of Amateur Artists, the Institute Riva Agüero, the Associated Electrical Companies, the Bullfight Museum, and the Oquendo Mansion. In the Quinta de Presa is a museum with the possessions of the actress La Perricholi, the famous favorite of the 18th-century Viceroy Amat.

At Pueblo Libre in Lima are the National Museum of Archaeology and Anthropology, with exhibits of pre-Columbian civilizations, and the Museum of the Republic, a historical museum. The Rafael Larco Herrera Museum in Lima (housing the former collection of the Chiclín plantation near Trujillo) is a private museum with a vast collection of notable antiquities from the pre-Inca Chimú culture. The University of Trujillo has a museum with specimens of early Peruvian cultures. Lima’s Museum of Art exhibits Peru’s national art from the pre-Columbian era to the contemporary period. There are regional museums throughout the country, including the Frederico Galvez Durand Archeological Museum in Huancayo featuring artifacts from the Nazca peoples.

45 MEDIA

Peru’s major telecommunications systems were developed privately by Swedish, US, and Swiss enterprises. In 1970, however, the government nationalized the Lima Telephone Co. and announced plans to take over the entire telecommunications system through its wholly owned company Entelperú. A joint Peruvian-Chilean firm operates a system in southern Peru and Arica, Chile. In 2003, there were an estimated 67 mainline telephones for every 1,000 people; about 33,000 people were on a waiting list for telephone

service installation. The same year, there were approximately 106 mobile phones in use for every 1,000 people. The government's Bureau of Mails and Telecommunications operates the domestic telegraph system, using radio to reach communities not served by land lines.

In 2004, there were 65 radio stations and 2 news channels on 2 commercial cable systems in the Lima area. There are many privately owned provincial stations. The government owns only one radio station and one television network. In 2003, there were an estimated 269 radios and 172 television sets for every 1,000 people. About 16.6 of every 1,000 people were cable subscribers. Also in 2003, there were 43 personal computers for every 1,000 people and 104 of every 1,000 people had access to the Internet. There were 129 secure Internet servers in the country in 2004.

The leading Lima dailies—among them *El Comercio* (2004 circulation 120,000), *Ojo* (40,000), and *Expreso* (50,000)—are the most important newspapers and are flown daily to provincial towns. Other major papers from Lima include *Aja* (120,000), *El Bocon* (90,000), and *La Republica* (50,000). The official government paper is *El Peruano* (27,000), a daily gazette in which laws, decrees, and brief government announcements are published. Special-interest periodicals are published by learned societies, agricultural groups, and business associations.

During the period of military rule between 1968 and 1980, the press in Peru was under strict government control. The law provided severe penalties for criticizing government officials and required newspapers to publish reports from the president and cabinet ministers. When civilian rule returned in 1980, the press was returned to private control. However, freedom of the press was again restricted during the political crackdown by President Fujimori in April 1992, and journalists have been arrested by the government. As of 1999, journalists were subject to harassment and intimidation, and practiced self-censorship. The government is said also to exert control over the media through the purchasing of advertising to promote government views and pro-government opinion.

46 ORGANIZATIONS

The national Society of Industries, founded in 1896, coordinates the branches of organized industry. The Office of Small Industry and the Institute for the Development of Manual Arts were established in 1946 to revive the weaving and spinning skills of Incas and to coordinate the handicraft workers in textile and other industries, such as gold and silver crafts. Numerous chambers of commerce continued to function.

Of Peru's many learned societies, perhaps the most important is the Academia Peruana, affiliated with the Royal Spanish Academy of Madrid. Others include the Peru Association for the Advancement of Science and the Geographic Society of Lima. There are several professional associations dedicated to research and education for specific fields of medicine and particular diseases and conditions.

National youth organizations include the National Association of Scouts and Guides, the Federation of Peruvian Students, Junior Chamber, and YMCA/YWCA, as well as a number of religious youth groups. Sports associations offer encouragement for amateur competition in such pastimes as badminton, squash, and track and field.

The Latin American and Caribbean Committee for the Defense of Women's Rights has an office in Lima. International organizations with national chapters include Amnesty International, UNICEF, the Society of St. Vincent de Paul, Habitat for Humanity, CARE Peru, and the Red Cross.

47 TOURISM, TRAVEL, AND RECREATION

As part of a program to encourage foreign tourism, the government has built and manages, through its Peruvian Hotel Co., several hotels or inns and a variety of tourist services. To help increase foreign exchange earnings from tourism, Peru consolidated all government agencies dealing with tourism into an autonomous corporation in 1964. The Fund for the Promotion of Tourism was established in 1979.

Tourists, as well as scholars, are especially drawn to the wealth of archaeological remains on the coast and in the sierra. Chan Chan, the center of the Chimú civilization, stands in adobe ruins near Trujillo. The ruins of the 9th-century coastal city of Pachacamac are just south of Lima. Inca ruins may be seen at Cuzco, Sacahuamán (on the northern edge of Cuzco), Ollantaytambo, and Machu Picchu, as well as on Lake Titicaca islands.

The northern coastal waters are famous for big-game fishing, and the abundant resources of the sierra waters are maintained by fish culture stations. Lakes and streams have been stocked with trout throughout Peru. In Lake Titicaca, trout average 10 kg (22 lb); trout weighing as much as 21 kg (46 lb) have been caught. Other tourist attractions include beaches and water sports; several state parks offer mountain climbing, cross-country skiing, and white-water rafting. The most popular sports are football (soccer), baseball, basketball, and bullfighting. Fiestas, especially the annual celebrations of patron saints, include both Catholic and Indian rites; bands of musicians, or conjuntos, are an important part of each fiesta.

There were 933,643 visitors who arrived in Peru in 2003, of whom 67% came from the Americas. Hotel rooms numbered 123,252 with 213,829 beds. The average length of stay was two nights. A US passport is required along with an onward/return ticket. Visas are only required for visitors from Cuba, Iran, Iraq, Kuwait, Bulgaria, Russia, Pakistan, India, and China. The presence of yellow fever in the area may require a certificate of vaccinations against the disease.

In 2004, the US Department of State estimated the daily cost of staying in Lima at \$215; in Cuzco, \$204; and in Paracas, \$158.

48 FAMOUS PERUVIANS

The Inca Huayna Capac (1450?–1525) reigned from 1487 and extended the Inca Empire, encouraging public works and fine arts. On his death he left the empire to his two sons, Huáscar (1495?–1533) and Atahualpa (1500?–1533); Huáscar was executed by his half-brother, and Atahualpa, the last of the great Incas, was executed by the Spanish conquistador Francisco Pizarro (1470?–1541). Acknowledged as America's first great writer, Garcilaso de la Vega (El Inca, 1539?–1616), son of a Spanish conquistador and an Inca princess, preserved in his *Royal Commentaries of the Incas* authentic descriptions of this ancestral empire and its traditions. Manuel de Amat (fl. 18th century), viceroy from 1762 to 1776, was a patron of the colonial theater and of the famous actress Micaela Villegas, known as La Perricholi. Tupac Amaru II (José Gabriel

Condorcanqui, 1742–81), partly descended from the Incas, led a revolt against Spanish rule in 1780 in which he was defeated, captured, and executed.

Dr. José Hipólito Unnúa (1758–1833), a statesman and scientist, founded Lima's medical school in 1808 and reformed Peruvian education. The hero of the War of Independence, Mariano Melgar (1792–1815), was also a poet and composer whose regional songs (*yaravís*) are still popular. Marshal Ramón Castilla (1797–1867) distinguished himself in two great presidential terms (1845–51, 1855–62), introducing railways and the telegraph, emancipating the slaves, abolishing Amerindian tribute, modernizing Lima, and developing the important guano industry. Ricardo Palma (1833–1919) is considered Peru's greatest literary figure; a critic, historian, and storyteller, he originated the genre called *tradicción*, and wrote the 10-volume *Tradiciones Peruanas*. José María Valle-Riestra (1858–1925) was an important composer.

In the modern era, the work of an erudite Amerindian, Julio Tello (1880–1947), became internationally known in archaeological circles. Jorge Chávez (1887–1910) made the first solo flight across the Alps in 1910. Santos Chocano (1875–1934), César Vallejo (1895–1938), and José María Eguren (1882–1942) are considered Peru's finest modern poets. Established prose writers are Víctor Andrés Belaúnde (1883–1966), Jorge Basadre (1903–80), and Ciro Alegría (1909–67); the novelist Mario Vargas Llosa (b.1936) was the first Latin American president of PEN, an international writers' organization. Peru's best-known contemporary painter is Fernando de Szyszlo (b.1925). Other noted Peruvians include Ventura García Calderón (1866–1959), a writer; José Sabogal (1888–1956), a painter; Honorio Delgado (1892–1969), a scientist; and José Carlos Mariátegui (1895–1930), a political essayist. Yma Sumac (b.1928) is an internationally known singer.

Víctor Raúl Haya de la Torre (1895–1979) originated APRA in 1924 as a Latin American workers' movement; it became Peru's most significant political force. Gen. Juan Velasco Alvarado (1910–77), who led the military coup of 1968, ruled as president of Peru until his own ouster by a bloodless coup in 1975. Gen. Francisco Morales Bermúdez Cerruti (b.1921), president during 1975–80, prepared the country for a return to civilian rule. Fernando Belaúnde Terry (1913–2002), founder of the Popular Action Party, served as president during 1963–68 and again during 1980–85. Alán García Pérez (b.1949) was elected president in 1985. Alberto

Fujimori (b.1938), was president from 1990 to 2000: once out of office, Interpol issued an international arrest warrant for Fujimori on charges including crimes against humanity, murder, and kidnapping, and President Alejandro Toledo (b.1946) lodged an extradition request with the Japanese government (where Fujimori had fled) in 2003. In 1982, Javier Pérez de Cuéllar (b.1920) became secretary-general of the UN.

49 DEPENDENCIES

Peru has no territories or colonies.

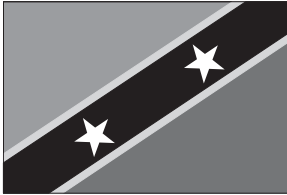
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ST. KITTS AND NEVIS

Federation of Saint Kitts and Nevis



CAPITAL: Basseterre

FLAG: Two thin diagonal yellow bands flanking a wide black diagonal band separate a green triangle at the hoist from a red triangle at the fly. On the black band are two white five-pointed stars.

ANTHEM: *National Anthem*, beginning "O land of beauty."

MONETARY UNIT: The East Caribbean dollar (EC\$) of 100 cents is the national currency. There are coins of 1, 2, 5, 10, and 25 cents and 1 East Caribbean dollar, and notes of 5, 10, 20, and 100 East Caribbean dollars. EC\$1 = US\$0.37037 (or US\$1 = EC\$2.7) as of 2004.

WEIGHTS AND MEASURES: The imperial system is used.

HOLIDAYS: New Year's Day, 1 January; Labor Day, 1st Monday in May; Bank Holiday, 1st Monday in August; Independence Day, 19 September; Prince of Wales's Birthday, 14 November; Christmas, 25 December; Boxing Day, 26 December; Carnival, 30 December. Movable religious holidays include Good Friday and Whitmonday.

TIME: 8 AM = noon GMT.

¹ LOCATION, SIZE, AND EXTENT

St. Kitts lies about 8 km (5 mi) SE of the Netherlands Antilles and 72 km (45 mi) NW of Antigua, in the Leeward Islands. It is 37 km (23 mi) long and 8 km (5 mi) across at its widest point, with a total area of 261 sq km (101 sq mi). Comparatively, the area occupied by St. Kitts and Nevis is slightly more than 1.5 times the size of Washington, DC. Nevis lies about 3.2 km (2 mi) SE of St. Kitts, across a channel called the Narrows; it is 13 km (8 mi) long and 10 km (6 mi) wide, with a land area of 93 sq km (36 sq mi). Together the islands have a coastline of 135 km (84 mi).

The capital city, Basseterre, is located on St. Kitts.

² TOPOGRAPHY

St. Kitts and Nevis are of volcanic origin. In the northwest of St. Kitts is Mt. Liamuiga (also called Mt. Misery), a dormant volcano that is the island's highest peak at 1,156 m (3,792 ft); to the south and west of Mt. Liamuiga are 210-m (700-ft) cliffs that drop straight to the sea. On the southern arm of the island lies the Great Salt Pond. The island of Nevis could be considered to be one large dormant volcano. Nevis's highest elevation is the central peak of Mt. Nevis, at 985 m (3,232 ft); it is usually capped in clouds. There is a black sand beach on the northwest coast.

The islands are located on the Caribbean tectonic plate at the boundary of the North American Plate; the subduction of the Atlantic Plate beneath the Caribbean Plate was responsible for the formation of the islands and continues to cause earthquakes in the surrounding region.

³ CLIMATE

Temperatures range from 26°C (79°F) to 32°C (89°F) all year long. Northeast tradewinds are constant. Rain usually falls between

May and November, averaging 109 cm (43 in) a year. High humidity characterizes the summer months. Hurricane season runs from late summer to early fall.

⁴ FLORA AND FAUNA

The upper slopes of Mt. Nevis are well wooded; coconut palms, poincianas, and palmettos are profuse. Lemon trees, bougainvillea, hibiscus, and tamarind are common on both islands. Swamps and marshes on the southern peninsula of St. Kitts feature red and white mangroves. There are some black-faced vervet monkeys on Monkey Hill in St. Kitts. Coral reefs off the coast serve as a habitat for such marine life as sea turtles, barracuda, eels, and rays.

⁵ ENVIRONMENT

Deforestation, erosion, and water pollution are among the most significant environmental problems in St. Kitts and Nevis. Deforestation has affected the nation's wildlife population and contributed to soil erosion. The erosion of the soil produces silt, which affects the living environment for marine life on the coral reefs.

Water pollution results from uncontrolled dumping of sewage into the nation's waters. Another contributing factor is pollution from cruise ships which support the nation's tourist trade. In an effort to establish a framework for the regulation of environmental issues, the government has introduced legislation. The National Conservation and Environmental Protection Act, along with the Letter Act, are aimed at monitoring the nation's most pressing environmental concerns.

According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 1 type of mammal, 2 species of birds, 3 types of reptiles, 11 species of fish, and 2 species of plants. Threat-

ened species in the country included the red-bellied racer, green turtle, leatherback turtle, and the hawksbill turtle.

6 POPULATION

The population of St. Kitts and Nevis in 2005 was estimated by the United Nations (UN) at 48,000, which placed it at number 186 in population among the 193 nations of the world. In 2005, approximately 8% of the population was over 65 years of age, with another 28% of the population under 15 years of age. According to the UN, the annual population rate of change for 2005–10 was expected to be 1.0%, a rate the government viewed as too high. The projected population for the year 2025 was 57,000. The overall population density was 133 per sq km (345 per sq mi), with the density on the island of St. Kitts twice that of Nevis.

The UN estimated that 33% of the population lived in urban areas in 2005, and that the population in urban areas was declining at an annual rate of -0.42%. The capital city, Basseterre, had a population of 13,000 in that year. Charlestown is the largest urban settlement on Nevis.

7 MIGRATION

There is less emigration in the current period than there was during the mid-20th century, largely because the economy enjoys almost full employment during the tourist and harvest seasons. During the off-season, some people migrate to other islands in search of work. The total number of migrants was 4,000 in 2000. In 2005, the net migration rate was -5.9 migrants per 1,000 population. The government views the migration levels as satisfactory.

8 ETHNIC GROUPS

About 96% of the population are of black African descent. Only about 5% of the population are mulatto, 3% Indo-Pakistani, and 1.5% European.

9 LANGUAGES

English, sprinkled with local expressions, is the universal language.

10 RELIGIONS

Christianity is the dominant religion. The Anglican Church, the largest church on the island, claims about 50% of the population. About 25% are Roman Catholics. Other Christian groups are Methodists, Moravians, Seventh-Day Adventists, Mormons, and Jehovah's Witnesses. There are small communities of Rastafarians and Baha'is. Religious freedom is guaranteed by the constitution. Certain Christian holidays are recognized as national holidays. The St. Kitts Christian Council is a nongovernment group that promotes interfaith understanding.

11 TRANSPORTATION

As of 2004, a light, narrow-gauge railway of 50 km (31 mi) on St. Kitts was operated by the government to transport sugarcane from fields to factory and processed sugar to the pier at Rawlins Bay. In 2002, there were 320 km (199 mi) of roads on the islands, of which 136 km (85 mi) were paved; the main roads circle each island. Basseterre and Charlestown are the principal ports. A state-run motorboat service is maintained between St. Kitts and Nevis. In

2004 there were two airports, both with paved runways. Golden Rock International Airport is a modern facility serving Basseterre; several small airlines fly to a landing strip at Newcastle, on Nevis.

12 HISTORY

Arawak Indians, followed by Caribs, were the earliest known inhabitants of the islands. Discovered by Columbus in 1493 and named St. Christopher, St. Kitts was the first of the British West Indies to be settled. Sir Thomas Warner established a settlement on St. Kitts in 1623, later leading colonial expeditions to Nevis in 1628 and Antigua in 1632. For a short while during this period there were French settlements at both ends of St. Kitts, and the French settlers cooperated with the British to repel a Spanish invasion. By the 1660s there were some 4,000 Europeans engaged in the sugar trade, based on a plantation system with slaves imported from Africa. The French gained control in 1664 but lost it to the British in 1713, under the Peace of Utrecht. The French besieged the British garrison in the Brimstone Hill fortress in 1782 and once more gained control of the island, but the Treaty of Versailles (1783) returned St. Kitts again to Britain. By the late 18th century, the thermal baths at Charlestown, Nevis, attracted thousands of international tourists. Although the slaves were emancipated in 1834, many of the ex-slaves continued to work on the sugar plantations, so the sugar-based economy did not decline as rapidly as elsewhere in the West Indies.

St. Kitts, Nevis, and Anguilla (the most northerly island of the Leeward chain) incorporated with the British Virgin Islands in 1816. The territorial unit of St. Kitts-Nevis-Anguilla became part of the Leeward Islands Federation in 1871 and belonged to the Federation of the West Indies from 1958 to 1962. In 1967, the three islands became an associated state with full internal autonomy under a new constitution. After the Anguilla islanders rebelled in 1969, British paratroopers intervened, and Anguilla seceded in 1971, an arrangement formally recognized on 19 December 1980.

There have been regular general elections in St. Kitts and Nevis since 1971. A 1982 white paper on independence provoked stormy debate over the form of the constitution, spilling over into civil unrest in 1982 and 1983. St. Kitts and Nevis became an independent federated state within the Commonwealth on 19 September 1983. Under the arrangement, Nevis developed its own legislature and gained the power to secede from the federation. Elections in June 1984 produced a clear majority for the People's Action Movement/Nevis Reformation Party coalition.

In the 21 March 1989 elections, 11 of 14 members of the National Assembly were elected, six from the People's Action Movement Party (PAM), two from St. Kitts and Nevis Labor Party (SKNLP), two from the Nevis Reformation Party (NRP), and one from the Concerned Citizens Movement (CCM). In the 29 November 1993 elections, no major party won the most seats and no coalition government emerged. The governor-general invited a minority government to form. In response, the Labour Party demonstrated, which led to serious disturbances, causing a 21-day state of emergency in December 1993.

In June 1996, Nevis premier Vance Amory announced plans for Nevis to secede from the federation as detailed in the constitution. Elections for the Nevis Island Assembly held in February 1997 returned Amory to power. The CCM retained its three seats, and the

NRP held its two seats. Nevis's assembly voted unanimously for secession in 1997. However, a referendum on succession in July 1998 was unsuccessful when it failed to gain the approval of two-thirds of the electorate (61.8% in favor).

The 3 July 1995 elections gave the SKNLP seven seats; PAM kept one seat; NRP, one seat; and the CCM, two seats. Denzil L. Douglas, leader of the SKNLP, became prime minister. Elections in March 2000 resulted in SKNLP winning all eight seats in St. Kitts, returning Douglas for a second five-year term as prime minister. The CCM retained two seats in Nevis, and NRP kept one seat. The PAM won no seats.

Elections were held in October 2004. The SKNLP won 7 seats, the CCM, 2; the NRP, 1; and the PAM, 1. Douglas began a third term as prime minister. Douglas has stated that any differences between Nevis and St. Kitts should be resolved through constitutional reform, rather than by a referendum on secession.

In March 2005, the government decided to close the 300-year old sugar industry after the 2005 harvest. The sugar industry had long been ailing. However, tourism and the offshore financial industry are growing. By 2003, Nevis had approximately 17,000 offshore businesses operating under strict secrecy laws; this made the islands attractive to drug traffickers and money launderers. St. Kitts and Nevis enacted new laws to try to crack down on the problem.

13 GOVERNMENT

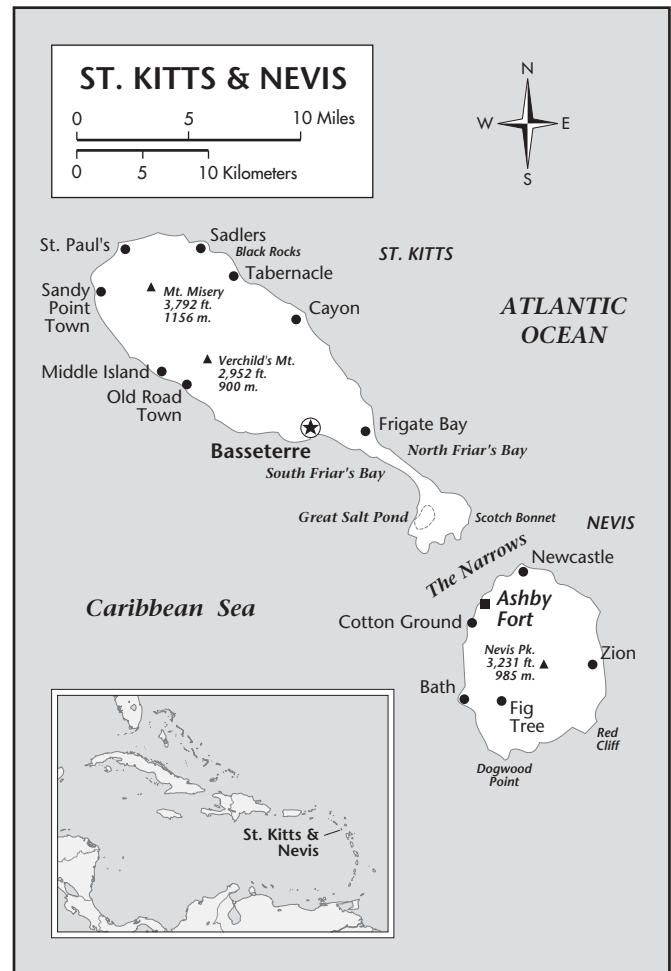
St. Kitts and Nevis is a federation of the two constituent islands. Under the constitution passed at independence in 1983, the British monarch is head of state and is represented by a governor-general, who is required to act upon the advice of the cabinet, and a deputy governor-general for Nevis.

The nation is governed under a parliamentary system, with legislative power vested in the unicameral House of Assembly, consisting of the speaker, three senators (two appointed on the advice of the prime minister and one on the advice of the leader of the opposition), and 11 elected members elected from each of 11 constituencies for up to five years. The cabinet, collectively responsible to the Assembly, consists of the prime minister (who must be able to command the support of a legislative majority), the attorney general (ex officio), and other ministers. The prime minister could call for an early election if the people request it in a voted referendum, though it has yet to happen. The Nevis Island Assembly and the Nevis Island Administration (headed by the British monarch represented by the deputy governor-general) operate similarly to the federation government.

Suffrage is universal for all citizens 18 or older.

14 POLITICAL PARTIES

There are four political parties that have held seats in the House of Assembly. Although the Labour Party (now the St. Kitts and Nevis Labour Party—SKNLP) dominated the political scene from the 1950s until 1980, it was supplanted after independence by the People's Action Movement. The PAM won 6 seats, a clear majority, in both 1984 and 1989. The Labour Party held 2 seats in 1984 and 1989. The Nevis Reformation Party, founded in 1970, took 3 seats in 1984 and 2 seats in 1989, all of which were from constituencies on Nevis. The Concerned Citizen's Movement took 1 Nevisian seat in 1989. In 1993, the SKNLP and PAM each had 4 seats. CCM



LOCATION: 17°10' to 17°20' N; 62°24' to 62°45' W. TOTAL COASTLINE: 135 kilometers (84 miles). TERRITORIAL SEA LIMIT: 12 miles.

took 2 seats and the NRP took 1 seat. In 1995, the SKNLP won 7 seats, the PAM, 1 seat, and the CCM, 2 seats. In 2000, the SKNLP won all 8 seats from St. Kitts. The CCM held its 2 seats, and the NRP held its 1 seat. In 2004, the SKNLP won 7 seats, the CCM, 2; the NRP, 1; and the PAM, 1.

15 LOCAL GOVERNMENT

There are nine parishes in St. Kitts: St. George Basseterre, St. Peter Basseterre, St. Mary Cayon, Christ Church Nichola Town, St. John Capisterre, St. Paul Capisterre, St. Anne Sandy Point, St. Thomas Middle Island, and Trinity Palmetto Point. Nevis has five parishes: St. Paul Charlestown, St. John Figtree, St. George Gingerland, St. James Windward, and St. Thomas Lowland. Under the 1983 constitution, Nevis has its own legislative assembly and the right to secede under certain conditions.

16 JUDICIAL SYSTEM

The Eastern Caribbean Supreme Court, established on St. Lucia, administers the judicial system, which is based on English common law and statutory acts of the House of Assembly. A judge of the Court is responsible for St. Kitts and Nevis and presides over the Court of Summary Jurisdiction. Magistrates' courts deal with petty criminal and civil cases. The attorney general is the govern-

ment's principal legal adviser. An appeal may be taken to the organization of Eastern Caribbean States Court of Appeal; until 2003, final appeals were taken to the Judicial Committee of the Privy Council in the United Kingdom. St. Kitts and Nevis was among the nations joining together to form the Caribbean Court of Justice (CCJ) to hear cases formerly taken to the Privy Council. The court was officially inaugurated in April 2005. As of 2005, however, the court's jurisdiction was limited to the CARICOM states of Barbados and Guyana. The CCJ heard its first case in August 2005.

There are no military or political courts.

The judiciary has a reputation for independence and integrity. The system provides legal assistance to indigent criminal defendants.

17 ARMED FORCES

St. Kitts and Nevis participates in the Eastern Caribbean Regional Security System created jointly with Antigua and Barbuda, Dominica, Grenada, St. Lucia, and St. Vincent and the Grenadines in 1985.

18 INTERNATIONAL COOPERATION

St. Kitts and Nevis became a member of the United Nations on 23 September 1983; it belongs to ECLAC and several nonregional specialized agencies, such as, the FAO, the World Bank, ILO, UNSECO, UNIDO, and the WHO. The country is a member of the ACP Group, the WTO, the Commonwealth of Nations, CARICOM, the Caribbean Development Bank, G-77, the Alliance of Small Island States (AOSIS), the OAS, the Association of Caribbean States (ACS), and OECS. The headquarters for the Eastern Caribbean Central Bank is in St. Kitts.

St. Kitts and Nevis is also a part of the Eastern Caribbean Regional Security System (RSS), the Agency for the Prohibition of Nuclear Weapons in Latin America and the Caribbean (OPANAL), and the Organization for the Prohibition of Chemical Weapons. In environmental cooperation, the country is part of the Basel Convention, Conventions on Biological Diversity and Whaling, CITES, the Montréal Protocol, MARPOL, and the UN Conventions on the Law of the Sea, Climate Change, and Desertification.

19 ECONOMY

Before 1987, the economy was based on agriculture, particularly on sugar, which generated over half of export revenues. The government closed down the sugar industry following the 2005 harvest after decades of losses at the state-owned sugar company. To compensate for the loss of the sugar industry, the government is embarking upon new ways to diversify the agricultural and other sectors of the economy. During the 1990s, tourism and related industries became the most important source of revenue in St. Kitts and Nevis. The country still produces sea island cotton, peanuts, vegetables, and coconuts, but the more than 400,000 visitors per year are the most important sources of jobs and earnings. The government has been making efforts to expand tourism and to improve local food production (the country imports most of its food needs). The country has had success with the development of its light manufacturing industries—mainly garments and electronics assembly, data entry, the expansion of non-sugar agricultural production and tourism. The average annual GDP between 1988 and

1998 was 4.8%. In 2004, the GDP growth rate stood at 5.1%. Inflation remains tame, at an annual average just below 2%.

Decreasing world prices hurt the sugarcane industry in the recent past, as have natural disasters like Hurricane Georges in 1998. Faced with the prospect of declining tourism after the 11 September 2001 terrorist attacks on the United States, Prime Minister Douglas offered a free one-week vacation in St. Kitts to all the firefighters and police in New York City and Washington, DC.

20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 St. Kitts and Nevis's gross domestic product (GDP) was estimated at \$339.0 million. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange based on current dollars. The per capita GDP was estimated at \$8,800. The annual growth rate of GDP was estimated at -1.9%. The average inflation rate in 2001 was 1.7%. It was estimated that agriculture accounted for 3.5% of GDP, industry 25.8%, and services 70.7%.

Approximately 33% of household consumption was spent on food, 11% on fuel, 5% on health care, and 13% on education.

21 LABOR

In the latest years for which data was available, the labor force in 1995 was estimated at 18,172. Manufacturing employed 31% and services 69%. The unemployment rate was estimated at 4.5% in 1997.

The St. Kitts and Nevis Trades and Labor Union, established in 1940, is associated with the Labor Party and is the major workers' labor organization. The sugar industry and civil service are the largest employers, with tourism gaining importance, especially on Nevis. Unions have the right to organize and bargain collectively. The right to strike is not codified by law but is well established and respected.

The minimum working age is 12 years and this is effectively enforced. The government sets and enforces basic worker health and safety laws. The minimum wage varies by job classification and skill level of the wage earner. In 2001, it was us\$67.42 per week for a full-time domestic worker and us\$166.10 per week for a skilled worker. The workweek is generally set at five days with 40 hours. The law provides a two-week annual vacation.

22 AGRICULTURE

Of the islands' total land area, about 22% is devoted to crops. The principal agricultural product of St. Kitts is sugarcane; peanuts are now the second crop. On Nevis, sea island cotton and coconuts are the major commodities. Sweet potatoes, onions, tomatoes, cabbages, carrots, and breadfruit are grown for local consumption on both islands, mostly by individual smallholders. In 2004, agricultural products accounted for about 35.2% of total imports by value and 19.6% of exports; the government has embarked on a program to substitute for food imports.

Sugar estate lands were nationalized in 1975, and the sugar factory was purchased by the government the following year. The output of raw sugar slumped between 1986 and 1989, and as a result the government entered into a management agreement with Booke and Tate of Great Britain in August 1991; a World Bank

loan of us\$1.9 million was utilized to provide financial stability. Sugar production in 2004 was estimated at 193,000 tons.

23 ANIMAL HUSBANDRY

Pasture areas are small, covering some 5.6% of the islands. Pango-la and Bermuda grasses provide the bulk of the fodder. Estimates of livestock in 2005 were sheep, 12,500; goats, 16,000; cattle, 4,800 head; and pigs, 2,000.

24 FISHING

Fishing is a traditional occupation that has not expanded to any great extent; the catch in 2003 was 370 tons (down from 620 tons in 1990). Some exports (primarily lobsters) are made to the Netherlands Antilles and Puerto Rico; fisheries exports totaled us\$267,000 in 2003.

25 FORESTRY

Both islands have small stands of virgin tropical forest, with palms, poincianas, and palmettos. About 11% of the land area consists of forests. Imports of forest products nearly reached us\$1.8 million in 2004.

26 MINING

The mining sector played a minor role in St. Kitts and Nevis. Raking of salt, the country's fourth-leading industry, was done from time to time. Local quarrying of some materials was used to supplement the construction industry. In 2001, output for sand and gravel was 215,000 metric tons (estimated), up from 50,389 metric tons in 1996; crushed stone output was 121,270 metric tons.

27 ENERGY AND POWER

Total electric power generating capacity in 2002 was 20,000 kW. Electricity production in 2002 was 106 million kWh, entirely from conventional thermal sources. Consumption of electricity in 2002 was 98 million kWh. St. Kitts and Nevis have no fossil fuels, and all petroleum products must be imported. Imports and consumption of refined petroleum products in 2002 averaged 710 barrels per day, the largest portion at 370 barrels per day were distillates. There were no imports of natural gas or coal in 2002.

28 INDUSTRY

Industry accounted for 26% of GDP in 2001. The principal manufacturing plant and largest industrial employer until 2006 was the St. Kitts Sugar Manufacturing Corp., a government enterprise; it ground and processed sugarcane for export. The government shut down the company after the 2005 harvest due to decades of losses. A brewery on St. Kitts makes beer for local consumption, and cotton is ginned and baled on Nevis. Electronic plants produce switches, calculators, car radios, and pocket radios. Other industries are clothing and shoe manufacturing.

The manufacturing suffered a decline in 1998 due to Hurricane Georges. As a result of diversification and expansion, St. Kitts and Nevis has transformed small electronics plants into the largest electronics assembly industry in the Eastern Caribbean. Its apparel assembly industry has also become very successful in recent years.

There are four major industrial sites in St. Kitts and Nevis: C. A. Paul Southwell Industrial Park, Bourkes Industrial Estate, Canada Industrial Estate, and Prospect Industrial Estate. Porte Zante is the main seaport.

29 SCIENCE AND TECHNOLOGY

St. Kitts and Nevis is dependent on outside resources both for industrial technology and for advanced scientific and technical education. The government is currently developing postsecondary education; a technical school was in operation in 1987.

30 DOMESTIC TRADE

Basseterre, on St. Kitts, and Charlestown, on Nevis, are the primary commercial centers of the islands. Once based almost exclusively on sugar production and exports, the economy has shifted over the years to focus on services, particularly related to tourism. The government continues to work on investment incentive programs to encourage both domestic and foreign business investors.

General business is conducted from 8 AM to 4 or 4:30 PM, Monday through Friday. Normal banking hours are 8 AM to 2 PM, Monday through Thursday, and from 8 AM to 4 PM on Fridays.

31 FOREIGN TRADE

The government of St. Kitts and Nevis has expanded trade incentives in recent years. Doing business in the country is virtually tax free. However, American businesses' use of tax havens such as St. Kitts and Nevis has been called into question in recent years.

Most exports in 2004 went to the United States (57.5%), followed by Canada (9%), Portugal (8.3%), and the United Kingdom (6.7%). About two-thirds of the sugar crop until 2006 was exported to the United States. Other exports include machinery, electronics, food, and beverages.

The majority of imports in 2004 came from the Ukraine (44.7%), the United States (22.1%), Trinidad and Tobago (8.8%), and the United Kingdom (6.2%).

32 BALANCE OF PAYMENTS

Earnings from tourism and overseas remittances largely offset the trade deficit. From 1988 to 1990, the current account deficit in-

Principal Trading Partners – St. Kitts and Nevis (2001)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	30.9	189.2	-158.3
United States	22.1	95.6	-73.5
United Kingdom	7.3	15.6	-8.3
Dominica	0.4	0.7	-0.3
Netherlands Antilles	0.2	1.7	-1.5
Anguilla	0.1	...	0.1
Montserrat	0.1	...	0.1
Antigua and Barbuda	0.1	0.9	-0.8
Japan	0.1	4.7	-4.6
St. Lucia	0.1	0.7	-0.6
Trinidad and Tobago	0.1	23.4	-23.3

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

Balance of Payments – Saint Kitts and Nevis (2002)

(In millions of US dollars)

Current Account		-124.0
Balance on goods	-113.2	
Imports	-177.6	
Exports	64.4	
Balance on services	10.9	
Balance on income	-38.2	
Current transfers	16.4	
Capital Account		14.6
Financial Account		106.9
Direct investment abroad	...	
Direct investment in Saint Kitts and Nevis	8.4	
Portfolio investment assets	0.0	
Portfolio investment liabilities	31.5	
Financial derivatives	...	
Other investment assets	0.6	
Other investment liabilities	-5.6	
Net Errors and Omissions		12.2
Reserves and Related Items		-9.7

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

creased from 21% of GDP to nearly 35% of GDP, but went down to about 20% in 1998. The 11 September 2001 terrorist attacks on the United States negatively impacted the St. Kitts and Nevis tourism industry.

In 2005, the value of exports was estimated at us\$70 million, and the value of imports at us\$405 million.

33 BANKING AND SECURITIES

St. Kitts and Nevis has a relatively simple system of public and private financial institutions, which the government wishes to expand. As a member of the Organization of Eastern Caribbean States (OECS), it has as its central monetary authority the Eastern Caribbean Central Bank (ECCB), headquartered in Basseterre. The Eastern Caribbean Home Mortgage Bank is also located in St. Kitts and Nevis.

The two islands had eight banks in 2000, including both foreign and domestic concerns. Barclays Bank, the Royal Bank of Canada, and the Bank of Nova Scotia represent foreign interests, whereas domestic interests include the St. Kitts and Nevis National Bank, the Development Bank of St. Kitts and Nevis, and the Nevis Co-operative Bank. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$42.5 million. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$305.9 million.

Securities transactions on international exchanges are performed by the banks.

34 INSURANCE

International, regional, and local insurance companies or agents offer life and property insurance. There are five insurance companies in St. Kitts and Nevis, including Barbados Mutual Life and Assurance Society, British American Insurance, Colonial Life In-

urance (Trinidad), St. Kitts and Nevis Insurance, and National Caribbean Insurance.

35 PUBLIC FINANCE

The US Central Intelligence Agency (CIA) estimated that in 2003 St. Kitts and Nevis's central government took in revenues of approximately \$89.7 million and had expenditures of \$128.2 million. Revenues minus expenditures totaled approximately -\$38.5 million. Total external debt was \$171 million.

36 TAXATION

There is no personal income tax for residents of St. Kitts and Nevis. Corporations are taxed at the rate of 38% of income, but the Fiscal Incentives Act offers generous development and tax concessions. Profit remittances are taxed at a 10% rate; there is also a land tax and a house tax. There is a capital gains tax of 20%.

37 CUSTOMS AND DUTIES

St. Kitts and Nevis is bound by the common external tariff of CARICOM and requires an import license for certain durable and nondurable products. CARICOM members have reduced rates to a maximum of 20%. Tariff rates for pharmaceuticals and medicines used to treat infectious diseases are subject to a 10% tariff. Automobiles are subject to a 70% rate. There are no value-added or sales taxes.

38 FOREIGN INVESTMENT

Like most Caribbean microstates, St. Kitts and Nevis has an investment incentives program. Joint ventures and labor-incentive industries are especially welcome. Official development assistance and resource flows from commercial sources totaled us\$25 million in 1997.

Foreign investment incentives include the following: a tax holiday of up to 15 years; tax rebates of up to 5 years; and exemption from customs duties on machinery deemed necessary to establish and update an enterprise.

Annual foreign direct investment (FDI) rose steadily from us\$19.7 million in 1997 to a peak of us\$96.2 million in 2000. In 2001, FDI inflow was us\$82.9 million. Significant new investment in the tourism industry, including a 648-room Marriott hotel and convention center that opened in December 2002, as well as other planned resort projects, are designed to improve economic performance. Net FDI inflows were projected to equal 15.5% of GDP in 2005.

39 ECONOMIC DEVELOPMENT

The government until 2006 attempted to halt the decline of the sugar industry by restructuring the sector, and encouraged agricultural diversification and the establishment of small industrial enclaves linked to the international export market. However, following the 2005 harvest, the government shut down the sugar industry after decades of losses. Four industrial estates have been developed. The tourist industry has received considerable government support. The Development and Finance Corporation is the principal development agency.

The country's plans continue to be aimed at diversifying the economy. Construction projects in the private and public sector are expected to contribute substantially to the moderate eco-

conomic growth that St. Kitts and Nevis should experience in the near future. Hurricanes in 1998–99 caused widespread damage, but due to spending on post-hurricane reconstruction and repair, gross domestic product (GDP) growth was strong in the early and mid-2000s. The 11 September 2001 terrorist attacks on the United States adversely impacted the tourism industry in the short-term. The telecommunications sector has been liberalized, and a Financial Intelligence Unit was set up in the offshore sector.

40 SOCIAL DEVELOPMENT

A dual social insurance and social assistance system provides coverage for old age, disability, and survivorship. Qualifying conditions for receiving an old-age pension include an age of 62 and 500 weeks of paid contributions. The government funds the system. Sickness and maternity benefits have been in place since 1996, covering all employed and self-employed persons. Work injury provisions are funded solely by employer contributions.

Although there is no overt discrimination against women, tradition prevents women from achieving higher levels of employment. The Department of Gender Affairs was created by the government to promote women's rights and provide counseling for abused women. A special police unit works closely with the Ministry to investigate domestic violence and rape cases. There is a special training program to educate police and school guidance counselors in dealing with domestic violence, sex crimes, and child abuse. Most of the provisions of the UN Convention on the Rights of the Child have been incorporated into domestic law.

Human rights are generally well respected, although prison conditions are poor. Facilities are overcrowded, and in the past these conditions led to prison riots.

41 HEALTH

In 2004, there were an estimated 118 physicians, 498 nurses, and 18 dentists per 100,000 people. Total health care expenditure was estimated at 3.1% of GDP.

Hygienic education is the primary concern of the Central Board of Health. The infant mortality rate was an estimated 14.49 per 1,000 people in 2005. Average life expectancy in the same year was 72.15 years. As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 18.6 and 9 per 1,000 people. AIDS is present but not considered a major problem. Polio and measles appeared to be absent from these islands.

42 HOUSING

The government has placed emphasis on planned housing development in order to conserve agricultural lands. The Central Housing Authority began a program of low-cost home construction in 1977. The water supply, which comes from mountain springs and deep wells, is controlled by the Water Department. In the early 1980s, roughly four-fifths of all dwellings were detached houses, with apartments and commercial buildings making up most of the remainder. Over half of all dwellings were owner occupied and about one-third were rented privately; the remainder were occupied rent free or rented from the government. The most common

construction materials for housing were wood (50%), wood and concrete combined (25%), and concrete (20%).

In 1998, Hurricane Georges damaged 85% of the housing stock. In response, the government joined with USAID and the OAS to create a Housing Sector Recovery Plan which was meant to create a plan of action for repair and upgrading of existing housing, so that these structures might be better suited to withstand future storms. The government has also supported a number of other housing development plans sponsored in part by foreign investors, including the 2002 projects of the KOMLA Group of Companies of Guadeloupe and the CLICO Group of Barbados. These projects were community plans which included shopping locations, a medical center, recreation and park areas, as well as two- and three-bedroom homes. The same year, the Minister of Housing announced plans of the St. Kitts and Nevis Labor Party Administration to build 1,000 low-income homes in 2003 with an investment of EC\$45 million. The Labor Party built 1,200 homes in 2000.

The CARIFESTA Housing Programme is an ongoing project of the government for construction and funding of new housing. In 2000, 130 two- and three-bedroom homes were constructed through the program. In 2002, the CARIFESTA Revolving Fund was established to offer loans of up to EC\$80,000 to individual landowners hoping to build their own homes.

43 EDUCATION

Schooling is compulsory for students between the ages of 5 and 16. Primary school covers a course of seven years, followed by five years of high school and, for those who choose to attend, two years of senior high school. Charlestown Secondary School is the only school on Nevis that offers the full seven years of secondary education. On St. Kitts, students wishing to complete the final two years of secondary school attend Clarence Fitzroy Bryant College of Further Education. The academic year runs from September to July.

Most children attend some type of preschool program between the ages of three and four. Primary school enrollment in 2003 was estimated at about 100% of age-eligible students and nearly all students complete their primary education. The student-to-teacher ratio for primary school was at about 17:1 in 2003; the ratio for secondary school was about 10:1.

The Clarence Fitzroy Bryant College of Further Education is the only state institution of higher learning. Most programs offered cover the first year of general university programs. There is also a local extension site of the University of the West Indies. There are six private institutions. The adult literacy rate has been estimated at about 97%.

As of 2003, public expenditure on education was estimated at 3.2% of GDP, or 7.9% of total government expenditures.

44 LIBRARIES AND MUSEUMS

The Charles A. Halbert Library Public Library has a central library at Basseterre and four branch locations on St. Kitts. The Nevis Public Library Service consists of the Nevis Central Public Library, the St. George's Branch Library, and three school libraries. There are mobile library services on both St. Kitts and Nevis. The National Museum is located in the Old Treasury Building at Basseterre. The

Museum of Nevis History is in Charlestown, as is Nelson Museum, which preserves memorabilia of Lord Horatio Nelson.

4⁵ MEDIA

The telephone system is operated by the government, while international cable and wireless services are operated privately. In 2002, there were 23,500 mainline phones and 5,000 mobile phones in use nationwide.

ZIZ Radio and Television is owned and operated by the government. The Voice of Nevis is an AM radio station. WinnFM is a private commercial station. Radio broadcasting began in 1961, and television broadcasting in 1972. In 2004, there were 3 AM and 3 FM radio stations and 1 television station. In 1997 there were 575 radios and 273 television sets in use per 1,000 population. In 2002, there were 10,000 Internet subscribers. In 2003, there were 53 Internet hosts.

In 2004, there were four independent weekly newspapers and one independent daily, as well as papers published by the major political parties. *Sun St. Kitts/Nevis* is the daily. *The Labour Spokesman*, founded in 1957, is published twice weekly and had a 2002 circulation of 6,000. The *Democrat*, which is published weekly, had a circulation of 3,500.

The constitution provides for freedom of speech and the press, and the government is said to generally respect these rights. However, because the government owns the only radio and TV stations, these media are said to inadequately cover opposition rallies and other events.

4⁶ ORGANIZATIONS

The St. Kitts and Nevis Chamber of Commerce has its headquarters in Basseterre, and the Nevis Cotton Growers' Association has its office in Charlestown. The primary labor union is the St. Kitts Trades and Labour Union, which is associated with the St. Kitts and Nevis Labour Party.

National youth organizations include Boy Scouts of Saint Kitts and Nevis, New Reformation Party Youth Movement, Young Labor, Young Pamites, and YMCA/YWCA. There are a variety of sports associations, many associated with the St. Kitts and Nevis Olympic Association.

Many US charitable organizations have operations in the islands, including the 4-H Foundation, Planned Parenthood, Heifer Project International, Operation Crossroads Africa, and Project Concern. Volunteer service organizations, such as the Lions Clubs

and Kiwanis International, are also present. There is a national chapter of the Red Cross Society.

4⁷ TOURISM, TRAVEL, AND RECREATION

The chief historic attraction on St. Kitts is Brimstone Hill fortress. The UNESCO World Heritage Site towers 230 m (750 ft) above the Caribbean, took 100 years to build, and is partially restored. Beautiful beaches and the Georgian architecture of Basseterre also attract tourists. Nevis has many beaches and relic plantations and a quaint atmosphere reminiscent of the 18th century. Popular spectator sports are golf, bird watching, snorkeling, and parasailing.

Visitors from the United States and Canada only need proof of citizenship to enter the island. Nationals of all other countries need a valid passport, and citizens of 96 countries do not need a visa. An onward/return ticket and proof of sufficient funds may be required. The government has dredged the main harbor on St. Kitts to accommodate cruise ships.

In 2002, approximately 67,531 tourists arrived on the islands. Over half of these visitors were from the United States.

The cost of traveling in St. Kitts and Nevis varies according to the season. Between December and April, estimated daily expenses are approximately US\$272, and US\$235 the rest of the year.

4⁸ FAMOUS KITTSIANS AND NEVISIANS

Sir Thomas Warner (d.1649) established the first colony on each island. US statesman Alexander Hamilton (1757–1804) was born in Charlestown.

4⁹ DEPENDENCIES

St. Kitts and Nevis has no territories or colonies.

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ST. LUCIA



CAPITAL: Castries

FLAG: On a blue background is a yellow triangle surmounted by a black arrowhead whose outer edges are bordered in white.

ANTHEM: *Sons and Daughters of St. Lucia.*

MONETARY UNIT: The East Caribbean dollar (EC\$) of 100 cents is the national currency. There are coins of 1, 2, 5, 10, and 25 cents and 1 dollar, and notes of 5, 10, 20, and 100 East Caribbean dollars. EC\$1 = US\$0.37037 (or US\$1 = EC\$2.7) as of 2004.

WEIGHTS AND MEASURES: The metric system has been introduced, but imperial measures are still commonly employed.

HOLIDAYS: New Year's Day, 1 January; Carnival, 8–9 February; Independence Day, 22 February; Labor Day, 1 May; Queen's Official Birthday, 5 June; Bank Holiday, 1st Monday in August; Thanksgiving Day, 1st Monday in October; St. Lucia Day, 13 December; Christmas Day, 25 December; Boxing Day, 26 December. Movable religious holidays include Good Friday, Easter Monday, Whitmonday, and Corpus Christi.

TIME: 8 AM = noon GMT.

¹ LOCATION, SIZE, AND EXTENT

The Caribbean island of St. Lucia, part of the Windward Islands group of the Lesser Antilles, is 43 km (27 mi) N–S by 23 km (14 mi) E–W and has a total area of 616 sq km (238 sq mi). Comparatively, the area occupied by St. Lucia is slightly less than 3.5 times the size of Washington, DC. Situated between Martinique to the N and St. Vincent to the SW, St. Lucia has a total coastline of 158 km (98 mi). The Maria islands, located off the southeast coast of the main island, are kept as a natural reserve. The capital city, Castries, is located on St. Lucia's northwest coast.

² TOPOGRAPHY

St. Lucia is a volcanic island, the younger part of which is the mountainous southern half, and the older the hilly but more nearly level northern half. The highest mountain, Mt. Gimie, rises 950 m (3,117 ft) above sea level. Better known are the two peaks on the southern coast, Gros Piton (798 m/2,619 ft) and Petit Piton (750 m/2,461 ft), which together form one of the scenic highlights of the West Indies. The lowlands and valleys of the island have fertile soil and are irrigated by many streams. The island has beautiful beaches, some with black volcanic sand. The two major ports are located at Castries, in the northwest, and Vieux Fort, by Cape Moule à Chique at the southern tip of the island. Cap Point marks the northern tip of St. Lucia.

St. Lucia lies along the Caribbean Tectonic Plate, a location of moderate seismic activity. Volcanic activity is evident through the bubbling mud and gasses emitted from sulfur springs near the crater of Soufrière.

³ CLIMATE

The average yearly temperature on St. Lucia is 27°C (80°F); the warmest month is usually September, and the coolest January. The

average rainfall at sea level is 231 cm (91 in) a year; on the mountain peaks, more than 380 cm (150 in). Like the rest of the West Indies, St. Lucia is vulnerable to hurricanes, which hit the Caribbean in the late summer months.

⁴ FLORA AND FAUNA

Tropical sunlight, heavy rainfall, and fertile soil combine to produce an abundance of tropical flora, including hibiscus, poinciana, frangipani, orchids, jasmine, and bougainvillea. The higher mountain slopes support a dense rain forest. Common tree species include palm, bamboo, breadfruit, mangoes, coconut, and pawpaw. There are no large mammals on St. Lucia. Bats are common and there are several species of small snakes. The central highlands provide nesting places for many birds, including flycatchers, hummingbirds, pigeons, and about a hundred other species. The surrounding sea contains extensive coral reefs supporting lobster, turtle, and conch, as well as an abundance of fish.

⁵ ENVIRONMENT

Densely populated, St. Lucia has been shorn of much of its protective woodland by agricultural and commercial interests, except for limited areas in the south-central rain forest. The loss of forest cover contributes to the erosion of the soil, particularly in the drier, northern part of the island. The nation does not have the financial resources to develop an adequate water purification system and the population is at risk from contamination of the water supply by agricultural chemicals and sewage.

The Mankoté Mangrove and Savannes Bay have been designated as Ramsar wetland sites and the Pitons Management Area was designated as a natural UNESCO World Heritage Site (2004). Population pressure prevents the government from expanding the area of protected lands. Principal responsibility for the environment is

vested in the Ministry of Agriculture's Lands, Fisheries, and Cooperatives Forestry Division and the National Trust Fund. Excessive use of herbicides and pesticides threaten the wildlife population in St. Lucia and the eastern Caribbean states in general.

According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 2 types of mammals, 5 species of birds, 6 types of reptiles, 10 species of fish, and 6 species of plants. Threatened species include the red cedar, American mahogany, the St. Lucia parrot, the great white shark, the St. Lucia racer, and St. Lucia white-breasted thrasher. The St. Lucia giant rice rat has become extinct.

6 POPULATION

The population of St. Lucia in 2005 was estimated by the United Nations (UN) at 163,000, which placed it at number 174 in population among the 193 nations of the world. In 2005, approximately 7% of the population was over 65 years of age, with another 30% of the population under 15 years of age. There were 96 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 1.0%; the government viewed the fertility rate, at 2.8 births per woman, as too high. The projected population for the year 2025 was 209,000. The population density was 263 per sq km (681 per sq mi).

The UN estimated that 30% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 2.23%. The capital city, Castries, had a population of 14,000 in that year.

7 MIGRATION

Emigration has provided an escape valve for population pressure. Neighbors such as Trinidad, Guyana, and the French Caribbean islands have received the bulk of emigrants from St. Lucia, with lesser numbers going to the United Kingdom, Canada, and the United States. The number of migrants in 2000 was 8,000. In 2005, the net migration rate was -2.19 migrants per 1,000 population. The government views the migration levels as satisfactory.

8 ETHNIC GROUPS

It is estimated that 90% of the population are of African descent, being descendants of slaves brought into the country in the 17th and 18th centuries. About 6% are of a mixed origin and 3% are East Indian. Approximately 1% of the population is of European descent.

9 LANGUAGES

English is the official language of St. Lucia. However, only about 80% of the population speak it. Language outreach programs are seeking to integrate these people into the mainstream of society. Almost all the islanders also speak a French patois based on a mixture of African and French grammar and a vocabulary of mostly French with some English and Spanish words.

10 RELIGIONS

The vast majority of the population is Christian. About 67% of the residents are Roman Catholic, though only about 40% of all

Catholics are active members. There is a substantial Protestant community comprised of Anglicans, Pentecostals, Seventh-Day Adventists, Baptists, Jehovah's Witnesses, and Methodists. There are small communities of Hindus, and Muslims, as well as small groups of Rastafarians and Baha'is. The constitution guarantees freedom of religion. The St. Lucia Christian Council, an interfaith group of Roman Catholics and mainline Protestants, has a close relationship with the government. Certain Christian holidays are recognized as national holidays.

11 TRANSPORTATION

St. Lucia, as of 2004, had two airports. Direct flights to New York, Miami, Toronto, London, and Frankfurt operate out of Hewanorra International Airport, on the southern tip of the island at Vieux-Fort. The smaller Vigie Airport, located near Castries, is used for flights to and from neighboring Caribbean islands. St. Lucia has two important ports: Castries, in the north, with a cargo-handling capacity of 365,000 tons per year; and Vieux Fort, at the southern tip of the island, from which ferries link St. Lucia with St. Vincent and the Grenadines.

All of the island's towns, villages, and main residential areas were linked by 1,210 km (752 mi) of all-purpose roads in 2002, of which 63 km (39 mi) were paved. Motor vehicles numbered 12,157 in 1995, including 11,399 passenger cars and 758 commercial vehicles.

12 HISTORY

Arawak and Carib Amerindians were the earliest known inhabitants of what is now St. Lucia. There is no hard evidence for the folklore that Columbus sighted St. Lucia on St. Lucy's Day in 1498, but in keeping with the tradition, 13 December is still celebrated as the date of the island's discovery.

The islands were not settled until the mid-17th century because the Caribs defended the islands successfully for years. The French settled the islands, but the natural harbor at Castries brought English interest. The island changed hands between the British and the French no fewer than 14 times, until in 1814, the British took permanent possession. In 1838, St. Lucia came under the administration of the Windward Islands government set up by Great Britain.

Unlike other islands in the area, sugar did not monopolize commerce on St. Lucia. Instead, it was one product among many others including tobacco, ginger, and cotton. Small farms rather than large plantations continued to dominate agricultural production into the 20th century. A total of 10,328 slaves were freed when slavery was abolished in 1834. To replace the slave labor, East Indian indentured workers were brought to the island during the late 1800s.

St. Lucia has a democratic tradition which began in 1924 when a few elected positions were added to the appointed legislative council. St. Lucia became an associated state with full internal self-government in 1967 and on 22 February 1979 became an independent member of the Commonwealth.

The first three years of independence were marked by political turmoil and civil strife, as leaders of rival political parties fought bitterly. In 1982, the conservative United Workers' Party (UWP) won 14 of 17 seats in the House of Assembly. Party leader and

Prime Minister John Compton, who had been premier of the island since 1964, became prime minister at independence.

The UWP dominance was eroded in 1987, when the party won only nine seats. Prime Minister Compton called for new elections almost immediately, but received the same result. In 1992, the UWP increased its majority to 11 seats, as the St. Lucia Labour Party (SLP) won 6 seats. The SLP, which had been out of office for 15 years, won the April 1997 elections in a landslide, and its leader, Kenny Anthony, replaced Compton as prime minister.

St. Lucia suffered back-to-back tropical storms in 1994 and 1995 that caused losses of about 65% and 20% of each of those years' banana crops, respectively. In the late 1990s, the country's heavy reliance on bananas posed an additional economic threat as the United States challenged the preferential treatment accorded by several European nations to their former colonies in the Caribbean. In February 1999, a ruling by the World Trade Organization allowed the United States to impose trade penalties on Europe in response to these banana import policies. St. Lucia joined with its Caribbean neighbors in lobbying against the ruling.

In the December 2001 election, Anthony's SLP won with 54% of the vote, securing 14 of the 17 seats in the Assembly. The opposition UWP obtained 36.6% of the vote, but only captured three seats.

In 2002, Tropical Storm Lili destroyed about half of the banana crop; entire plantations were destroyed in some areas. St. Lucia is promoting the growth of mangos and avocados to lessen dependence upon the banana industry, but bananas still make up about one-third of export earnings.

In July 2003, parliament amended the constitution to replace the oath of allegiance to the British monarch with a pledge of loyalty to St. Lucians.

13 GOVERNMENT

St. Lucia became independent in 1979. Under its constitution, the British monarch continues to be the titular head of government, appointing, upon recommendation of the local leaders, a governor-general to represent the crown. Executive power is effectively exercised by the prime minister and cabinet. There is a bicameral parliament consisting of a Senate with 11 members and a House of Assembly with 17 representatives. The House of Assembly has the important legislative functions. The Senate is an appointed body with little political power. Six of the members of the Senate are appointed on the advice of the prime minister, three are appointed on the advice of the opposition leader, and two are appointed after consultation with religious, economic, and social groups.

Members of the lower house are elected for a maximum period of five years. Suffrage on St. Lucia has been universal for those 18 and older since 1951, before St. Lucia achieved independence.

Under the constitution, the government could call for elections at any time. Under the current schedule, elections are held by secret ballot and at least every five years.

14 POLITICAL PARTIES

After sweeping the 1997 parliamentary elections by gaining 16 out of 17 seats, the left-of-center St. Lucia Labour Party (SLP), led by Kenny Anthony, became the majority party, ending 15 years of dominance by the United Workers' Party (UWP). The SLP re-



LOCATION: 13°53' N; 60°58' W. TOTAL COASTLINE: 158 kilometers (98 miles).
TERRITORIAL SEA LIMIT: 12 miles.

gained control of the Assembly in the 2001 election, with more than 54% of the vote. Following the UWP's electoral defeat in 1997, its leader, Vaughan Lewis, resigned, and former leader and Prime Minister John Compton, resumed leadership of the party in its new role of opposition party. As of 2005, the leader of the UWP was Dr. Morella Joseph. The UWP was the party in power at the time of independence, lost power in 1979, and regained it in 1982. It is by reputation the more conservative party. The next elections

were scheduled for December 2006.

The National Alliance (NA), under the leadership of Jon Odum, has no representation. It is an offshoot of the SLP. The St. Lucia Freedom Party (SFP) is led by Martinus François. Sou Tout Apwe Fete Fini (STAFF) is led by Christopher Hunte.

15 LOCAL GOVERNMENT

St. Lucia is divided into 11 administrative regions. Local governments are elected by popular vote.

16 JUDICIAL SYSTEM

The legal system is based on English common law and “Code Napoleon.” The highest judicial body was the Privy Council of the United Kingdom. Both common law and statute law govern St. Lucia. The lowest court is the district or magistrate’s court, above which is the Court of Summary Jurisdiction. Seated in Castries, the Eastern Caribbean Supreme Court (known as the West Indies Associated States Supreme Court upon its founding in 1967, and as the Supreme Court of Grenada and the West Indies Associated States from 1974 until 1979) has jurisdiction in St. Lucia, Anguilla, Antigua and Barbuda, the British Virgin Islands, Dominica, Grenada, Montserrat, St. Kitts and Nevis, and St. Vincent and the Grenadines. It consists of the High Court and the Court of Appeal. Prior to 2003, in exceptional cases, appeals were carried to the UK Privy Council. On 9 June 2003, Caribbean leaders met in Kingston, Jamaica, to ratify a treaty to establish the Caribbean Court of Justice (CCJ). Eight nations—Barbados, Belize, Dominica, Guyana, Jamaica, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago—officially approved the CCJ, although 14 nations were planning to use the court for appeals. Haiti had agreed to use the CCJ for resolution of trade disputes. The court was officially inaugurated in April 2005. As of 2005, however, the court’s jurisdiction was limited to the CARICOM states of Barbados and Guyana. The CCJ heard its first case in August 2005.

The constitution guarantees a public trial before an independent and impartial court. Legal counsel is afforded to indigent defendants in cases involving capital punishment.

17 ARMED FORCES

As of 2000 there were no armed forces other than those of the police force and coast guard. The Eastern Caribbean Regional Security System, formed in 1985, includes Antigua and Barbuda, Barbados, Dominica, Grenada, Jamaica, St. Kitts and Nevis, and St. Vincent and the Grenadines, as well as St. Lucia, and provides for joint coast-guard operations, military exercises, and disaster contingency plans.

18 INTERNATIONAL COOPERATION

St. Lucia became a member of the United Nations on 12 September 1979; it is a member of ECLAC and several nonregional specialized agencies, such as the FAO, the World Bank, ILO, IFC, UNESCO, UNIDO, UNCTAD, and the WHO. St. Lucia is a member of the WTO, the ACP Group, the Commonwealth of Nations, CARICOM, the Caribbean Development Bank, G-77, the OAS, the Alliance of Small Island States (AOSIS), the Association of Caribbean States (ACS), and OECS. St. Lucia is a member of the

Nonaligned Movement, the Agency for the Prohibition of Nuclear Weapons in Latin America and the Caribbean (OPANAL), and the Organization for the Prohibition of Chemical Weapons. In environmental cooperation, the country is part of the Basel Convention, Conventions on Biological Diversity and Whaling, CITES, the London Convention, the Kyoto Protocol, the Montréal Protocol, MARPOL, and the UN Conventions on the Law of the Sea, Climate Change, and Desertification.

19 ECONOMY

As did many Caribbean producers, St. Lucia’s agricultural products benefited from preferred access to European markets; the country was the leading producer of bananas in the Windward Islands group. The industry is now in a terminal decline, due to competition from lower-cost Latin American banana producers and reduced European Union trade preferences. The country is encouraging farmers to plant crops such as cocoa, mangos, and avocados to diversify its agricultural production and to provide jobs for displaced banana workers. Tourism, with direct flights from Europe and North America, has recently become an important economic activity. St. Lucia’s manufacturing sector has grown steadily, with the construction of many light manufacturing and assembly plants that produce for local or export markets.

Though foreign investment in manufacturing and information processing in recent years has increased St. Lucia’s industrial base, the economy remains vulnerable due to its heavy dependence on banana production, which is subject to periodic droughts and tropical storms. Indeed, the destructive effect of Tropical Storm Iris in mid-1995 caused the loss of 20% of the year’s banana crop, and the agriculture sector recorded its sixth year of decline in 1998. In 2001, GDP growth at current prices was 2%, but in 2002 contracted 4% due to a combination of adverse factors: the global economic slowdown, declining export demand, and a sharp fall-off of tourism after the 11 September 2001 terrorist attacks in the United States. Inflation remained subdued at 2.3% for both years.

Tourism was booming in 2004, showing a solid recovery from recession that followed the 11 September 2001 terrorist attacks on the United States. The latest estimates from the World Bank show that the annual growth rate recorded in 2004 was 3.6%, with agriculture accounting for 4.5% of GDP, manufacturing 5.4% of GDP, and tourism 48% of GDP (direct and indirect impact).

However, it is estimated that up to 40% of the banana crop was destroyed when Hurricane Ivan made its way through the Eastern Caribbean in September 2004. The economy is highly susceptible to external macroeconomic shocks, magnified by an undiversified production and export base and exacerbated by natural disasters that have a serious economic impact on banana and cocoa crops.

20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 St. Lucia’s gross domestic product (GDP) was estimated at \$866.0 million. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange based on current dollars. The per capita GDP was estimated at \$5,400. The annual growth rate of GDP was estimated at 3.3%. The average inflation

rate in 2001 was 3%. It was estimated that agriculture accounted for 7% of GDP, industry 20%, and services 73%.

Approximately 40% of household consumption was spent on food, 11% on fuel, 4% on health care, and 17% on education.

21 LABOR

In 2001 (the latest year for which data was available), the labor force was estimated at 43,800. In 2002 (the latest year for which data was available), an estimated 21.7% of the workforce was engaged in agriculture, with 53.6% in services, and the remaining 24.7% in commerce, manufacturing and industry. Unemployment in 2003 was estimated at 20%.

As of 2001, unions in St. Lucia represented about 20% of the workforce. The largest trade union grouping, the Industrial Solidarity Pact, includes the National Workers' Union, the St. Lucia Civil Service Association, the Prison Officers' Association, and the St. Lucia Teachers' Union. The law protects the right to unionize, strike, and bargain collectively.

The law provides for a minimum working age of 14. Occupational safety and health regulations are regularly enforced. There is no national legislated workweek, although the common practice is to work 40 hours a week spread over five days. Special legislation covers hours which shop assistants, agricultural workers, domestics, and young industrial employees work. There is a minimum wage for office clerks only, which was us\$300 per month in 2001.

22 AGRICULTURE

Agriculture accounts for about 8% of GDP. The production of bananas, St. Lucia's most important crop, fluctuates as a result of climatic conditions and plant disease; it has gone from a low of 32,000 tons in 1975 to 160,000 tons in 1990 (48% of the Windward Islands' banana production that year) to 120,000 tons in 2004. Almost the entire production is exported. The second most important crop is coconuts, exported as oil and copra; about 14,000 tons of coconuts were produced in 2004. The production of vegetables and fruits for local consumption increased steadily since 1979, as the government sought to achieve self-sufficiency in tomatoes, onions, carrots, cabbages, and breadfruit. In 2004, the value of exported agricultural products amounted to us\$34.6 million, down from us\$85.7 million in 1990.

23 ANIMAL HUSBANDRY

Production in almost every category of animal husbandry is insufficient to satisfy local demand. There are only 12,400 head of cattle on the island, mostly grazing in the middle altitudes of the central mountain region; milk production covers only about 25% of local demand. There were also an estimated 12,500 sheep, 10,000 pigs, and 9,800 goats on the island in 2005. St. Lucia has attained self-sufficiency in pork and egg production. Egg production was about 482 tons in 2005.

24 FISHING

The establishment of the St. Lucia Fish Market Corp. in 1985, with a us\$2.5-million grant from Canada, provided local fishermen with processing, storage, and marketing facilities, enabling St. Lucia to become self-sufficient in fresh fish production. In 2003, the

total catch was 1,466 tons. Dolphinfish, wahoo, and blackfin tuna accounted for 286, 169, and 169 tons, respectively, in 2003.

25 FORESTRY

A small timber industry processes mahogany, pine, and blue mahoe; expansion of cultivation is planned at the rate of 40 hectares (100 acres) annually. About 15% of total available land consists of forest and woodlands. Legislation is in force to protect against deforestation; during 1990–2000 deforestation continued at an annual average of 4.9%. Imports of forest products amounted to us\$11.7 million in 2004.

26 MINING

Mining played a minor role in St. Lucia's economy. Gravel and sand pits and pumice quarries supplied the island's construction sector.

27 ENERGY AND POWER

St. Lucia Electricity Services is responsible for the generation and supply of electricity throughout the island. In 2002, total capacity was 66,000 kW. Electrical production in 2002 was 269 million kWh, produced entirely from conventional thermal sources. Consumption of electricity in 2002 was 250 million kWh. St. Lucia's requirements are met through an island-wide grid serviced by two main diesel generation centers, which utilize oil imported from Venezuela and Trinidad and Tobago. The Sulfur Springs in Soufrière on the west coast have been confirmed as a source of geothermal energy, with a potential generating capacity of 10 MW.

With no reserves of oil, natural gas, or coal, nor any refining capacity, St. Lucia must import all the petroleum products it consumes. In 2002, imports and consumption of refined oil products each averaged 2,500 barrels per day; of that amount, distillates and gasoline accounted for the bulk of the imports at 1,270 barrels per day and 1,050 barrels per day, respectively.

28 INDUSTRY

St. Lucia's manufacturing sector is the largest and most diversified in the Windward Islands, with many light manufacturing or assembly plants producing apparel, electronic components, plastic products, and paper and cardboard boxes. Agricultural manufacturing includes lime and coconut processing.

Recently, the government has devoted its efforts to the improvement of economic activity as well as development of the major export markets. With the formation of the Eastern Caribbean Stated Export Development Agency (ECSEDA) in 1990, the performance of local manufacturers was expected to be significantly enhanced in the future. Several industrial estates and free trade zones were established during the 1990s, including a free zone for goods distribution that opened in 2000. The site included 11 factory-style warehouses and one administration center. Many large-scale industrial projects were funded by foreign investors in 2000, including port reconstruction, housing construction, a national stadium, banana trade subsidies, and a fisheries industry upgrade. In addition to private investors, the government has focused on capital projects that have increased growth in the construction sector.

St. Lucia's tourism industry has grown steadily in the last 20 years and has increasing appeal as an eco-destination due to de-

lightly unspoiled natural resources, which bode well for the future. Several investors have planned new tourism projects for the island, including a large hotel and resort in the southern part of the island.

29 SCIENCE AND TECHNOLOGY

The government of St. Lucia has established a Science and Technology Division within the government's Central Planning Unit (CPU). As of 1987, three scientists were employed with the CPU. The Windward Islands Banana Growers' Association (WINBAN) maintains a research laboratory in St. Lucia serving the needs of banana growers in the region. The St. Lucia National Trust, headquartered in Castries, is responsible for the wildlife, seabirds, rare plants, and geology on Pigeon, Fregate, and Maria islands. In 1984, total expenditures on research and development amounted to US\$12 million. As of 1999 (the latest year for which data is available) there were 237 technicians and 74 scientists and engineers engaged in research and development.

30 DOMESTIC TRADE

Castries is the economic center of the island. Local produce markets, selling domestically produced goods, are found in all the small villages and towns. They are usually most active in the early morning hours to avoid the midday heat and the afternoon tropical showers. As of 2002, about 73% of the GDP was attributed to service industries.

The Caribbean Development Bank Poverty Assessment Report mentions that 30% of the labor force participants from the poorest strata of St. Lucia were engaged in informal sector activity, mostly due to the high unemployment rate.

31 FOREIGN TRADE

The economy of St. Lucia is highly dependent on foreign trade. Agriculture is the major export earner. Duty exemption and tax credits are implemented for trade inducements, nevertheless, some traders complain of the country's protectionist attitude towards selected goods.

St. Lucia benefits from duty free access for manufactured goods to the EU market and preferential arrangements for bananas. The

Principal Trading Partners – St. Lucia (2003)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	61.8	392.8	-331.0
United Kingdom	18.8	31.6	-12.8
United States	12.2	182.0	-169.8
Trinidad and Tobago	10.1	51.4	-41.3
Barbados	5.2	8.9	-3.7
Dominica	3.6	1.4	2.2
St. Vincent and the Grenadines	2.9	4.2	-1.3
Grenada	2.4	...	2.4
Germany	1.0	4.4	-3.4
France-Monaco	0.8	7.3	-6.5
St. Kitts and Nevis	0.8	...	0.8

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

Balance of Payments – Saint Lucia (2002)

(In millions of US dollars)

Current Account		-103.9
Balance on goods		-207.0
Imports	-277.0	
Exports	70.0	
Balance on services		133.6
Balance on income		-43.5
Current transfers		13.0
Capital Account		21.4
Financial Account		68.4
Direct investment abroad	...	
Direct investment in Saint Lucia	48.1	
Portfolio investment assets	-16.5	
Portfolio investment liabilities	35.2	
Financial derivatives	...	
Other investment assets	-16.4	
Other investment liabilities	18.1	
Net Errors and Omissions		19.2
Reserves and Related Items		-5.2

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

European Union (EU) accounts for approximately 50% of exports and 17% of imports. In 2003, St. Lucia's imports from the EU amounted to €44 million, while exports from St. Lucia to the EU Member States reached €24 million.

In 2004 St. Lucia exported \$81 million in bananas, cocoa, vegetables, fruits, other agricultural products, oils and fats, and manufactured goods. Major export markets were the United Kingdom (27%), United States (13%), Trinidad and Tobago (12%), and Barbados (8%), while imports rose to \$383 million for food, fuel, manufactured goods, machinery, and transport equipment; major suppliers are the United States (40%), Trinidad and Tobago (16%), the United Kingdom (9%), and Japan (4%).

32 BALANCE OF PAYMENTS

St. Lucia has had a negative balance of trade every year since independence; this annual deficit has been counterbalanced in part by inflows from tourism and direct investment. However, the 11 September 2001 terrorist attacks on the United States negatively impacted St. Lucia's tourism industry.

The external current account deficit, which had declined in 2001 to 5.75% of GDP as imports fell sharply, is estimated to have increased to 8.5% in 2002 mainly due to a decline in proceeds from services. These deficits have been more than covered by capital inflows including public sector borrowing and private capital. Reflecting the government borrowing, public and publicly guaranteed external debt rose rapidly in recent years (from an average of 23.5% of GDP in 1998–99 to about 31% at the end of 2001), and is estimated to have increased to 38.5% of GDP at the end of 2002. It is not surprising then that World Bank estimates for 2004 report that St. Lucia's trade deficit is more than \$300 million.

33 BANKING AND SECURITIES

In early 1981, the government-owned St. Lucia National Bank and the St. Lucia Development Bank were opened. There were eight

commercial banks as of 2000, including the St. Lucia Cooperative Bank, the Bank of Nova Scotia, Barclays, CIBC Caribbean, Caribbean Banking Corporation, the Republic Bank, and the Royal Bank of Canada. St. Lucia is a member of the Eastern Caribbean Central Bank, which is responsible for the administration of the country's monetary policies, the regulation of exchange control, and supervision of commercial banks and other financial institutions for the islands belonging to the Organization of Eastern Caribbean States. The Central Bank has special arrangements for discounting loans made by commercial banks to productive sectors, such as tourism, agriculture, and manufacturing. The interest rates are normally below the commercial banks' lending rates. In 1999, the St. Lucia National Commercial Bank offered public shares for the first time, receiving investment of over us\$11 million. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$115.4 million. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$502.9 million.

34 INSURANCE

As of 1997, there were at least 18 companies registered to transact insurance business in St. Lucia.

35 PUBLIC FINANCE

The US Central Intelligence Agency (CIA) estimated that in 2000 St. Lucia's central government took in revenues of approximately \$141.2 million and had expenditures of \$146.7 million. Revenues minus expenditures totaled approximately -\$5.5 million. Total external debt was \$214 million.

36 TAXATION

Individual income tax rates in St. Lucia range from 10–30%. There are no local taxes on income. Resident corporations and branches of foreign companies are taxed at the same flat rate of 33.33%. There are no other corporate taxes. Hotel companies and other industries receive a tax holiday of up to 15 years in St. Lucia.

37 CUSTOMS AND DUTIES

Duties on imported goods such as alcoholic beverages, motor vehicles, cigarettes, and gasoline and oil continue to be major sources of government income. Most imports except those from CARICOM nations are subject to import duties, which consist of a customs duty, a consumption tax, and a service charge. The CARICOM common external tariff ranges up to a maximum of 20%. To facilitate industrial development, the government has in specific cases negotiated the complete elimination of both import and export duties. In 2000, the government implemented a consumption tax retooling that involved a rebate of 20% for electronics producers, 40% for most other small manufactures, and 60% on the production of food and beverages.

38 FOREIGN INVESTMENT

Firms based in Canada, the United States, the United Kingdom and other EC members, Venezuela, Hong Kong, and the Republic of Korea are the principal investors in St. Lucia. Two free-trade

zones operate on the island, and a free zone for goods distribution was opened in 2000.

The government, through the St. Lucia National Development Corporation, set up five industrial zones in order to attract foreign investment in manufacturing and assembly operations. A Data Entry Park was built to attract information processing operations. Development incentives are available in the form of tax concessions of up to 15 years in industries prescribed as beneficial to St. Lucia, namely in the manufacturing and tourism industries.

In 1996, St. Lucia was granted a us\$955 thousand loan from the Caribbean Development Bank (CDB). The money was used to partly finance a project to help poor households in rural districts diversify agricultural production in order to decrease dependence on the banana industry. The banana industry was highly subsidized during 1999 and 2000 by the EU through the Banana Industry Trust Company, despite the need for diversification. Other investment in 2000 came from the Japanese government to encourage growth of the fishing industry, and from the Chinese government in construction and manufacturing.

In 1990 FDI was 5.85% of GDP, rose to 8.04% in 2000, but slowed in 2003 to 4.63% of GDP. Annual foreign direct investment (FDI) inflow was approximately \$50 million in 1997, but rose to an average of about \$83 million in 1998 and 1999. In 2000 and 2001, average annual FDI inflow was about \$50 million. All sectors of the economy have benefited from infrastructure improvements in roads, communications, water supply, sewerage, and port facilities. These improvements, combined with a stable political environment and educated work force, have attracted foreign investors in several different sectors. Although St. Lucia enjoys a steady flow of investment in tourism, the single most significant foreign investment is Hess Oil's large petroleum storage and transshipment terminal. In addition, the Caribbean Development Bank funded an extensive airport expansion project.

39 ECONOMIC DEVELOPMENT

Historically, the major thrust of foreign affairs for St. Lucia has been economic development. Since the establishment the National Development Corp. in 1971, St. Lucia has succeeded in diversifying its economy. St. Lucia has the most highly developed infrastructure of all the Windward Islands, with an international airport, a highway system that connects the important coastal and agricultural areas with the political and commercial centers, and a fully automated telephone system with direct dialing to most parts of the world.

At the end of 1996, the Lewis government unveiled a job-creating budget aimed at boosting his party's flagging fortunes. A us\$242 million package devoted us\$136 million to current expenditure and us\$104 million to capital items. With the unemployment rate standing at 25%, the prime minister pledged to create 10,000 jobs by the end of the 1997–98 fiscal year. The 2.9% gross domestic product growth of 1998 was a marked improvement from previous years, which averaged below 2%. Unemployment was down to about 15% in 1999, and the government had plans to spend half of its budget on capital projects to foster the growing economy.

In view of the European Union's announced phase-out of preferred access to its markets of Windward Island bananas by 2006, an attempt is being made to diversify production by encourag-

ing the establishment of tree crops such as mangos and avocados. With the banana production's considerable fall in recent years, tourism now sustains the economy—St. Lucia is the number one tourist destination among Eastern Caribbean Currency Union (ECCU) members. The government in 2003 was focusing public investment on projects aimed at growth led by the private sector and at reducing poverty. Furthermore, recently St. Lucia added small computer-driven information technology and financial services as development objectives.

The government is seeking balanced international relations with emphasis on mutual economic cooperation and trade and investment. It seeks to conduct its foreign policy chiefly through its membership in the OECS. For example, St. Lucia participated, along with 14 other Caribbean nations, in a summit with President Clinton in Bridgetown, Barbados in May 1997. The summit, which was the first-ever meeting in the region between US and Caribbean heads of government, strengthened the basis for regional cooperation. US assistance is primarily channeled through multilateral agencies such as the World Bank and the USAID satellite office in Bridgetown, Barbados.

40 SOCIAL DEVELOPMENT

The National Insurance program provides all workers from age 16 to 60 with old age, disability, survivor, sickness, and maternity coverage, as well as workers' compensation. The program is financed by 5% contributions from employers and employees, with the government financing the program for civil servants. Retirement pensions begin at age 60, provided that 10 years of contributions have been made. Maternity benefits are 65% of average salary for the preceding seven months, plus a cash grant.

There are no legal restrictions on the rights of women, but social discrimination is not uncommon. The Minister for Women's Affairs promotes and protects the rights of women, and addresses employment discrimination complaints. Violence against women remains a serious problem but is addressed by the government with programs and training. The St. Lucia Crisis Center in Castries and a second facility in Vieux Fort monitor abuse and act as advisors and advocates for women on a number of issues.

Human rights are generally well respected in St. Lucia, although there were reports of mistreatment of prisoners and generally poor prison conditions.

41 HEALTH

There were two general hospitals, one psychiatric hospital, and two district hospitals on St. Lucia. The main hospital, with over 200 beds, is located in Castries. In addition, there are 34 health centers scattered throughout the island. In 2004, there were an estimated 518 doctors and 229 nurses per 100,000 people. Total health care expenditure was estimated at 4.3% of GDP.

Malnutrition and intestinal difficulties are the main health problems. Tuberculosis, once widespread, has been brought under control. The total fertility rate was 3.1 children born to a woman during her childbearing years. The average life expectancy was 73.61 years in 2005. That year the infant mortality rate was 13.53 per 1,000 live births.

42 HOUSING

According to the 2001 census, there were 52,664 dwelling units nationwide. About 80% of these were private, single-family detached homes. About 41% of all dwellings were built of concrete block; 39% were built of wood. That year, 47.2% of all households were linked to a septic system; 35.3% still made use of pit latrines. About 86% had access to electricity for lighting and 58.4% were linked to a public water system. Nearly 75% of all dwellings were owner occupied. About 34% of the housing stock was built in the period 1980–95; about 14.8% was built before 1970. The average household had 3.3 members.

43 EDUCATION

Elementary schooling lasts for seven years, followed by three years of lower secondary education and another two years of upper secondary education. About 65% of children between the ages of three and four attend some type of preschool program. Primary school enrollment in 2003 was estimated at about 99% of age-eligible students. The same year, secondary school enrollment was about 76% of age-eligible students; 68% for boys and 85% for girls. It is estimated that nearly all students complete their primary education. The student-to-teacher ratio for primary school was at about 22:1 in 2003; the ratio for secondary school was about 16:1.

An education complex in Castries maintains a teacher-training center, a technical school, a secretarial training center, and a branch of the University of the West Indies. The Sir Arthur Lewis Community College is to be upgraded into a full-fledged campus of the University of the West Indies. In 1996, institutions of higher learning had 157 teaching staff and 2,760 students. The adult literacy rate for 2004 was estimated at about 90%.

As of 2003, public expenditure on education was estimated at 7.7% of GDP, or 21.3% of total government expenditures.

44 LIBRARIES AND MUSEUMS

The government provides free library service. The Central Library of St. Lucia with 106,000 volumes is located in Castries; at least 17 smaller public libraries are located in villages throughout the island. St. Lucia has a historical and natural history museum on Pigeon Island, founded in 1994. Le Pavillon Royal Museum in Castries contains artifacts and displays on the history of the government.

45 MEDIA

The telephone system is fully automatic. In 2002, there were 51,100 mainline phones and 14,300 mobile phones in use nationwide. In 2004, there were three radio stations and three television stations; one of each were owned by the government. In 1997 there were 668 radios and 167 TV sets in use per 1,000 population. Television programs consist of some local programming, videotapes, and live broadcasts originating in Barbados; television transmissions from Martinique are also received.

In 2005, there were six main newspapers in the country. *The Voice of St. Lucia* and the *St. Lucia Star* (10,000 circulation in 2002) appear three times a week. The *Crusader* (2002 circulation, 4,000) is published on Saturday. *The Mirror*, *The Vanguard*, and *One Caribbean* are also published once a week.

The government is said to generally respect constitutionally provided free speech and free press, though occasionally it has shown open hostility toward both the print media and radio. Newspapers, radio, and television carry a wide spectrum of opinion, including that which is directly critical of the government.

46 ORGANIZATIONS

The St. Lucia Chamber of Commerce, Industry, and Agriculture meets in Castries. Other business organizations include the St. Lucia Hotel and Tourism Association, the Saint Lucia Industrial and Small Business Association, and the St. Lucia Manufacturing Association. Professional associations, such as the St. Lucia Teachers Union, are also active.

The St. Lucia Historical Society and the Folk Research Center promote the study and development of national culture. National youth organizations include the Boy Scouts and Girl Guides of St. Lucia, Caribbean Youth Conference, Progressive Labor Party Youth, and United Workers Party Youth. Sports associations promote amateur competition for athletes of all ages. Volunteer service organizations, such as the Lions Clubs and Kiwanis International, are also present. There are also national chapters of the Red Cross and Planned Parenthood.

47 TOURISM, TRAVEL, AND RECREATION

Dramatic tropical scenery, beautiful beaches, and excellent water-sports facilities are St. Lucia's principal tourist attractions. Of special interest are the Piton Mountains and the Sulphur Springs (the world's only drive-in volcano). Popular sports include football (soccer), volleyball, tennis, and cricket. All foreign nationals must carry a passport. Visas are required for all but visitors from the United States, Commonwealth countries, or where there is

an agreement between St. Lucia and the home country. Tourists come by air directly from Europe, Canada, and the United States, and on cruise ships sailing through the West Indies out of North American and European ports.

There were 276,948 tourist arrivals in St. Lucia in 2003. In that year there were 3,749 rooms available and 6,748 beds. The hotel occupancy rate was 62%. The average length of stay was 10 days.

48 FAMOUS SAINT LUCIANS

John G. M. Compton (b.1926), trained as a barrister and one of the founders of the United Workers' Party, was prime minister from 1982–96. Dr. Kenny Davis Anthony, (b.1951) became prime minister in 1997. The writer Derek Walcott (b.1930) is best known for his epic autobiographical poem *Another Life*.

49 DEPENDENCIES

St. Lucia has no territories or colonies.

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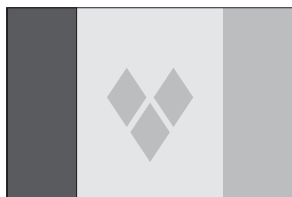
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ST. VINCENT AND THE GRENADINES



CAPITAL: Kingstown

FLAG: Three vertical bands of blue, yellow, and green; centered on the yellow band are three green diamonds arranged in a v-pattern.

ANTHEM: *National Anthem*, beginning “St. Vincent! Land so beautiful.”

MONETARY UNIT: The East Caribbean dollar (EC\$) of 100 cents is the national currency. There are coins of 1, 2, 5, 10, and 25 cents and 1 dollar, and notes of 5, 10, 20, and 100 East Caribbean dollars. EC\$1 = US\$0.37037 (or US\$1 = EC\$2.7) as of 2004.

WEIGHTS AND MEASURES: The imperial measures are used.

HOLIDAYS: New Year’s Day, 1 January; Labor Day, 1 May; CARICOM Day, 5 July; Carnival, 6 July; Bank Holiday, 1st Monday in August; Independence Day, 27 October; Christmas Day, 25 December; Boxing Day, 26 December. Movable religious holidays include Good Friday, Easter Monday, and Whitmonday.

TIME: 8 AM = noon GMT.

¹ LOCATION, SIZE, AND EXTENT

Located in the Windward Islands group of the Lesser Antilles, St. Vincent and the Grenadines is 34 km (21 mi) sw of St. Lucia and about 160 km (100 mi) w of Barbados. Scattered between St. Vincent and Grenada to the sw are more than 100 small islands called the Grenadines, half of which belong to St. Vincent and the other half to Grenada. The Grenadines belonging to St. Vincent include Union Island, Mayreau, Canouan, Mustique, Bequia, and many other uninhabited cays, rocks, and reefs. The land area of St. Vincent island is 344 sq km (133 sq mi). Bequia, the largest of the Grenadines belonging to St. Vincent, has an area of 18 sq km (7 sq mi). The total land area of the country is 389 sq km (150 sq mi). Comparatively, the area occupied by St. Vincent and the Grenadines is slightly less than twice the size of Washington, DC.

The capital city, Kingstown, is located on the southeast coast of the island of St. Vincent.

² TOPOGRAPHY

St. Vincent is a rugged island of volcanic formation, and the Grenadines are formed by a volcanic ridge running north–south between St. Vincent and Grenada. The highest peak on St. Vincent is Soufrière, an active volcano with an altitude of 1,234 m (4,048 ft); it has a crater lake 1.6 km (1 mi) wide. In the center of the island, Richmond Peak rises to a height of 1,079 m (3,539 ft). Only 5% of the island’s surface has slopes of less than 5°. The low-lying Grenadines have wide beaches and shallow bays and harbors, but most have no source of freshwater except rainfall. The highest point in

the Grenadines is Mt. Tobai on Union Island, with an altitude of 308 m (1,010 ft).

³ CLIMATE

The islands enjoy a pleasant tropical climate all year round, with a yearly average temperature of 26°C (79°F). The warmest month is September, with an average temperature of 27°C (81°F); the coolest is January, with an average temperature of 25°C (77°F). The average yearly rainfall on St. Vincent is 231 cm (91 in), but in the mountainous areas the average rainfall is more than 380 cm (150 in) a year. May or June through December is the rainy season.

⁴ FLORA AND FAUNA

The shallow waters of the Grenadines abound with marine life. Lobsters, conch, fish of all varieties, and turtles can be found in such areas as the Tobago Cays, which lie north of Prune (Palm) Island. Whales are frequently sighted off Petit Nevis, and large iguanas can be found on some of the waterless rocks and cays.

In Kingstown, on St. Vincent, there is a famous botanical garden where the breadfruit tree was introduced to the West Indies from South Pacific islands in 1793. Some of the many birds found in St. Vincent are the Caribbean eleania, the trembler, the bananaquit, and the Antillean crested hummingbird.

⁵ ENVIRONMENT

The principal recurrent threat to the environment comes from the Soufrière volcano, which erupted violently on 7 May 1902, destroying much of northern St. Vincent and claiming 1,565 lives. After another eruption, on 13 April 1979, the volcano remained active for weeks, spewing over much of the island a pall of volca-

nic ash, which covered mountains, forests, and plantation fields. Forests are threatened by farming development and use of wood for commercial purposes.

Pollution from pleasure yachts and other sources has seriously affected the eastern shorelines of all the major islands of the Grenadines. In Bequia's Admiralty Bay, the pollution is so severe that swimming is dangerous. The main contributing factors are toxic chemicals used in farming and sewage. Fresh water resources are also limited. The nation's tourist trade increases the need for water even more. The nation's coast is particularly vulnerable to pollution from industrial sources.

The central highlands of St. Vincent have been set aside as a natural preservation area for nesting of the St. Vincent parrot, the St. Vincent wren, and the St. Vincent solitaire, all endangered or rare species. In the Grenadines, the hawksbill, green sea, and leatherback turtles have been declared endangered. The Tobago Cays have been proposed as a nature preserve, but aside from a few sites on Union Island there are no protected areas in the Grenadines belonging to St. Vincent. According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 2 types of mammals, 2 species of birds, 4 types of reptiles, 1 species of amphibian, 11 species of fish, and 4 species of plants. Threatened species included the guaiac tree, the great white shark, the St. Vincent black snake, and several species of whales and dolphins.

⁶POPULATION

The population of St. Vincent and the Grenadines in 2005 was estimated by the United Nations (UN) at 111,000, which placed it at number 176 in population among the 193 nations of the world. In 2005, approximately 6% of the population was over 65 years of age, with another 30% of the population under 15 years of age. There were 98 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 1.1%, a rate the government viewed as too high. The projected population for the year 2025 was 117,000. The overall population density was 285 per sq km (737 per sq mi), with the majority of the population living on St. Vincent, which is the main island. The Grenadines are sparsely populated; many of the islands are uninhabited.

The UN estimated that 55% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 1.97%. The capital city, Kingstown, had a population of 29,000 in that year.

⁷MIGRATION

Although no reliable statistics are available, emigration is known to take place to Trinidad, Guyana, Guadeloupe, and Martinique. In the past, the United Kingdom and the United States also accepted substantial numbers of migrants, and Canada is still receiving arrivals from the islands. The number of migrants was estimated to be 8,000 in 2001. In 2005, the net migration rate was -7.61 per 1,000 population. The government views the migration levels as satisfactory.

⁸ETHNIC GROUPS

About 66% of the islanders are descendants of African slaves. About 19% of the population is of mixed origin. Of the mixed

group, about 1,000 persons, identified as Black Caribs, descend from the intermingling of Amerindians and Africans that occurred before European colonization. In the second half of the 19th century, about 2,472 indentured laborers were brought to St. Vincent from Asia; their descendants, making up about 6% of the current population, are known as East Indians. About 2% of the people are Carib Amerindians.

⁹LANGUAGES

English is the official language of St. Vincent and the Grenadines. Some islanders speak a French patois, representing a mixture of African and French grammar, with a vocabulary drawing mostly upon French, along with some English and a few Spanish words. A few islanders speak French as their first language.

¹⁰RELIGIONS

Christianity is the dominant religion of the islands. The largest denomination is the Anglican Church, with about 24,000 members. The Methodist Church has about 4,500 registered members, but up to 12,000 people have claimed some affiliation with this denomination. About 11,000 citizens are Roman Catholic and another 11,000 are Seventh-Day Adventist. The Pentecostal Assembly of the West Indies has about 20 congregations in the country; other Pentecostal denominations are present. There are small communities of Baha'is, Hindus, and Muslims. There is also a group of Rastafarians, some of whom claim discrimination by local police because their religion endorses the use of marijuana, which is illegal in the country. Religious freedom is guaranteed by the constitution. The Christian Council of Churches promotes interfaith understanding and maintains a close relationship with the government.

¹¹TRANSPORTATION

St. Vincent is on the main air routes of the Caribbean, with direct flights to Trinidad and Barbados as well as the other islands to the north. In 2004 there were an estimated six airports and airfields, five of which had paved runways (as of 2005). The international airport is located on the southern tip of the island, near Kingstown; one of the much smaller airports is located on the east coast, north of Georgetown. Small airports are also located on Union, Canouan, and Mustique islands. In 1991, the construction industry and the infrastructure were given a minor boost with the government's announcement of an us\$18.5 million airport improvement and road construction and upgrading program.

All of the Grenadines have excellent harbors served by a ferry service operating out of Kingstown. Wharf facilities were enlarged in the early 1980s, with financial support from the United States, to include a deepwater pier. In 2005, the merchant fleet comprised 657 ships of 1,000 GRT or more, totaling 7,967,418 GRT. Although the main road of St. Vincent, going down the east coast and up the west coast, does not encircle the island, it does connect all the main towns with the capital. As of 2002, the islands had about 829 km (516 mi) of roads, of which 580 km (361 mi) were paved. About 8,110 vehicles were registered in 1995, including 4,935 passenger cars. There is approximately one vehicle for every 15 residents.

12 HISTORY

The Arawak Amerindians, who migrated from South America, are the earliest known inhabitants of St. Vincent and the Grenadines. Subsequently, the Caribs took control of the islands and were there when Christopher Columbus reached St. Vincent on 22 January 1498.

St. Vincent was one of the last of the West Indies to be settled. Left to the Carib Amerindians by British and French agreement in 1660, the island continued to have a sizable Amerindian population until the first quarter of the 18th century. One of the results of this isolation from European influence was the evolution of the Black Caribs, who descend from the intermarriage of runaway or shipwrecked slaves with the Amerindians. The island was taken formally by the British in 1763, who ruled thereafter, except from 1779 to 1783 when it was in the hands of the French.

The island changed its ethnic character during the next century. When the Black Caribs and the remaining Amerindians rebelled against the British in 1795 at French instigation, most of the defeated insurgents were removed to the Bay of Honduras. Those who remained were decimated by an eruption of Soufrière in 1812. They were supplanted by African slaves, who were freed in 1834, Madeiran Portuguese, who immigrated in 1848 because of a labor shortage, and Asian indentured laborers who arrived in the latter half of the 19th century.

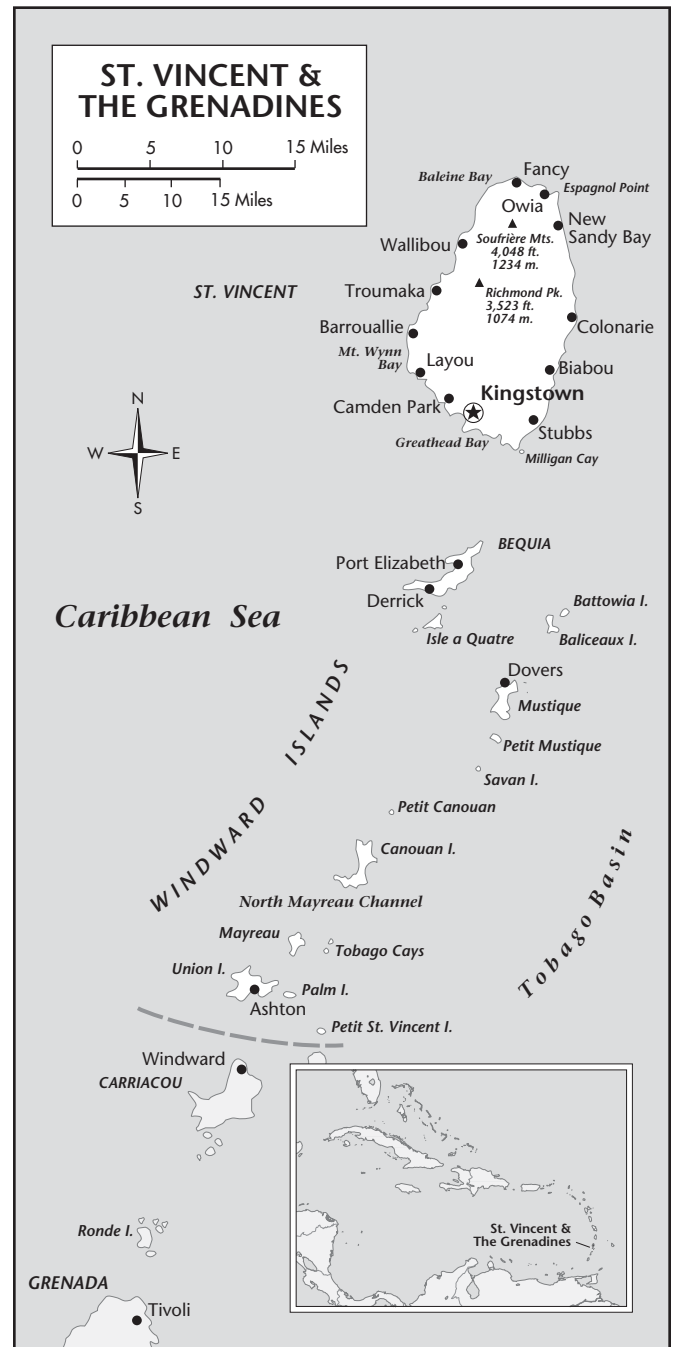
St. Vincent was administered as a crown colony within the Windward Islands group from 1833 until 1960, when it became a separate administrative unit linked with the Federation of the West Indies. The federation fell apart in 1962, and after lengthy discussion, St. Vincent became a self-governing state in association with the United Kingdom seven years later. On 27 October 1979, St. Vincent and the Grenadines achieved full independence as a member of the Commonwealth.

During the first months of independence, the young nation faced a rebellion on Union Island, its southernmost constituent, by a group of Rastafarians attempting to secede. The revolt was put down with military support from neighboring Barbados. In the end, 1 person was killed and 40 arrested. Otherwise, the political system has had few disruptions. The government at independence under the St. Vincent Labor Party gave way to the New Democratic Party (NDP) in 1984, with the NDP renewing its government in 1989.

In 1990, leaders of St. Vincent and the Grenadines, Dominica, Grenada, and St. Lucia formed the Regional Constituent Assembly to plan for a limited union. However, these talks were halted after 1995 because the parties in power changed in several of the countries. In the February 1994 election, the NDP won its third consecutive term in office. The NDP captured 12 seats in the House of Assembly and the Unity Labor Party (ULP) won three seats.

The NDP retained its parliamentary majority by only one vote in early elections held in June 1998, winning 8 seats as opposed to 7 won by the opposition ULP led by Vincent Beache. But in 2001, the ULP led by Ralph Gonsalves won the election with 56.7% of the vote and secured 12 of the 15 elected seats in the 21-member Assembly.

In spite of efforts at diversification, bananas remained the most important sector of the country's economy. However, the banana industry, like those of other Caribbean island nations, suffered serious blows in past years.



LOCATION: St. Vincent—13°6' to 14°35' N; 61°6' to 61°20' W. TOTAL COASTLINE: 84 kilometers (52 miles). TERRITORIAL SEA LIMIT: 12 miles.

In 2003, St. Vincent and the Grenadines was admitted to the Non-Aligned Movement of developing nations. That year, the country was also removed from the Paris-based Financial Action Task Force's list of nations deemed uncooperative in the fight against money laundering.

13 GOVERNMENT

When the nation became independent in 1979, it kept the then British monarch as the nominal head of government, represented by a governor-general. The governor-general appoints the leader

of the majority party to be prime minister. The cabinet is appointed by the governor-general on the advice of the prime minister. Executive power is in the hands of the prime minister and cabinet, who are members of the majority party in the legislature. The legislature is unicameral, a 21-seat House of Assembly. The House of Assembly consists of representatives elected from each of 15 constituencies for a maximum of five years, plus 6 senators appointed by the governor-general.

14 POLITICAL PARTIES

There are two major parties and four minor parties on the islands. The majority party is the New Democratic Party (NDP). Founded in 1975, the party had, after 1984, held a parliamentary majority. In the elections of June 1998, the NDP's majority slipped from 12 to 8 out of 15 seats, giving it only a one-seat margin over the opposition SVLP.

The St. Vincent Unity Labour Party (ULP) was founded in 1955 and was in power at independence and governed the nation, under Robert Milton Cato, until the July 1984 elections. Under the leadership of party leader, Ralph Gonsalves, the ULP won the 2001 parliamentary election with 12 out of 15 seats. The ULP also won the 2005 election, winning 55.26% of the vote (12 seats) to the NDP's 44.68% (3 seats). The next elections were to be held in 2010.

15 LOCAL GOVERNMENT

In an attempt to decentralize the government, this small nation has been subdivided into six parishes.

16 JUDICIAL SYSTEM

The islands are divided into three judicial districts; there are 11 courts within the three districts. Appeals may be carried to the East Caribbean Supreme Court, based in St. Lucia, and made up of the Court of Appeal and the High Court. Prior to 2003, in exceptional cases, appeals were carried to the Judicial Committee of the Privy Council in the United Kingdom. On 9 June 2003, Caribbean leaders met in Kingston, Jamaica, to ratify a treaty to establish the Caribbean Court of Justice (CCJ). Eight nations—Barbados, Belize, Dominica, Guyana, Jamaica, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago—officially approved the CCJ, although 14 nations were planning to use the court for appeals. Haiti had agreed to use the CCJ for resolution of trade disputes. The court was officially inaugurated in April 2005. As of 2005, however, the court's jurisdiction was limited to the CARICOM states of Barbados and Guyana. The CCJ heard its first case in August 2005.

The constitution guarantees a public trial before an independent and impartial court. Legal counsel is afforded to indigent defendants in cases involving capital punishment. There are no separate security or military courts.

17 ARMED FORCES

There are no armed forces except those of the police force and coast guard. The Eastern Caribbean Regional Security System, which includes Antigua and Barbuda, Barbados, Dominica, Grenada, Jamaica, St. Kitts and Nevis, and St. Lucia, as well as St. Vin-

cent and the Grenadines, provides for joint coast guard operations, military exercises, and disaster contingency plans.

18 INTERNATIONAL COOPERATION

St. Vincent and the Grenadines became a member of the United Nations on 16 September 1980 and belongs to the ECLAC and several nonregional specialized agencies, such as the FAO, ILO, UNCTAD, UNSECSO, the World Bank, and the WHO. The nation is a member of the WTO, the ACP Group, CARICOM, the Caribbean Development Bank, G-77, the OAS, the Alliance of Small Island States (AOSIS), the Association of Caribbean States (ACS), and the OECS. It is also part of the Agency for the Prohibition of Nuclear Weapons in Latin America and the Caribbean (OPANAL) and the Organization for the Prohibition of Chemical Weapons.

In environmental cooperation, St. Vincent and the Grenadines is part of the Basel Convention, Conventions on Biological Diversity and Whaling, CITES, the Kyoto Protocol, the Montréal Protocol, MARPOL, and the UN Conventions on the Law of the Sea, Climate Change, and Desertification.

19 ECONOMY

Agriculture is the mainstay of the economy of St. Vincent and the Grenadines, with bananas as the primary cash crop. Vegetable production for export grew significantly in the mid-1980s, as the market for arrowroot declined. Revenues from banana exports fell after 1990, but EU support after 1998 helped the industry. Tourism is particularly important in the Grenadines, where yachting is a principal pastime. Some of the smaller cays have been wholly acquired by private interests and developed into resorts for European and North American visitors. Some industrial development has begun in St. Vincent, but the government has been relatively unsuccessful at introducing new industries, and high unemployment rates continued. The continuing dependence on a single crop represents the biggest obstacle to economic development; tropical storms frequently disturb agricultural production. Dependence upon the tourism industry is also risky, as witnessed by the low numbers of arrivals following the 11 September 2001 terrorist attacks on the United States. About 160,000 tourists arrived in the country in 2004.

Although private sector activity was weak in the mid-2000s, growth was supported by a rebound in agricultural production and expansionary fiscal policies, including large public sector investments. Following stagnation in 2001, a moderate recovery began in 2002–03. The GDP growth rate reached 5.4% in 2004.

20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 St. Vincent and the Grenadines's gross domestic product (GDP) was estimated at \$342.0 million. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange based on current dollars. The per capita GDP was estimated at \$2,900. The annual growth rate of GDP was estimated at 0.7%. The average inflation rate in 2001 was -0.4%. It was estimated that

agriculture accounted for 10% of GDP, industry 26%, and services 64%.

Approximately 27% of household consumption was spent on food, 8% on fuel, 2% on health care, and 13% on education. It was estimated that for the same period private consumption grew at an annual rate of 7%.

21 LABOR

As of 1991, the labor force totaled an estimated 41,680 persons. As of 2001, the services sector accounted for 60.7% of those employed, with 15.4% in agriculture, 19.7% engaged in industry, and 4.2% in undefined occupations. In 2001 the unemployment rate was estimated at 15%.

One of the first authentic labor unions in the West Indies was formed in St. Vincent in 1935, during the Great Depression. From this initial Workingman's Association, the labor movement in St. Vincent has developed unions for agricultural workers, dockworkers, civil servants, and teachers. There is some poaching of members among competing trade unions, and the labor movement is gradually losing support. While workers have the right to form unions and strike, employers are not compelled to recognize a union or bargain collectively with them. Many employers do try to maintain good relations with their workers though, and strikes are rare. St. Vincent and the Grenadines joined the International Labor Organization in 1999.

The minimum working age is 16 and this is enforced by the government and respected by employers. Some children under 16 do work on family-owned banana plantations. There is no statutory workweek, but most workweeks are 40 hours long in practice. The minimum wage varies by economic sector and level of employee skill. As of 2002, the minimum wage for agricultural workers was us\$6.74 per day (not including shelter) and us\$7.49 per day for industrial workers.

22 AGRICULTURE

About half of St. Vincent is devoted to crop growing. Agricultural products accounted for 60% of exports in 2004. Real growth in agriculture was averaging 6.7% annually. Bananas constitute the main crop; vegetables, coconut, spices, and sugar are also important. Banana production was adversely affected by the eruption of Soufrière, which reduced exports from 30,414 tons in 1978 to 22,692 tons in 1979. Further damage was done by two hurricanes in 1979 and 1980; in the latter year, some 95% of the crop was destroyed. Production rebounded during 1981, and 83,000 tons were produced in 1982; in 2004, 45,000 tons were produced. Other crops in 2004 included coconuts, 21,500 tons; sugarcane, 18,000 tons; sweet potatoes, 1,200 tons; and plantains, 3,500 tons. Most of the agricultural products are grown on small farms; quality control is sometimes a problem, particularly in the production of bananas. There are approximately 5,000 banana growers on the island.

23 ANIMAL HUSBANDRY

Estimates of the livestock population in 2005 include 12,000 sheep, 9,150 hogs, 5,000 head of cattle, 7,200 goats, and 125,000 poultry

of all types. The island of St. Vincent does not produce enough meat, poultry, eggs, and milk to satisfy local demand.

24 FISHING

At one time, St. Vincent and Bequia were the centers for a thriving whaling industry, but only 21 humpback whales were captured from 1970 to 2003. Since the New Kingston Fish Market opened in the late 1980s, the fish catch rapidly increased. In 2003, the total catch amounted to 4,782 tons, up from 921 tons in 1996. However, fisheries exports declined from us\$1,960,300 in 1990 to us\$551,000 in 2003. Technical assistance and training to fisherman and fisheries staff was being sponsored by the Canadian Fisheries Development Project.

25 FORESTRY

There is virtually no commercial forestry, although 36% of the land consists of forests and woodlands. Some local timber is used for residential and boat construction. Imports of forest products amounted to almost us\$18.5 million in 2004.

26 MINING

Mining played a minor role in the economy of St. Vincent and the Grenadines. Some sand was extracted for local construction projects, and on some of the smaller and drier Grenadines, salt was produced on a small scale for local consumption.

27 ENERGY AND POWER

The electric power facilities of St. Vincent and the Grenadines were being expanded and improved to meet the growing industrial demand. In 2002, total power generation amounted to 91 million kWh, of which 72.5% was from fossil fuels and 27.5% from hydropower. Consumption of electricity in the same year was 85 million kWh. Total installed capacity in 2002 was 23,000 kW.

St. Vincent and the Grenadines had no reserves of natural gas, oil, or coal, nor any refining capacity. All fossil fuel needs are met by imports of refined oil products. In 2002, imports and consumption of refined oil products each averaged 1,300 barrels per day. Of that amount, distillates and gasoline accounted for the majority. Distillate imports averaged 690 barrels per day, while gasoline accounted for 440 barrels per day.

28 INDUSTRY

A substantial amount of industrial activity centers on the processing of agricultural products. Because of depression in the sugar industry, sugar-processing facilities established in 1981–82 were shut down in 1985; in the same year, a beer factory began production. Nonagricultural industries include several garment factories, a furniture factory, an electronics plant, and a corrugated cardboard box plant. Manufacturing accounted for 6.1% of GDP in 2001, and industrial activity as a whole contributed 26% to GDP in 2001.

The tourism industry lagged in the 1990s because of difficult transportation access and the lack of white sand beaches on the main islands. However, the government put more emphasis than ever on the promotion of the country as an upscale tourist destination. A new airport on Union Island was opened in 1993. A year earlier, a new airport, financed by a grant from the EC (now EU),

opened on the island of Bequia. In 1996, a new cruise ship and berths came on line.

The 2003 budget called for the establishment of two business parks at Diamond and Campden Park; 178,000 sq ft of factory space had been created at Campden Park Estate by 2006, and plans were ongoing for the development of the Diamond Industrial Estate. The government also announced the reintroduction of a new product development and processing facility.

29 SCIENCE AND TECHNOLOGY

St. Vincent seeks scientific expertise to deal with problems associated with its main agricultural products, especially bananas. The computer industry in the United States and Europe has opened up a new demand for paper; with proper processing, arrowroot might be able to compete in this new market, but so far the technology is lacking. Experimentation on arrowroot waste as a source of biogas has also been undertaken. A National Council for Science and Technology was created late in 1981. St. Vincent also has an Appropriate Technology Center, established in 1982. In 2002, there were 21 researchers and 110 technicians actively engaged in research and development.

30 DOMESTIC TRADE

Kingstown is the main commercial distribution center. Agriculture has traditionally formed the basis of the local economy, but tourism has become much more important as a sector of the economy. Local produce markets exist in all the Grenadines and in the small villages on St. Vincent. Government offices on St. Vincent are open on weekdays from 8 AM to noon and from 1 to 4:15 PM. On Saturday afternoons, most shops are closed. Supermarkets and shopping centers, however, are generally open from 8 AM to 8 PM.

31 FOREIGN TRADE

St. Vincent and the Grenadines is highly dependent on foreign trade. From the agricultural sector, bananas (50%) and vegetables are major foreign exchange earners. Other exports include yachts, eddoes and dasheen (taro), arrowroot starch, and tennis racquets.

In 2000 the country's imports were distributed among the following categories: consumer goods, 18.0%; food, 25.8%; fuels, 9.6%; industrial supplies, 28.8%; machinery, 10.3%; and transportation, 7.5%.

About half of exports go to other Caribbean islands, and over one-third of imports come from the United States. The principal export partners in 2004 were: the United Kingdom (33.5%), Barbados (13.1%), St. Lucia (11.5%), Trinidad and Tobago (9.9%), Antigua and Barbuda (8.3%), the United States (5.3%), Grenada (5.3%), and Dominica (4.1%). The principal import partners were: the United States (37.5%), Trinidad and Tobago (21.3%), and the United Kingdom (10.5%).

32 BALANCE OF PAYMENTS

St. Vincent and the Grenadines has had an unfavorable balance of trade since the 1950s. Income from tourism, investments, and development assistance makes up the balance. However, the tourism industry suffered as a result of the 11 September 2001 terrorist at-

Principal Trading Partners – St. Vincent and the Grenadines (2003)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	38.1	201.1	-163.0
United Kingdom	11.2	14.5	-3.3
United States	5.1	82.9	-77.8
Barbados	4.3	7.6	-3.3
Trinidad and Tobago	4.2	41.6	-37.4
Saint Lucia	3.9	2.3	1.6
Antigua and Barbuda	2.7	...	2.7
Dominica	1.4	0.5	0.9
Grenada	1.3	0.7	0.6
Saint Kitts and Nevis	1.0	...	1.0
Jamaica	1.0	1.8	-0.8

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

Balance of Payments – Saint Vincent and the Grenadines (2002)

(In millions of US dollars)

Current Account		-42.3
Balance on goods		-116.8
Imports	-157.2	
Exports	40.5	
Balance on services		76.4
Balance on income		-14.0
Current transfers		12.1
Capital Account		10.6
Financial Account		12.7
Direct investment abroad		...
Direct investment in Saint Vincent and the Grenadines	32.5	
Portfolio investment assets		-5.4
Portfolio investment liabilities		6.4
Financial derivatives		...
Other investment assets		-7.7
Other investment liabilities		-13.0
Net Errors and Omissions		13.0
Reserves and Related Items		6.0

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

tacks on the United States, but began to rebound in 2002–03, with tourism arrivals reaching 160,000 in 2004.

In 2004, the value of exports was estimated at us\$37 million, and imports were valued at us\$225 million.

33 BANKING AND SECURITIES

In the late 1980s, the nation's largest financial institution was the state-run National Commercial Bank, and various branches of Canadian banks were prominent in Kingstown. Commercial banks include Bank of Nova Scotia, Barclays, CIBC, Development Corp., First St. Vincent Bank, New Bank, Owens Bank, St. Vincent Cooperative Bank, and Republic Bank. The government has established arrangements for offshore banking corporations, with direct connections to Swiss banking facilities. The International Monetary Fund reports that in 2001, currency and demand deposits—an ag-

gregate commonly known as M1—were equal to \$95.9 million. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$278.0 million.

There is no securities exchange, except for the common CARICOM exchange.

34 INSURANCE

Local insurance companies are limited in scope and importance. Representatives of insurance corporations based in the United Kingdom, Canada, and the United States operate on St. Vincent.

35 PUBLIC FINANCE

Most of the government's income comes from customs duties and taxes. The leading categories of expenditures are education, public works, and health.

The US Central Intelligence Agency (CIA) estimated that in 2000 St. Vincent and the Grenadines's central government took in revenues of approximately us\$94.6 million and had expenditures of us\$85.8 million. Revenues minus expenditures totaled approximately us\$8.8 million. Total external debt was us\$167.2 million.

The International Monetary Fund (IMF) reported that in 2003, the most recent year for which it had data, general government revenues in millions of East Caribbean dollars were 377.7 and expenditures were 327.6. The value of revenues in millions of US dollars was \$140 and expenditures \$120, based on an official exchange rate for 2003 of 2.7000 as reported by the IMF. Government outlays by function were as follows: general public services, 36.8%; public order and safety, 8.6%; economic affairs, 11.1%; environmental protection, 1.3%; housing and community amenities, 1.6%; health, 12.7%; recreation, culture, and religion, 0.2%; education, 17.5%; and social protection, 10.1%.

36 TAXATION

The government of St. Vincent and the Grenadines levies a progressive personal income tax (ranging from 10–55%), a corporate tax of 45% of net income, inheritance taxes, and a social security contribution of 2.5% of gross salary up to a maximum of us\$41.75 per month.

37 CUSTOMS AND DUTIES

By far the most important customs revenues are from import duties. There is a duty on exported goods, but the revenue earned is relatively small. By agreement with certain private corporations, the government waives customs duties on specific items in order to stimulate industrial development. Under an October 1992 CARICOM agreement, St. Vincent and the Grenadines has eliminated import licensing. St. Vincent has adopted CARICOM's common external tariff (CET), which ranges from 0–20%.

38 FOREIGN INVESTMENT

The government has encouraged foreign investment by establishing industrial estates, including both factories and homes for laborers, as well as by offering favorable tax conditions for the investors. Investment benefits include tax holidays, repatriation of profits, duty free concessions, and consumption tax exemptions. Tax holidays vary between 10 and 15 years (the nominal corpora-

Public Finance – Saint Vincent and the Grenadines (2003)

(In millions of East Caribbean dollars, general government figures)

Revenue and Grants	377.7	100.0%
Tax revenue	270.4	71.6%
Social contributions	20.2	5.3%
Grants	33.8	8.9%
Other revenue	53.3	14.1%
Expenditures	327.6	100.0%
General public services	120.6	36.8%
Defense	...	...
Public order and safety	28.2	8.6%
Economic affairs	36.2	11.1%
Environmental protection	4.3	1.3%
Housing and community amenities	5.4	1.6%
Health	41.7	12.7%
Recreational, culture, and religion	0.8	0.2%
Education	57.2	17.5%
Social protection	33.2	10.1%

(...) data not available or not significant.

SOURCE: *Government Finance Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

tion tax rate is 40%). In 2004, the NIPI (National Investment Promotion Inc.) was created to act as a catalyst to stimulate local and foreign direct investment in all productive sectors, and to facilitate the expansion of the export sector with a view toward stimulating job growth and wider economic development. At its inauguration, the NIPI placed special emphasis on agroprocessing, light manufacturing, and hotel development.

A large multinational company handles the marketing of most banana production, and a US firm has established a children's garment factory. The government has allowed the sale of some small islands in the Grenadines, notably Mustique, owned by a Scotsman, and Prune, bought by a US family and now called Palm Island by its entrepreneur owner. Petit St. Vincent and much of Canouan are being developed by the government for tourism.

St. Vincent is still eager to receive foreign investment, while providing special incentives and credit tailored to the needs of the investors. St. Vincent is eligible for trade benefits under Caribbean (Canada), the Caribbean Basin Initiative (CBI), and the Lomé Convention (Europe—although these have been challenged by the WTO).

The government is targeting offshore services as a means of diversification away from bananas and tourism. The Offshore Finance Authority was set up in 1996 to regulate bank and company registration, and the island is to be marketed in Puerto Rico, London, Hong Kong, New York, and Miami.

Annual foreign direct investment (FDI) inflow peaked at \$92.5 million and \$89 million in 1997 and 1998, respectively, but has since declined. FDI inflow was \$56 million in 1999; \$28 billion in 2000; and \$35.7 million in 2001. In 2003, FDI reached 10.14% of GDP, below the level of 1995 (11.48%), but above the rate in 2000 (8.67%).

As of 2006, St. Vincent and the Grenadines was attracting investment in the following sectors: tourism, construction, international financial services, banking and insurance, telecommunications, and manufacturing.

39 ECONOMIC DEVELOPMENT

A 1982 loan from the Caribbean Development Bank was designed to stimulate and redirect agricultural production, support the tourist industry, and contribute to the creation of the infrastructure necessary for industrial development. Loans and government incentives have since focused on supporting the banana trade, improving infrastructure, and stimulating tourism.

A severe drought in 2001 and the effects of the downturn in the global economy and the 11 September 2001 terrorist attacks on the United States adversely affected the economy. Construction later rebounded as public sector projects were implemented. Public sector debt rose to 80% of gross domestic product (GDP) in 2004, up from 72% in 2002, and 67% in 2001. Reducing poverty remained a central priority of the government, as was reform of the tax system. The government was also taking steps to combat money laundering and drug trafficking—St. Vincent is a large producer of marijuana, and has been used as a transshipment point for illegal narcotics from South America.

40 SOCIAL DEVELOPMENT

In 1986, legislation established a social security system, replacing the provident fund that had been in existence since 1970. Workers contribute 2.5% of earnings, while employers pay 3.5% of payroll distributions. Benefits are provided for old age, disability, death, sickness, and maternity, and have been expanded to cover the self-employed. Employers fund a compulsory workers' compensation program. The worker is eligible for a pension at age 60, or earlier if incapacitated. Maternity benefits are provided at a rate of 65% of average earnings for a period of 13 weeks. Workers' medical benefits include medical, surgical, and hospital treatments, as well as medicine, appliances, and transportation.

St. Vincent also has an extensive program of community development, which stimulates the formation of cooperatives and self-help programs in the rural communities. A national family planning program has been introduced as part of the government's maternal and child welfare services.

The minimum wage law mandates that women receive equal pay for equal work. Violence against women remains a serious problem, although the government is increasing attention to the issue. A domestic violence law establishes a family court to handle cases of spousal abuse, and consequently more women are coming forward with complaints. The penalty for rape is usually 10 or more years in prison.

Human rights are generally respected. Problems include the use of physical force to extract confessions and inadequate prison conditions.

41 HEALTH

Kingstown's general hospital, with 209 beds, was the country's only government-run acute care hospital. There were five rural hospitals, including one located on the east coast of St. Vincent, the second on the west coast, and the third on Bequia. There are also hospitals for the aged and a 120-bed Mental Health Center. Approximately 38 outpatient clinics provide medical care to 9 health

districts throughout the nation. In 2004, there were an estimated 88 physicians, 239 nurses, and 5 dentists per 100,000 people.

The fertility rate was 2.4 children per woman. Gastrointestinal diseases continued to be a problem, although they are less so than in the past. Circulatory system diseases accounted for about 42% of all deaths, cancer for 16%, and external causes for 6.7%. The immunization rates for a child under one were as follows: diphtheria, pertussis and tetanus, 99%, measles, 99%, polio, 99%, and tuberculosis, 98%.

As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 17.5 and 6.1 per 1,000 people. Infant mortality in 2005 was estimated at 14.78 per 1,000 live births. Life expectancy at birth was 73.62 years.

42 HOUSING

Among other efforts to eliminate substandard housing conditions, the government has undertaken housing renewal projects in both rural and urban areas and has sought to provide housing for workers on industrial estates. Another government program supplies building materials at low cost to working people. A majority of dwellings were detached houses; apartments accounted for less than 10%. In the same period, over half of all housing units were owner occupied, with smaller percentages either rented or occupied rent free. Dwellings were constructed primarily of either wood or concrete, with a smaller number constructed of both wood and concrete, or stone.

43 EDUCATION

Primary education lasts for seven years, followed by five years of secondary education. The government-assisted School for Children with Special Needs serves handicapped students. Primary school enrollment in 2003 was estimated at about 90% of age-eligible students. The same year, secondary school enrollment was about 58% of age-eligible students; 56% for boys and 61% for girls. It is estimated that about 77.5% of all students complete their primary education. The student-to-teacher ratio for primary school was at about 18:1 in 2003; the ratio for secondary school was about 22:1. In 2003, private schools accounted for about 4.7% of primary school enrollment and 33.2% of secondary enrollment.

At the postsecondary level there is a teachers' training college, affiliated with the University of the West Indies, and a technical college. Adult education classes are offered by the Ministry of Education. Vocational training is available through the Department of Public Works, and agricultural training is offered by the Ministry of Agriculture. In 1989, students at the university and all higher-level institutions numbered 677 with 96 teaching staff. Nearly 68% of these higher-level students were women. The adult literacy rate has been estimated at about 96%.

As of 2003, public expenditure on education was estimated at 10% of GDP, or 20.3% of total government expenditures.

44 LIBRARIES AND MUSEUMS

The government maintains a free public library system with 260,000 volumes. The main public library system is Kingstown Library Services; the central library is located in Kingstown and there are about 18 public library branches located throughout the country. The National Archives of St. Vincent and the Grenadines was established in 1990 and is open to the public, as is the Nation-

al Documentation Centre (est. 1982); both are located in Kingstown. The small National Museum in Kingstown houses ancient Indian clay pottery. The Botanical Garden in Kingstown is open to the public.

45 MEDIA

The internal telephone system of St. Vincent and the Grenadines, fully automatic, is operated by Cable and Wireless Ltd. (West Indies), which also provides telegraph, telex, and international telephone services. In 2002, there were 27,300 mainline phones and 10,000 mobile phones in use throughout the country.

In 2004, there were two privately owned radio stations and one partially government-funded radio station. There were also one government-operated television station and two private television stations. In 1997 there were 627 radios and 170 television sets per 1,000 population. In 2002, there were 7,000 Internet subscribers. In 2003, there were four Internet hosts.

In 2005, there were four major newspapers: *The Herald* (daily), *The News*, (weekly), *Searchlight* (weekly), and *The Vincentian* (weekly). These were all privately owned. There are also several small political publications. Constitutionally provided free speech and free press are respected by the government, with no reports of interference or censorship.

46 ORGANIZATIONS

A chamber of commerce meets in Kingstown. Among the important commercial organizations is the St. Vincent Hotel Association. A civil liberties organization, Saint Vincent and the Grenadines Human Rights Association, was founded in 1986. National youth organizations include the Boy Scouts and Girl Scouts Association of Saint Vincent and the Grenadines, Caribbean Federation of Youth, Young Democrats of Saint Vincent and the Grenadines, and YMCA/YWCA. There are sports associations prompting amateur competition for athletes of all ages. There is a national chapter of the Red Cross Society.

47 TOURISM, TRAVEL, AND RECREATION

Tourism is oriented toward yachting, with havens located on most of the Grenadines and also at Young Island, off the southern tip of

St. Vincent. Posh resorts have been created on many of the smaller Grenadines, with villas and cottages built alongside small private beaches. The many cathedrals, gardens, and forts also attract tourists. All foreign nationals must present a valid passport except those of the United Kingdom, the United States, and Canada who may instead use proof of citizenship. All visitors are required to have an onward/return ticket. Visas are required for nationals of Jordan, Syria, the Dominican Republic, Lebanon, Iraq, Iran, and Nigeria.

In 2003, there were a total of 1,680 hotel rooms with 3,360 beds. The number of tourist arrivals totaled 78,535 that year. According to US Department of State estimates, the daily cost of staying in St. Vincent was us\$213 between December and April, and us\$196 the rest of the year.

48 FAMOUS SAINT VINCENTIANS

Robert Milton Cato (1915–97), prime minister from independence until 1984, was one of the founders of the SVLP. James Fitz-Allen Mitchell (b.1931), prime minister from 1984–2000, was one of the founders of the NDP. Sir Fred Albert Phillips (b.1918) is a specialist on constitutional and international law.

49 DEPENDENCIES

St. Vincent and the Grenadines has no territories or colonies.

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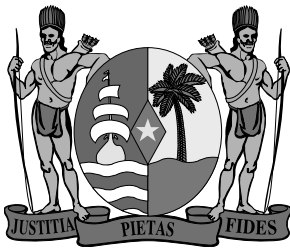
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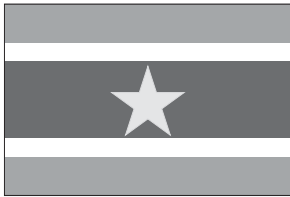
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SURINAME

Republic of Suriname
Republiek Suriname



CAPITAL: Paramaribo

FLAG: A yellow star is at the center of five stripes: a broad red band in the middle, two white bands, and a green stripe at the top and bottom.

ANTHEM: The *Surinaams Volkslied* (*National Anthem*) begins “God zij met ons Suriname” (“God be with our Suriname”).

MONETARY UNIT: The Suriname guilder (Sf) is a paper currency of 100 cents. There are coins of 1, 5, 10, and 25 cents, and notes of 5, 10, 25, 100, and 500 guilders. Sf1 = \$0.00037 (or \$1 = Sf2700) as of 2005.

WEIGHTS AND MEASURES: The metric system is used.

HOLIDAYS: New Year’s Day, 1 January; Revolution Day, 25 February; Labor Day, 1 May; National Union Day, 1 July; Independence Day, 25 November; Christmas, 25 December; Boxing Day, 26 December. Movable religious holidays include Holi Phagwah, Good Friday, Easter Monday, and ‘Id al-Fitr.

TIME: 8:30 AM = noon GMT.

¹ LOCATION, SIZE, AND EXTENT

Situated on the northeast coast of South America, Suriname is the smallest independent country on the continent, with a total area of 163,270 sq km (63,039 sq mi). Comparatively, the area occupied by Suriname is slightly larger than the state of Georgia. The nation has an extension of 662 km (411 mi) NE–SW and 487 km (303 mi) SE–NW. Suriname is bordered on the N by the Atlantic Ocean, on the E by French Guiana, on the S by Brazil, and on the W by Guyana, with a total boundary length of 2,093 km (1,301 mi), of which 386 km (239 mi) is coastline. Suriname also claims about 15,000 sq km (5,800 sq mi) of southeastern Guyana and some 5,000 sq km (1,900 sq mi) of southwestern French Guiana.

Suriname’s capital city, Paramaribo, is located on the Atlantic coast.

² TOPOGRAPHY

Suriname is composed of thick forests, unexplored mountains, and swampy plains. Several geologically old rivers, including the Maroni in the east and the Courantyne, flow northward to the Atlantic Ocean from the southern highlands near the Brazilian border; there, numerous rapids and waterfalls bar boat passage.

The coastal plain is flat and sometimes as much as 1.5 m (5 ft) below sea level, necessitating a system of sea defenses. The soils of the coastal plain are relatively fertile. A forest belt, 48–72 km (30–45 mi) wide, lies to the south, interspersed with grassy savannas. Farther south are dense forest and higher ground.

³ CLIMATE

The climate is tropical and moist. Daytime temperatures range from 28–32°C (82–90°F). At night the temperature drops as low as 21°C (70°F) because of the moderating influence of the northeast trade winds, which blow in from the sea all year. The annual rainfall in Paramaribo is about 230 cm (90 in). May to August is

the main rainy season, with a lesser rainy season from November to February.

⁴ FLORA AND FAUNA

Dominated by rain forest, Suriname contains many flowers but is most famous for water lilies and orchids. Tropical shrubs include hibiscus, bougainvillea, and oleander. There are at least 180 species of mammals. Among the reptiles are the tortoise, iguana, caiman, and numerous snakes. Tropical birds abound, especially the white egret.

⁵ ENVIRONMENT

In general, Suriname’s environment and wildlife are protected from the destructive influences that threaten the majority of the world’s nations. However, deforestation is becoming a concern, as foreign interests obtain timber concessions from the government. Pollutants from the country’s mining industry affect the purity of the water. Salinization of the water supply is becoming a problem for the coastal areas.

Suriname’s eight nature reserves are managed by the Foundation for Nature Preservation, founded in 1969. The Suriname Wildlife Rangers Club, consisting mainly of students 15–20 years old, assists in various nature preservation activities. National responsibility for environmental matters is vested in the Ministry of Health and Environment and the Ministry of Natural Resources and Energy. In the late 1990s, the Central Suriname Wilderness Nature reservation was created to set aside about 10% of the total land area as protected land; this site became a UNESCO World Heritage Site in 2000.

Due to the preservation of Suriname’s tropical rain forest, the nation’s wildlife flourishes. Even so, according to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 12 types

of mammals, 6 types of reptiles, 2 species of amphibians, 12 species of fish, and 27 species of plants. Threatened species in Suriname included the brazil nut tree, red cedar, the tundra peregrine falcon, five species of turtle (South American river, green sea, hawksbill, olive ridley, and leatherback), the Caribbean manatee, and the spectacled caiman.

6 POPULATION

The population of Suriname in 2005 was estimated by the United Nations (UN) at 447,000, which placed it at number 164 in population among the 193 nations of the world. In 2005, approximately 6% of the population was over 65 years of age, with another 29% of the population under 15 years of age. There were 100 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 1.4%, a rate the government viewed as satisfactory. The government incorporates population planning into its comprehensive development policies. The projected population for the year 2025 was 480,000. The population density was 3 per sq km (7 per sq mi).

The UN estimated that 74% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 1.32%. The capital city, Paramaribo, had a population of 253,000 in that year.

7 MIGRATION

About 90,000 Surinamese resided in the Netherlands by the mid-1970s, and the number had reached some 200,000 by 1985. Emigration was about 12,000 per year in the early 1970s, but it accelerated as the date of independence approached and again after the coup of February 1980. An estimated 8,000 Surinamese fled to neighboring French Guiana by 1987, seeking refuge from a guerrilla conflict raging in the northeast. Democracy was restored in 1987, and a repatriation movement began in 1988. In 1991, the refugees still living in French Guiana took part in that year's elections. Repatriation was completed with the return of most refugees by the end of 1993. In 2004 there were 100 refugees and no asylum seekers. In 2005, the net migration rate was an estimated -8.78 migrants per 1,000 population. The government views both the immigration and emigration levels as too high. Worker remittances were \$12.9 million in 2002.

8 ETHNIC GROUPS

Suriname has one of the most cosmopolitan populations in the world. The largest ethnic group is the Hindustani (also known locally as "East Indians"), whose ancestors emigrated from northern India in the latter part of the 19th century, with 37% of the total population. Ranking a close second is the Creole community (mixed white and black), with 31%. The Javanese constitute about 15%. "Maroons," whose African ancestors were brought to the country in the 17th and 18th centuries as slaves but escaped to the interior lands, make up 10%. Amerindians, Suriname's original inhabitants, form 2% of the population and include the Arawak, Carib, and Warrau groups along the riverbanks and coastal plains, and Trios, Akurios, and Wyanas along the upper reaches of

the rivers. Chinese account for 2% of the populace; whites for 1%; and other groups for the remaining 2%.

9 LANGUAGES

The official language is Dutch, but English is widely spoken, and the local people use a lingua franca known as Sranang-Tongo or Takki-Takki, a mixture of Dutch, African, and other languages. Hindustani (a dialect of Hindi), Javanese, and several Chinese, Amerindian, and African languages and dialects are also spoken.

10 RELIGIONS

Religious freedom is guaranteed by the constitution, and there is no state or dominant religion. According to government statistics, 40% of the population is Christian. Approximately 18% are Roman Catholic, 15% are Moravian, and 7% are of other denominations, including Lutheran, Dutch Reformed, Methodist, Baptist, and the Evangelical churches. Hinduism is practiced by about 27% of the inhabitants and Islam by about 22%. Indigenous tribal religionists make up around 8% of the populace. About 3% claim no religious affiliation at all. There are about 150 Jews in the country and a small number of Baha'is and Buddhists.

Political parties are often dominated by a particular ethnic and religious affiliation. For instance, members of the Creole National Party of Suriname are primarily Moravian and members of the Javanese Pertjaja Party are primarily Muslim. Certain Christian, Muslim, and Hindu holidays are celebrated as national holidays. The constitution provides for religious freedom.

11 TRANSPORTATION

Suriname, as of 2003, had 1,200 km (746 mi) of navigable waterways, most of which can handle vessels with a draft of up to 7 m. A ferry service across the Corantijn River to Guyana began operating in 1990. As of 2005, the country had only one merchant ship of 1,000 GRT or more, a cargo vessel, totaling 1,078 GRT. There are 166 km (103 mi) of single-track railway, 86 km (53 mi) government owned and the rest industrial. Paramaribo can be reached from any town or village on the coastal plain by good all-weather roads. In 1999, the first of two new bridges connecting the country from East to West along the coast was opened. As of 2002, there were 4,492 km (2,794 mi) of roadways, of which 1,168 km (726 mi) were paved. State-owned and private companies operate regular bus services, both local and long distance. In 2003, there were 65,400 passenger cars and 27,000 commercial vehicles. Total number of airports stood at an estimated 46 in 2004, only 5 of which had paved runways as of 2005. Zanderij International Airport near Paramaribo can handle jet aircraft, and there are small airstrips throughout the interior. The government-owned Suriname Airways offers regularly scheduled service to the Netherlands and Curaçao. In 2001 (the latest year for which data was available) it carried 202,900 passengers.

Military operations involving the Jungle Commando and the national army badly damaged Albina and the road connecting Moengo to the eastern border. Overall lack of proper maintenance on roads, canals, and port facilities has resulted in a degraded infrastructure and higher local transportation costs.

12 HISTORY

Spaniards came to Suriname in the 16th century in search of gold, but did not stay when they found none. The first large-scale colonization took place under Lord Francis Willoughby, the English governor of Barbados, who sent an expedition to Suriname in 1650 under Anthony Rowse. In 1660, the British crown granted Willoughby official rights, and it became a flourishing agricultural colony. Settlers included English colonists, African slaves, and Jewish immigrants from the Netherlands, Italy, and Brazil. In the Peace of Breda between England and the United Netherlands in 1667, Suriname became a Dutch colony.

The English held Suriname again between 1799 and 1802 and from 1804 to 1816, when the Dutch resumed control over the colony under the Treaty of Paris. With the final abolition of slavery in 1863, workers were imported from India, Java, and China. In 1954, a new Dutch statute provided for full autonomy for Suriname, except in foreign affairs and defense. A commission was set up on 5 January 1972 to prepare alternatives to the existing legal framework. In May 1974, the terms for Suriname's independence were agreed on, and Suriname became an independent country on 25 November 1975.

For five years, Suriname was a parliamentary republic under Prime Minister Henk Arron. On 25 February 1980, the government was overthrown in a military coup led by Désiré Bouterse. Parliament was dissolved and the constitution suspended, and in 1981 the new government declared itself a Socialist republic. Relations with the United States became strained as the Bouterse government moved closer to Cuba. In December 1982, as a result of the government's execution of 15 political opponents, the Netherlands and the United States suspended all aid to Suriname.

The military and Bouterse continued to rule through a succession of nominally civilian governments. Still, pressure mounted for a return to genuine civilian rule. A separate challenge to the government came from a guerrilla movement under the leadership of Ronny Brunswijk. The Surinamese Liberation Army (SLA), also known as the Maroon or Bush Negro insurgency, began operating in the northeast in July 1986. It struck various economic targets, including the Suriname Aluminum Company. The government responded with repression, killing civilians suspected of supporting the insurgency.

The military allowed for elections on 25 November 1987. An anti-Bouterse coalition, the Front for Democracy, won 80% of the vote and 40 of the 51 seats in the newly constituted National Assembly, but a new appointive State Council, rather than the elective National Assembly, was given law-making authority. The new president, Ramsewak Shankar, remained in office from 25 January 1988 until 24 December 1990, when the military once again took over. International pressure mounted, and the military soon relented, allowing for elections on 25 May 1991. Again, an antimilitary coalition, called the New Front (NF), swept the election. The leader of the coalition, Ronald Venetiaan, was chosen president on 6 September 1991. Bouterse was forced to resign his post as army commander in 1992, but he retained his political influence by becoming president of the National Democratic Party (NDP).

Although Venetiaan managed to remain in office throughout his five-year term, severe economic difficulties leading to increased poverty for the majority of Suriname's citizens caused his popular support to decline. In the May 1996 elections, NDP can-



LOCATION: 2° to 6° N; 54° to 58° W. BOUNDARY LENGTHS: Atlantic coastline, 386 kilometers (228 miles); French Guiana, 510 kilometers (318 miles); Brazil, 597 kilometers (373 miles); Guyana, 600 kilometers (382 miles).

TERRITORIAL SEA LIMIT: 12 miles.

didate Jules Wijdenbosch was elected president, effectively returning Bouterse—as NDP president—to power. Nevertheless, these elections marked the first time in independent Suriname's history that power passed peacefully from one democratically elected government to another.

Wijdenbosch did not prove to be a popular president. His close association with Bouterse hurt him, both at home and abroad, as did the failure of his administration to improve Suriname's faltering economy, which continued to struggle with high inflation and unemployment, a major budget deficit, and the virtual collapse of its currency. A plan to privatize the oil and banana industries met with widespread protests culminating in a five-day general strike in the first part of June 1999. By the end of that month, popular discontent with the government had become so strong that Wijdenbosch called for early elections (which took months to arrange but still took place earlier than the normally scheduled date in 2001). In the meantime, Bouterse, sought by human rights

groups for abuses during his time in power, was tried in absentia in the Netherlands for cocaine trafficking and convicted in July 1999.

The opposition New Front coalition, supported by former president Venetiaan, swept the May 2000 elections, winning 32 of the 51 contested parliamentary seats, just short of the two-thirds majority needed to select a new president. The Democratic National Platform 2000 of President Wijdenbosch sustained a staggering loss, winning only three seats, while Millennium Combination, a separate party formed by Bouterse, won 10 seats.

General elections were held in May 2005, and the New Front coalition won 23 seats to the NDP's 15. The People's Alliance for Progress coalition (VVP) won 5 seats, the A-Combinatie coalition won 5, and the Alternative-1 coalition (A-1) took 3 seats in the National Assembly. The NDP contested the results of the election. Venetiaan was reelected president in August after months of political deadlock; the regional People's National Assembly had to choose the president. The next elections were scheduled for May 2010.

In June 2004, the UN set up a tribunal to try to resolve the long-standing maritime border dispute between Guyana and Suriname. In 2000, Suriname gunboats evicted an oil exploration rig from the area; Guyana had approved the exploration in the oil-rich disputed region.

13 GOVERNMENT

Between 1954 and 1975, Suriname was administered by a governor appointed by and representing the Dutch crown, with a cabinet appointed by the governor and an elected parliament (Staten van Suriname). Under the constitution adopted on 21 November 1975 by parliament, Suriname is a republic. However, that constitution, which provided for a unicameral, 39-member parliament directly elected for a four-year term by universal suffrage, was suspended on 15 August 1980 and parliament was dissolved. Bouterse then ruled through a series of appointed governments, whose members represented the military, industry, trade unions, business, and political parties. In September 1987, a popular referendum approved a new constitution, which is still in effect.

The constitution provides for a unicameral 51-member National Assembly directly elected for a five-year term. The executive branch consists of the president, vice president, and prime minister, all selected by the legislature. There is also a cabinet and an appointed Council of State. The judicial system is ineffective and in need of reform.

14 POLITICAL PARTIES

Suriname's political parties tend to represent particular ethnic groups. The National Party of Suriname (NPS), led by President Ronald Venetiaan, draws support from the Creole population. The Progressive Reform Party (VHP) is East Indian and the Party of National Unity and Solidarity, formerly the Indonesian Peasant's Party (KTPI) is more tied in name to its constituency. All three parties allied in the coalition National Front for Democracy in 1987 to defeat Bouterse's National Democratic Party (NDP). In 1991, these three parties and the Suriname Labor Party (SPA) formed the New Front (NF) and won a solid victory, gaining 30 of 51 Assembly seats, while Bouterse's NDP took 10 seats. Another coalition formed during the 1991 elections was called Democratic

Alternative '91. It included four nonethnic parties representing a variety of white-collar concerns. They took 9 of the remaining 11 seats in the Assembly, with the other 2 going to minor parties.

After four years as an opposition party, following the 1996 elections, the New Front regained its parliamentary majority in early elections called for May 2000, winning a total of 32 seats (Suriname National Party, 14; Progressive Reform Party, 9; the Javan Pertjajah Luhur party, 7; Suriname Labor Party, 2) to 10 for Bouterse's Millennium Combination and only 3 for President Wijdenbosch's Democratic National Platform 2000.

The New Front coalition suffered a significant setback in the May 2005 elections, due to widespread dissatisfaction with the state of the economy and a public perception that the NF had done little for the country. The NF won 23 seats to the NDP's 15. The People's Alliance for Progress coalition (VVP) won 5 seats, the A-Combinatie coalition won 5, and the Alternative-1 coalition (A-1) took 3 seats in the National Assembly. The NDP contested the results of the election. Ronald Venetiaan was reelected president in August 2005 after months of political deadlock; the regional People's National Assembly had to choose the president.

15 LOCAL GOVERNMENT

The republic is divided into 10 districts, which include the urban district of Paramaribo. Administration is centralized and there are no recognized municipalities.

16 JUDICIAL SYSTEM

The Constitution provides the right to a fair public trial before a single judge, the right to counsel, and the right to appeal. There is a Supreme Court (Court of Justice) whose members are nominated for life, and there are three Cantonal Courts. In 2003, Caribbean leaders met in Kingston, Jamaica, to ratify a treaty to establish the Caribbean Court of Justice (CCJ). Eight nations—Barbados, Belize, Dominica, Guyana, Jamaica, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago—officially approved the CCJ, although 14 nations were planning to use the court for appeals. The court was officially inaugurated in April 2005, in Port-of-Spain, Trinidad and Tobago. As of 2005, however, the court's jurisdiction was limited to the CARICOM states of Barbados and Guyana. The CCJ heard its first case in August 2005.

Military personnel fall under military jurisdiction and are generally not subject to civilian criminal law. Military courts follow the same procedural rules as do the civil courts with military trials held before a judge and two military personnel.

The 1987 constitution calls for the establishment of an independent constitutional court. However, as of 2005, this body had not yet been established by the government.

17 ARMED FORCES

The Suriname National Army consists of army, air force, and naval components, with the strength of 1,840 in 2005 (Army 1,400, Navy 240, and Air Force 160). The Army included one infantry battalion, one mechanized cavalry squadron, and one military police battalion. The Navy mans 3 patrol craft, while the Air Force's

major units include 7 combat capable aircraft, 4 transports, and 3 utility helicopters. The defense budget was \$7.7 million in 2005.

18 INTERNATIONAL COOPERATION

Suriname was admitted to the United Nations on 4 December 1975; it is part of ECLAC and several nonregional specialized agencies, such as the FAO, UNCTAD, UNESCO, UNIDO, the World Bank, and the WHO. Suriname is also a member of the ACP Group, CARICOM, G-77, the South American Community of Nations (CSN), the Alliance of Small Island States (AOSIS), the Islamic Development Bank, the Association of Caribbean States (ACS), the Inter-American Development Bank, the Latin American Economic System (LAES), the Organization of the Islamic Conference (OIC), OAS, and the WTO.

Suriname is part of the Agency for the Prohibition of Nuclear Weapons in Latin America and the Caribbean (OPANAL) and the Organization for the Prohibition of Chemical Weapons. The nation is also a member of the Nonaligned Movement. In environmental cooperation, Surinam is part of the Amazonian Pact, the Convention on Biological Diversity, Ramsar, CITES, the London Convention, the Montréal Protocol, MARPOL, the Nuclear Test Ban Treaty, and the UN Conventions on the Law of the Sea, Climate Change, and Desertification.

19 ECONOMY

The bauxite and alumina industries traditionally set the pace for Suriname's economy, accounting for about 15% of GDP and 70% of exports. Two companies, Suriname Aluminum Co. (Suralco), a wholly-owned Alcoa subsidiary, and Billiton, owned by Royal Dutch/Shell, account for about one-third of government revenue and employ nearly 4,000 workers. In 2002, Alcoa and BHP Billiton signed a letter of intent as the basis for new joint ventures between the companies, in which Alcoa will assume 55% of all bauxite mining in West Suriname. The government and the companies are looking into cost-effective ways to develop new mines, as the major mining sites at Moengo and Lelydorp are maturing. Other proven reserves exist in the country and are projected to last until 2045. The opening of the Gross Rosbel gold mine is expected to boost exports and GDP growth.

Although agriculture is the chief means of subsistence and second-largest employer after the government; plantation agriculture is the weakest sector of the economy, with the notable exception of rice growing. Suriname is self-sufficient in rice, and exports large amounts; however, Suriname is a net food importer. Imports account for more than 80% of consumption. Agricultural products accounted for only 13% of GDP in 2001, with rice, bananas, palm kernels, coconuts, plantains, and peanuts as the principal crops.

In February 1987, guerrilla destruction of electricity pylons to the bauxite mines closed the industry while repairs were made. The collapse of world prices for bauxite in 1987 was another severe blow for the economy. Despite high expectations, the civilian government inaugurated in early 1988 proved unable to address the country's considerable economic problems and was overthrown by the military on 24 December 1990. A year later, civilian government, under the leadership of President Ronald Venetiaan, came back to power. Next to bauxite, foreign aid is the mainstay of the country's economy. Suriname was once a colony of the Netherlands, and thus the Dutch government continues to provide eco-

nomical aid. When Suriname's economic and political problems escalated, the Netherlands suspended aid between 1982 and 1991, and in 1997. Aid was resumed, from both the Netherlands and the United States, once reforms were initiated.

The new government inherited a formidable array of economic problems. In 1992, real GDP fell by 5% and average inflation accelerated to 44%, compared to 26% in 1991. Foreign exchange reserves had reached a record low, unemployment was high, and the climate for foreign investment was bad. The government implemented a structural adjustment program (SAP), which included the legalization of the parallel foreign exchange market, reduced government spending, privatization of key sectors of the economy, and revision of the country's investment code. By 1994, the inflation rate had reached over 400%, but thereafter the SAP kicked in and reduced inflation to less than 1% in 1996. In 1997, relations with the Netherlands soured when Suriname ended the SAP and replaced it with an ambiguous National Reconstruction Plan, and the government failed to implement necessary austerity measures. Inflation reached almost 21% in 1999, and growth had slowed to 2%. By 2005, the GDP real growth rate was estimated at 4%. The inflation rate in 2004 stood at 9%.

20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 Suriname's gross domestic product (GDP) was estimated at \$2.1 billion. 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 based on current dollars. The per capita GDP was estimated at \$4,700. The annual growth rate of GDP was estimated at 4%. The average inflation rate in 2005 was 9.5%. It was estimated that agriculture accounted for 13% of GDP, industry 22%, and services 65%.

According to the World Bank, in 2003 remittances from citizens working abroad totaled \$21 million or about \$48 per capita and accounted for approximately 2.1% of GDP.

It was estimated that in 2002 about 70% of the population had incomes below the poverty line.

21 LABOR

In 2003, Suriname's workforce numbered 104,000. As of 1996 (the latest year for which data was available), about 70% were engaged in services, 8.3% in manufacturing, 17% in commerce, 5.9% in agriculture, and 7.8% in transport and communications. In 2000 the unemployment rate was 17%.

Suriname has numerous small unions, representing individual workplaces or enterprises, organized into six union federations. Among them are the General Confederation of Trade Unions, sometimes called the Moederbond (Mother Union); the Progressive Workers Organization, whose members are predominantly from the commercial and banking sectors; the Centrale 47, which includes bauxite and sugar unions; and the Central Organization for Civil Service Employees. Nearly 60% of the workforce is organized and about one-half are covered by collective bargaining agreements. Workers, with the exception of civil servants, are freely allowed to strike and do so often. Antiunion discrimination is illegal.

The minimum working age is 14 but this is not sufficiently enforced and many children work, especially in the informal sector. There is no set minimum wage. The lowest wage for civil servants was \$100 per month in 2002. The standard workweek is 45 hours and time worked in excess of that requires overtime pay.

22 AGRICULTURE

The chief crops are rice, sugar, plantains and bananas, citrus fruits, coffee, coconuts, and palm oil, in addition to staple food crops. With the exception of rice, the main export crop, plantation agriculture has suffered the consequences of absentee ownership. Rice production was 95,000 tons in 2004. Sugar production dropped so substantially in the 1980s that imports were required to meet local demand. Under union pressure, the government in early 1987 agreed to a national sugar plan to improve machinery and housing, and to create employment. Production of sugarcane in 2004 was 120,000 tons; of bananas, 43,000 tons; of plantains, 11,800 tons; of oranges, 13,000 tons; and of coconuts, 9,000 tons.

Since its creation in 1945, the Commission for the Application of Mechanized Techniques to Agriculture in Suriname has worked to reactivate several old plantations and bring new land under cultivation. The successful control of diseases and pests, introduction of water storage and irrigation schemes, and the development of new quick-growing varieties of rice have also increased total agricultural production.

23 ANIMAL HUSBANDRY

Livestock numbers are relatively small, since breeding is done primarily by small farmers who own only a few animals each. The government has tried to reduce the import of eggs, dairy products, and meat by undertaking projects to cross Dutch and local breeds of cattle and poultry. Estimated livestock numbers in 2005 included 137,000 head of cattle, 24,500 hogs, 7,100 goats, 7,700 sheep, and 3.8 million chickens.

24 FISHING

Fishing has become increasingly important, both on inland waterways and at sea. The chief commercial catch is shrimp, which is exported. In 2003, the freshwater catch was 250 tons, and marine landings amounted to 28,107 tons. Shrimp production totaled 1,650 tons that year. The Fisheries Service, founded in 1947, has worked to develop the fishing industry. Exports of fish and fish products in 2003 amounted to nearly \$4.6 million. Japan is the largest market for Surinamese shrimp.

25 FORESTRY

Approximately 90.5% of Suriname is covered by tropical rain forest, but existing forest resources have scarcely been touched. Initial exploitation has been confined to the more accessible strips along the riverbanks. The Suriname Forestry Service, under an FAO technical assistance program, has undertaken to survey and open up the forests for commercial use. Roundwood production was about 207,000 cu m (7.3 million cu ft) in 2004. In August 1992, a peace agreement between the central government and insurgent groups from the interior (where timber is found) was

signed. Since the fighting ended, logging has increased. The trade deficit in forest products was \$2 million for 2004.

26 MINING

Suriname was one of the world's largest producers of bauxite, and alumina. The bauxite industry in 2003, accounted for at least 15% of Suriname's gross domestic product (GDP) of an estimated \$2.5 billion and around 70% of foreign exchange earnings in that year. Mineral production by Suriname is centered on alumina, bauxite, gold, and oil. In 2003, 4.215 million metric tons (gross weight) of bauxite was mined, up from 4.002 million metric tons in 2002. Suriname's bauxite industry has suffered in recent years from a weak market, foreign competition, and the effects of the guerrilla war, but mines with higher-grade bauxite were replacing older depleted mines. The alumina industry, however, was threatened by the deterioration of the international alumina market. Suriname's privately owned multinational companies mined the bauxite and processed alumina and aluminum. The Suriname Aluminum Company (SURALCO) has estimated bauxite reserves at 575 million tons.

Official gold mine output has been put at 300 kg annually, from 1999 through 2003. Gold has been mined in south and east Suriname since the second half of the 19th century. In addition, the government estimated as much as 30,000 kg of unrecorded production in alluvial deposits, much of it by people from Brazil. Most of the nearly 40,000 Brazilians living in Suriname arrived during the past several years in search of gold. More than 15,000 people (Suriname's population was estimated at 435,449 in 2003) were employed in the gold industry. The government expressed concern about the damage to the environment caused by illegal miners' use of mercury. Gold was produced by numerous small operators and sold to the government. Gold concessions were negotiated with N.V. Grassalco, the state-owned gold company. The Gross Rosebel gold property, south of Paramaribo, was the most advanced gold development. In 2003, Suriname also produced hydraulic cement, common clays, gravel, common sand, and crushed and broken stone. Suriname also had resources of chromium, clay, copper, diamond, iron ore, manganese, nickel, platinum, and tin.

27 ENERGY AND POWER

Suriname, with only limited reserves of oil and no proven reserves of natural gas or coal is heavily reliant upon imports to meet its hydrocarbon needs.

Suriname in 2004 had proven oil reserves of only 99 million barrels, and no proven reserves of natural gas or coal. In that year, the production and consumption of oil was estimated to average 12,000 barrels per day and 14,000 barrels per day, respectively. Although imports in 2003 averaged 1,644 barrels per day, the country did manage to see oil exports of 1,370 barrels per day. There were no imports or demand for natural gas in 2004.

Suriname's electric power generating capacity in 2002 totaled 0.389 million kW, of which 0.200 million kW of capacity was dedicated to conventional thermal plants. Hydropower capacity accounted for 0.189 million kW. Electric power output in 2002 amounted to 1.984 billion kWh, of which 1.500 million kWh came from hydroelectric sources and 0.484 billion kWh came from fossil fuel-burning plants. Demand for electricity in 2002 totaled 1.845 billion kWh.

28 INDUSTRY

The major industries are bauxite and gold mining, alumina and aluminum production, lumber, and food processing. Industry accounted for 22% of GDP in 2001.

The bauxite industry, which accounts for about 15% of GDP and 70% of export revenue, has developed into a complex of factories, workshops, power stations, laboratories, hospitals, recreational facilities, residential areas, and sports grounds. Depressed world prices for bauxite and alumina in the recent past have reduced the industry's development. In 2005, Suriname Aluminum (Suralco), a wholly-owned Alcoa subsidiary, announced it had completed the 250,000-metric-ton-per-year expansion of its alumina refinery in Paranam. The facility now has a capacity of 2.2 million metric tons per year of alumina. Suralco and an affiliate of BHP Billiton own 55% and 45%, respectively, of the Paranam facility.

The long-term future of the mining industry depends on the companies' ability to keep production costs low and competitive, the availability of financing to exploit new reserves, and on the consolidation of peace in the country's interior. Because mineral rights are still vested in the state, exploration rights are granted by the government. The Canadian company Golden Star started mining for gold in Suriname in 1992. Proven and probable oil reserves in Suriname are estimated at 166 billion barrels. The State Oil Company of Suriname, or Staatsolie, produced 12,000 barrels per day in 2005. Staatsolie is actively seeking international joint venture partners. Suriname has one oil refinery.

29 SCIENCE AND TECHNOLOGY

Research centers and scientific societies in Suriname include the Center for Agricultural Research in Suriname (founded in 1965), Geological Mining Service (founded in 1943), and the Agricultural Experiment Station of the Ministry of Agriculture, Animal Husbandry, and Fisheries (founded in 1903), all in Paramaribo. The University of Suriname, founded in 1968 at Paramaribo, has faculties of medicine and technology.

30 DOMESTIC TRADE

There are a few supermarkets and department stores, but most urban trade is conducted in small shops. Most trade in rural areas is conducted in open markets. A few American fast-food franchises have opened in the country in recent years. Price controls are applied to a number of goods. Credit cards are not widely accepted.

The ITIFAS trade fair, held in October, serves as an annual showcase for Surinamese products. Suri-Flora, held every April, is a major exhibition for horticulture and agriculture.

Business hours are Monday through Friday, 7:30 AM to 4:30 PM and from 7:30 AM to 12:30 PM on Saturdays. Banks are open weekdays from 7:30 AM to 2 or 3 PM.

31 FOREIGN TRADE

In 2005, exports of alumina accounted for more than 70% of export earnings. Other exports include gold, rice, shrimp, wood products, and bananas. On the black market, Suriname is a large exporter of cocaine, especially to the Netherlands.

The US is Suriname's most important trading partner, although Norway is Suriname's largest export market. In 2004, Suriname's

Principal Trading Partners – Suriname (2000)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	514.0	526.5	-12.5
Norway	116.9	...	116.9
United States	103.5	139.9	-36.4
Netherlands	72.4	120.5	-48.1
France-Monaco	47.6	2.9	44.7
Canada	40.4	9.0	31.4
United Kingdom	30.5	5.2	25.3
Japan	21.0	41.0	-20.0
Trinidad and Tobago	18.4	90.4	-72.0
Guyana	10.6	9.0	1.6
Areas nes	7.4	0.1	7.3

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

primary export partners were: Norway (29.4%), the United States (15.2%), Canada (12.5%), Belgium (10.3%), France (8.4%), and the United Arab Emirates (6.2%). That year, Suriname's principal import partners were: the United States (26.2%), the Netherlands (19.3%), Trinidad and Tobago (13.5%), Japan (6.6%), China (4.6%), and Brazil (4.2%).

32 BALANCE OF PAYMENTS

Suriname runs a persistent deficit on current accounts, which has generally been offset by development aid, mainly from the Netherlands, Belgium, and the EU. Remittances from some 200,000 Surinamese expatriates in the Netherlands are not apparent in the balance of payments because they are usually exchanged in the parallel market. In 1989, lower profitability in the bauxite sector led to a decline in remittances which was not offset by invest-

Balance of Payments – Suriname (2003)

(In millions of US dollars)

Current Account			-159.0
Balance on goods		29.8	
Imports	-458.0		
Exports	487.8		
Balance on services		-135.6	
Balance on income		-48.5	
Current transfers		-4.7	
Capital Account			9.0
Financial Account			-36.5
Direct investment abroad		...	
Direct investment in Suriname		-76.1	
Portfolio investment assets		...	
Portfolio investment liabilities		...	
Financial derivatives		...	
Other investment assets		46.9	
Other investment liabilities		46.9	
Net Errors and Omissions			193.7
Reserves and Related Items			-7.2

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

ment inflows, resulting in the first capital account surplus in many years. Foreign exchange reserves grew by 110%; from \$10 million in 1989 to \$21 million in 1990. Unfortunately, these reserves were squandered by the interim government during its nine-month rule and had fallen close to zero by July 1993. Suriname had a surplus of \$66 million by 1996, but this figure declined to \$25 million in 1997 and a deficit in 1998 due to a lack of development aid. Alumina accounts for 70% of export earnings. Suriname's external debt stood at \$321 million in 2002. Brazil and China are the largest debt holders. In 2004, the value of Suriname's exports was estimated at \$881 million, and imports were valued at \$750 million.

33 BANKING AND SECURITIES

Since 1 April 1957, the Central Bank of Suriname has acted as the bank of issue. Other banks include the ABN-Amro (Dutch), De Surinaamsche Bank (majority-owned by the ABN-Amro), and Hakrinbank.

In 1998, the exchange rate separated into multiple rates, leading to a 40% currency devaluation in January 1999. According to the government, cocaine sold by Surinamese shippers was confiscated by Dutch authorities, causing a currency flow problem. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$181.1 million. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$263.5 million.

34 INSURANCE

Both Dutch and foreign insurance companies operate in Suriname.

35 PUBLIC FINANCE

For years the Suriname budget operated with a deficit. Government revenues increased somewhat following the introduction of a new bauxite levy in 1974. During the 1980s, however, the military regime in power increased government intervention and participation in the economy, causing public employment and budget deficits to soar. The return to civilian government in 1991 enticed the Dutch government to resume its development aid program, which amounted to \$200 million by 1996. Reforms enacted included the reduction of deficit spending, the renunciation of monetary creation as a means of financing deficits, and the deregulation of trade and business licensing systems. The Netherlands halted development aid in 1997, but resumed it again 1998. As of 2005, the Netherlands' government agreed to continue providing aid to Suriname.

The US Central Intelligence Agency (CIA) estimated that in 2003 Suriname's central government took in revenues of approximately \$400 million and had expenditures of \$440 million. Revenues minus expenditures totaled approximately -\$40 million. Total external debt was \$321 million.

36 TAXATION

Direct taxes provide only a small portion of governmental revenues and payments have been in arrears for years. By far the greatest tax sources are the bauxite-related industries. Companies are taxed on the sum of all net profits. The standard corporate income tax rate is 36%. Capital gains are taxed at the corporate rate, while dividends are subject to a withholding tax of 25%. There is no tax

on interest or royalty income. All the operating costs of a company are tax deductible, at set rates for certain equipment. The main indirect tax is Suriname's value-added tax (VAT). As of 1 December 2002, the basic rate for goods was raised from 8% to 10%, and the basic rate for services, from 7% to 8%. Staple foods are exempt from VAT.

37 CUSTOMS AND DUTIES

Suriname became a full member of CARICOM in 1995, and as of 2005, its tariffs were in accordance with the CARICOM Common External Tariff duties. Imported goods are subject to a turnover tax of 10%, with an 8% rate for services. Pharmaceutical products used to treat infectious diseases are admitted duty and tax free. Other pharmaceutical products are subject to a tax of 15%. Luxury goods such as weapons and ammunition, dishwashers, and motorcycles are subject to a 25% luxury tax. Cigarettes and tobacco are subject to an excise tax of 100%. Spirits are taxed at 45%, while beer and other alcoholic beverages are subject to a tax of 30% and 10%, respectively. Excise taxes are based upon the CIF (cost, insurance, freight) value plus the duty, excluding the turnover tax. There are no free trade zones.

38 FOREIGN INVESTMENT

By 2006, Suriname had updated its investment code, and slow progress was being made on eliminating disincentives to foreign investment. Bureaucratic delays are rife, however. Economic and business relations with the United States are very important to this nation. US firms operating in Suriname include Suralco, the bauxite company, Exxon, Texaco, IBM, and the insurance firm, Alico. In addition, Suriname is highly dependent on relations with the Dutch government.

Foreign investment during the 1990s included gold mining by the Canadian company Golden Star, and Japanese shrimp farming by the company Sujafi.

In terms of its success in attracting foreign direct investment (FDI), Suriname was at the bottom of the list of 140 countries surveyed by UNCTAD for 1988–90 and 1998–2000. During the five years from 1997 to 2001, reverse divestment exceeded the inflow of new FDI every year except 1998, when net FDI inflow amounted to \$9.1 million. Divestment was -\$9.2 million in 1997, and reached -\$61.5 million in 1999 and -\$148 million in 2000. In 2001, net divestment of FDI in Suriname was -\$66.9 million. The investment climate improved over the 2003–04 period.

As of 2006, the government was planning to privatize the state-owned banana company, and to liberalize the telecommunications sector. The top corporate tax rate is 36%.

39 ECONOMIC DEVELOPMENT

In wholesale, retail, and foreign trade, the government has been highly interventionist. Quota restrictions or outright bans on many imported items considered nonessential or in competition with local products have been announced. The government forced price rollbacks on domestic items and imposed price controls on essential imports, resulting in some shortages.

Although the government has been Socialist in principle since 1981, it refrained from nationalizing key industries, although it did increase its participation in them. The Action Program announced by the government in 1982 called for the encouragement of small-scale industry, establishment of industrial parks, devel-

opment of rural electrification and water supply projects, liberalization of land distribution, and worker participation in management of government enterprises.

In 1975, the Netherlands promised Suriname \$110 million annually in grants and loans, for a period of 10–15 years. This aid program and \$1.5 million in aid authorized by the United States in September 1982 were suspended following the killings of prominent Surinamese in December 1982. In 1983, Brazil and Suriname reached agreement on a trade and aid package, reportedly underwritten by the United States. By 1986, Suriname had signed trade agreements with several countries, among them the Netherlands.

As of 1994, Suriname was undergoing a comprehensive structural adjustment program (SAP). This program, recommended by the EC (now EU), was designed to establish the conditions for sustained growth of output and employment with relative stability of prices, a viable balance of payments, and protection of the low-income population. However, only minimal progress toward restructuring was initially accomplished. Enacting the full SAP in its proper sequence was hoped to improve the prospects for the Surinamese economy and living conditions into the new millennium. However, the SAP was abandoned in 1996 in favor of a National Reconstruction Plan.

In 2000, the Netherlands announced their aid package would be disbursed by sectoral priorities, as opposed to individual projects. The government was not in favor of this approach, but began to cooperate. Suriname's economic situation deteriorated from 1996 to 2001. Inflation grew from 0.5% at the end of 1996 to 113% at the end of 1999, in part due to loose governmental fiscal policies, and a soaring parallel market for foreign exchange. This, along with an unstable exchange rate, and falling real incomes, led to a political crisis. The new government elected in 2000 devalued the official exchange rate by 88%, raised tariffs on water and electricity, and eliminated the subsidy on gasoline. The inflation rate had fallen to 22% in 2002, and a new law was enacted, placing a 60% ceiling on the ratio of total government debt to gross domestic product (GDP). The large fiscal deficit had been eliminated, the exchange rate was stabilized, and investor and donor confidence was reviving.

As of 2006, the economic situation and investment climate had improved. Suriname is faced with the decision to follow responsible monetary and fiscal policies and to introduce structural reforms to liberalize markets and promote competition. The 2005 presidential elections were won once again by Ronald Venetiaan, who raised taxes and attempted to control spending. The Dutch government in 2005 agreed to restart the flow of aid, which will allow Suriname to access international development financing, but the Dutch planned to phase out financing over the following five years. The government is open to plans to further develop the bauxite and gold mining sectors. The opening of the Gross Rosbel gold mine is expected to boost exports and GDP growth. An on-shore oil drilling program is underway, and prospects look good. In 2004, offshore oil drilling was aided by an exploration agreement signed by the state oil company (Staatsolie) with Repsol and Mearsk. In 2004, the government introduced a new currency, the Surinamese dollar, to replace the guilder.

40 SOCIAL DEVELOPMENT

Organized welfare programs are conducted largely by private initiative, through ethnic or religious associations. However, the gov-

ernment has begun to establish a social welfare system designed eventually to include a free national health service.

Women have full legal rights under the law, but discrimination in hiring and salary practices persists. Opportunities for women remain limited as a result of traditional attitudes that encourage women to stay at home. This attitude is especially prevalent in rural areas. As of 2004, the government has not made specific efforts to combat economic inequality. Spousal abuse and other forms of violence against women are widespread social problems, and the government has not addressed these issues.

Amerindians in Suriname have traditionally played only a limited role in decisions affecting their land and culture. Although Suriname's human rights record has improved, some abuses continue to be committed. These include the mistreatment of detainees, the abuse of prisoners, and overcrowding of jails. Pretrial detainees still constitute a large percentage of all prisoners. Non-governmental organizations are permitted to monitor the conditions of prisons.

41 HEALTH

Suriname's largest hospital is the Academic Hospital, which had 402 beds and has the country's only emergency unit. Other hospitals included the 227-bed Diakonessen Hospital, 75-bed Nickerie Hospital, and the Military Hospital. The 280-bed Psychiatric Hospital provided mental health care. In 2004, there were an estimated 45 doctors per 100,000 people. Safe water was available to 89% of the population. Health care expenditures totaled 5% of GDP.

In 2002, Suriname's estimated birth rate was 20 per 1,000 people. The infant mortality rate was estimated at 23.57 per 1,000 live births in 2005. Average life expectancy was estimated at 68.96 years and the total fertility rate at 2.4 children per woman. The mortality rate for children under five years of age was 8.7 per 1,000. Overall mortality was 5.7 per 1,000 in 2002. The immunization rates for a child under one were as follows: diphtheria, pertussis, and tetanus, 85%; polio, 81%; and measles, 81%.

Tuberculosis, malaria, and syphilis, once the chief causes of death, have been controlled. The HIV/AIDS prevalence was 1.70 per 100 adults in 2003. As of 2004, there were approximately 5,200 people living with HIV/AIDS in the country. There were an estimated 500 deaths from AIDS in 2003.

42 HOUSING

Housing programs are supervised by the Department of Social Affairs. As of 1 July 1980 there were 68,141 inhabited houses in Suriname and 8,208 huts; 82.3% of living quarters had electricity. Between 1988 and 1990, 82% of the urban and 94% of the rural population had access to a public water supply, while 64% of urban dwellers and 36% of rural dwellers had sanitation services. As of late 2005, the results of the 2004 population and housing census had not yet been published. However, a Habitat for Humanity report indicated that the housing deficit stood at about 20,000 units. The country has about 90,000 households.

43 EDUCATION

Education is compulsory for all children ages 6 through 16. While primary education lasts for six years, secondary education has two phases—four years followed by three years. Free primary educa-

tion is offered by the government and by Roman Catholic and Protestant mission schools. The official school language is Dutch.

In 2001, about 96% of children between the ages of four and five were enrolled in some type of preschool program. Primary school enrollment in 2003 was estimated at about 97% of age-eligible students. The same year, secondary school enrollment was about 64% of age-eligible students; 54% for boys and 74% for girls. It is estimated that about 74% of all students complete their primary education. The student-to-teacher ratio for primary school was at about 20:1 in 2003; the ratio for secondary school was about 15:1. In 2003, private schools accounted for about 47.8% of primary school enrollment and 21.3% of secondary enrollment.

Higher education is provided by five teacher-training colleges, five technical schools, the Academy for Higher Art and Culture, and the University of Suriname, with its Law School and a Medical Science Institute. The Polytechnic College of Suriname was established in 1994. There is also a dental school and a nursing school. Higher education is free of charge to citizens. The adult literacy rate for 2004 was estimated at about 88%, with 92.3% for men and 84.1% for women.

44 LIBRARIES AND MUSEUMS

The main public library is at the Stichting Cultureel Centrum in Paramaribo, with 850,000 volumes, seven branches, and two bookmobiles. The Anton de Kom University in Paramaribo has 51,000 volumes and serves as a depository library for the United Nations. The library of parliament is also in Paramaribo. The Suriname Museum and the Natural History Museum are in Paramaribo. There is an open-air museum in Nieuw Amsterdam, with historical exhibits based at an 18th century fort.

45 MEDIA

Nearly all the towns and villages have telephone connections. In 2003, there were 79,800 mainline phones and 168,100 mobile phones in use throughout the country. In 2004, there were 14 television stations and 25 radio stations. Two television stations and two radio stations were publicly owned. Broadcasts are available in Dutch, English, Hindi, Portuguese, Spanish, and some local languages. In 1997, 668 radios and 137 television receivers were in use for every 1,000 people. In 2002, there were 20,000 Internet users. There were 18 Internet hosts in 2003.

There were two privately owned daily newspapers in 2005: the Dutch-language *De Ware Tijd* (circulation 10,000 in 2002) and *De West* (circulation 15,000 in 2002). The constitution provides for freedom of speech and of the press, and the government is said to generally respect these rights.

46 ORGANIZATIONS

The Chamber of Commerce and Industry is located in Paramaribo.

Youth organizations in Suriname include the YWCA/YWCA, Girl Scouts, and Boy Scouts. The Bouterse government established the National Women's Organization and the Suriname Youth Union. There are several sports associations in the country representing such pastimes as tennis, tae kwon do, weightlifting, bad-

minton, and football (soccer); many sports associations are affiliated with international counterparts.

Volunteer service organizations, such as the Lions Clubs and Kiwanis International, are also present. The Father Ahlbrinck Foundation promotes development programs for the Amerindian and Bush Negro communities in central Suriname. The National Forum of Nongovernmental Organizations Against Poverty and for Sustainable Development was formed in 1992. There are national chapters of the Red Cross Society and Habitat for Humanity.

47 TOURISM, TRAVEL, AND RECREATION

Tourism is a growing industry in Suriname. The government is the main support encouraging ecotourism and increasing tourism facilities. Sports are the primary source of recreation, with football (soccer), basketball, and cricket being the most popular. Visitors also fish in the Suriname and Saramacca Rivers. The brilliant flora and fauna are shown off on dugout canoe jungle trips, and Paramaribo is becoming more popular with its wooden architecture and market.

A vaccination certificate against yellow fever is required if traveling from an infected country. All visitors must have a valid passport and onward/return ticket. Visas are required for all foreign nationals except citizens of Brazil, Chile, Costa Rica, Gambia, Israel, Japan, Malaysia, Netherlands Antilles, Philippines, Singapore, South Korea, Switzerland, Venezuela, and citizens of the Caribbean Community (CARICOM)

In 2004, the US Department of State estimated the daily cost of staying in Suriname at \$183.

48 FAMOUS SURINAMESE

Lt. Col. Désiré ("Dési") Bouterse (b.1945) led the coup of February 1980, and is perhaps the most controversial figure in the history of independent Suriname.

49 DEPENDENCIES

Suriname has no territories or colonies.

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TRINIDAD AND TOBAGO

Republic of Trinidad and Tobago



CAPITAL: Port-of-Spain

FLAG: On a red field, a black diagonal stripe with a narrow white border on either side extends from top left to bottom right.

ANTHEM: Begins, "Forged from the love of liberty, in the fires of hope and prayer."

MONETARY UNIT: The Trinidad and Tobago dollar (TT\$) is a paper currency of 100 cents. There are coins of 1, 5, 10, 25, and 50 cents, and 1 dollar, and notes of 1, 5, 10, 20, and 100 dollars. TT\$1 = US\$0.15949 (US\$1 = TT\$6.27) as of 2005.

WEIGHTS AND MEASURES: The metric system is official, but some imperial weights and measures are still used.

HOLIDAYS: New Year's Day, 1 January; Carnival, 14–15 February; Emancipation Day, 1st Monday in August; Independence Day, 31 August; Republic Day, 24 September; Christmas, 25 December; Boxing Day, 26 December. Movable holidays include Carnival, Good Friday, Easter Monday, Whitmonday, Corpus Christi, 'Id al-Fitr, and Dewali.

TIME: 8 AM = noon GMT.

¹ LOCATION, SIZE, AND EXTENT

Situated off the northeast coast of South America at the extreme southern end of the Lesser Antilles, the islands of Trinidad and Tobago cover an area of 5,128 sq km (1,981 sq mi). Comparatively, the area occupied by Trinidad and Tobago is slightly smaller than the state of Delaware. Trinidad, the main island, rectangular in shape, has an area of 4,828 sq km (1,863 sq mi), extending 143 km (89 mi) N–S and 61 km (38 mi) E–W. Cigar-shaped Tobago, 31 km (19 mi) northeast of Trinidad, has an area of 300 sq km (116 sq mi), a length of 42 km (26 mi) NE–SW, and an average width of 12 km (7.5 mi) NW–SE. Sixteen small islands are found off the coasts. The Atlantic Ocean is to the E and the Caribbean Sea to the W. Venezuela lies only 11 km (7 mi) SW across the shallow Gulf of Paria.

Trinidad and Tobago have a coastline length of 362 km (225 mi). The capital city of Trinidad and Tobago, Port-of-Spain, is located on Trinidad's Gulf of Paria coast.

² TOPOGRAPHY

Trinidad is geologically part of South America and its topography is similar to that of the adjoining Orinoco section of Venezuela. Three hill ranges, trending east–west, cross the island roughly through the northern, central, and southern parts, respectively. The Northern Range, a continuation of the mountains of the Paria Peninsula of Venezuela, is the most extensive and rugged of the three and has peaks rising above 900 m (3,000 ft). The highest peaks on Trinidad are El Cerro del Aripo (940 m/3,084 ft) and El Tucuche (936 m/3,071 ft). Hills in the Central Range rise just over 300 m (1,000 ft). Those in the Southern Range are somewhat lower. In between these hill ranges is level or gently rolling flatland, dissected by small streams flowing from the hills. Extensive swamp areas, some of them mangrove, are found along the east,

south, and west coasts. Trinidad has the world's largest natural asphalt bog, the 46-hectare (114-acre) Pitch Lake, on the southwestern coast.

Tobago is geologically part of the Lesser Antilles, and its topography, generally more irregular and rugged than Trinidad's, resembles that of Grenada, St. Vincent, and other volcanic islands to the north. A central volcanic hill core rising to over 550 m (1,800 ft) fills most of the island and reaches the sea in many places. Patches of a narrow coastal plain are scattered here and there; much of the island's limited level land is concentrated in its southwestern tip.

³ CLIMATE

There is little variation in temperature conditions through the year. The mean annual temperature for the entire nation is 21°C (70°F). In Port-of-Spain the annual average is 25°C (77°F), with an average minimum of 20°C (68°F) and an average maximum of 30°C (86°F) in January; the July range is 23–31°C (73–88°F). Increasing elevation in Trinidad's Northern Range causes a corresponding decrease in temperature. Nights are generally cool.

In the northern and central hill areas and on Tobago, annual rainfall exceeds 250 cm (98.4 in) and probably exceeds 380 cm (150 in) in specific areas. Most hilly sections receive 200 cm (80 in) or more, while in the lowlands the average drops below 165 cm (65 in) and in certain sections below 125 cm (50 in). There is a relatively dry season from about January to May and a wet season from June to December. The dry period is not, however, a season of drought, for rain still falls every few days in most areas.

⁴ FLORA AND FAUNA

The plant and animal life of Trinidad, like the geology of the island, resembles that of neighboring Venezuela. Tobago, by contrast, shows in its flora and fauna its connection with the volcanic Lesser Antillean arc. There are distinct altitudinal variations

in indigenous plant life on both islands. The natural vegetation includes wild flowers, many flowering shrubs and trees, palms, giant aroids, and large broad-leaved varieties. Natural animal life includes a few species of mammals, monkeys among them, and many reptiles and birds. As of 2002, there were at least 100 species of mammals, 131 species of birds, and over 2,250 species of plants throughout the country.

5 ENVIRONMENT

Among environmental problems, pollution from oil spills is the most serious. Water pollution is also caused by mining by-products, pesticides, fertilizers, sewage, and saltwater. Soil erosion has occurred, in part, because of the clearing of land for farming. Environmental responsibility is vested in the Ministry of Energy and Natural Resources. In 1989, the Ministry of the Environment and National Service was formed to regulate the nation's treatment of its natural environment.

On the west coast of Trinidad is the Caroni Bird Sanctuary, famed for its marshland and mangroves, where flocks of scarlet ibis roost. Little Tobago is reputed to be the only place aside from New Guinea where the bird of paradise lives in the wild. The nation has three Ramsar wetland sites. According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 1 type of mammal, 2 species of birds, 5 types of reptiles, 9 species of amphibians, 15 species of fish, and 1 species of plant. Endangered species on Trinidad include the Trinidad piping guan, tundra peregrine falcon, loggerhead turtle, and red siskin.

6 POPULATION

The population of Trinidad and Tobago in 2005 was estimated by the United Nations (UN) at 1,305,000, which placed it at number 148 in population among the 193 nations of the world. In 2005, approximately 7% of the population was over 65 years of age, with another 21% of the population under 15 years of age. There were 97 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 0.7%, a rate the government viewed as satisfactory. The projected population for the year 2025 was 1,343,000. The overall population density was 254 per sq km (659 per sq mi), but the majority of the population resides on the island of Trinidad.

An almost continuous urban area extends from Port-of-Spain eastward to Tunapuna, westward, and northward into the Northern Range. About one-third of the population lives in Port-of-Spain or its suburbs or within 16 km (10 mi) of them. The UN estimated that 74% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 0.77%. The capital city, Port-of-Spain, had a population of 55,000 in that year. The second most important town is San Fernando, with a population of 55,419. The remainder of Trinidad and virtually all of Tobago are sparsely settled. Scarborough, the main town of Tobago, has a population of approximately 4,500.

7 MIGRATION

Lack of opportunity has encouraged the migration of numbers of people to the United Kingdom, the United States, and occasionally to other places abroad. In 1990 there were 119,000 people in the United States who had been born in Trinidad and Tobago, up

from 66,000 in 1980. This movement, however, has been counterbalanced by immigration from other islands in the Lesser Antilles, mainly from Grenada and St. Vincent, where lack of opportunity is far more critical. Some of this immigration has been legal, some not. Migration from Tobago to Trinidad is common. The number of migrants in 2000 was 41,000. Worker remittances in 2001 were \$40.9 million.

As of 2004 Trinidad and Tobago did not host any refugees or asylum seekers. However, the lack of a national refugee law is a cause for concern as Trinidad and Tobago are likely to experience increased numbers of asylum seekers due to increased extra-regional migration and migrant trafficking through the Caribbean. In 2005, the net migration rate was estimated as -10.87 migrants per 1,000 population.

8 ETHNIC GROUPS

The population is mainly comprised of Afro Trinidadians (the descendants of former black slaves), Indo Trinidadians (East Indians originally brought to the island as contract laborers from northern India), whites, and Chinese, many of whom are racially and culturally intermixed. The total population according to the 2000 census is about 40% Indo Trinidadian, 37.5% Afro Trinidadian, 20.5% mixed, 1.2% other, and about 0.8% unspecified.

While African and East Indians on Trinidad are economically interdependent, each community retains its cultural individuality: this is a life that has been called coexistence without assimilation. Inter-marriage is rare, and facial and other bodily characteristics still separate the two groups, as do occupation, diet, religion, residence, agricultural landscape, sometimes dress, and often politics. Africans are dominant in the urban areas, in the oil fields, in the poorer agricultural areas of the north, east, and southeast, and on Tobago. East Indians are dominant in the best agricultural regions. Although outnumbered in Port-of-Spain and San Fernando, urban East Indians are apt to be economically better off than the urban Africans and tend to be highly involved in commerce, industry, and the professions.

9 LANGUAGES

English is the official language; an English patois, characterized by numerous foreign words and the special pronunciations of the islands, is understood everywhere. Here and there, a French patois and Spanish are used. In rural village areas, notably in the southern part of Trinidad, East Indians, especially of the older generation, use Hindi and, less frequently, Urdu, Tamil, and Telegu.

10 RELIGIONS

Christian churches are found on both islands; Hindu temples and Muslim mosques in the recognizable architectural styles of southern Asia are found on Trinidad. According to official statistics last taken in 2000, the population was roughly 26% Roman Catholic, 24.6% Protestant, 22.5% Hindu, and 5.8% Muslim. Primary Protestant denominations include Anglican, Pentecostal, Seventh-Day Adventist, Presbyterian, Baptist, and Methodist. Other Christian groups, such as Jehovah's Witnesses and Mormons, are also represented. A small number of people are believed to practice traditional Caribbean religions in conjunction with other faiths, including the Shouter Baptists and the Orisha. About 1.9% of the

population were atheists. There are small groups who practice other faiths, including Baha'is, Rastafarians, Buddhists, and Jews.

Complete freedom and equality are enjoyed by all religious groups. Certain Christian, Hindu, and Muslim holidays are celebrated as national holidays. The Inter-Religious Organization is a nongovernmental group that promotes interfaith dialogue and understanding and sponsors activities of public outreach. The government maintains a good relationship with this organization and supports many of its activities.

11 TRANSPORTATION

In 2002, there were 8,320 km (5,170 mi) of roads, of which 4,252 km (2,642 mi) were paved. The more densely settled sections of both islands are served by reasonably adequate roads, but large sections of Tobago either have no motorable roads or are connected by narrow, tortuous, and poorly surfaced ones. In 2003, registered motor vehicles included 297,020 passenger cars and 38,275 commercial vehicles. The Public Service Transport Corp. is responsible for road transport. Trinidad's lone remaining railway, from Port-of-Spain to San Juan, was closed down in 1968.

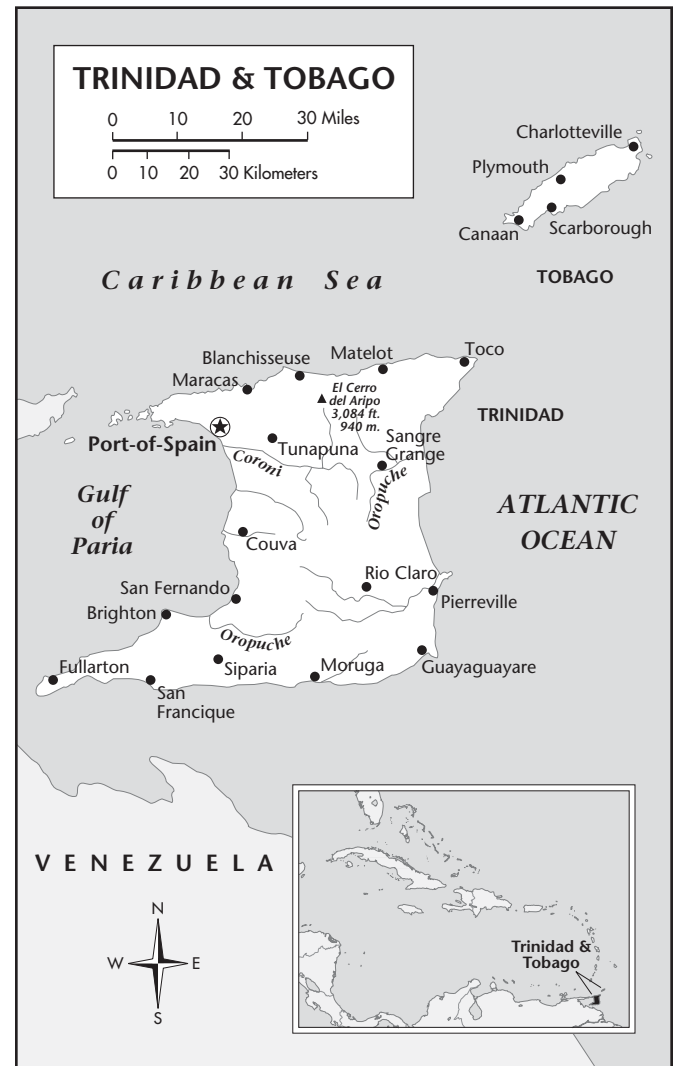
The largest port installation for passengers and cargo is at Port-of-Spain. Brighton is an important port for oil and asphalt loading, and there are also oil terminals at Chaguaramas, Pointe-à-Pierre, and Point Fortin. A deep-water port at Point Lisas accommodates energy-based industries at the Point Lisas industrial estate. Numerous steamship lines regularly schedule freight and passenger services from Europe and the Americas. Regularly scheduled coastal vessels connect Port-of-Spain with Scarborough. The main shipping line is the West Indies Shipping Service. In 2005, Trinidad and Tobago had six merchant ships of 1,000 GRT or more, with a total of 7,178 GRT.

Air facilities are concentrated at Piarco International Airport, about 26 km (16 mi) southeast of Port-of-Spain. There is a secondary main airport at Crown Point, on the western tip of Tobago. In 2004, there were six airports and airfields, three of which had paved runways as of 2005. Trinidad and Tobago Airways—owned by the government and formed by the merger of British West Indian Airways (BWIA) International and Trinidad and Tobago Air Services in 1980—operates domestic, regional, and international services. In 2003, about 1.084 million passengers were carried on scheduled domestic and international airline flights.

12 HISTORY

Arawak Indians inhabited what they knew as the "Land of the Hummingbird" before the arrival on 31 July 1498 of Christopher Columbus, who called the island La Trinidad, or "The Trinity." The Spanish took little interest in the island and did not appoint a governor until 1532. Thereafter, Spanish colonists gradually came, but skirmishes with local Amerindians and raids by other Europeans, including Sir Walter Raleigh, made it difficult for the Spanish to obtain a foothold there. During the early European period, the island acted as a supply and transshipment center for Spanish traders and fortune seekers in South America. In time, colonists established plantations and imported slave labor from West Africa.

In 1797, a British expedition from Martinique captured Trinidad, which Spain ceded formally to Great Britain in 1802 by the Treaty of Amiens, and Trinidad became a crown colony. During the late Spanish period and through most of the 19th century, sug-



LOCATION: 10°2' to 11°21' N; 60°30' to 61°56' W. TOTAL COASTLINE: 470 kilometers (292 miles). TERRITORIAL SEA LIMIT: 12 miles.

ar dominated as the island's main agricultural product. The emancipation of slaves in 1834 brought severe labor shortages, and between 1845 and 1917, the colonial government brought in more than 150,000 contract workers, mostly Hindus and some Muslims from India, to replace the slaves. With added labor supplies and new techniques, the cocoa industry thrived, and by the late 19th century cocoa had joined sugar as a major export crop. The discovery of petroleum in south Trinidad in 1910 led to its addition as an important export, and since then it has assumed central economic importance, complemented beginning in the late 1990s by increasing natural gas exports.

Columbus also discovered Tobago in 1498 and it too received little attention from Europeans for many years. British from Barbados first colonized the island in 1616, but the local Carib Indians soon drove this group out. Other colonists followed shortly, however, and during the next 200 years the island changed hands many times among the Dutch, French, and British. Finally, in 1814, the British crown gained possession, which it maintained for a century and a half. The British first ruled Tobago as a sepa-

rate colony, but during much of the 19th century administered the island from the Windward Islands government. It became a crown colony in 1877 and in 1888 was amalgamated with Trinidad under the name of Trinidad and Tobago.

In 1958, Jamaica, Barbados, and the British Windward and Leeward Islands formed the Federation of the West Indies. Arguments over distributive issues soon undermined the federal idea: Jamaica withdrew in 1961, followed closely by Trinidad and Tobago. On 31 August 1962, Trinidad and Tobago became independent but retained membership in the (British) Commonwealth. Eric Williams, the founder of the People's National Movement (PNM), became prime minister in 1961 and was regularly reelected until his death in 1981. Williams survived an attempted coup by "Black Power" elements as well as army supporters in 1970. In 1976, Trinidad and Tobago declared itself a republic, and a president replaced the British monarch as chief of state. In 1980, Tobago attained a degree of self-government when it was granted its own House of Assembly.

Trinidad and Tobago's politics has been marked by intense competition between the main ethnic groups—African and East Indian. Each group represents about 40% of the population (persons of mixed, European, Chinese, and Syrian-Lebanese origin comprise the other 20 percent). The PNM held on to power after the death of Eric Williams, but was ousted in 1986 by an alliance of African, Indian, and mixed groups melded into the National Alliance for Reconstruction (NAR). A.N.R. Robinson, leader of the NAR, became prime minister. However, the alliance soon fell apart, and the Indian faction went on to form the United National Congress (UNC). As the economy entered into a difficult period of structural adjustment, dissatisfaction with the government grew. In July 1990, a black Muslim group, the Jamaat-al-Muslimeen, laid siege to the parliament in a failed coup that killed 25 and destroyed a large swath of the capital Port-of-Spain. In 1991, a reconstructed PNM returned to power under younger leadership. In 1995 Prime Minister Patrick Manning called early elections, hoping to increase his parliamentary majority. Instead, the PNM was replaced by the country's first Indian government led by Basdeo Panday. In turn, this government's tenure was plagued by rising corruption and crime. Although the UNC was reelected in 2000, intraparty divisions reduced its parliamentary majority and led to the calling of fresh elections in 2001. That election resulted in a stalemate. The president then selected the PNM's Manning as prime minister. Elections held in 2002 confirmed the PNM's majority.

Economically, the country emerged from structural adjustment in the 1990s and both the UNC and PNM governments moved firmly ahead in courting foreign investment, dismantling trade barriers, and privatizing the economy. Highly industrialized Trinidad ranks in the top 50 countries in terms of oil reserves and the top third in terms of proven natural gas reserves. The country's external linkages are broad, but focused particularly on the United States and the regional Caribbean Community, as well as deepening linkages with Latin America.

13 GOVERNMENT

Historically, active participation in government by the nonwhite (black and East Indian) population began in 1925, when for the first time elected representatives were included in the otherwise

appointed Legislative Council that ruled the colony. Over the years the proportion of elected members increased and a fully electoral self-government came in December 1961. In 1976, Trinidad and Tobago amended its 1961 constitution. The 1976 draft preserved the bicameral legislature but replaced the crown-appointed governor-general with a ceremonial president chosen by parliament. In 1976 as well, suffrage was lowered to the age of 18.

The House of Representatives is the more important of the two houses. Its 36 members are elected for five-year terms, but new elections can be called by the prime minister or by the House itself in a vote of "no confidence" in the cabinet. The party with a majority of seats in the House forms the government. The Senate consists of 31 members, all appointed by the president, 16 on the advice of the prime minister, 6 on the advice of the leader of the opposition, and 9 discretionary, based on consultation with various religious, economic, and social groups.

The head of the government is the prime minister, who is leader of the majority party. Cabinet ministers are appointed primarily from the House of Representatives by the president, acting on the prime minister's recommendations. George Maxwell Richards was elected president in 2003 with 43% of the votes and Patrick Manning was appointed prime minister in 2001. The next presidential elections were to be held in 2008.

Calls for constitutional reform have intensified over the years. One of the issues that calls out for attention was the authoritarian control exercised by prime ministers under the current system, which is based on Britain's Westminster model. Moreover, the winner-take-all system does not allow for representation of groups that may be large in number but concentrated geographically. Finally, with a few exceptions, minor parties have been unable to play an effective role.

14 POLITICAL PARTIES

The People's National Movement (PNM), formed in 1956 by Eric Williams, brought order to an individual-based political system that had hitherto operated in Trinidad and Tobago. Given the party's strong support among the black masses, the opposition coalesced around an Indian-based party, the Democratic Labor Party (DLP). However, the DLP had no success in elections. In fact, as a result of a split in both the ruling and opposition parties and the ensuing boycott by the opposition of the elections, the PNM won all 36 seats in the House of Representatives in an election in 1970. Two members of the PNM who defected in 1972 eventually formed a token opposition.

In the 1976 elections, the PNM won with 24 seats. However, the DLP's successor, the United Labour Front (ULF), a trade union-based party with an East Indian base in the sugar belt, won 10 seats, enough to become an effective opposition. The Democratic Action Congress (DAC), formed by the Tobago-based breakaway PNM faction, won the remaining two seats representing Tobago.

In the election of 1981, despite the loss of its leader, the PNM continued its dominance with 26 seats. The opposition ULF, the DAC, and the small Tapia House Movement formed a coalition party, the Trinidad and Tobago National Alliance (TTNA), and won 10 seats. A separate party, the Organization for National Reconstruction (ONR), founded in 1980, drew enough support from the business elite and Creole groups to win 22.3% of the vote but

no seats. This election was also contested, albeit unsuccessfully, by the National Joint Action Committee (NJAC), a Black Power group entering conventional politics for the first time.

In 1986, the opposition ONR-TTNA unified to form the National Alliance for Reconstruction (NAR). The NAR swept to power with 33 seats to the PNM's three. Two years later, factionalization and racial antagonisms led to the dismissal of the leader of the ULF and two of his supporters. These went on to form the United National Congress (UNC). In 1991, the PNM returned to office, winning 21 of 36 seats. The NAR received 2 (Tobago) seats, and the UNC 13. In 1995, the UNC and PNM won 17 seats each, allowing the UNC to come to power in a coalition with the NAR which had again won its 2 Tobago seats. A new era in the country's electoral politics had clearly arrived, with no ethnic group expected to gain strong majorities. Basdeo Panday then appointed former prime minister and NAR leader A.N.R. Robinson to the presidency. During this time, the UNC also benefited from the defection of two PNM members. The party went on to win 19 seats in 2000 (and the PNM 16, NAR 1), but not long after, tensions increased between the prime minister and his formerly close ally the attorney general. The latter and two UNC members left the government, forcing fresh elections in 2001. As many had predicted, a stalemate resulted when the UNC and PNM each won 18 seats. In this case, however, in a controversial move, the president selected the PNM's Manning as prime minister. A year later, in 2002, the PNM consolidated its power by winning 20 seats to the UNC's 16 seats. The next legislative elections were to be held October 2007.

A large number of small parties have been established over the years, but none has been successful in gaining power. The NAR began life as a broader unit but became a small party that held no seats in parliament as of 2005. The Tobago-based DAC whose support was crucial for the NAR, left its partner in 2004. The DAC continued to have a fairly strong support base in Tobago. Overall the fate of third parties is linked to the outcome of the debate on constitutional reform that was ongoing as of 2006.

15 LOCAL GOVERNMENT

Elections are held every four years (usually about two years after a general election) for representatives to nine regional corporations, two city corporations (the main cities of Port-of-Spain and San Fernando), and three boroughs. The city and boroughs elect a mayor and city council. In addition, elections are held every four years for the House of Assembly in Tobago, which was established in 1980. Contention has historically existed between Tobago and Trinidad on issues such as the division of financial responsibilities, taxes and spending. The unpopularity of the central government's policies were reflected in the strong showing of the Tobago-based DAC party in elections to the House of Assembly between 1980 and 2004. The DAC and its successor the NAR went from controlling 8 out of 12 seats in the Assembly in 1980 to winning 11 in every other until 1996. (The PNM won the remaining seat(s) but an independent also won a seat in 1996.) It was only in 2004, with the PNM solidly back in control in Trinidad and a popular Tobagonian leading the party's efforts in the Assembly election, that the PNM won 8 seats to the NAR's 4. The new PNM hold was consolidated in 2005 when it gained 11 out of the 12 seats, with

the re-formed DAC confined to only one. Governmental relations between the two islands have improved.

16 JUDICIAL SYSTEM

The judicial system follows common law and is modeled after the United Kingdom, with some local variations. The Supreme Court of Judicature consists of the High Court of Justice and the Court of Appeal. The former includes a chief justice and 10 puisne judges. Its jurisdiction and its practices and procedures follow closely those of the High Court of Justice in England. Civil actions and proceedings are usually heard by only one High Court judge but may be tried by a jury of nine members. A High Court judge with a jury of 9–12 members tries criminal offences. The Court of Appeal consists of the chief justice and three other justices. Minor offenses are handled by district courts, including traffic courts. The judicial system also includes the Industrial Court and Tax Appeal Board, and a system of magistrate courts. All criminal cases are first sent to a magistrate's court. Appeals may be made to the Court of Appeal and until recently, up to the Judicial Committee of the Privy Council in the United Kingdom. Since 1970, however, the Caribbean countries had been considering the establishment of a regional court that would replace the Privy Council. In 2003, this Court of Justice (CCJ) was officially ratified, and in April 2005, the court was finally launched in Trinidad and Tobago where it is headquartered. Trinidad and Tobago was still completing arrangements to allow recourse to the court. The court will have both appeal jurisdiction and original jurisdiction (in which it will apply international law).

The judiciary is independent of the other branches and free from outside interference. Criminal defendants are presumed innocent and are afforded the right to representation by counsel. In practice, the civil and criminal dockets are badly backlogged due to inadequate resources and inefficiency.

In an ongoing dispute about using the death penalty, the government of Trinidad and Tobago withdrew as a party to the American Convention on Human Rights but remained obligated until May 1999 to the Organization of American States to afford all of the rights set out within the American Declaration. In June 1999 the government carried out nine executions, the first to take place in the country in five years. Trinidad and Tobago also withdrew from the UN Optional Protocol of the International Convention on Civil and Political Rights, tried to rejoin with an appropriate reservation in place concerning the death penalty, but was forced after widespread criticism to withdraw again in 2000.

17 ARMED FORCES

The Trinidad and Tobago Defense Force numbered an estimated 2,700 in 2005. The Army, which numbered 2,000 members, consisted of two infantry battalions, one special forces unit and one support battalion. The coast guard of 700 operated 12 patrol and coastal combatants, and had an air wing of 50 personnel. Under lend-lease agreements with the United Kingdom signed early in 1941, the United States acquired several Caribbean bases, including one on Trinidad, on a 99-year lease. After local agitation over a number of years, Trinidad reclaimed the last remaining for-

eign base in June 1967. The defense budget in 2005 totaled \$32 million.

18 INTERNATIONAL COOPERATION

Trinidad and Tobago became a member of the United Nations on 18 September 1962; it belongs to ECLAC and several nonregional specialized agencies, such as the FAO, UNESCO, UNIDO, the World Bank, ILO, and the WHO. The country is also a member of the ACP Group, the Commonwealth of Nations, CARICOM, the Caribbean Development Bank, G-24, G-77, the Inter-American Development Bank, the Latin American Economic System (LAES), the WTO, the Alliance of Small Island States (AOSIS), the Association of Caribbean States (ACS), and the OAS. Trinidad and Tobago is part of the Nonaligned Movement and serves as part of the Agency for the Prohibition of Nuclear Weapons in Latin America and the Caribbean (OPANAL).

In the area of environmental protection and cooperation, Trinidad and Tobago is part of the Basel Convention, the Convention on Biological Diversity, Ramsar, CITES, International Tropical Timber Agreements, the Kyoto Protocol, the Montréal Protocol, MARPOL, the Nuclear Test Ban Treaty, and the UN Conventions on the Law of the Sea, Climate Change, and Desertification.

19 ECONOMY

Trinidad and Tobago is a twin island state with an economy oriented toward trade and tourism. The larger island, Trinidad, is more heavily industrialized and is dominated by the oil and gas sector, although agriculture, tourism, manufacturing and construction also make significant contributions. Tobago is dominated by tourism and agriculture. The country cannot feed itself and must look abroad not only for its food staples, but also for the bulk of the manufactured goods. Import payments are met by the export of petroleum and products, invisible exports, tourism, and the transshipment trade. Specialized tropical crops are produced for export, but exploitation of petroleum reserves and refining of local and imported oils and their subsequent export are the dominant factors of the country's economy.

Although by far the most prosperous of Caribbean nations, the country's high degree of dependence on oil revenues has made it exceedingly vulnerable to falling oil prices. Over the past three decades, its economic fortunes have followed the world price of oil closely. Oil revenue windfall after 1973 brought unprecedented prosperity. However, this prosperity was not sustained when oil prices began to fall in 1982. Only after a further steep decline in the price of oil in 1986 did the government face the challenge of a fundamental adjustment in economic policy and initiate a program supported by the World Bank and the IMF. The country began the difficult transition from an oil dependent, public sector dominated economy, to a more diversified, market-oriented, private sector-led one.

After a decade of almost uninterrupted economic decline, growth returned in 1995, when real GDP increased 2.4%. Growth accelerated from 3–5% in the middle of the decade to an average of 5.17% by 1998 to 2000. Trinidad and Tobago continues to experience real GDP growth as a result of economic reforms, tight monetary policy, fiscal responsibility, and high oil prices. In 2003 the country experienced a real GDP growth rate of 13.2%, followed by 6.2% growth in 2004. The economy's performance is at-

tributable to energy-related investments, growth in the nonenergy sector (manufactured exports, domestic construction, offshore financial services) and sound macroeconomic policies. The government's stabilization policies yielded results with a fall in the annual inflation rate from double digits—13.3% in 1993—to a range of between 3.5% and 5.6% by 1996 to 2002. A surge in imports related to a boom in the hydrocarbons sector helped raise the current account deficit to an average of 10.25% of GDP in 1997 and 1998, but by 2000, this had been transformed into a current account surplus equal to almost 5% of GDP.

The global slowdown in 2001 and the world-wide declines in tourism and foreign investment after the 11 September 2001 terrorist attacks in the United States did not seriously impact economic growth in Trinidad and Tobago, as it did in the rest of the English-speaking Caribbean nations.

Long-term growth looks promising as Trinidad and Tobago further develops its oil and gas resources and the industries dependent on natural gas, including petrochemicals, fertilizers, iron/steel, and aluminum. Additional growth potential also exists in financial services, telecommunications, and transport. Strong growth in Trinidad and Tobago over the past few years has led to trade surpluses, even with high import levels due to industrial expansion and increased consumer demand. Unemployment, which was 12.1% in 2001, had fallen to 8.4% by 2004. Inflation, however, has begun to worsen with prices rising at an annualized rate of 7.34% in March 2005, as opposed to 5.6% in December 2004.

20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 Trinidad and Tobago's gross domestic product (GDP) was estimated at \$13.8 billion. 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 based on current dollars. The per capita GDP was estimated at \$12,700. The annual growth rate of GDP was estimated at 6.5%. The average inflation rate in 2005 was 6.8%. It was estimated that agriculture accounted for 0.7% of GDP, industry 57%, and services 42.3%.

According to the World Bank, in 2003 remittances from citizens working abroad totaled \$79 million or about \$60 per capita and accounted for approximately 0.8% of GDP. Foreign aid receipts amounted to -\$2 million or about -\$2 per capita and accounted for approximately 0.0% of the gross national income (GNI).

The World Bank reports that in 2003 household consumption in Trinidad and Tobago totaled \$6.49 billion or about \$4,945 per capita based on a GDP of \$10.5 billion, measured in current dollars rather than PPP. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the period 1990 to 2003 household consumption grew at an average annual rate of 2.9%. In 2001 it was estimated that approximately 20% of household consumption was spent on food, 23% on fuel, 5% on health care, and 13% on education. It was estimated that in 1992 about 21% of the population had incomes below the poverty line.

21 LABOR

In 2005, Trinidad and Tobago's workforce was estimated at 620,000 persons. As of 2002 (the latest year for which data was available), agriculture accounted for 6.9% of the nation's labor force, with 64.4% engaged in services, 28.4% in industry, and 0.2% in undefined occupations. Unemployment in 2005 was estimated at 8%.

The principal national labor federation is the Trinidad and Tobago Labor Congress. Of nonaffiliated unions, the largest is the National Union of Government and Federated Workers. As of 2002, an estimated 25–30% of the workforce was organized into 19 labor unions. The right to strike is provided by law with the exception of those employed in essential services. There is little protective labor legislation; work rules are subject to labor-management negotiation.

A minimum wage of us\$1.10 per hour was established in 1998, but it is considered insufficient to support a family. Children between the ages of 12 and 14 may work in family businesses. The normal workday is eight to nine hours, five days a week. Vacation periods vary from two to five weeks a year, depending on length of service. There is no organized exploitation of children, but they do occasionally serve in the informal economy such as working as street vendors.

22 AGRICULTURE

About 24% of the total land area was arable in 2003, most of it on Trinidad. There are two distinct types of agricultural operations—the large estate or plantation that is managed by a specialist and employs large numbers of laborers, and the small farm cultivated by the owner (or tenant) and family. The small farms grow mainly for the home market. Crops include corn, rice, peas, beans, potatoes, other vegetables, and a wide variety of fruits. Lowland rice is grown almost entirely by Indian farmers. The large estates are interested mainly in commercial export crops, although the small farmers also grow some export crops. Agriculture accounted for only 1% of GDP in 2003. During the 1970s and early 1980s, agriculture's traditional labor force was lured away by the booming energy sector, with foreign exchange plentiful enough to import food. By the late 1980s, however, this trend was being reversed.

The value of crops grown for the domestic market is believed to be considerably greater than that of the export crops. Sugar, the main commercial crop, is grown on a few large company-owned estates and by thousands of small farmers; modern methods allow the estates to produce about two-thirds of the sugar crop. Normally, 80% or more of the islands' production is exported. In 2004, sugarcane production was 680,000 tons. The second major export crop, cocoa, is cultivated in the hill sections of both Trinidad and Tobago. Estates produce considerably more cocoa than smallholdings, owing to better agricultural practices and to the fact that small farmers intercrop bananas, coffee, and other crops with cocoa. Cocoa production has been in decline since 1970; the output in 2004 was 1,300 tons. Coffee is grown in much the same hill areas as cocoa, and there is about the same proportion of estate-grown to small-farmer-grown coffee. Both cocoa and coffee have been described as sick industries because of inefficiency, crop disease, and uncertain world market conditions. In 2004, coffee production was 540 tons, down from 2,361 tons in 1985.

Some 90 acres (36 hectares) of ornamental flowers are also cultivated for export. Rice, citrus, corn, cassava, peanuts, and pigeon peas are now being grown to diversify agricultural output.

23 ANIMAL HUSBANDRY

Livestock plays only an incidental role in the agricultural pattern. The water buffalo, adept at turning heavy, water-laden soils, has been brought from India by Indian farmers and is the major draft animal in rice cultivation and probably the most productive animal in the country. Cattle are kept by some small farmers, but the best stock is that on estates and government farms or in large dairies. Poor animals and poor breeding and feeding methods keep meat and milk quantity and quality low and prices high. Trinidad and Tobago relies heavily on dairy imports from Europe to satisfy domestic demand.

In 2005, the livestock population included an estimated 28,200,000 poultry, 29,000 head of cattle, 59,300 goats, 43,000 hogs, 3,400 sheep, and 5,700 water buffalo. Animals slaughtered at abattoirs run by the government and by municipalities yielded an estimated 57,600 tons of poultry meat, and 2,900 tons of pork in 2005.

24 FISHING

The fishing industry has great potential, but current production does not begin to meet local demands, and large quantities of fish must be imported. Shrimp and mackerel make up one-third of the total annual catch, with shrimp the leading fisheries export. In 2003, Trinidad and Tobago exported \$10 million in fish and fish products, up from \$2.4 million in 1990. In 1986, the Archipelagic Waters and Exclusive Economic Zone Act defined the sovereign fishing jurisdiction around the nation, which has created new opportunities for marine fishing off the east coast of Trinidad. The harvest in 2003 was about 9,747 tons, up from 3,730 tons in 1986.

25 FORESTRY

Approximately 50.5%, or 259,000 hectares (640,000 acres), of the land was forested in 2000. Roughly four-fifths of the forestland is government owned or administered; however, much of the state forestland is in hill areas, inaccessible for exploitation. Several dozen small sawmills are in operation. Roundwood production in 2004 was about 94,800 cu m (3.3 million cu ft), 36% used for fuel.

26 MINING

Trinidad and Tobago had the largest supply of natural asphalt, and became the second-largest exporter of ammonia, behind Russia. The island's famous Pitch Lake, a 46-hectare deposit of oozing black asphalt, has been mined commercially since the 19th century. The annual yield has declined, from an average of 200,000 metric tons in the 1960s, to 18,100 metric tons in 1996 and 9,900 metric tons in 2000. Since 2001, natural asphalt output has hovered around 16,200 metric tons. In 2003, natural asphalt output was estimated at 16,200 metric tons. In 2003, the country produced 3.529 million metric tons of anhydrous ammonia, up from 3,258,619 metric tons in 2002. Iron ore deposits of commercial value were reported to have been discovered in Trinidad's Northern Range. Quarrying operations on the islands in 2003 produced 850,000 tons of limestone, down from 851,000 tons in 2002, and

765,000 metric tons of hydraulic cement, up from 743,700 metric tons in 2002.

27 ENERGY AND POWER

Trinidad and Tobago is among only three countries in the Caribbean region (Cuba and the Barbados are the others) to have significant oil and natural gas reserves, with Trinidad and Tobago accounting for the bulk.

According to the Oil and Gas Journal, these three countries had combined proven crude oil reserves of 1.74 billion barrels and 28.4 trillion cu ft of natural gas in 2005. Of the three, Trinidad and Tobago had proven crude oil and natural gas reserves of 990 million barrels and 25,887 million cu ft, respectively. Total oil production in 2004 for Trinidad and Tobago averaged 165,000 barrels per day, of which 131,000 barrels per day consisted of crude oil. In 2002, total oil product output averaged 137,480 barrels per day, with demand averaging 28,320 barrels per day. Although output exceeded demand, Trinidad and Tobago averaged imports of 95,180 barrels per day, with crude oil imports accounting for an average of 91,280 barrels per day. Much of these imports that year were re-exported. Exports in that year averaged 204,410 barrels per day. Refined oil output in 2002 averaged 147,540 barrels per day.

In 2003, Trinidad and Tobago produced an estimated 25 billion cu m of natural gas. Domestic demand that year came to an estimated 13.76 billion cu m, with exports totaling an estimated 11.79 billion cu m. All the natural gas produced is used domestically. Trinidad and Tobago is the largest supplier of liquefied natural gas (LNG) to the United States, and one of the world's largest exporters of LNG in the world.

Electric power generating capacity in 2002 for Trinidad and Tobago totaled 1.417 million kW, all of it dedicated to conventional thermal fuels. In that same year, electric power output totaled 5.747 billion kWh, with 99.5% generated by fossil fuel burning plants. The remainder comes from other alternative sources. A submarine cable provides Tobago with electricity from Trinidad.

28 INDUSTRY

The industrial sector of the economy is dominated by the capital-intensive petroleum industry. Industry accounted for approximately 57% of the GDP, agriculture 0.7%, and services for 42.3% in 2004. Trinidad and Tobago had essentially an agricultural economy up to the beginning of the twentieth century when sugar production played a dominant role and the cultivation of cocoa, coconuts, and coffee played lesser parts. The socioeconomic characteristics of Caribbean agriculture are well defined and include an aging farming population, excessive dependence on export markets, absence of marketing and processing capability, and both tariff and nontariff barriers. These influence the incomes generated by agriculture and hence the investment in agricultural development. Long-established industries are those processing raw materials of the farm, forest and sea; foremost are sugar, molasses, and rum, followed by fish, lumber, fats and oils, and stock feed. Manufacturing products include matches, angostura bitters, soap, confectionery, and clay products. Newer industries include petroleum refining, petrochemicals, concrete products, canned citrus,

bottled drinks, glass, drugs, chemicals, clothing, building materials, and metal goods.

The most important industrial center is found at the port at Point Lisas. Many new industrial plants have been established under the benefits of the country's New Companies Act (1997). The manufacturing sector has contributed a substantial share of the GDP since the 1970s. After the establishment of the free zone program in 1993, manufacturing investment soared. Caroni Inc., the government-owned sugar company and the largest employer on Trinidad, undertook a major revitalization project in 1998.

The petroleum sector, which more than doubled its growth rate to 1.8% in 1996, fell to 1.1% in 1997 due to a continuation of declining oil production. Rising prices in the early 2000s caused the petroleum sector to remain stable, however. Diversification of the petrochemicals industry and investments in other heavy industry and manufacturing may broaden the export base; but hydrocarbons will continue to provide at least 25% of foreign exchange earnings. Trinidad and Tobago's sole oil refinery had a production capacity of 160,000 barrels per day in 2002. As of 2002, the natural gas sector was expanding, with huge discoveries adding to the country's 80 trillion cubic feet (Tcf) gas base. The Atlantic LNG plant was due to expand over a four-year period, creating the largest single and sustained increment in growth in the country. The LNG plant began operations in the 1990s as the government attempted to increase oil exploration and production by giving contracts to US companies. It was one of the most ambitious projects, with British Gas (26% ownership) and Spain's Repsol (10%) joining two US companies—Amoco, with the largest stake (34%) and Cabot (10%).

Trinidad and Tobago has made a transition from an oil-based economy to one based on natural gas. In 2004, natural gas production averaged 2.9 trillion cubic feet per day (tcf/d), an increase of 12.9% from 2003. The petrochemical sector, including plants producing methanol, ammonia, urea, and natural gas liquids, has continued to grow in line with natural gas production, which continues to expand and should meet the needs of new industrial plants coming on line in the next few years.

The nonenergy sector grew at a slower pace in 2004. Output in this sector increased by a modest 3.8% in 2003 and 2.9% in 2004 with the impetus coming from the manufacturing and services sectors. The rate of growth in the manufacturing sector was 6.6% in 2004, thanks to the food, beverages and tobacco, and assembly-type industries. The service sector grew by 2.9%, led by construction. The construction sector growth was due mainly to government investment in housing and infrastructure, and ongoing projects in the energy sector. Performance in the agriculture sector has been weak and declined by 20.2% in 2004. The decline in output resulted largely from the shrinking and restructuring of the sugar industry.

29 SCIENCE AND TECHNOLOGY

Among the research centers and learned societies of Trinidad and Tobago are the Commonwealth Institute of Biological Control, the Agricultural Society of Trinidad and Tobago, the Tobago District Agricultural Society, the Pharmaceutical Society of Trinidad and Tobago, and the Sugar Manufacture Association of Trinidad and Tobago. The University of the West Indies has a campus in St. Augustine (founded in 1948) with faculties of agriculture, engi-

neering, medical sciences, and natural sciences. In 1987–97, science and engineering students accounted for 58% of college and university enrollments. Research and development (R&D) expenditures in 2001 totaled \$11.806 million, or 0.10% of GDP. In 1997 (the latest year for which the following data was available), government sources accounted for the largest portion of R&D spending at 48.2%, followed by business at 34.5%, and higher education at 17.3%. In that year total R&D spending came to \$12.549 million, or 0.14% of GDP. In 2001, there were 393 researchers engaged in research and development per million people. High technology exports in 2002 were valued at \$75 million, or 3% of the country's manufactured exports.

30 DOMESTIC TRADE

Trinidad and Tobago's wholesale trade is highly organized and highly competitive; much of it is controlled by a few managing agencies located in Port-of-Spain. These agencies are direct importers in bulk and have exclusive wholesale rights for sales in the islands, and often in other Caribbean nations and territories. Imports are of extreme importance, for example, the food service companies in Trinidad and Tobago buy 80% of their food and beverage products from local importers and only 15% from local manufacturers; they import the remaining 5% directly from US suppliers.

In small communities, rural areas, on Tobago, and in less developed parts of Port-of-Spain and San Fernando, a general retail store carries a wide variety of commodities. Many of these stores are family enterprises and most are small. Local and foreign franchises are fairly common, particularly in the fast-food industry. Price controls have been placed on sugar, schoolbooks, and pharmaceuticals. A value-added tax of 15% applies to most goods and services.

31 FOREIGN TRADE

Trinidad and Tobago is highly import-dependent, with the United States supplying about 50% of total imports since 1997. The foreign trade of Trinidad and Tobago is very large for a country of its size, a fact attributable mainly to its petroleum processing industry. The economy's prosperity is thus tied closely to trade, which,

in turn, is closely linked to the price and demand structure of the world petroleum market.

Trinidad and Tobago is the fifth-largest exporter of liquefied natural gas in the world. Trinidad and Tobago's main sources of commodity export income are refined petroleum products (39%), crude petroleum (27%), and natural and manufactured gas (26%). Other exports include ammonia (8.4%) and iron and steel (5.7%).

Up to 1992, the government prohibited the importation of some manufactured products without a license. The government replaced this list with supplemental tariffs, which coupled with the CARICOM Common External Tariff (CET), reached nearly 100%. These supplemental tariffs were reduced to CET levels by 1995, alleviating high prices on foreign goods. By 1996, quantitative restrictions were eliminated, as were surcharges and stamp duties on nonagricultural goods. As the most industrialized and second-largest country in the English-speaking Caribbean, Trinidad and Tobago has taken a leading role in the Caribbean Community and Common Market (CARICOM), and strongly supports CARICOM economic integration efforts. CARICOM members are working to establish a Single Market and Economy (CSME). Trinidad and Tobago and two other CARICOM members have made strides with the scheduled launching of the first phases of CSME by 2006.

The Free Zones Act of 1988 (last amended in 1997) established the Trinidad & Tobago Free Zones Company to promote export development and foreign investment projects in a bureaucracy-free, duty-free, and tax-free environment. One multiple user and ten single user zones are currently in operation. Free Zone enterprises may be established in any part of the country. Free Zone activities that qualify for approval include manufacturing for export, international trading in products, services for export and development, and management of free zones.

32 BALANCE OF PAYMENTS

The debt service ratio, 15.4% in 1997, fell to as low as 3.7% in 2001 and was a moderate 4.7% in 2004. Between 1974 and 1981, largely because of the huge increase in the value of petroleum exports, Trinidad and Tobago's payments balance was favorable. With the weakening of the market for the country's petroleum and oil refinery products in 1982, however, a deficit was recorded for the first time since the early 1970s. Foreign exchange reserves, which had reached \$3.3 billion in 1981, were depleted rapidly through the 1980s, as expenditures reduced revenues (caused by lower oil prices). By 1988, foreign exchange reserves had plummeted to -\$5.7 million, forcing the government to reschedule its commercial and official debt. During the 1990s, Trinidad ran a balance of payments surplus from 1992 until 1997 due to a rise in foreign direct investment, but ran a deficit after 1997 because of low oil prices, and high industrial imports. The country's balance of payments subsequently improved, in part spurred by increases in world oil prices. Trinidad's balance of payments surplus stood at \$441 million in 2000.

In the second quarter of 1998, Trinidad and Tobago completed repayment of a us\$335 million International Monetary Fund loan and enjoys excellent relations with the international financial institutions. Its major lender is the Inter-American Development Bank (IDB). Since 1997, Trinidad's external debt has declined each year as has its debt service ratio. There has, however, been

Principal Trading Partners – Trinidad and Tobago (2002)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	3,853.3	3,661.0	192.3
United States	1,941.9	1,242.6	699.3
Jamaica	292.6	17.4	275.2
Barbados	178.6	30.6	148.0
France-Monaco	175.9	38.1	137.8
Spain	92.1	21.5	70.6
Canada	91.9	103.6	-11.7
Guyana	82.5	15.7	66.8
Dominican Republic	78.4	...	78.4
Netherlands	58.5	45.2	13.3
United Kingdom	56.7	45.2	11.5

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

Balance of Payments – Trinidad and Tobago (2002)

(In millions of US dollars)

Current Account		76.4
Balance on goods	237.7	
Imports	-3,682.3	
Exports	3,920.0	
Balance on services	264.0	
Balance on income	-479.8	
Current transfers	54.5	
Capital Account		...
Financial Account		397.3
Direct investment abroad	106.4	
Direct investment in Trinidad and Tobago	790.7	
Portfolio investment assets	...	
Portfolio investment liabilities	-70.1	
Financial derivatives	...	
Other investment assets	275.2	
Other investment liabilities	-492.1	
Net Errors and Omissions		-358.0
Reserves and Related Items		-115.7

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

a slight increase in domestic debt as the government has increasingly looked internally for financing. Public sector debt declined by about 4%, to 56% of GDP as of the end of 2003; and the public sector external debt declined by 3%, to about 15% of GDP at the end of 2003; most of the external debt was long-term and from commercial creditors. The lower total debt burden has allowed the government more flexibility in lowering import duties and trade barriers, benefiting especially US exports.

The US Central Intelligence Agency (CIA) reported that in 2001 the purchasing power parity of Trinidad and Tobago's exports was \$4.1 billion, while imports totaled \$3.5 billion, resulting in a trade surplus of \$600 million. In 2004, World Bank data showed a positive balance of payments of approximately \$1 billion.

3³ BANKING AND SECURITIES

The Central Bank of Trinidad and Tobago (established 1964) is the central regulatory institution and the sole bank of issue. The commercial banking business is well established and is operated chiefly by Canadian, British, and American interests. Monetary and fiscal developments have been closely linked with the fortunes of the oil industry.

There are six commercial banks operating in Trinidad and Tobago, with assets of over \$25 billion. In 1997, bank CEOs formed a Banking Association. The largest is Republic Bank, formerly Barclays. Other commercial banks include the Bank of Nova Scotia, Citibank, First Citizens Bank, Intercommercial Bank, and Royal Bank of Trinidad and Tobago. The Bank of Baroda, India's second-largest bank, and the Bank of India, the third-largest, have both expressed interest in entering the Trinidadian market. Offshore banking services were begun in the late 1990s by Republic Bank.

Workers and farmers make use of the Government Savings Bank offices. There are numerous agricultural credit societies, most of which are financed by the government's Agricultural Credit Bank. Credit unions are also common. The Trinidad and Tobago Devel-

opment Finance Co., jointly owned by the government and the private sector, offers medium- and long-term financing to industry. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$1.1 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$4.0 billion. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 13%.

Since about 1948, limited liability companies with publicly issued share capital have become increasingly important. The West Indies Stock Exchange (succeeded by West Indies Stock Brokers, Ltd.) opened a branch in Port-of-Spain in 1964. The brokerage organization became a member of the Jamaica Stock Exchange in December 1970. The Trinidad and Tobago Stock Exchange began operating in 1981. In 2001, it listed 31 companies, had a trading value of \$174 million, and a total market capitalization of \$5 billion. As of 2004, a total of 37 companies were listed on the Trinidad and Tobago Stock Exchange, which had a market capitalization of \$17.051 billion. In that same year, the TTSE Index rose 54.8% from the previous year to 1,074.6.

3⁴ INSURANCE

Insurance firms include branches of UK and US companies and a few local companies. Their operations are highly competitive. A government-owned reinsurance company has been in operation since 1979. The Colonial Life Insurance Co. is the largest life insurance company in Trinidad, with gross written life insurance premiums of \$469.9 million in 2003. In that same year, CHIC was the largest nonlife insurer, with gross written nonlife premiums of \$42 million. The value of all direct insurance premiums written in 2003 totaled \$510 million, of which life insurance premiums accounted for \$548 million. The National Insurance Board of Trinidad, which operates like Social Security, was established in 1972 by the government.

3⁵ PUBLIC FINANCE

The budget deficit were first registered in the early 1980, and continued until 1990. In 1988, the government began an adjustment program, which included currency devaluation, debt reschedulings, and the adoption of an austere budget that included public service wage reductions and decreased transfers to state enterprises. These reforms resulted in an improved budget by 1994 which lasted until 1998, when expanded infrastructure and industrial projects drained revenues.

The US Central Intelligence Agency (CIA) estimated that in 2005 Trinidad and Tobago's central government took in revenues of approximately \$4.5 billion and had expenditures of \$4 billion. Revenues minus expenditures totaled approximately \$440 million. Public debt in 2005 amounted to 41.4% of GDP. Total external debt was \$2.986 billion.

3⁶ TAXATION

Important sources of taxation are income taxes, a motor vehicle tax (25–30%), license duties, property and building taxes, customs

and excise duties (including purchase taxes), and petroleum royalties and concessions.

The individual income tax is calculated on net chargeable income, from 28% up to \$50,000; and 35% thereafter. A value-added tax (VAT), with a standard rate of 15% in 2005, is levied on most goods and services. Services performed outside Trinidad and Tobago are zero-rated, and medicines are exempted for VAT.

The basic corporate tax rate is 30%. This rate is increased to 35% for petroleum companies, with a supplemental petroleum tax. Capital gains derived from assets held for more than 12 months are generally not taxed. However, gains derived from the sale of assets held less than 12 months are subject to the corporate tax rate. Dividends paid to nonresident companies and individuals are subject to a 15% withholding tax. However, a lower 10% rate is applied if the distributing company is 50% or more held by a resident corporation. Dividends paid by a resident company to another resident company are exempt from the tax. Interest and royalty payments are each subject to a 20% withholding tax.

37 CUSTOMS AND DUTIES

Customs and duties are a significant source of government revenue. Most imported articles are subject to import duties, as well as a stamp tax, an import surcharge, a 15% VAT, and excise taxes on petroleum products, tobacco, and alcoholic beverages that are sold locally. Trinidad and Tobago applies the CARICOM common external tariff to most goods. The rates are 0–20%. Banned items include animals that have died in transit, used or second-hand animal blankets, saddle cloths, felting or pads, firearms, explosives, and seditious publications.

Free trade zones (FTZs) were authorized by law in 1988; the first FTZ was established in the Point Lisas Industrial Estate. Trinidad and Tobago is a member of CARICOM, a signatory to the Lomé Convention, and has special trade agreements with Venezuela, the United Kingdom, Ireland, France, and the United States. The country benefits from the Caribbean Basin Initiative (CBI), which allows duty-free entry of many products into the United States.

38 FOREIGN INVESTMENT

The Government of Trinidad and Tobago (GOTT) actively encourages foreign direct investment in almost all sectors. In 2004, the US-based Heritage Foundation's economic freedom index rated Trinidad and Tobago fifth in Latin America and the Caribbean and 36th out of 155 countries. Foreign investment in Trinidad and Tobago, particularly from British, Canadian, US, and Dutch sources, has played a major role in the development of all major manufacturing and processing industries, as well as most large agricultural enterprises. Several private banking institutions have provided development loans through the Industrial Development Corporation, established by the government in 1959 to act as a liaison between investors and various government departments.

Starting in 1970, the government required foreign investment in Trinidad and Tobago to be conducted in a joint venture basis, with majority domestic participation most often in a 60:40 ratio. In the 1980s the economy became mired in stagflation. The government launched a campaign of reforms emphasizing fiscal and monetary discipline, export-led growth, and encouragement of private sector and foreign investment. Under the current investment regime there are for the most part no restrictions or disincentives

to investment. The Free Zones (FTZs) Act of 1988, as amended in 1997, established the framework of duty-free, tax-free, and bureaucracy-free investment environments. In 2002, there were three multiple-user and eleven single-user FTZs in operation or under construction. In May 2001, the government passed new telecommunications legislation establishing a new telecommunications authority, opening the way for liberalization of the sector. As of 2003, however, the telecommunications sector remained the only one closed to new foreign investment in key areas.

Oil and gas exploration continues to attract inflows of foreign capital, boosting economic growth and strengthening public finances. The United States is the major investor, followed by the United Kingdom, Canada, Germany, India, and Norway. Inflows of almost \$4 billion in foreign investment between 1997 and 2000 strengthened the balance of payments and permitted the relaxation of policies. US investments have been mainly in hydrocarbons and petrochemicals, while Canada has investments in ammonia/urea, Germany in methanol and iron, India in iron and steel, and Norway in ammonia. A boom in natural gas investment, including pipelines for the delivery of liquefied natural gas (LNG), was under way in 2002 and 2003.

The investment climate is good. Since 1992, almost all investment barriers have been eliminated. Investment is screened only for eligibility for government incentives and assessment of its environmental impact. Both tax and nontax incentives may be negotiated. The government has a double taxation agreement, a bilateral investment treaty, and an intellectual property rights agreement with the United States. (The bilateral investment treaty granted national treatment and other benefits to US investors; it came into force on 26 December 1996.) US investment in Trinidad and Tobago exceeds \$1 billion. Total foreign direct investment has averaged \$700 million annually over the last decade. Among recent and ongoing investment projects are several involving US firms, like ISG and ALCOA, and resorts built by Marriott and Hyatt.

39 ECONOMIC DEVELOPMENT

To diversify the economy and raise the national standard of living, foreign capital and technical assistance are actively solicited. Major incentives are duty-free imports of equipment and raw materials, income tax holidays, accelerated depreciation allowances, unlimited carryover of losses, and repatriation of capital and profits. To encourage diversification toward non-oil/gas sectors, the government has undertaken comprehensive reforms in the trade and exchange rate regimes, and the investment environment. A major downsizing and refocusing of the public sector with an extensive program of divestment and reduction of public employment has occurred.

Nonetheless, the country remains largely an oil economy even though oil reserves are being depleted. While the natural gas sector will benefit the economy in the future, it will not solve the country's most crucial economic problems. Only by diversifying into more labor intensive export industries and services will Trinidad and Tobago generate employment and growth and minimize its external vulnerability. The key ingredients for development are a buildup of reserves consistent with the maintenance of a competitive exchange rate; the use of monetary policy to contain inflation and sterilize reserve accumulation; and the strengthening of fiscal balances to reduce government debt and lower interest rates.

Trinidad and Tobago experienced strong growth in the early 2000s, after eight years of economic decline in the 1990s. The debt service ratio fell, as did unemployment. The government invested heavily in public sector physical and educational infrastructure projects in the early 2000s. Improvements in water and electricity supply were being undertaken.

Recognizing the role that energy plays in the economic life of Trinidad and Tobago, where it was the source of 37% of governmental revenues in 2004, the government is seeking to diversify the economy to reduce dependence on the energy sector and to achieve self-sustaining growth. The diversification strategy focuses on six main sectors: traditional manufacturing; new technology-based industrial sector; tourism; financial services; agriculture; and small business. Corruption has traditionally appeared to be moderate, and has not seriously undermined government or business operations.

40 SOCIAL DEVELOPMENT

All employees aged 16 through 64 are required to become members of the National Insurance System. Employers contribute 5.6% of payroll, according to 12 wage classes, and employees normally contribute 2.8% of earnings. The program covers employed persons, including agricultural and domestic workers. In addition, a social insurance scheme is funded by the government and extends benefits to those with limited means. The system provides old age, retirement, and disability pensions; maternity, sickness, and survivors' benefits; and funeral grants. Retirement is between the ages of 60 and 65. Maternity benefits are at 60% of average earnings for a maximum of 13 weeks, and there is also a maternity grant. A compulsory system of workers' compensation for injury is also in place.

The constitution mandates human rights and freedoms to all citizens regardless of sex. Women are active in the labor force, but few rise to senior management positions. There is no law that mandates equal pay for equal work. The law does not address sexual harassment and it remains a problem. Violence against women and domestic abuse continue to be major issues for women although the government and media are addressing the problem. The law has been strengthened to protect women and assist victims of abuse.

Human rights organizations operate freely. Poor prison conditions and lengthy pretrial detention remain a problem.

41 HEALTH

Government health facilities include general hospitals in Port-of-Spain and San Fernando, small district hospitals, several major health centers, dental service centers, a mental hospital, and a nurses' training school. As of 2004, there were an estimated 79 physicians, 287 nurses, and 8 dentists per 100,000 people.

The general health of the population has been improving; substantial decreases have been recorded in the death rates for malaria, tuberculosis, typhoid, and syphilis. Immunization rates for children up to one year old were diphtheria, pertussis, and tetanus, 90%; polio, 81%; and measles, 88%. Improvements in sanitation have reaped impressive health benefits. Approximately 86% of the population had access to safe drinking water and 88% had adequate sanitation. As a result, reported cases of dysentery and hookworm have declined dramatically.

As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 13.7 and 8.8 per 1,000 people. Average life expectancy was 66.73 years in 2005 and infant mortality was 25.81 per 1,000 live births. Maternal mortality was 75 per 1,000 live births.

As of 2004, there were approximately 29,000 people living with HIV/AIDS in the country. There were an estimated 19,000 deaths from AIDS in 2003. The HIV/AIDS prevalence was 3.20 per 100 adults in 2003.

42 HOUSING

A typical rural home for a large family consists of one to three rooms plus an outside kitchen. Slums and tenements are typical of urban life since there is an acute shortage of adequate housing. At the 2000 census, the housing stock was counted at 300,844. About 77.5% of all dwellings were single-family detached homes, 13% were flats or apartments, and 3% were two-family detached homes. About 76% of all housing was owner occupied. At least 18,200 dwellings were listed as squatter homes. A little over 60% of all households had access to indoor piped water; another 8.8% had access to piped water within a yard.

The Ministry of Housing and Settlements has developed a five-year plan for 2001–06 to promote housing construction, land development, and the upgrade of squatter sites. One goal of the plan is to build 30,000 new housing units within the five years. The Ministry also hopes to upgrade 2,000 squatter dwellings per year.

43 EDUCATION

Many schools are run jointly by the state and religious bodies. Education is free at primary and secondary levels and compulsory for six years. Elementary education lasts for seven years, followed by five years of secondary education. There are two types of secondary school systems. The traditional system offers a general five-year secondary program followed by two years of preparatory studies (sixth form). The new system offers a program that consists of three years of junior high, two years of senior high, and two years of sixth form, with more diverse course options available to students. Technical and vocational programs are also available at the secondary level. The academic year runs from August to May.

In 2001, about 63% of children between the ages of three and four were enrolled in some type of preschool program. Primary school enrollment in 2003 was estimated at about 91% of age-eligible students. The same year, secondary school enrollment was about 72% of age-eligible students. It is estimated that about 91% of all students complete their primary education. The student-to-teacher ratio for primary school was at about 19:1 in 2003; the ratio for secondary school was also about 19:1. In 2003, private schools accounted for about 28.5% of primary school enrollment and 28% of secondary enrollment.

At the postsecondary level, government technical vocational schools and teachers colleges are free for qualified students. There are four small, government-run technical colleges, five teachers colleges, and two polytechnic institutes. The University of the West Indies has a faculty of engineering, arts, and agriculture at its Trinidad campus. John F. Kennedy College, a liberal arts school outside Port-of-Spain built with a US\$30-million grant from the Agency for International Development (AID), has teaching facilities.

ties for about 600 students. The Trinidad and Tobago Hotel School offers courses for the hotel, catering, and travel industries. The Eastern Caribbean Institute of Agriculture and Forestry is located in St. Augustine. In 2003, it was estimated that about 9% of the tertiary age population were enrolled in tertiary education programs. The adult literacy rate for 2004 was estimated at about 98.5%.

As of 2003, public expenditure on education was estimated at 4.3% of GDP, or 13.4% of total government expenditures.

44 LIBRARIES AND MUSEUMS

The National Library, opened in 2003 in Port-of-Spain, houses 442,000 volumes, with special sections for young adults and children. The National Library and Information System Authority is also responsible for the management of the nation's public libraries, with 21 locations on Trinidad and 3 locations on Tobago. There are mobile services on each island. The Port-of-Spain Public Library has 70,000 volumes. In San Fernando, the Carnegie Free Library functions as regional headquarters for rural library services to the south. The University of the West Indies main library in St. Augustine has more than 395,000 volumes. There are over 600 school libraries that are supported by the national system.

The National Museum and Art Gallery is located in Port-of-Spain, as is the Royal Victoria Institute Museum (1892), a general museum featuring local flora and fauna, crafts of the indigenous people, and a sampling of moon dust. The Trinidad childhood home of Nobel-winning author V.S. Naipaul was scheduled to become a museum.

45 MEDIA

Postal and internal telegraph services throughout the islands are operated by the government. In 2003, there were an estimated 250 mainline telephones for every 1,000 people. The same year, there were approximately 278 mobile phones in use for every 1,000 people. Commercial cable communication and radiotelephone services are maintained between Trinidad and all major countries of the world.

There were 4 AM and 18 FM radio stations, and 4 television stations in 2004. The public National Broadcasting Service closed in 2005, ending service of two television stations and four radio stations. There were, however, plans to launch a new public broadcaster in the form of the state-owned Caribbean News Media Network. In 2003, there were an estimated 534 radios and 345 television sets for every 1,000 people. The same year, there were 79.5 personal computers for every 1,000 people and 106 of every 1,000 people had access to the Internet. There were 15 secure Internet servers in the country in 2004.

There were four daily newspapers in 2002. The *Trinidad Guardian*, a morning and Sunday paper, had an average daily circulation of 46,760. The *Trinidad Express*, published daily and Sunday, had a daily circulation of 51,000. *Newsday*, also published daily and Sunday, had a daily circulation of 25,000. *Trinidad Evening News*, published daily, had a circulation of 33,770.

Freedom of the press is both constitutionally guaranteed and respected in practice.

46 ORGANIZATIONS

Producers of agricultural crops for export are organized into associations for solving common problems, as well as for social

purposes. Among these are the Cocoa Planters Association, Co-operative Citrus Growers Association, and Sugar Manufacturers Association. Professional and trade associations are many and varied and include the Law Society, Medical Board, Petroleum Association, Shipping Association, and Trinidad Chamber of Commerce. The multinational Caribbean Association of Industry and Commerce and the Caribbean Employers Confederation are located in Trinidad and Tobago. The Caribbean office of the International Labour Organization is located in Port-of-Spain, as is the base office of the Association of Caribbean States.

Cultural and educational organizations include the Festival Center for the Creative Arts and the Caribbean Academy of Sciences. Scouting and YMCA/YWCA programs are available for youth. Sports associations are popular for amateur athletes of all ages; several sports clubs are associated with the national Olympic Committee.

Social action groups include the Network of NGOs of Trinidad and Tobago for the Advancement of Women and the Caribbean Women's Association. There are national chapters of the Red Cross Society and the Society of St. Vincent de Paul.

47 TOURISM, TRAVEL, AND RECREATION

Outstanding tourist attractions include the mountainous areas, beaches, and reefs on both islands. Entertainment includes calypso and steel band music, both of which originated in Trinidad. Festive events include Carnival, held annually on the two days before Ash Wednesday; the Muslim festival of Hosay, which begins 10 days after the new moon in the month of Muharram; and the Hindu festival of lights, Divali, which occurs in October or November. Cricket and football (soccer) are the most popular sports.

The government offers fiscal and other incentives for the development of hotels and other tourist facilities. In 2003, there were 409,069 visitors who arrived in Trinidad and Tobago, of whom 80% came from the Americas. Hotel rooms numbered 5,378, and tourism expenditure receipts totaled \$402 million in 2002. Passports are required, and must be valid for at least six months after leaving Trinidad and Tobago. All nationals must have an entry visa except those of the Commonwealth Countries, the European Economic Community countries (EEC), the United States, Finland, Iceland, Venezuela, Norway, Sweden, and holders of Organization of American States (OAS) passports.

In 2005, the US Department of State estimated the daily cost of staying in Port-of-Spain at us\$215; in Tobago daily costs were seasonal and averaged between us\$440 from April through December to us\$215 the rest of the year.

48 FAMOUS TRINIDADIANS AND TOBAGONIANS

Eric Eustace Williams (1911–81), the main political figure of his time and the leader of Trinidad and Tobago's major political party, was instrumental in his country's achievement of independence in 1962; he was prime minister from 1961 until his death. His successor was George Michael Chambers (1928–1997). A.N.R. Robinson (b.1926) served as prime minister from 1986–1991, and as president from 1997–2003. Patrick Manning (b.1946) served as prime minister between 1991 and 1995 and since 2001. George Maxwell Richards (b.1931) became president in 2003. Notable

writers include Samuel Selvon (1923–1994) and V.S. (Vidiadhar Surajprasad) Naipaul (b.1932).

49 DEPENDENCIES

Trinidad and Tobago has no territories or colonies.

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UNITED KINGDOM AMERICAN DEPENDENCIES

BERMUDA

Bermuda is a colony consisting of some 300 coral islands (20 of them inhabited), situated in the Atlantic Ocean, 933 km (580 mi) east of Cape Hatteras (US) at 32°19' N and 64°35' W. Their total area is about 54 sq km (21 sq mi). The United States leases a 5.8-sq-km (2.2-sq-mi) area of land reclaimed from the sea for military purposes. The largest island, Bermuda (sometimes called Main) Island, is about 23 km (14 mi) long and has an average width of 1.6 km (1 mi). The islands are mostly flat and rocky, with luxuriant semitropical vegetation. Because Bermuda lies in the Gulf Stream, the climate is generally mild and humid, with a mean annual temperature of 21°C (70°F) and average rainfall of 147 cm (48 in). The resident civilian population in mid-2005 was 65,365 of which about 55% was black and 34% white (mainly of English or Portuguese descent), and 11% other.

Almost all of the 450 km (281 mi) of roads are surfaced. Public transportation is largely by bus. Hamilton, the capital, has a deep-water harbor. Kindley Field, near St. George, the former capital, is Bermuda's international airport.

The oldest British colony, the islands were uninhabited when discovered in 1503 by the Spaniard Juan de Bermúdez. Bermuda was first settled by a group of British colonists under Sir George Somers, who were wrecked there while en route to Virginia in 1609. Bermuda was acquired from a chartered company by the crown in 1684. Under the 1968 constitution, the governor, representing the sovereign, is advised by a cabinet of legislators appointed at the recommendation of the prime minister. The bicameral legislature consists of an appointed Senate of 11 members and a 36-member House of Assembly (elected by universal suffrage). The Bermuda dollar of 100 cents is pegged to the US dollar, which circulates freely.

Tourism is the islands' largest employer, providing about half the total national income and two-thirds of foreign exchange. Bermuda does not impose income or corporate taxes which has led to a substantial offshore financial sector. A failed referendum on independence in late 1995 was partially attributed to concerns that independence would drive away foreign firms. Also important to the economy are goods and services supplied to the UK and US armed forces stationed in Bermuda. Light industries produce pharmaceuticals and essences, brass electrical contacts, and cut flowers for export. Per capita GDP in 2003 was \$36,000, among the highest in the world. In August 1995, Hurricane Felix inflicted \$2.5 million in damages to Bermuda.

The chief imports are food, textiles, furniture, motor vehicles, and fuel. The United States is Bermuda's primary supplier; the major export partner is the EU. Visible trade balances are unfavorable, although trade in invisibles, primarily tourism and international business, more than offsets the commodity trade deficit. Exports in 2004 were estimated at \$1.469 billion; imports, \$8.078 million. There is a free port at Ireland Island.

Medical services are private. King Edward VII Hospital receives government support. Education is compulsory between the ages of 5 and 16. Bermuda College provides post-secondary vocational courses and an associate degree program.

In 2002 there were 56,000 main telephone lines and in 2003 there were 37,873 mobile cellular phones in use on the island. There are four commercial television stations. There were five AM and three FM radio stations in 2004. There were 34,500 Internet users in 2003. There is one daily newspaper, the *Royal Gazette*.

BRITISH ANTARCTIC TERRITORY

Created on 3 March 1962 from former Falkland Islands dependencies, the British Antarctic Territory (BAT) lies south of 60° S and between 20° and 80° W, and consists of the South Shetlands, 4,662 sq km (1,800 sq mi); the South Orkneys, 622 sq km (240 sq mi); and Graham Land on the Antarctic continent. The territory is governed by a UK-appointed high commissioner, who also serves as governor of the Falklands. Three British Antarctic Survey stations are inhabited year-round: Signy on the South Orkneys, Rothera on Adelaide Island, and Halley V on moving ice along the Caird coast. Their personnel varies from 50 in the winter to 150 during the summer. The territory overlaps other claims on Antarctica by Argentina and Chile.

BRITISH VIRGIN ISLANDS

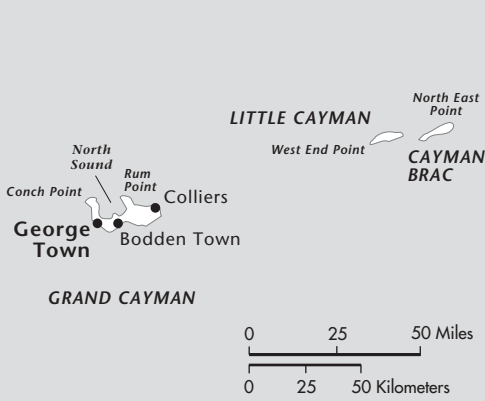
The British Virgin Islands consist of some 50 Caribbean islands and islets, totaling 153 sq km (59 sq mi), at about 18°25' N and 64°30' W. Until 1 July 1956, they were administered as part of the Leeward Islands. The mid-2005 population was estimated at 22,643, with 83% of African descent, and the remainder of white, Indian, Asian, or mixed descent. About 40% of the population consists of immigrants from St. Kitts and Nevis or from St. Vincent and the Grenadines. Road Town (metropolitan population estimated at 19,000 in 2005) on the island of Tortola is the capital. The climate is pleasantly subtropical. At least 177 km (110 mi) of roads were paved as of 2002. There are several airstrips on the islands.

Under the constitution of 1968, as revised in 1977, the government is headed by a British-appointed administrator, who is assisted by an Executive Council and a Legislative Council of 13 members.

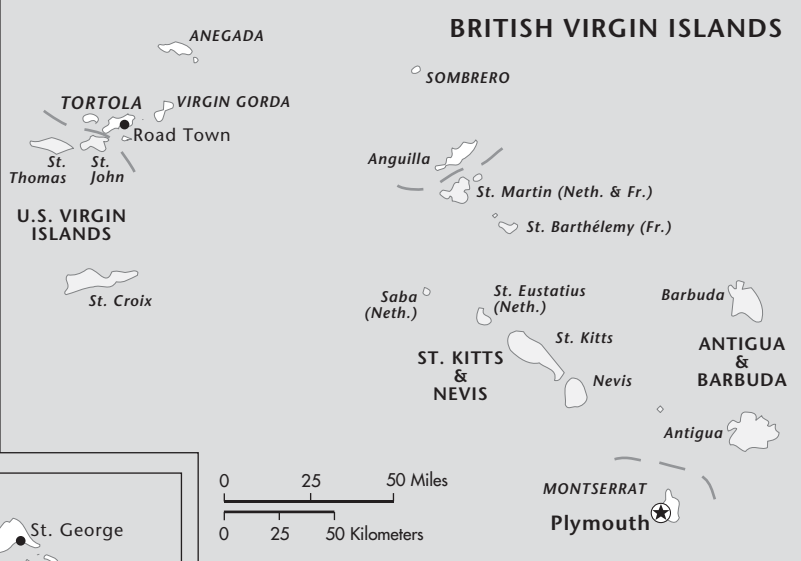
The economy is interdependent with that of the US Virgin Islands, which lie to the west. The US dollar is the legal currency. Livestock raising, farming, and fishing are the principal economic activities. Light industries include distilleries for alcoholic beverages, a concrete block factory, boat building, and handicrafts. Offshore financial services have also become a prominent part of the economy. Imports come predominantly from the US Virgin Islands, Puerto Rico, or the United States, and include building materials, automobiles, foodstuffs, and machinery. The over-

UNITED KINGDOM AMERICAN DEPENDENCIES

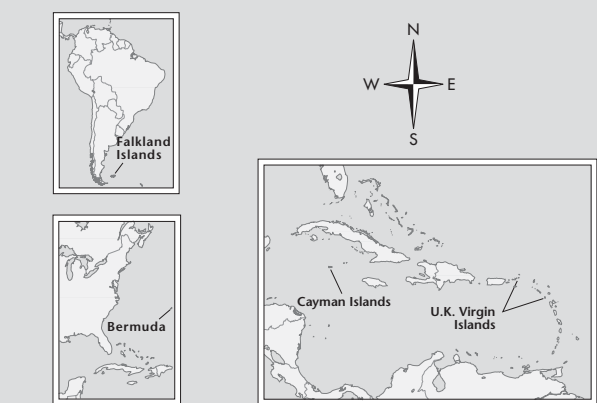
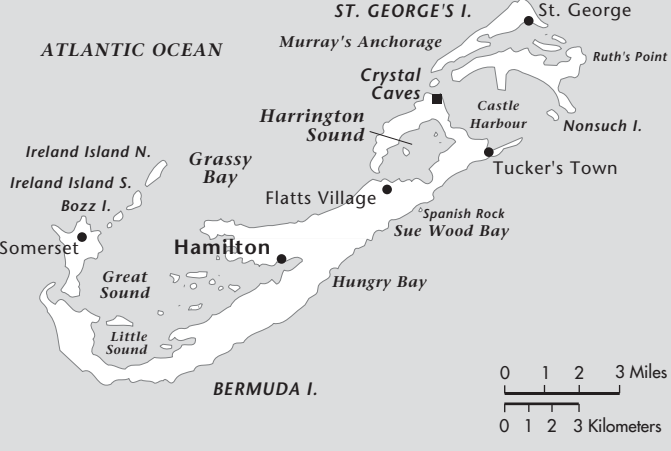
CAYMAN ISLANDS



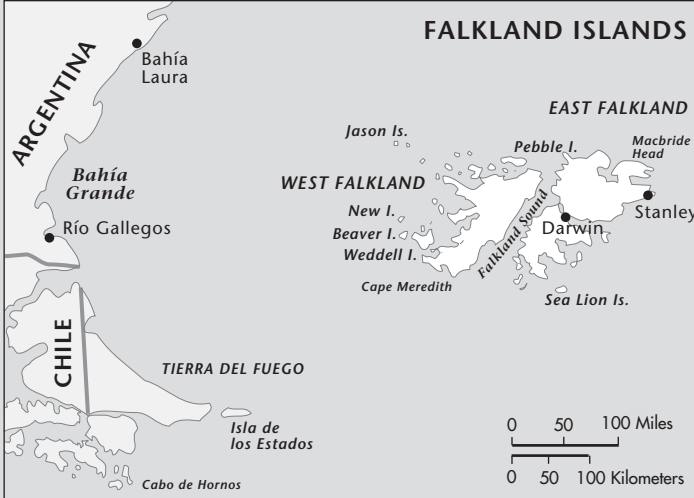
BRITISH VIRGIN ISLANDS



BERMUDA



FALKLAND ISLANDS



BRITISH ANTARCTIC TERRITORY



whelmingly adverse balance of trade is offset by remittances from migrant workers and an expanding tourist industry. Tourism accounts for about 45% of the islands' annual income; in 1998 there were an estimated 350,000 visitors, mainly from the United States. The tourism industry suffered in 2002 as a result of the sluggish US economy. Principal export partners include the Virgin Islands (US), Puerto Rico, and the United States. Per capita GDP was \$38,500 in 2004.

The infant mortality rate—18.05 per 1,000 live births in 2005—has been reduced from 78.9 per 1,000 live births in 1960.

Primary education is provided by the state and is compulsory from the age of 5 up to the age of 17. Scholarships are available for students to attend a university in the Caribbean, the United States, or the United Kingdom. The sole newspaper, the *Island Sun*, is published weekly.

CAYMAN ISLANDS

The three low-lying Cayman Islands—Grand Cayman, Little Cayman, and Cayman Brac, with a total area of 262 sq km (101 sq mi)—are situated between 79°44' and 81°27' W and 19°15' and 19°45' N, about 290 km (180 mi) WNW of Jamaica, of which they were formerly a dependency. Grand Cayman, flat, rockbound, and protected by coral reefs, is about 32 km (20 mi) long and 6–11 km (4–7 mi) broad; George Town, on Grand Cayman, is the capital and chief town. The other two islands are about 145 km (90 mi) to the NE. The mid-2005 population was estimated at 44,270, about 90% of whom resided on Grand Cayman. Cayman Airways is the main air carrier; the principal international airport is on Grand Cayman.

The islands were discovered in 1503 by Columbus, who named them Las Tortugas, from the turtles with which the surrounding seas abound. They were never occupied by Spaniards and were colonized from Jamaica by the British. They were a dependency of Jamaica until 1959, but severed all constitutional links with Jamaica when the latter became independent in 1962.

The 1972 constitution empowers the crown-appointed governor to make laws with the advice and consent of the Legislative Assembly. The Executive Council consists of 4 members chosen by the Assembly from among its 15 elected members, and 3 Assembly members appointed to the Council by the governor. The Legislative Assembly includes 3 ex officio members, 15 elected members, and the governor. Elections, in which all adult British residents may vote, are held every four years. Local administration is in the hands of justices of the peace and vestrymen.

The Cayman Islands dollar (CI\$) is linked to the US dollar at the rate of CI\$1 = US\$1.227 (or US\$1 = CI\$0.828). Customs, duties, license and company fees, and postage and stamp taxes are the principal source of government revenue. The absence of taxes on income, capital gains, real estate, and inheritances attracts overseas investors to the region; international financial services and tourism have become principal sectors of the economy. As of 1998, 40,000 companies were registered in the Caymans, including 600 bank and trust companies. Tourism has grown rapidly: in 1997, 1.2 million people visited the islands, about half of whom were from the United States. Tourism accounts for about 70% of GDP and 75% of foreign exchange earnings. Although the soil is fertile and there is some farming, the agricultural sector re-

mains small; the catching of turtles, sharks, and sponges also provides some employment. In 1999, total exports were valued at \$1.2 million, while imports amounted to \$457.4 million. Remittances from Caymanian seamen serving on foreign ships contribute to the economy as well. The government-owned Cayman Turtle Farm, unique in the world, produces turtle meat for local consumption; exports have waned in recent years due to restrictions by the Convention on International Trade of Endangered Species of Wild Fauna and Flora.

The islands have 2 hospitals with a total 142 beds. Education is compulsory between the ages of 4 and 16, and provided cost-free for Caymanians. The population is 98% literate.

FALKLAND ISLANDS

The Falkland Islands (Islas Malvinas), a British crown colony in the South Atlantic, lie some 772 km (480 mi) northeast of Cape Horn, between 51° and 53° S and 57° and 62° W, and have an area of 12,173 sq km (4,700 sq mi). The two main islands, East Falkland and West Falkland, consist chiefly of hilly moorlands. The population (estimated at 2,967 in mid-2005) is almost exclusively of British origin. Stanley, on East Falkland, the capital and only town, has about 1,000 inhabitants. There are no railways and few surfaced roads beyond the vicinity of Stanley. Shipping service to and from the islands is slight. There is internal air service but no international service.

The Falklands were sighted in 1592 by John Davis, an English navigator. The French founded the first colony on East Falkland, in 1764, transferring it two years later to Spain, which renamed it Soledad. The British took possession of West Falkland in 1765. Both islands were eventually abandoned. In 1820, Argentina (then the United Provinces of La Plata) colonized East Falkland. British troops occupied the islands in 1832–33, but Argentina has continued to dispute Britain's claim to the Falklands. On 2 April 1982, Argentine troops invaded the islands, precipitating a conflict with the British that cost over 1,000 lives. The United Kingdom recaptured the islands on 14 June, and as of 2006, 1,177 British soldiers remained in the Falklands.

Under a new constitution which came into effect in October 1985, the colony is administered by an appointed governor, with an Executive Council of 5 members: 3 chosen by the 10-member Legislative Council, and 2 ex officio members, the chief executive and the financial secretary. The currency unit is the Falkland pound (£), which is equal to the pound sterling.

There is no commercial agriculture. Most households in Stanley and the outlying areas grow their own vegetables. Sheep farming, the traditional industry, is directed primarily to the production of wool, hides, and skins, and the manufacture of tallow. Most commodities needed by the territory and its dependencies are imported. In 1987, the government began selling fishing licenses, which generate about \$40 million per year, with squid representing about 75% of the catch. Trade is principally with the United Kingdom. Tourism is growing, with 30,000 tourists visiting the islands in 2001.

All medical services are public. The 28-bed King Edward VII Memorial Hospital is run by four physicians and a military field surgical team (one surgeon and an anesthetist). Education is free and compulsory for children from 5 to 16 years of age. Students

unable to attend the schools in Stanley are taught by traveling teachers and by radio and correspondence.

Dependencies include South Georgia and the South Sandwich Islands, some 1,300 km (800 mi) E of the Falklands, with an area of 4,092 sq km (1,580 sq mi). Whaling and sealing are the main industries.

LEEWARD ISLANDS

The Leeward Islands, part of the Lesser Antilles island chain, lie east and south of Puerto Rico and north of the Windward group. Of the four territorial units that constitute the Leeward Islands, two—Antigua and Barbuda, and St. Kitts and Nevis—are independent nations covered elsewhere in this volume. The other two—Anguilla and Montserrat—retained the status of UK dependencies as of 2006.

ANGUILLA

Anguilla, the most northerly of the Leeward chain, lies at approximately 18° N and 63° W, and has an area of 90 sq km (35 sq mi). The island is long, flat, dry, and covered with scrub; its rolling hills reach a peak elevation of 65 m (213 ft) above sea level. The average annual temperature is 27°C (81°F), with July–October being the hottest period and December–February the coolest. Rainfall averages 89 cm (35 in) a year, but there is considerable variation both from season to season and from year to year. The hurricane season, marked by occasional thunderstorms and sudden squalls, lasts from July to October.

The population was estimated at 13,254 in mid-2005. Most Anguillians are of African descent, with an admixture of European (especially Irish) ancestry. The population is overwhelmingly Christian: Anglicans (29%) and Methodists (23.9%) predominate, but there are also Seventh-Day Adventist, Baptist, Roman Catholic, and other congregations. English is the official language, spoken in a distinctive island patois. Anguilla has no official capital, but The Valley serves as an administrative center. Anguilla had about 105 km (65 mi) of roads, 65 km (41 mi) of them paved as of 2002. Road Bay is the main harbor, and there is daily ferry service between Blowing Point and the French-Dutch island of St. Martin (Sint Maarten), about 8 km (5 mi) away. Air service to and from Wallblake Airport is provided by the privately owned Air Anguilla and two other interisland airways.

Although sighted by Columbus in 1496, Anguilla was not settled by Europeans until 1650, when British colonists arrived from St. Kitts. From 1671, Anguilla was governed as part of the Leeward Islands, and between 1871 and 1956 the island formed (with St. Kitts and, from 1882, Nevis) part of the Leeward Islands Federation. All the Leeward Islands were consolidated into a single territory in 1956 and, as such, were incorporated into the Federation of the West Indies two years later. With the breakup of the West Indies Federation in 1962, St. Kitts–Nevis–Anguilla reverted to colonial status. On 17 February 1967, St. Kitts–Nevis–Anguilla acquired self-government within the newly formed West Indies Associated States. After Anguilla declared its independence of the Associated States in 1969, some 300 British paratroopers temporarily took command of the island. On 10 February 1976, the United Kingdom recognized Anguilla's status as a dependency distinct from St. Kitts and Nevis, which achieved independence in 1983.

Under the Anguilla Constitution Order of 1982, the crown is represented by a governor, who presides over an appointed Executive Council and an elected 11-member House of Assembly. The Executive Council consists of the chief minister, three other ministers selected by the governor from among the members of the House of Assembly, and the attorney general and permanent secretary for finance, who serve *ex officio* both on the council and in the legislature. The governor also appoints two members of the House of Assembly, the remaining seven being elected to five-year terms by universal adult suffrage. In the election of February 2005, the Anguilla United Front (a coalition of the Anguilla Democratic Party and the Anguilla National Alliance) won 4 seats, the Anguilla Strategic Alternative won 2, and the Anguilla United Movement won 1. Justice is administered by a magistrate's court, a Court of Appeal, and a High Court, whose sitting judge is provided by the Eastern Caribbean Supreme Court on St. Lucia.

The mainstays of the economy are luxury tourism, offshore banking, lobster fishing, and remittances from abroad. Salt is extracted by evaporation from two briny ponds, and live lobsters are exported to neighboring islands. Tourism, construction, and a developing offshore banking sector have become the most prominent economic sectors in recent years. The East Caribbean dollar (EC\$) is the official currency. The GDP was estimated at \$112 million in 2002, or \$7,500 per capita. The economy, especially tourism, suffered damage from Hurricane Luis in 1995.

Education is provided by the state and is compulsory between the ages of 5 and 17 years. The government maintains six primary schools and one secondary school; total school enrollment exceeds 2,200. Princess Alexandra Hospital offers limited services. International telephone, telegraph, and telex services are available. Various radio stations are available, including the government-run Radio Anguilla. Caribbean Beacon Radio, NBR (New Beginning Radio), and VOC (Voice of Creation) are religious stations; Kool FM and HBR (Heartbeat Radio) offer music and news.

Dependencies of Anguilla include numerous offshore islets and cays, as well as Sombrero Island (5 sq km/2 sq mi), about 56 km (35 mi) to the northwest.

MONTSERRAT

Situated at 16°45' N and 62°10' W, Montserrat has an area of 103 sq km (40 sq mi). The island, which lies between Nevis and Guadeloupe, about 43 km (27 mi) southeast of Antigua, has a mountainous terrain, with two peaks rising higher than 900 m (3,000 ft). Montserrat is wholly volcanic in origin, and there are seven active volcanoes. Mean temperatures range from a minimum of 23°C (73°F) to a maximum of 31°C (88°F); June–November, the hurricane season, is the warmest time of the year, and December–March is the coolest. There is no clearly defined rainy season, although rainfall tends to be more abundant during the second half of the year; the annual average is 157 cm (62 in).

In mid-2005, an estimated 9,341 people lived on the island, down from 12,853 in 1998. After the island's volcano became active in 1995, an estimated 8,000 refugees left the island. Since then, the British government has developed three contingency plans concerning the population, depending on the amount of the volcano's destruction: moving the southern population to the north; total evacuation to neighboring islands (Antigua and Barbuda and

Guadeloupe); and permanent settlement elsewhere should the island become uninhabitable. When destructive pyroclastic lava flows came in mid-1997, much of Montserrat's population was evacuated to the northern tip of the island, and about half of the population left the island.

Most residents of Montserrat are of African ancestry. Anglicans, Methodists, Roman Catholics, and Pentecostals make up the great majority of the population. English, the official language, is spoken in an island patois. Montserrat has about 269 km (168 mi) of highways, about 203 km (127 mi) of which are paved. Blackburne Airport, about 15 km (9 mi) from the capital, opened to traffic in 1967 but was covered by pyroclastic material from the volcano and became impossible to use. In 2005, an airport at Gerald's opened. Montserrat Aviation Services, in cooperation with WinAir, maintains regular flights to and from Antigua, Nevis, and St. Kitts.

Christopher Columbus, who sighted the island in November 1493, gave it the name Montserrat because its rugged terrain reminded him of the site of the Abbey of Montserrat in the Spanish highlands near Barcelona. English and Irish colonists from St. Kitts settled on the island in 1632, and the first African slaves arrived 32 years later. Throughout the 18th century, the British and French warred for possession of Montserrat, which was finally confirmed as a British possession by the Treaty of Versailles (1783). By the early 19th century, Montserrat had a plantation economy, but the abolition of slavery in 1834, the elimination of the apprentice system, the declining market for sugar, and a series of natural disasters brought the downfall of the sugar estates. In the mid-19th century, Joseph Sturge of Birmingham, England, organized a company that bought up the abandoned estates, planted them with limes (a product for which Montserrat is still famous), and sold plots of land to small farmers. From 1871 to 1956, Montserrat formed part of the Federation of the Leeward Islands, and after two years as a separate colony it became part of the Federation of the West Indies (1958–62). Since the breakup of the Federation, Montserrat has been separately administered, under a constitution effective 1 January 1960.

The crown is represented by an appointed governor, who presides over an Executive Council structured like that of Anguilla. There is also a Legislative Council which, like Anguilla's, includes two appointed members. In 2001, the number of elected members of the legislature was expanded from seven to nine; the attorney general and financial secretary serve as ex-officio members. Suffrage is universal at age 18. The legislators serve terms of up to five years. In elections held in April 2001, the New People's Liberation Movement, led by John A. Osborne, won seven seats and the National Progressive Democratic Party led by Reuben T. Meade won two seats. Montserrat's judicial system consists of a magistrate's court and a Court of Summary Jurisdiction; appeals are to the Eastern Caribbean Supreme Court on St. Lucia.

Prior to the resumption of volcanic activity in the mid-1990s, tourism accounted for about one-fourth of the annual GDP; the island had some 17,000 visitors in 1992. Important crops include cabbages, carrots, cucumbers, tomatoes, onions, and peppers. Exports include electronic components, plastic bags, apparel, hot peppers, live plants, and cattle. Montserrat uses the East Caribbean dollar. In 2002, GDP was us\$29 million. Exports in 2001 were us\$700,000; imports, chiefly of machinery and transporta-

tion equipment, foodstuffs, manufactured goods, fuels, lubricants, and related materials totaled some us\$17 million.

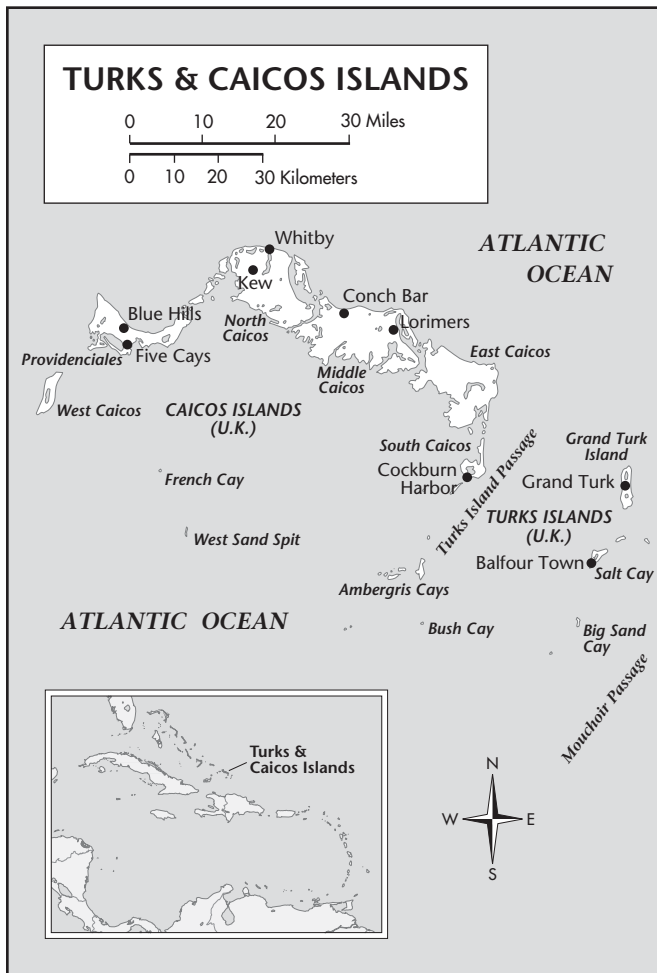
The principal health facility was Plymouth's 65-bed Glendon Hospital, maintained by the government; it was destroyed by the volcano activity of the mid-1990s, and hospital services were relocated to St. John's in the north, which has a bed capacity of 30. Provisions for social welfare include a family planning association and an old people's welfare association. Free dental care is provided by the government for all schoolchildren, elderly persons, and expectant or nursing mothers. Education is free and compulsory up to age 14. As of 2006, radio service was provided by the public station Radio Montserrat, which broadcasts on FM, having lost its AM transmitter to volcanic activity. There is a cable TV provider. There are two weekly newspapers, the *Montserrat Times* and the *Montserrat Reporter*.

TURKS AND CAICOS ISLANDS

Archaeological expeditions have found Arawak implements and utensils on Turks and Caicos Islands. When Juan Ponce de León arrived in 1512, Lucayan Indians had come to inhabit the islands. There is some speculation that Columbus may have made his landfall on Grand Turk or East Caicos on his first voyage of discovery in 1492. The first settlements were by Bermudians, who established solar salt pans in the 1670s. Bahamian, Bermudan, Spanish, French, and British rivalry over the prospering salt trade resulted in numerous invasions and evictions through the first half of the 18th century. In 1787, Loyalists fleeing the American Revolution established settlements and cotton and sisal plantations on several of the larger Caicos Islands. Ten years later, the islands came under the jurisdiction of the Bahamas colonial government. Slavery was abolished in 1834. In 1848, the Turks and Caicos islanders were granted a charter of separation from the Bahamas after they complained of Bahamian taxes on their salt industry.

From 1848 to 1873, the islands were largely self-governing, under the supervision of the governor of Jamaica. Following the decline of the salt industry, the islands became a Jamaican dependency until 1958, when they joined the Federation of the West Indies. When the federation dissolved and Jamaica achieved independence in 1962, Turks and Caicos became a crown colony administered by the British Colonial Office and a local council of elected and appointed members. In 1965, the governor of the Bahamas was also appointed governor of Turks and Caicos, but with the advent of Bahamian independence in 1973, a separate governor was appointed. A new constitution maintaining the status of crown colony and providing for ministerial government was introduced in September 1976. Although independence for Turks and Caicos in 1982 had been agreed upon in principle in 1979, a change in government brought a reversal in policy. The islands are still a crown colony.

The islands were shaken by scandals in the mid-1980s. In March 1985, Chief Minister Norman B. Saunders and two other ministers were arrested in Florida on drug charges and later convicted and sentenced to prison. In July 1986, a commission of inquiry found that Chief Minister Nathaniel Francis and two other ministers had been guilty of "unconstitutional behavior, political discrimination, and administrative malpractice." The governor thereupon ended ministerial government in July 1986 and, with four



members of the former Executive Council, formed an Advisory Council to govern until new elections. The islands have returned to their previous form of government, and remain a dependent territory of the United Kingdom.

Situated in the Atlantic Ocean *se* of the Bahamas, *e* of Cuba, and *n* of Hispaniola, the Turks and Caicos Islands consist of two island groups separated by the Turks Island Passage, 35 km (22 mi) across and about 2,100 m (7,000 ft) deep. The Turks group comprises two inhabited islands, Grand Turk and Salt Cay, six uninhabited cays, and numerous rocks surrounded by a roughly triangular reef bank. The Caicos group encompasses six principal islands (North Caicos, Middle Caicos, East Caicos, South Caicos, West Caicos, and Providenciales), plus numerous rocky islets, all surrounded by the Caicos Bank, a triangular shoal. The total land area of the Turks and Caicos Islands is 430 sq km (166 sq mi), with extensions of about 120 km (75 mi) *e*-*w* and 80 km (50 mi) *n*-*s*. Comparatively, the area occupied by the Turks and Caicos Islands is slightly less than 2.5 times the size of Washington, DC. The Turks and Caicos Islands have a coastline length of 389 km (242 mi). The capital city, Grand Turk, is in the Turks Islands.

The Turks Islands are low and flat, and surrounded by reefs, sunken coral heads, and boilers. The land mass is limestone, well weathered with pockets of soil; the coastlines are indented with shallow creeks and mangrove swamps. The Caicos Bank is a triangular shoal about 93 km (58 mi) long on its northern side and 90

km (56 mi) long on its eastern and western sides. The highest elevation is only 50 m (163 ft) above sea level on Providenciales. On the north coast of Middle Caicos (which is also known as Grand Caicos) are limestone cave formations.

Days are sunny and dry and nights are cool and clear throughout the year. Temperatures on the islands range from a low of 16°C (61°F) to a high of 32°C (90°F), with the hottest period generally occurring between April and November. There are almost constant tradewinds from the east. Rainfall averages 53 cm (21 in) per year, and hurricanes are a frequent occurrence. Major hurricanes struck the islands in 1866, 1873, 1888, 1908, 1926, 1928, 1945, 1960, and 1985.

The ground cover is scrubby and stunted tropical vegetation, with sea oats, mangrove, casuarina, and palmetto. There is little natural wildlife other than birds and butterflies. West Caicos island is especially noted as a sanctuary for birds, and Penniston, Gibb, and Round cays are known for their extensive varieties of butterflies. Spiny lobster, conch, clams, bonefish, snapper, grouper, and turtle are plentiful.

Fresh water is a scarce commodity, and most islanders rely on private cisterns. Underground water is present on North and Middle Caicos, but surface water collected in ponds after rainfall becomes brackish. There have been some complaints of actual or potential ecological damage resulting from the expansion of tourist facilities on Providenciales. The government has identified the absence of environmental education as a potential problem for the preservation of the nation's natural heritage in the future. By 1992, the government had developed legislation that would create 12 national parks, 8 nature reserves, 5 sanctuaries, and 9 historic sites.

The population of the Turks and Caicos Islands in 2005 was estimated at 20,556. In the 1990s, most people were living on Grand Turk, South Caicos, and North Caicos islands. The birthrate in 2005 was 22.23 per 1,000 population and a death rate of 4.28.

It was estimated that 72% of the population lived in urban areas in 2000. The capital, Grand Turk, has an estimated population of 4,000. Cockburn Harbour is the major town on South Caicos.

About 90% of the population is of black African descent, the remainder being of mixed, European, or North American origin. The official and universal language of the Turks and Caicos Islands is English, interspersed with a number of local colloquialisms. Most islanders are Christian; the main denominations are Baptist (40%), Methodist (16%), Anglican (18%), and Church of God (12%). Other Protestant groups and the Roman Catholic Church are also represented.

There are about 121 km (75 mi) of roads on the islands. The main roads on Grand Turk and South Caicos are paved. Some secondary roads are surfaced with scale from the salinas (salt ponds); otherwise, the roads are merely dirt and sand tracks.

The main seaports are at Grand Turk, Cockburn Harbour on South Caicos, Providenciales, and Salt Cay. An offshore registry program with the United Kingdom enables British merchant ships to register with the Turks and Caicos Islands in order to cut crew costs while enabling the vessels to fly the Red Ensign of the United Kingdom. There are eight airports, six with paved runways, and two with small unpaved landing strips.

Tourism and lobster fishing have replaced salt raking as the main economic activity of the islands, which are very poor. Fishing and subsistence farming are the principal occupations; under-

employment and unemployment are estimated at over 40%. Important sources of income include tourism and offshore financial services. The closing of the last US military base in 1983 resulted in the loss of rental payments that accounted for 10% of government revenue. Most of the retail trade on the islands consist of imported goods. Tourism has been boosted by the advent of service by American Airlines, US Airways, British Airways, Delta Airlines, and Air Canada, and new hotel, resort and casino openings. Visitors are attracted by the beautiful beaches and by opportunities for snorkeling, diving, and sport fishing. The windmills and salinas on Salt Cay and the 19th-century architecture on Grand Turk, along with horse carriages, provide a quaint setting.

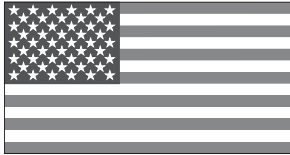
Most food for domestic consumption is imported; there is some subsistence farming—mainly corn, cassava, citrus, and beans—on the Caicos Islands. Major sources of government revenue include fees from offshore financial activities and customs receipts as the Islands rely on imports for nearly all consumption and capital goods.

A modern cottage hospital (36 beds) and an outpatient and dental clinic are located on Grand Turk, and there are health clinics on all of the islands. Extensive medical services are also available on Providenciales. The infant mortality rate was 15.67 deaths per 1,000 live births in 2005, down from 21.11 deaths per live births in 1999 and from 25 per 1,000 live births in 1993.



UNITED STATES

United States of America



CAPITAL: Washington, DC (District of Columbia)

FLAG: The flag consists of 13 alternate stripes, 7 red and 6 white; these represent the 13 original colonies. Fifty 5-pointed white stars, representing the present number of states in the Union, are placed in 9 horizontal rows alternately of 6 and 5 against a blue field in the upper left corner of the flag.

ANTHEM: *The Star-Spangled Banner*.

MONETARY UNIT: The dollar (\$) of 100 cents is a paper currency with a floating rate. There are coins of 1, 5, 10, 25, and 50 cents and 1 dollar, and notes of 1, 2, 5, 10, 20, 50, and 100 dollars. Although issuance of higher notes ceased in 1969, a limited number of notes of 500, 1,000, 5,000, and 10,000 dollars remain in circulation.

WEIGHTS AND MEASURES: The imperial system is in common use; however, the use of metrics in industry is increasing, and the metric system is taught in public schools throughout the United States. Common avoirdupois units in use are the avoirdupois pound of 16 ounces or 454 grams; the long ton of 2,240 pounds or 35,840 ounces; and the short ton, more commonly used, of 2,000 pounds or 32,000 ounces. (Unless otherwise indicated, all measures given in tons are in short tons.) Liquid measures: 1 gallon = 231 cubic inches = 4 quarts = 8 pints. Dry measures: 1 bushel = 4 pecks = 32 dry quarts = 64 dry pints. Linear measures: 1 foot = 12 inches; 1 statute mile = 1,760 yards = 5,280 feet. Metric equivalent: 1 meter = 39.37 inches.

HOLIDAYS: New Year's Day, 1 January; Birthday of Martin Luther King Jr., 3rd Monday in January; Presidents' Day, 3rd Monday in February; Memorial or Decoration Day, last Monday in May; Independence Day, 4 July; Labor Day, 1st Monday in September; Columbus Day, 2nd Monday in October; Election Day, 1st Tuesday after the 1st Monday in November; Veterans or Armistice Day, 11 November; Thanksgiving Day, 4th Thursday in November; Christmas, 25 December.

TIME: Eastern, 7 AM = noon GMT; Central, 6 AM = noon GMT; Mountain, 5 AM = noon GMT; Pacific (includes the Alaska panhandle), 4 AM = noon GMT; Yukon, 3 AM = noon GMT; Alaska and Hawaii, 2 AM = noon GMT; western Alaska, 1 AM = noon GMT.

¹LOCATION, SIZE, AND EXTENT

Located in the Western Hemisphere on the continent of North America, the United States is the fourth-largest country in the world. Its total area, including Alaska and Hawaii, is 9,629,091 sq km (3,717,813 sq mi). The conterminous United States extends 4,662 km (2,897 mi) ENE–WSW and 4,583 km (2,848 mi) SSE–NNW. It is bordered on the N by Canada, on the E by the Atlantic Ocean, on the S by the Gulf of Mexico and Mexico, and on the W by the Pacific Ocean, with a total boundary length of 17,563 km (10,913 mi). Alaska, the 49th state, extends 3,639 km (2,261 mi) E–W and 2,185 km (1,358 mi) N–S. It is bounded on the N by the Arctic Ocean and Beaufort Sea, on the E by Canada, on the S by the Gulf of Alaska, Pacific Ocean and Bering Sea, and on the W by the Bering Sea, Bering Strait, Chukchi Sea, and Arctic Ocean, with a total land boundary of 12,034 km (7,593 mi) and a coastline of 19,924 km (12,380 mi). The 50th state, Hawaii, consists of islands in the Pacific Ocean extending 2,536 km (1,576 mi) N–S and 2,293 km (1,425 mi) E–W, with a general coastline of 1,207 km (750 mi).

The nation's capital, Washington, DC, is located on the mid-Atlantic coast.

²TOPOGRAPHY

Although the northern New England coast is rocky, along the rest of the eastern seaboard the Atlantic Coastal Plain rises gradually from the shoreline. Narrow in the north, the plain widens to about 320 km (200 mi) in the south and in Georgia merges with the Gulf Coastal Plain that borders the Gulf of Mexico and extends through Mexico as far as the Yucatán. West of the Atlantic Coastal Plain is the Piedmont Plateau, bounded by the Appalachian Mountains. The Appalachians, which extend from southwest Maine into central Alabama—with special names in some areas—are old mountains, largely eroded away, with rounded contours and forested, as a rule, to the top. Few of their summits rise much above 1,100 m (3,500 ft), although the highest, Mt. Mitchell in North Carolina, reaches 2,037 m (6,684 ft).

Between the Appalachians and the Rocky Mountains, more than 1,600 km (1,000 mi) to the west, lies the vast interior plain of the United States. Running south through the center of this plain and draining almost two-thirds of the area of the continental United States is the Mississippi River. Waters starting from the source of the Missouri, the longest of its tributaries, travel almost 6,450 km (4,000 mi) to the Gulf of Mexico.

The eastern reaches of the great interior plain are bounded on the north by the Great Lakes, which are thought to contain about half the world's total supply of fresh water. Under US jurisdiction are 57,441 sq km (22,178 sq mi) of Lake Michigan, 54,696 sq km (21,118 sq mi) of Lake Superior, 23,245 sq km (8,975 sq mi) of Lake Huron, 12,955 sq km (5,002 sq mi) of Lake Erie, and 7,855 sq km (3,033 sq mi) of Lake Ontario. The five lakes are accessible to oceangoing vessels from the Atlantic via the St. Lawrence Seaway. The basins of the Great Lakes were formed by the glacial ice cap that moved down over large parts of North America some 25,000 years ago. The glaciers also determined the direction of flow of the Missouri River and, it is believed, were responsible for carrying soil from what is now Canada down into the central agricultural basin of the United States.

The great interior plain consists of two major subregions: the fertile Central Plains, extending from the Appalachian highlands to a line drawn approximately 480 km (300 mi) west of the Mississippi, broken by the Ozark Plateau; and the more arid Great Plains, extending from that line to the foothills of the Rocky Mountains. Although they appear flat, the Great Plains rise gradually from about 460 m (1,500 ft) to more than 1,500 m (5,000 ft) at their western extremity.

The Continental Divide, the Atlantic-Pacific watershed, runs along the crest of the Rocky Mountains. The Rockies and the ranges to the west are parts of the great system of young, rugged mountains, shaped like a gigantic spinal column, that runs along western North, Central, and South America from Alaska to Tierra del Fuego, Chile. In the continental United States, the series of western ranges, most of them paralleling the Pacific coast, are the Sierra Nevada, the Coast Ranges, the Cascade Range, and the Tehachapi and San Bernardino mountains. Between the Rockies and the Sierra Nevada-Cascade mountain barrier to the west lies the Great Basin, a group of vast arid plateaus containing most of the desert areas of the United States, in the south eroded by deep canyons.

The coastal plains along the Pacific are narrow, and in many places the mountains plunge directly into the sea. The most extensive lowland near the west coast is the Great Valley of California, lying between the Sierra Nevada and the Coast Ranges. There are 71 peaks in these western ranges of the continental United States that rise to an altitude of 4,267 m (14,000 ft) or more, Mt. Whitney in California at 4,418 m (14,494 ft) being the highest. The greatest rivers of the Far West are the Colorado in the south, flowing into the Gulf of California, and the Columbia in the northwest, flowing to the Pacific. Each is more than 1,900 km (1,200 mi) long; both have been intensively developed to generate electric power, and both are important sources of irrigation.

Separated from the continental United States by Canadian territory, the state of Alaska occupies the extreme northwest portion of the North American continent. A series of precipitous mountain ranges separates the heavily indented Pacific coast on the south from Alaska's broad central basin, through which the Yukon River flows from Canada in the east to the Bering Sea in the west. The central basin is bounded on the north by the Brooks Range, which slopes down gradually to the Arctic Ocean. The Alaskan Peninsula and the Aleutian Islands, sweeping west far out to sea, consist of a chain of volcanoes, many still active.

The state of Hawaii consists of a group of Pacific islands formed by volcanoes rising sharply from the ocean floor. The highest of these volcanoes, Mauna Loa, at 4,168 m (13,675 ft), is located on the largest of the islands, Hawaii, and is still active.

The lowest point in the United States is Death Valley in California, 86 m (282 ft) below sea level. At 6,194 m (20,320 ft), Mt. McKinley in Alaska is the highest peak in North America. These topographic extremes suggest the geological instability of the Pacific Coast region, which is part of the "Ring of Fire," a seismically active band surrounding the Pacific Ocean. Major earthquakes destroyed San Francisco in 1906 and Anchorage, Alaska, in 1964, and the San Andreas Fault in California still causes frequent earth tremors. In 2004, there were 3,550 earthquakes documented by the US Geological Survey National Earthquake Information Center. Washington State's Mt. St. Helens erupted in 1980, spewing volcanic ash over much of the Northwest.

3 CLIMATE

The eastern continental region is well watered, with annual rainfall generally in excess of 100 cm (40 in). It includes all of the Atlantic seaboard and southeastern states and extends west to cover Indiana, southern Illinois, most of Missouri, Arkansas, Louisiana, and easternmost Texas. The eastern seaboard is affected primarily by the masses of air moving from west to east across the continent rather than by air moving in from the Atlantic. Hence its climate is basically continental rather than maritime. The Midwestern and Atlantic seaboard states experience hot summers and cold winters; spring and autumn are clearly defined periods of climatic transition. Only Florida, with the Gulf of Mexico lying to its west, experiences moderate differences between summer and winter temperatures. Mean annual temperatures vary considerably between north and south: Boston, MA, 11°C (51°F); New York City, NY, 13°C (55°F); Charlotte, NC, 16°C (61°F); Miami, FL, 24°C (76°F).

The Gulf and South Atlantic states are often hit by severe tropical storms originating in the Caribbean in late summer and early autumn. In the past few years, the number of hurricanes and their severity have measurably increased. From 1970-94, there were about three hurricanes per year. From 1995 to 2003, there were a total of 32 major hurricanes with sustained winds of 111 miles per hour or greater.

In 2005 there were a record-breaking 23 named Atlantic hurricanes, three of which caused severe damage to the Gulf Coast region. On 25 August 2005, Hurricane Katrina hit Florida as a category 1 hurricane. By 29 August, the storm developed into a category 4 hurricane that made landfall in southern Louisiana. Several levees protecting the low-lying city of New Orleans broke, flooding the entire region under waters that rose over the rooftops of homes. Over 1,000 were killed by the storm. Over 500,000 people were left homeless and without jobs.

One month later, Hurricane Rita swept first into Florida and continued to make landfall between Sabine Pass, Texas, and Johnson's Bayou, Louisiana, on 24 September 2005 as a category 3 hurricane. Before reaching land, however, the storm had peaked as a category 5 hurricane that was placed on record as the strongest measured hurricane to ever have entered the Gulf of Mexico and the fourth most intense hurricane ever in the Atlantic Basin. Over 100 people were killed.

Hurricane Wilma followed on 24 October when it made landfall north of Everglades City in Florida as a category 3 hurricane. There were about 22 deaths in the United States from Wilma; however, the storm also hit Cuba, Haiti, Jamaica, and Mexico, reaching a death toll of at least 25 people from those countries combined.

The prairie lands lying to the west constitute a subhumid region. Precipitation usually exceeds evaporation by only a small amount; hence the region experiences drought more often than excessive rainfall. Dryness generally increases from east to west. The average midwinter temperature in the extreme north—Minnesota and North Dakota—is about -13°C (9°F) or less, while the average July temperature is 18°C (65°F). In the Texas prairie region to the south, January temperatures average 10 – 13°C (50 – 55°F) and July temperatures 27 – 29°C (80 – 85°F). Rainfall along the western border of the prairie region is as low as 46 cm (18 in) per year in the north and 64 cm (25 in) in the south. Precipitation is greatest in the early summer—a matter of great importance to agriculture, particularly in the growing of grain crops. In dry years, the prevailing winds may carry the topsoil eastward (particularly from the southern region) for hundreds of miles in clouds that obscure the sun.

The Great Plains constitute a semiarid climatic region. Rainfall in the southern plains averages about 50 cm (20 in) per year and in the northern plains about 25 cm (10 in), but extreme year-to-year variations are common. The tropical air masses that move northward across the plains originate on the fairly high plateaus of Mexico and contain little water vapor. Periods as long as 120 days without rain have been experienced in this region. The rains that do occur are often violent, and a third of the total annual rainfall may be recorded in a single day at certain weather stations. The contrast between summer and winter temperatures is extreme throughout the Great Plains. Maximum summer temperatures of over 43°C (110°F) have been recorded in the northern as well as in the southern plains. From the Texas panhandle north, blizzards are common in the winter, and tornadoes at other seasons. The average minimum temperature for January in Duluth, Minnesota, is -19°C (-3°F).

The higher reaches of the Rockies and the mountains paralleling the Pacific coast to the west are characterized by a typical alpine climate. Precipitation as a rule is heavier on the western slopes of the ranges. The great intermontane arid region of the West shows considerable climatic variation between its northern and southern portions. In New Mexico, Arizona, and southeastern California, the greatest precipitation occurs in July, August, and September, mean annual rainfall ranging from 8 cm (3 in) in Yuma, Ariz., to 76 cm (30 in) in the mountains of northern Arizona and New Mexico. Phoenix has a mean annual temperature of 22°C (71°F), rising to 33°C (92°F) in July and falling to 11°C (52°F) in January. North of the Utah-Arizona line, the summer months usually are very dry; maximum precipitation occurs in the winter and early spring. In the desert valleys west of Great Salt Lake, mean annual precipitation adds up to only 10 cm (4 in). Although the northern plateaus are generally arid, some of the mountainous areas of central Washington and Idaho receive at least 152 cm (60 in) of rain per year. Throughout the intermontane region, the uneven availability of water is the principal factor shaping the habitat.

The Pacific coast, separated by tall mountain barriers from the severe continental climate to the east, is a region of mild winters

and moderately warm, dry summers. Its climate is basically maritime, the westerly winds from the Pacific Ocean moderating the extremes of both winter and summer temperatures. Los Angeles in the south has an average temperature of 13°C (56°F) in January and 21°C (69°F) in July; Seattle in the north has an average temperature of 4°C (39°F) in January and 18°C (65°F) in July. Precipitation in general increases along the coast from south to north, extremes ranging from an annual average of 4.52 cm (1.78 in) at Death Valley in California (the lowest in the United States) to more than 356 cm (140 in) in Washington's Olympic Mountains.

Climatic conditions vary considerably in the vastness of Alaska. In the fogbound Aleutians and in the coastal panhandle strip that extends southeastward along the Gulf of Alaska and includes the capital, Juneau, a relatively moderate maritime climate prevails. The interior is characterized by short, hot summers and long, bitterly cold winters, and in the region bordering the Arctic Ocean a polar climate prevails, the soil hundreds of feet below the surface remaining frozen the year round. Although snowy in winter, continental Alaska is relatively dry.

Hawaii has a remarkably mild and stable climate with only slight seasonal variations in temperature, as a result of northeast ocean winds. The mean January temperature in Honolulu is 23°C (73°F); the mean July temperature 27°C (80°F). Rainfall is moderate—about 71 cm (28 in) per year—but much greater in the mountains; Mt. Waialeale on Kauai has a mean annual rainfall of 1,168 cm (460 in), highest in the world.

The lowest temperature recorded in the United States was -62°C (-79.8°F) at Prospect Creek Camp, Alaska, on 23 January 1971; the highest, 57°C (134°F) at Greenland Ranch, in Death Valley, California, on 10 July 1913. The record annual rainfall is 1,878 cm (739 in) recorded at Kukui, Maui in 1982; the previous record for a one-year period was 1,468 cm (578 in) recorded at Fuu Kukui, Maui, in 1950.

4 FLORA AND FAUNA

At least 7,000 species and subspecies of indigenous US flora have been categorized. The eastern forests contain a mixture of softwoods and hardwoods that includes pine, oak, maple, spruce, beech, birch, hemlock, walnut, gum, and hickory. The central hardwood forest, which originally stretched unbroken from Cape Cod to Texas and northwest to Minnesota—still an important timber source—supports oak, hickory, ash, maple, and walnut. Pine, hickory, tupelo, pecan, gum, birch, and sycamore are found in the southern forest that stretches along the Gulf coast into the eastern half of Texas. The Pacific forest is the most spectacular of all because of its enormous redwoods and Douglas firs. In the southwest are saguaro (giant cactus), yucca, candlewood, and the Joshua tree.

The central grasslands lie in the interior of the continent, where the moisture is not sufficient to support the growth of large forests. The tall grassland or prairie (now almost entirely under cultivation) lies to the east of the 100th meridian. To the west of this line, where rainfall is frequently less than 50 cm (20 in) per year, is the short grassland. Mesquite grass covers parts of west Texas, southern New Mexico, and Arizona. Short grass may be found in the highlands of the latter two states, while tall grass covers large portions of the coastal regions of Texas and Louisiana and occurs in some parts of Mississippi, Alabama, and Florida. The Pacific

grassland includes northern Idaho, the higher plateaus of eastern Washington and Oregon, and the mountain valleys of California.

The intermontane region of the Western Cordillera is for the most part covered with desert shrubs. Sagebrush predominates in the northern part of this area, creosote in the southern, with saltbrush near the Great Salt Lake and in Death Valley.

The lower slopes of the mountains running up to the coastline of Alaska are covered with coniferous forests as far north as the Seward Peninsula. The central part of the Yukon Basin is also a region of softwood forests. The rest of Alaska is heath or tundra. Hawaii has extensive forests of bamboo and ferns. Sugarcane and pineapple, although not native to the islands, now cover a large portion of the cultivated land.

Small trees and shrubs common to most of the United States include hackberry, hawthorn, serviceberry, blackberry, wild cherry, dogwood, and snowberry. Wildflowers bloom in all areas, from the seldom-seen blossoms of rare desert cacti to the hardiest alpine species. Wildflowers include forget-me-not, fringed and closed gentians, jack-in-the-pulpit, black-eyed Susan, columbine, and common dandelion, along with numerous varieties of aster, orchid, lady's slipper, and wild rose.

An estimated 428 species of mammals characterize the animal life of the continental United States. Among the larger game animals are the white-tailed deer, moose, pronghorn antelope, bighorn sheep, mountain goat, black bear, and grizzly bear. The Alaskan brown bear often reaches a weight of 1,200–1,400 lbs. Some 25 important furbearers are common, including the muskrat, red and gray foxes, mink, raccoon, beaver, opossum, striped skunk, woodchuck, common cottontail, snowshoe hare, and various squirrels. Human encroachment has transformed the mammalian habitat over the last two centuries. The American buffalo (bison), millions of which once roamed the plains, is now found only on select reserves. Other mammals, such as the elk and gray wolf, have been restricted to much smaller ranges.

Year-round and migratory birds abound. Loons, wild ducks, and wild geese are found in lake country; terns, gulls, sandpipers, herons, and other seabirds live along the coasts. Wrens, thrushes, owls, hummingbirds, sparrows, woodpeckers, swallows, chickadees, vireos, warblers, and finches appear in profusion, along with the robin, common crow, cardinal, Baltimore oriole, eastern and western meadowlarks, and various blackbirds. Wild turkey, ruffed grouse, and ring-necked pheasant (introduced from Europe) are popular game birds. There are at least 508 species of birds found throughout the country.

Lakes, rivers, and streams teem with trout, bass, perch, muskellunge, carp, catfish, and pike; sea bass, cod, snapper, and flounder are abundant along the coasts, along with such shellfish as lobster, shrimp, clams, oysters, and mussels. Garter, pine, and milk snakes are found in most regions. Four poisonous snakes survive, of which the rattlesnake is the most common. Alligators appear in southern waterways and the Gila monster makes its home in the Southwest.

Laws and lists designed to protect threatened and endangered flora and fauna have been adopted throughout the United States. Generally, each species listed as protected by the federal government is also protected by the states, but some states may list species not included on federal lists or on the lists of neighboring states. Conversely, a species threatened throughout most of the

United States may be abundant in one or two states. As of November 2005, the US Fish and Wildlife Service listed 997 endangered US species (up from 751 listed in 1996), including 68 species of mammals, 77 birds, 74 fish, and 599 plants; and 275 threatened species (209 in 1996), including 11 species of mammals, 13 birds, 42 fish, and 146 plants. The agency listed another 520 endangered and 46 threatened foreign species by international agreement.

Threatened species, likely to become endangered if trends continued, included such plants as Lee pincushion cactus. Among the endangered floral species (in imminent danger of extinction in the wild) are the Virginia round-leaf birch, San Clemente Island broom, Texas wild-rice, Furbish lousewort, Truckee barberberry, Sneed pincushion cactus, spineless hedgehog cactus, Knowlton cactus, persistent trillium, dwarf bear-poppy, and small whorled pogonia.

Endangered mammals included the red wolf, black-footed ferret, jaguar, key deer, northern swift fox, San Joaquin kit fox, jaguar, jaguarundi, Florida manatee, ocelot, Florida panther, Utah prairie dog, Sonoran pronghorn, and numerous whale species. Endangered species of rodents included the Delmarva Peninsula fox squirrel, beach mouse, salt-marsh harvest mouse, 7 species of bat (Virginia and Ozark big-eared Sanborn's and Mexican long-nosed, Hawaiian hoary, Indiana, and gray), and the Morro Ba, Fresno, Stephens', and Tipton Kangaroo rats and rice rat.

Endangered species of birds included the California condor, bald eagle, three species of falcon (American peregrine, tundra peregrine, and northern aplomado), Eskimo curlew, two species of crane (whooping and Mississippi sandhill), three species of warbler (Kirtland's, Bachman's, and golden-cheeked), dusky seaside sparrow, light-footed clapper rail, least tern, San Clemente loggerhead shrike, bald eagle (endangered in most states, but only threatened in the Northwest and the Great Lakes region), Hawaii creeper, Everglade kite, California clapper rail, and red-cockaded woodpecker. Endangered amphibians included four species of salamander (Santa Cruz long-toed, Shenandoah, desert slender, and Texas blind), Houston and Wyoming toad, and six species of turtle (green sea, hawksbill, Kemp's ridley, Plymouth and Alabama red-bellied, and leatherback). Endangered reptiles included the American crocodile, (blunt nosed leopard and island night), and San Francisco garter snake.

Aquatic species included the shortnose sturgeon, Gila trout, 8 species of chub (humpback, Pahranaagat, Yaqui, Mohave tui, Owens tui, bonytail, Virgin River, and Borax lake), Colorado River squawfish, five species of dace (Kendall Warm Springs, and Clover Valley, Independence Valley, Moapa and Ash Meadows speckled), Modoc sucker, cui-ui, Smoky and Scioto madtom, 7 species of pupfish (Leon Springs, Gila Desert, Ash Meadows Amargosa, Warm Springs, Owens, Devil's Hole, and Comanche Springs), Pahrump killifish, 4 species of gambusia (San Marcos, Pecos, Amistad, Big Bend, and Clear Creek), 6 species of darter (fountain, watercress, Okaloosa, boulder, Maryland, and amber), totoaba, and 32 species of mussel and pearly mussel. Also classified as endangered were 2 species of earthworm (Washington giant and Oregon giant), the Socorro isopod, San Francisco forktail damselfly, Ohio emerald dragonfly, 3 species of beetle (Kretschmarr Cave, Tooth Cave, and giant carrion), Belkin's dune tabanid fly, and 10 species of butterfly (Schaus' swallowtail, lotis, mission, El Segundo, and Palos Verde



LOCATION: Conterminous US: 66°57' to 124°44' w; 24°33' to 49°23' n. Alaska: 130° w to 172°28' e; 51° to 71°23' n. Hawaii: 154°48' to 178°22' w 18°55' to 28°25' n. BOUNDARY LENGTHS: Conterminous US: Canada, 6,416 kilometers (3,987 miles); Atlantic Ocean, 3,330 kilometers (2,069 miles); Gulf of Mexico coastline, 2,625 kilometers (1,631 miles); Mexico, 3,111 kilometers (1,933 miles); Pacific coastline, 2,081 kilometers (1,293 miles). Alaska: Arctic Ocean coastline, 1,706 kilometers (1,060 miles); Canada, 2,475 kilometers (1,538 miles); Pacific coastline, including the Bering Sea and Strait and Chukchi coastlines, 8,980 kilometers (5,580 miles). Hawaii: coastline, 1,207 kilometers (750 miles).

blue, Mitchell's satyr, Uncompahgre fritillary, Lange's metalmark, San Bruno elfin, and Smith's blue).

Endangered plants in the United States included: aster, cactus, pea, mustard, mint, mallow, bellflower and pink family, snapdrag-

on, and buckwheat. Several species on the federal list of endangered and threatened wildlife and plants are found only in Hawaii. Endangered bird species in Hawaii included the Hawaiian dark-rumped petrel, Hawaiian gallinule, Hawaiian crow, three

species of thrush (Kauai, Molokai, and puaiuhi), Kauai 'o'o, Kauai nukupu'u, Kauai 'alialoa, 'akiapola'au, Maui'akepa, Molokai creeper, Oahu creeper, palila, and 'o'u.

Species formerly listed as threatened or endangered that have been removed from the list included (with delisting year and reason) American alligator (1987, recovered); coastal cutthroat trout (2000, taxonomic revision); Bahama swallowtail butterfly (1984, amendment); gray whale (1994, recovered); brown pelican (1984, recovered); Rydberg milk-vetch (1987, new information); Lloyd's hedgehog cactus (1999, taxonomic revision), and Columbian white-tailed Douglas County Deer (2003, recovered).

There are at least 250 species of plants and animals that have become extinct, including the Wyoming toad, the Central Valley grasshopper, Labrador duck, Carolina parakeet, Hawaiian crow, chestnut moth, and the Franklin tree.

5 ENVIRONMENT

The Council on Environmental Quality, an advisory body contained within the Executive Office of the President, was established by the National Environmental Policy Act of 1969, which mandated an assessment of environmental impact for every federally funded project. The Environmental Protection Agency (EPA), created in 1970, is an independent body with primary regulatory responsibility in the fields of air and noise pollution, water and waste management, and control of toxic substances. Other federal agencies with environmental responsibilities are the Forest Service and Soil Conservation Service within the Department of Agriculture, the Fish and Wildlife Service and the National Park Service within the Department of the Interior, the Department of Energy, and the Nuclear Regulatory Commission. In addition to the 1969 legislation, landmark federal laws protecting the environment include the Clean Air Act Amendments of 1970 and 1990, controlling automobile and electric utility emissions; the Water Pollution Act of 1972, setting clean-water criteria for fishing and swimming; and the Endangered Species Act of 1973, protecting wildlife near extinction.

A measure enacted in December 1980 established a \$1.6-billion "Superfund," financed largely by excise taxes on chemical companies, to clean up toxic waste dumps such as the one in the Love Canal district of Niagara Falls, NY. In 2005, there were 1,238 hazardous waste sites on the Superfund's national priority list.

The most influential environmental lobbies include the Sierra Club (founded in 1892; 700,000 members in 2003) and its legal arm, the Sierra Club Legal Defense Fund. Large conservation groups include the National Wildlife Federation (1936; over 4,000,000), the National Audubon Society (1905; 600,000), and the Nature Conservancy (1917; 1,000,000). Greenpeace USA (founded in 1979) has gained international attention by seeking to disrupt hunts for whales and seals.

Among the environmental movement's most notable successes have been the inauguration (and mandating in some states) of recycling programs; the banning in the United States of the insecticide dichlorodiphenyltrichloroethane (DDT); the successful fight against construction of a supersonic transport (SST); and the protection of more than 40 million hectares (100 million acres) of Alaska lands (after a fruitless fight to halt construction of the trans-Alaska pipeline); and the gradual elimination of chlorofluorocarbon (CFC) production by 2000. In March 2003, the US Sen-

ate narrowly voted to reject a Bush administration plan to begin oil exploration in the 19 million acre (7.7 million hectare) Arctic National Wildlife Refuge (ANWR). In 2003, about 25.9% of the total land area was protected. The United States has 12 natural UNESCO World Heritage Sites and 22 Ramsar wetland sites. Yellowstone National Park, founded in 1872, was the first national park established worldwide.

Outstanding problems include acid rain (precipitation contaminated by fossil fuel wastes); inadequate facilities for solid waste disposal; air pollution from industrial emissions (the United States leads the world in carbon dioxide emissions from the burning of fossil fuels); the contamination of homes by radon, a radioactive gas that is produced by the decay of underground deposits of radium and can cause cancer; runoffs of agricultural pesticides, pollutants deadly to fishing streams and very difficult to regulate; continued dumping of raw or partially treated sewage from major cities into US waterways; falling water tables in many western states; the decrease in arable land because of depletion, erosion, and urbanization; the need for reclamation of strip-mined lands and for regulation of present and future strip mining; and the expansion of the US nuclear industry in the absence of a fully satisfactory technique for the handling and permanent disposal of radioactive wastes.

6 POPULATION

The population of United States in 2005 was estimated by the United Nations (UN) at 296,483,000, which placed it at number 3 in population among the 193 nations of the world. In 2005, approximately 12% of the population was over 65 years of age, with another 21% of the population under 15 years of age. There were 97 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 0.6%, a rate the government viewed as satisfactory. The projected population for the year 2025 was 349,419,000. The population density was 31 per sq km (80 per sq mi), with major population concentrations are along the northeast Atlantic coast and the southwest Pacific coast. The population is most dense between New York City and Washington, DC.

At the time of the first federal census, in 1790, the population of the United States was 3,929,214. Between 1800 and 1850, the population almost quadrupled; between 1850 and 1900, it tripled; and between 1900 and 1950, it almost doubled. During the 1960s and 1970s, however, the growth rate slowed steadily, declining from 2.9% annually in 1960 to 2% in 1969 and to less than 1% from the 1980s through 2000. The population has aged: the median age of the population increased from 16.7 years in 1820 to 22.9 years in 1900 and to 36.5 years in 2006.

Suburbs have absorbed most of the shift in population distribution since 1950. The UN estimated that 79% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 1.33%. The capital city, Washington, DC (District of Columbia), had a population of 4,098,000 in that year. Other major metropolitan areas and their estimated populations include: New York, 18,498,000; Los Angeles, 12,146,000; Chicago, 8,711,000; Dallas, 4,612,000; Houston, 4,283,000; Philadelphia, 5,325,000; San Diego, 2,818,000; and Phoenix, 3,393,000. Major cities can be found throughout the United States.

7 MIGRATION

Between 1840 and 1930, some 37 million immigrants, the overwhelming majority of them Europeans, arrived in the United States. Immigration reached its peak in the first decade of the 20th century, when nearly 9 million came. Following the end of World War I, the tradition of almost unlimited immigration was abandoned, and through the National Origins Act of 1924, a quota system was established as the basis of a carefully restricted policy of immigration. Under the McCarran Act of 1952, one-sixth of 1% of the number of inhabitants from each European nation residing in the continental United States as of 1920 could be admitted annually. In practice, this system favored nations of northern and western Europe, with the United Kingdom, Germany, and Ireland being the chief beneficiaries. The quota system was radically reformed in 1965, under a new law that established an annual ceiling of 170,000 for Eastern Hemisphere immigrants and 120,000 for entrants from the Western Hemisphere; in October 1978, these limits were replaced by a worldwide limit of 290,000, which was lowered to 270,000 by 1981. A major 1990 overhaul set a total annual ceiling of 700,000 (675,000 beginning in fiscal 1995), of which 480,000 would be family sponsored and 140,000 employment based. The 1996 Immigration Reform Law addressed concerns about illegal immigration and border enforcement. The 1996 Welfare Reform Law revised legal and illegal immigrants' access to different forms of public assistance, and raised the standards for US residents who sponsor immigrants. The 2000 H-1B Visa Legislation increased temporary immigration visas for high-tech workers. In 2004, President Bush proposed a fair and secure immigration reform with a new temporary worker program.

In 2002, 1,063,732 immigrants entered the United States, of whom 416,860 were subject to the numerical limits. Some 342,099 immigrants in 2002 were from Asia, 404,437 were from North America, 74,506 were from South America, 174,209 from Europe, 60,269 from Africa, and 5,557 from Oceania. A direct result of the immigration law revisions has been a sharp rise in the influx of Asians (primarily Chinese, Filipinos, Indians, Japanese, and Koreans), of whom 2,738,157 entered the country during 1981–90, as compared with 153,249 during the entire decade of the 1950s. Most immigrants in 2002 came from Mexico (219,380).

Since 1961, the federal government supported and financed the Cuban Refugee Program; in 1995, new accords were agreed to by the two countries. More than 500,000 Cubans were living in southern Florida by 1980, when another 125,000 Cuban refugees arrived; by 1990, 4% of Florida's population was of Cuban descent. Some 169,322 Cubans arrived from 1991–2000, and 27,520 arrived in 2002. Between 1975 and 1978, following the defeat of the US-backed Saigon (Vietnam) government, several hundred thousand Vietnamese refugees came to the United States. Under the Refugee Act of 1980, a ceiling for the number of admissible refugees is set annually; in fiscal 2002, the ceiling for refugees was 70,000. Since Puerto Ricans are American citizens, no special authorization is required for their admission to the continental United States. The population of refugees, resettled refugees, and asylum seekers with pending claims was estimated at 5,250,954 in June 2003, a 34% increase over June 2002. During the same year, the newly-formed Bureau of Citizenship and Immigration Services (BCIS—formerly the Immigration and Naturalization Service or INS) received 66,577 applications for asylum, a decline of 36%

from 2002. In 2004, the United States hosted 684,564 persons of concern to the United Nations High Commissioner for Refugees (UNHCR), 420,854 refugees, and 263,710 asylum seekers. For that year, the United States was the fifth-largest asylum country. UNHCR reports the United States as the leading destination of refugees, accounting for 63% of all resettlement worldwide.

Large numbers of aliens—mainly from Latin America, especially Mexico—have illegally established residence in the United States after entering the country as tourists, students, or temporary visitors engaged in work or business. In November 1986, Congress passed a bill allowing illegal aliens who had lived and worked in the United States since 1982 the opportunity to become permanent residents. By the end of fiscal year 1992, 2,650,000 of a potential 2,760,000 eligible for permanent residence under this bill had attained that status. In 1996 the number of illegal alien residents was estimated at five million, of which two million were believed to be in California. As of 2002, an estimated 33.1 million immigrants (legal and illegal) lived in the United States. Of this total, the Census Bureau estimated in 2000 that 8–9 million of them were illegal alien residents. In 2004, there were 36 million foreign-born US residents, almost 30% were unauthorized, or some 10.3 million foreigners. Of these, 57% are unauthorized Mexicans. Foreign-born persons are 11% of the US population, and 14% of US workers.

As of 2006, there were three major immigration-related agencies in the United States: the Department of Homeland Security; the US Customs and Border Protection (CBP) agency, which apprehends foreigners; and Immigration and Customs Enforcement (ICE), which is responsible for enforcement of immigration laws within the United States, together with identifying and removing unauthorized foreigners, and those ordered removed.

The major migratory trends within the United States have been a general westward movement during the 19th century; a long-term movement from farms and other rural settlements to metropolitan areas, which showed signs of reversing in some states during the 1970s; an exodus of southern blacks to the cities of the North and Midwest, especially after World War I; a shift of whites from central cities to surrounding suburbs since World War II; and, also during the post-World War II period, a massive shift from the North and East to the Sunbelt region of the South and Southwest.

In 2005, the net migration rate was estimated as 3.31 migrants per 1,000 population.

8 ETHNIC GROUPS

The majority of the population of the United States is of European origin, with the largest groups having primary ancestry traceable to the United Kingdom, Germany, and Ireland; many Americans report multiple ancestries. According to 2004 American Community Survey estimates, about 75.6% of the total population are white, 12.1% are blacks and African Americans, and 4.2% are Asian. Native Americans (including Alaskan Natives) account for about 0.8% of the total population. About 1.8% of the population claim a mixed ancestry of two or more races. About 11.9% of all US citizens are foreign-born, with the largest numbers of people coming from Latin America (17,973,287) and Asia (9,254,705).

Some Native American societies survived the initial warfare with land-hungry white settlers and retained their tribal cultures.

Their survival, however, has been on the fringes of North American society, especially as a result of the implementation of a national policy of resettling Native American tribes on reservations. In 2004, estimates place the number of Native Americans (including Alaska Natives) at 2,151,322. The number of those who claim mixed Native American and white racial backgrounds is estimated at 1,370,675; the 2004 estimate for mixed Native American and African American ancestry was 204,832. The largest single tribal grouping is the Cherokee, with about 331,491 people. The Navajo account for about 230,401 people, the Chippewa for 92,041 people, and the Sioux for 67,666 people. Groups of Native Americans are found most numerous in the southwestern states of Oklahoma, Arizona, New Mexico, and California. The 1960s and 1970s saw successful court fights by Native Americans in Alaska, Maine, South Dakota, and other states to regain tribal lands or to receive cash settlements for lands taken from them in violation of treaties during the 1800s.

The black and African American population in 2004 was estimated at 34,772,381, with the majority still residing in the South, the region that absorbed most of the slaves brought from Africa in the 18th and 19th centuries. About 1,141,232 people claimed mixed black and white ethnicity. Two important regional migrations of blacks have taken place: (1) a "Great Migration" to the North, commencing in 1915, and (2) a small but then unprecedented westward movement beginning about 1940. Both migrations were fostered by wartime demands for labor and by postwar job opportunities in northern and western urban centers. More than three out of four black Americans live in metropolitan areas, notably in Washington, DC, Atlanta, Chicago, Detroit, New Orleans, Newark, Baltimore, and New York City, which had the largest number of black residents. Large-scale federal programs to ensure equality for African Americans in voting rights, public education, employment, and housing were initiated after the historic 1954 Supreme Court ruling that barred racial segregation in public schools. By 1966, however, in the midst of growing and increasingly violent expressions of dissatisfaction by black residents of northern cities and southern rural areas, the federal Civil Rights Commission reported that integration programs were lagging. Throughout the 1960s, 1970s, and 1980s, the unemployment rate among nonwhites in the United States was at least double that for whites, and school integration proceeded slowly, especially outside the South.

Also included in the US population are a substantial number of persons whose lineage can be traced to Asian and Pacific nationalities, chiefly Chinese, Filipino, Japanese, Indian, Korean, and Vietnamese. The Chinese population is highly urbanized and concentrated particularly in cities of over 100,000 population, mostly on the West Coast and in New York City. According to 2004 estimates, there are over 2.8 million Chinese in the United States. Asian Indians are the next largest group of Asians with over 2.2 million people in 2004. About 2.1 million people are Filipino. The Japanese population has risen steadily from a level of 72,157 in 1910 to about 832,039 in 2004. Hawaii has been the most popular magnet of Japanese emigration. Most Japanese in California were farmers until the outbreak of World War II, when they were interned and deprived of their landholdings; after the war, most entered the professions and other urban occupations.

Hispanics or Latinos make up about 14% of the population according to 2004 estimates. It is important to note, however, that the designation of Hispanic or Latino applies to those who are of Latin American descent; these individuals may also belong to white, Asian, or black racial groups. Although Mexicans in the 21st century were still concentrated in the Southwest, they have settled throughout the United States; there are over 25 million Mexicans in the country. Spanish-speaking Puerto Ricans, who often represent an amalgam of racial strains, have largely settled in the New York metropolitan area, where they partake in considerable measure of the hardships and problems experienced by other immigrant groups in the process of settling in the United States; there are about 3.8 million Puerto Ricans in the country. Since 1959, many Cubans have settled in Florida and other eastern states. As of 2004, there are about 1.4 million Cubans in the United States.

⁹LANGUAGES

The primary language of the United States is English, enriched by words borrowed from the languages of Indians and immigrants, predominantly European. Very early English borrowed from neighboring French speakers such words as *shivaree*, *butte*, *levee*, and *prairie*; from German, *sauerkraut*, *smearcase*, and *cranberry*; from Dutch, *stoop*, *spook*, and *cookie*; and from Spanish, *tornado*, *corral*, *ranch*, and *canyon*. From various West African languages, blacks have given English *jazz*, *voodoo*, and *okra*. According to 2004 estimates of primary languages spoken at home, about 81% of the population speak English only.

When European settlement began, Native Americans living north of Mexico spoke about 300 different languages now held to belong to 58 different language families. Only two such families have contributed noticeably to the American vocabulary: Algonkian in the Northeast and Aztec-Tanoan in the Southwest. From Algonkian languages, directly or sometimes through Canadian French, English has taken such words as *moose*, *skunk*, *caribou*, *opossum*, *woodchuck*, and *raccoon* for New World animals; *hickory*, *squash*, and *tamarack* for New World flora; and *succotash*, *hominny*, *mackinaw*, *moccasin*, *tomahawk*, *toboggan*, and *totem* for various cultural items. From Nahuatl, the language of the Aztecs, terms such as *tomato*, *mesquite*, *coyote*, *chili*, *tamale*, *chocolate*, and *ocelot* have entered English, largely by way of Spanish. A bare handful of words come from other Native American language groups, such as *tepee* from Dakota Siouan, *catalpa* from Creek, *sequoia* from Cherokee, *hogan* from Navaho, and *sockeye* from Salish, as well as *cayuse* from Chinook.

Professional dialect research, initiated in Germany in 1878 and in France in 1902, did not begin in the United States until 1931, in connection with the *Linguistic Atlas of New England* (1939–43). This kind of research, requiring trained field-workers to interview representative informants in their homes, subsequently was extended to the entire Atlantic Coast, the north-central states, the upper Midwest, the Pacific Coast, the Gulf states, and Oklahoma. The New England atlas, the *Linguistic Atlas of the Upper Midwest* (1973–76), and the first two fascicles of the *Linguistic Atlas of the Middle and South Atlantic States* (1980) have been published, along with three volumes based on Atlantic Coast field materials. Also published are atlases of the north-central states, the Gulf states, and Oklahoma. In other areas, individual dialect researchers have

produced more specialized studies. The definitive work on dialect speech, the American Dialect Society's monumental *Dictionary of American Regional English*, began publication in 1985.

Dialect studies confirm that standard English is not uniform throughout the country. Major regional variations reflect patterns of colonial settlement, dialect features from England having dominated particular areas along the Atlantic Coast and then spread westward along the three main migration routes through the Appalachian system. Dialectologists recognize three main dialects—Northern, Midland, and Southern—each with subdivisions related to the effect of mountain ranges and rivers and railroads on population movement.

The Northern dialect is that of New England and its derivative settlements in New York; the northern parts of Ohio, Indiana, Illinois, and Iowa; and Michigan, Wisconsin, northeastern South Dakota, and North Dakota. A major subdivision is that of New England east of the Connecticut River, an area noted typically by the loss of /r/ after a vowel, and by the pronunciation of *can't*, *dance*, *half*, and *bath* with a vowel more like that in *father* than that in *fat*. Generally, however, Northern speech has a strong /r/ after a vowel, the same vowel in *can't* and *cat*, a conspicuous contrast between *cot* and *caught*, the /s/ sound in *greasy*, *creek* rhyming with *pick*, and *with* ending with the same consonant sound as at the end of *breath*.

Midland speech extends in a wide band across the United States: there are two main subdivisions, North Midland and South Midland. North Midland speech extends westward from New Jersey, Delaware, and Pennsylvania into Ohio, Illinois, southern Iowa, and northern Missouri. Its speakers generally end *with* with the consonant sound that begins the word *thin*, pronounce *cot* and *caught* alike, and say *cow* and *down* as /caow/ and /daown/. South Midland speech was carried by the Scotch-Irish from Pennsylvania down the Shenandoah Valley into the southern Appalachians, where it acquired many Southern speech features before it spread westward into Kentucky, Tennessee, southern Missouri, Arkansas, and northeast Texas. Its speakers are likely to say *plum peach* rather than *clingstone peach* and *snake doctor* rather than *dragonfly*.

Southern speech typically, though not always, lacks the consonant /r/ after a vowel, lengthens the first part of the diphthong in *write* so that to Northern ears it sounds almost like *rat*, and diphthongizes the vowels in *bed* and *hit* so that they sound like /beuhd/ and /hiuht/. *Horse* and *hoarse* do not sound alike, and *creek* rhymes with *mee*k. *Corn bread* is *corn pone*, and *you-all* is standard for the plural.

In the western part of the United States, migration routes so crossed and intermingled that no neat dialect boundaries can be drawn, although there are a few rather clear population pockets.

Spanish is spoken by a sizable minority in the United States; according to 2004 estimates, about 11.4% of the population speak Spanish as the primary language of their household. The majority of Spanish speakers live in the Southwest, Florida, and eastern urban centers. Refugee immigration since the 1950s has greatly increased the number of foreign-language speakers from Latin America and Asia.

Educational problems raised by the presence of large blocs of non-English speakers led to the passage in 1976 of the Bilingual Educational Act, enabling children to study basic courses in their first language while they learn English. A related school problem

is that of black English, a Southern dialect variant that is the vernacular of many black students now in northern schools.

10 RELIGIONS

US religious traditions are predominantly Judeo-Christian and most Americans identify themselves as Protestants (of various denominations), Roman Catholics, or Jews. As of 2000, over 141 million Americans reported affiliation with a religious group. The single largest Christian denomination is the Roman Catholic Church, with membership in 2004 estimated at 66.4 million. Immigration from Ireland, Italy, Eastern Europe, French Canada, and the Caribbean accounts for the predominance of Roman Catholicism in the Northeast, Northwest, and some parts of the Great Lakes region, while Hispanic traditions and more recent immigration from Mexico and other Latin American countries account for the historical importance of Roman Catholicism in California and throughout most of the sunbelt. More than any other US religious body, the Roman Catholic Church maintains an extensive network of parochial schools.

Jewish immigrants settled first in the Northeast, where the largest Jewish population remains; at last estimates, about 6.1 million Jews lived in the United States. According to data from 1995, there were about 3.7 million Muslims in the country. About 1.8 million people were Buddhist and 795,000 were Hindu. Approximately 874,000 people were proclaimed atheists.

Over 94 million persons in the United States report affiliation with a Protestant denomination. Baptists predominate below the Mason-Dixon line and west to Texas. By far the nation's largest Protestant group is the Southern Baptist Convention, which has about 16.2 million members; the American Baptist Churches in the USA claim some 1.4 million members. A concentration of Methodist groups extends westward in a band from Delaware to eastern Colorado; the largest of these groups, the United Methodist Church has about 8.2 million members. A related group, the African Methodist Episcopal Church, has about 2.5 million members. Lutheran denominations, reflecting in part the patterns of German and Scandinavian settlement, are most highly concentrated in the north-central states, especially Minnesota and the Dakotas. Two Lutheran synods, the Lutheran Church in America and the American Lutheran Church, merged in 1987 to form the Evangelical Lutheran Church in America, with more than 5 million adherents in 2004. In June 1983, the two major Presbyterian churches, the northern-based United Presbyterian Church in the USA and the southern-based Presbyterian Church in the United States, formally merged as the Presbyterian Church (USA), ending a division that began with the Civil War. This group claimed 3.4 million adherents in 2004. Other prominent Protestant denominations and their estimated adherents (2004) include the Episcopal Church, 2,334,000, and the United Church of Christ, 1,331,000.

A number of Orthodox Christian denominations are represented in the United States, established by immigrants hoping to maintain their language and culture in a new world. The largest group of Orthodox belongs to the Greek Orthodox Archdiocese of America, which has about 1.5 million members.

A number of religious groups, which now have a worldwide presence, originated in the United States. One such group, the Church of Jesus Christ of Latter-Day Saints (Mormons), was or-

ganized in New York in 1830 by Joseph Smith, Jr., who claimed to receive a revelation concerning an ancient American prophet named Mormon. The group migrated westward, in part to escape persecution, and has played a leading role in the political, economic, and religious life of Utah; Salt Lake City is the headquarters for the church. As of 2004, there are about 5.4 million members of the Church of Jesus Christ of Latter-Day Saints. The Jehovah's Witnesses were established by Charles Taze Russell in Pittsburgh, Pennsylvania, in 1872. They believe that Biblical prophecies are being fulfilled through world events and that the kingdom of God will be established on earth at the end of the great war described in the Bible. In 2004, there were about one million members in the United States.

The Church of Christ Scientist was established by Mary Baker Eddy (1821–1910) through her book *Science and Health with Key to the Scriptures*. A primary belief of the group is that physical injury and illness might be healed through the power of prayer and the correction of false beliefs. The Mother Church is located in Boston, Massachusetts. Christian Scientists have over 1,000 congregations in the nation. The Seventh-Day Adventists were also established in the United States by William Miller, a preacher who believed that the second coming of Christ would occur between 1843 and 1844. Though his prediction did not come true, many of his followers continued to embrace other practices such as worship on Saturday, vegetarianism, and a focus on preparation for the second coming. In 2004, the Seventh-Day Adventist Church had 919,000 members in the United States.

11 TRANSPORTATION

Railroads have lost not only the largest share of intercity freight traffic, their chief source of revenue, but passenger traffic as well. Despite an attempt to revive passenger transport through the development of a national network (Amtrak) in the 1970s, the rail sector has continued to experience heavy losses and declining revenues. In 1998 there were nine Class I rail companies in the United States, down from 13 in 1994, with a total of 178,222 employees and operating revenues of \$32.2 billion. In 2003 there were 227,736 km (141,424 mi) of railway, all standard gauge. In 2000, Amtrak carried 84.1 million passengers.

The most conspicuous form of transportation is the automobile, and the extent and quality of the United States road-transport system are without parallel in the world. Over 226.06 million vehicles—a record number—were registered in 2003, including more than 130.8 million passenger cars and over 95.3 million commercial vehicles. In 2000, there were some 4,346,068 motorcycles registered.

The United States has a vast network of public roads, whose total length as of 2003 was 6,393,603 km (3,976,821 mi), of which, 4,180,053 km (2,599,993 mi) were paved, including 74,406 km (46,281 mi) of expressways. The United States also has 41,009 km (25,483 mi) of navigable inland channels, exclusive of the Great Lakes. Of that total, 19,312 km (12,012 mi) are still in commercial use, as of 2004.

Major ocean ports or port areas are New York, the Delaware River areas (Philadelphia), the Chesapeake Bay area (Baltimore, Norfolk, Newport News), New Orleans, Houston, and the San Francisco Bay area. The inland port of Duluth on Lake Superior handles more freight than all but the top-ranking ocean ports. The importance of this port, along with those of Chicago and Detroit,

was enhanced with the opening in 1959 of the St. Lawrence Seaway. Waterborne freight consists primarily of bulk commodities such as petroleum and its products, coal and coke, iron ore and steel, sand, gravel and stone, grains, and lumber. The US merchant marine industry has been decreasing gradually since the 1950s. In 2005, the United States had a merchant shipping fleet of 486 vessels of 1,000 GRT or more, with a combined GRT of 12,436,658.

In 2004, the United States had an estimated 14,857 airports. In 2005 a total of 5,120 had paved runways, and there were also 153 heliports. Principal airports include Hartsfield at Atlanta; Logan International at Boston; O'Hare International at Chicago; Dallas-Fort Worth at Dallas; Detroit Metropolitan; Honolulu International; Houston Intercontinental; Los Angeles International; John F. Kennedy, La Guardia, and Newark International at or near New York; Philadelphia International; Orlando International; Miami International; San Francisco International; L. Munoz Marin at San Juan; Seattle-Tacoma at Seattle; and Dulles International at Virginia. Revenue passengers carried by the airlines in 1940 totaled 2.7 million. By 2003, the figure was estimated at 588.997 million for US domestic and international carriers, along with freight traffic estimated at 34,206 million freight ton-km.

12 HISTORY

The first Americans—distant ancestors of the Native Americans—probably crossed the Bering Strait from Asia at least 12,000 years ago. By the time Christopher Columbus came to the New World in 1492 there were probably no more than two million Native Americans living in the land that was to become the United States.

Following exploration of the American coasts by English, Portuguese, Spanish, Dutch, and French sea captains from the late 15th century onward, European settlements sprang up in the latter part of the 16th century. The Spanish established the first permanent settlement at St. Augustine in the future state of Florida in 1565, and another in New Mexico in 1599. During the early 17th century, the English founded Jamestown in Virginia Colony (1607) and Plymouth Colony in present-day Massachusetts (1620). The Dutch established settlements at Ft. Orange (now Albany, N.Y.) in 1624, New Amsterdam (now New York City) in 1626, and at Bergen (now part of Jersey City, N.J.) in 1660; they conquered New Sweden—the Swedish colony in Delaware and New Jersey—in 1655. Nine years later, however, the English seized this New Netherland Colony and subsequently monopolized settlement of the East Coast except for Florida, where Spanish rule prevailed until 1821. In the Southwest, California, Arizona, New Mexico, and Texas also were part of the Spanish empire until the 19th century. Meanwhile, in the Great Lakes area south of present-day Canada, France set up a few trading posts and settlements but never established effective control; New Orleans was one of the few areas of the United States where France pursued an active colonial policy.

From the founding of Jamestown to the outbreak of the American Revolution more than 150 years later, the British government administered its American colonies within the context of mercantilism: the colonies existed primarily for the economic benefit of the empire. Great Britain valued its American colonies especially for their tobacco, lumber, indigo, rice, furs, fish, grain, and naval stores, relying particularly in the southern colonies on black slave labor.

The colonies enjoyed a large measure of internal self-government until the end of the French and Indian War (1745–63), which resulted in the loss of French Canada to the British. To prevent further troubles with the Native Americans, the British government in 1763 prohibited the American colonists from settling beyond the Appalachian Mountains. Heavy debts forced London to decree that the colonists should assume the costs of their own defense, and the British government enacted a series of revenue measures to provide funds for that purpose. But soon, the colonists began to insist that they could be taxed only with their consent and the struggle grew to become one of local versus imperial authority.

Widening cultural and intellectual differences also served to divide the colonies and the mother country. Life on the edge of the civilized world had brought about changes in the colonists' attitudes and outlook, emphasizing their remoteness from English life. In view of the long tradition of virtual self-government in the colonies, strict enforcement of imperial regulations and British efforts to curtail the power of colonial legislatures presaged inevitable conflict between the colonies and the mother country. When citizens of Massachusetts, protesting the tax on tea, dumped a shipload of tea belonging to the East India Company into Boston harbor in 1773, the British felt compelled to act in defense of their authority as well as in defense of private property. Punitive measures—referred to as the Intolerable Acts by the colonists—struck at the foundations of self-government.

In response, the First Continental Congress, composed of delegates from 12 of the 13 colonies—Georgia was not represented—met in Philadelphia in September 1774, and proposed a general boycott of English goods, together with the organizing of a militia. British troops marched to Concord, Massachusetts, on 19 April 1775 and destroyed the supplies that the colonists had assembled there. American “minutemen” assembled on the nearby Lexington green and fired “the shot heard round the world,” although no one knows who actually fired the first shot that morning. The British soldiers withdrew and fought their way back to Boston.

Voices in favor of conciliation were raised in the Second Continental Congress that assembled in Philadelphia on 10 May 1775, this time including Georgia; but with news of the Restraining Act (30 March 1775), which denied the colonies the right to trade with countries outside the British Empire, all hopes for peace vanished. George Washington was appointed commander in chief of the new American army, and on 4 July 1776, the 13 American colonies adopted the Declaration of Independence, justifying the right of revolution by the theory of natural rights.

British and American forces met in their first organized encounter near Boston on 17 June 1775. Numerous battles up and down the coast followed. The British seized and held the principal cities but were unable to inflict a decisive defeat on Washington's troops. The entry of France into the war on the American side eventually tipped the balance. On 19 October 1781, the British commander, Cornwallis, cut off from reinforcements by the French fleet on one side and besieged by French and American forces on the other, surrendered his army at Yorktown, Virginia. American independence was acknowledged by the British in a treaty of peace signed in Paris on 3 September 1783.

The first constitution uniting the 13 original states—the Articles of Confederation—reflected all the suspicions that Americans en-

tertained about a strong central government. Congress was denied power to raise taxes or regulate commerce, and many of the powers it was authorized to exercise required the approval of a minimum of nine states. Dissatisfaction with the Articles of Confederation was aggravated by the hardships of a postwar depression, and in 1787—the same year that Congress passed the Northwest Ordinance, providing for the organization of new territories and states on the frontier—a convention assembled in Philadelphia to revise the articles. The convention adopted an altogether new constitution, the present Constitution of the United States, which greatly increased the powers of the central government at the expense of the states. This document was ratified by the states with the understanding that it would be amended to include a bill of rights guaranteeing certain fundamental freedoms. These freedoms—including the rights of free speech, press, and assembly, freedom from unreasonable search and seizure, and the right to a speedy and public trial by an impartial jury—are assured by the first 10 amendments to the constitution, adopted on 5 December 1791; the constitution did, however, recognize slavery, and did not provide for universal suffrage. On 30 April 1789, George Washington was inaugurated as the first president of the United States.

During Washington's administration, the credit of the new nation was bolstered by acts providing for a revenue tariff and an excise tax; opposition to the excise on whiskey sparked the Whiskey Rebellion, suppressed on Washington's orders in 1794. Alexander Hamilton's proposals for funding the domestic and foreign debt and permitting the national government to assume the debts of the states were also implemented. Hamilton, the secretary of the treasury, also created the first national bank, and was the founder of the Federalist Party. Opposition to the bank as well as to the rest of the Hamiltonian program, which tended to favor northeastern commercial and business interests, led to the formation of an anti-Federalist party, the Democratic-Republicans, led by Thomas Jefferson.

The Federalist Party, to which Washington belonged, regarded the French Revolution as a threat to security and property; the Democratic-Republicans, while condemning the violence of the revolutionists, hailed the overthrow of the French monarchy as a blow to tyranny. The split of the nation's leadership into rival camps was the first manifestation of the two-party system, which has since been the dominant characteristic of the US political scene (Jefferson's party should not be confused with the modern Republican Party, formed in 1854).

The 1800 election brought the defeat of Federalist president John Adams, Washington's successor, by Jefferson; a key factor in Adam's loss was the unpopularity of the Alien and Sedition Acts (1798), Federalist-sponsored measures that had abridged certain freedoms guaranteed in the Bill of Rights. In 1803, Jefferson achieved the purchase from France of the Louisiana Territory, including all the present territory of the United States west of the Mississippi drained by that river and its tributaries; exploration and mapping of the new territory, notably through the expeditions of Meriwether Lewis and William Clark, began almost immediately. Under Chief Justice John Marshall, the US Supreme Court, in the landmark case of *Marbury v. Madison*, established the principle of federal supremacy in conflicts with the states and enunciated the doctrine of judicial review.

During Jefferson's second term in office, the United States became involved in a protracted struggle between Britain and Napoleonic France. Seizures of US ships and the impressment of US seamen by the British navy led the administration to pass the Embargo Act of 1807, under which no US ships were to put out to sea. After the act was repealed in 1809, ship seizures and impressment of seamen by the British continued, and were the ostensible reasons for the declaration of war on Britain in 1812 during the administration of James Madison. An underlying cause of the War of 1812, however, was land-hungry Westerners' coveting of southern Canada as potential US territory.

The war was largely a standoff. A few surprising US naval victories countered British successes on land. The Treaty of Ghent (24 December 1814), which ended the war, made no mention of impressment and provided for no territorial changes. The occasion for further maritime conflict with Britain, however, disappeared with the defeat of Napoleon in 1815.

Now the nation became occupied primarily with domestic problems and westward expansion. Because the United States had been cut off from its normal sources of manufactured goods in Great Britain during the war, textiles and other industries developed and prospered in New England. To protect these infant industries, Congress adopted a high-tariff policy in 1816.

Three events of the late 1810s and the 1820s were of considerable importance for the future of the country. The federal government in 1817 began a policy of forcibly resettling the Native Americans (Indians), already decimated by war and disease, in what later became known as Indian Territory (now Oklahoma); those Native Americans not forced to move were restricted to reservations. The Missouri Compromise (1820) was an attempt to find a nationally acceptable solution to the volatile dispute over the extension of black slavery to new territories. It provided for admission of Missouri into the Union as a slave state but banned slavery in territories to the west that lay north of 36°30'. As a result of the establishment of independent Latin American republics and threats by France and Spain to reestablish colonial rule, President James Monroe in 1823 asserted that the Western Hemisphere was closed to further colonization by European powers. The Monroe Doctrine declared that any effort by such powers to recover territories whose independence the United States had recognized would be regarded as an unfriendly act.

From the 1820s to the outbreak of the Civil War, the growth of manufacturing continued, mainly in the North, and was accelerated by inventions and technological advances. Farming expanded with westward migration. The South discovered that its future lay in the cultivation of cotton. The cotton gin, invented by Eli Whitney in 1793, greatly simplified the problems of production; the growth of the textile industry in New England and Great Britain assured a firm market for cotton. Hence, during the first half of the 19th century, the South remained a fundamentally agrarian society based increasingly on a one-crop economy. Large numbers of field hands were required for cotton cultivation, and black slavery became solidly entrenched in the southern economy.

The construction of roads and canals paralleled the country's growth and economic expansion. The successful completion of the Erie Canal (1825), linking the Great Lakes with the Atlantic, ushered in a canal-building boom. Railroad building began in earnest in the 1830s, and by 1840, about 5,300 km (3,300 mi) of track

had been laid. The development of the telegraph a few years later gave the nation the beginnings of a modern telecommunications network. As a result of the establishment of the factory system, a laboring class appeared in the North by the 1830s, bringing with it the earliest unionization efforts.

Western states admitted into the Union following the War of 1812 provided for free white male suffrage without property qualifications and helped spark a democratic revolution. As eastern states began to broaden the franchise, mass appeal became an important requisite for political candidates. The election to the presidency in 1928 of Andrew Jackson, a military hero and Indian fighter from Tennessee, was no doubt a result of this widening of the democratic process. By this time, the United States consisted of 24 states and had a population of nearly 13 million.

The relentless westward thrust of the United States population ultimately involved the United States in foreign conflict. In 1836, US settlers in Texas revolted against Mexican rule and established an independent republic. Texas was admitted to the Union as a state in 1845, and relations between Mexico and the United States steadily worsened. A dispute arose over the southern boundary of Texas, and a Mexican attack on a US patrol in May 1846 gave President James K. Polk a pretext to declare war. After a rapid advance, US forces captured Mexico City, and on 2 February 1848, Mexico formally gave up the unequal fight by signing the Treaty of Guadalupe Hidalgo, providing for the cession of California and the territory of New Mexico to the United States. With the Gadsden Purchase of 1853, the United States acquired from Mexico for \$10 million large strips of land forming the balance of southern Arizona and New Mexico. A dispute with Britain over the Oregon Territory was settled in 1846 by a treaty that established the 49th parallel as the boundary with Canada. Thenceforth the United States was to be a Pacific as well as an Atlantic power.

Westward expansion exacerbated the issue of slavery in the territories. By 1840, abolition of slavery constituted a fundamental aspect of a movement for moral reform, which also encompassed women's rights, universal education, alleviation of working class hardships, and temperance. In 1849, a year after the discovery of gold had precipitated a rush of new settlers to California, that territory (whose constitution prohibited slavery) demanded admission to the Union. A compromise engineered in Congress by Senator Henry Clay in 1850 provided for California's admission as a free state in return for various concessions to the South. But enmities dividing North and South could not be silenced. The issue of slavery in the territories came to a head with the Kansas-Nebraska Act of 1854, which repealed the Missouri Compromise and left the question of slavery in those territories to be decided by the settlers themselves. The ensuing conflicts in Kansas between northern and southern settlers earned the territory the name "bleeding Kansas."

In 1860, the Democratic Party, split along northern and southern lines, offered two presidential candidates. The new Republican Party, organized in 1854 and opposed to the expansion of slavery, nominated Abraham Lincoln. Owing to the defection in Democratic ranks, Lincoln was able to carry the election in the electoral college, although he did not obtain a majority of the popular vote. To ardent supporters of slavery, Lincoln's election provided a reason for immediate secession. Between December 1860 and February 1861, the seven states of the Deep South—South Caro-

lina, Mississippi, Florida, Alabama, Georgia, Louisiana, and Texas— withdrew from the Union and formed a separate government, known as the Confederate States of America, under the presidency of Jefferson Davis. The secessionists soon began to confiscate federal property in the South. On 12 April 1861, the Confederates opened fire on Ft. Sumter in the harbor of Charleston, South Carolina, and thus precipitated the US Civil War. Following the outbreak of hostilities, Arkansas, North Carolina, Virginia, and Tennessee joined the Confederacy.

For the next four years, war raged between the Confederate and Union forces, largely in southern territories. An estimated 360,000 men in the Union forces died of various causes, including 110,000 killed in battle. Confederate dead were estimated at 250,000, including 94,000 killed in battle. The North, with great superiority in manpower and resources, finally prevailed. A Confederate invasion of the North was repulsed at the battle of Gettysburg, Pennsylvania, in July 1863; a Union army took Atlanta, Georgia in September 1864; and Confederate forces evacuated Richmond, Virginia the Confederate capital, in early April 1865. With much of the South in Union hands, Confederate Gen. Robert E. Lee surrendered to Gen. Ulysses S. Grant at Appomattox Courthouse in Virginia on 9 April.

The outcome of the war brought great changes in US life. Lincoln's Emancipation Proclamation of 1863 was the initial step in freeing some four million black slaves; their liberation was completed soon after the war's end by amendments to the Constitution. Lincoln's plan for the reconstruction of the rebellious states was compassionate, but only five days after Lee's surrender, Lincoln was assassinated by John Wilkes Booth as part of a conspiracy in which US Secretary of State William H. Seward was seriously wounded.

During the Reconstruction era (1865–77), the defeated South was governed by Union Army commanders, and the resultant bitterness of southerners toward northern Republican rule, which enfranchised blacks, persisted for years afterward. Vice President Andrew Johnson, who succeeded Lincoln as president, tried to carry out Lincoln's conciliatory policies but was opposed by radical Republican leaders in Congress who demanded harsher treatment of the South. On the pretext that he had failed to carry out an act of Congress, the House of Representatives voted to impeach Johnson in 1868, but the Senate failed by one vote to convict him and remove him from office. It was during Johnson's presidency that Secretary of State Seward negotiated the purchase of Alaska (which attained statehood in 1959) from Russia for \$7.2 million.

The efforts of southern whites to regain political control of their states led to the formation of terrorist organizations like the Ku Klux Klan, which employed violence to prevent blacks from voting. By the end of the Reconstruction era, whites had reestablished their political domination over blacks in the southern states and had begun to enforce patterns of segregation in education and social organization that were to last for nearly a century.

In many southern states, the decades following the Civil War were ones of economic devastation, in which rural whites as well as blacks were reduced to sharecropper status. Outside the South, however, a great period of economic expansion began. Transcontinental railroads were constructed, corporate enterprise spurred ahead, and the remaining western frontier lands were rapidly occupied and settled. The age of big business tycoons dawned. As

heavy manufacturing developed, Pittsburgh, Chicago, and New York emerged as the nation's great industrial centers. The Knights of Labor, founded in 1869, engaged in numerous strikes, and violent conflicts between strikers and strikebreakers were common. The American Federation of Labor, founded in 1886, established a nationwide system of craft unionism that remained dominant for many decades. During this period, too, the woman's rights movement organized actively to secure the vote (although woman's suffrage was not enacted nationally until 1920), and groups outraged by the depletion of forests and wildlife in the West pressed for the conservation of natural resources.

During the latter half of the 19th century, the acceleration of westward expansion made room for millions of immigrants from Europe. The country's population grew to more than 76 million by 1900. As homesteaders, prospectors, and other settlers tamed the frontier, the federal government forced Indians west of the Mississippi to cede vast tracts of land to the whites, precipitating a series of wars with various tribes. By 1890, only 250,000 Indians remained in the United States, virtually all of them residing on reservations.

The 1890s marked the closing of the United States frontier for settlement and the beginning of US overseas expansion. By 1892, Hawaiian sugar planters of US origin had become strong enough to bring about the downfall of the native queen and to establish a republic, which in 1898, at its own request, was annexed as a territory by the United States. The sympathies of the United States with the Cuban nationalists who were battling for independence from Spain were aroused by a lurid press and by expansionist elements. A series of events climaxed by the sinking of the USS *Maine* in Havana harbor finally forced a reluctant President William McKinley to declare war on Spain on 25 April 1898. US forces overwhelmed those of Spain in Cuba, and as a result of the Spanish-American War, the United States added to its territories the Philippines, Guam, and Puerto Rico. A newly independent Cuba was drawn into the United States orbit as a virtual protectorate through the 1950s. Many eminent citizens saw these new departures into imperialism as a betrayal of the time-honored US doctrine of government by the consent of the governed.

With the marked expansion of big business came increasing protests against the oppressive policies of large corporations and their dominant role in the public life of the nation. A demand emerged for strict control of monopolistic business practice through the enforcement of antitrust laws. Two US presidents, Theodore Roosevelt (1901–09), a Republican and Woodrow Wilson (1913–21), a Democrat, approved of the general movement for reform, which came to be called progressivism. Roosevelt developed a considerable reputation as a trustbuster, while Wilson's program, known as the New Freedom, called for reform of tariffs, business procedures, and banking. During Roosevelt's first term, the United States leased the Panama Canal Zone and started construction of a 68-km (42-mi) canal, completed in 1914.

US involvement in World War I marked the country's active emergence as one of the great powers of the world. When war broke out in 1914 between Germany, Austria-Hungary, and Turkey on one side and Britain, France, and Russia on the other, sentiment in the United States was strongly opposed to participation in the conflict, although a large segment of the American people sympathized with the British and the French. While both sides

violated US maritime rights on the high seas, the Germans, enmeshed in a British blockade, resorted to unrestricted submarine warfare. On 6 April 1917, Congress declared war on Germany. Through a national draft of all able-bodied men between the ages of 18 and 45, some four million US soldiers were trained, of whom more than two million were sent overseas to France. By late 1917, when US troops began to take part in the fighting on the western front, the European armies were approaching exhaustion, and US intervention may well have been decisive in ensuring the eventual victory of the Allies. In a series of great battles in which US soldiers took an increasingly major part, the German forces were rolled back in the west, and in the autumn of 1918 were compelled to sue for peace. Fighting ended with the armistice of 11 November 1918. President Wilson played an active role in drawing up the 1919 Versailles peace treaty, which embodied his dream of establishing a League of Nations to preserve the peace, but the isolationist bloc in the Senate was able to prevent US ratification of the treaty.

In the 1920s, the United States had little enthusiasm left for crusades, either for democracy abroad or for reform at home; a rare instance of idealism in action was the Kellogg-Briand Pact (1928), an antiwar accord negotiated on behalf of the United States by Secretary of State Frank B. Kellogg. In general, however, the philosophy of the Republican administrations from 1921 to 1933 was expressed in the aphorism “the business of America is business,” and the 1920s saw a great business boom. The years 1923–24 also witnessed the unraveling of the Teapot Dome scandal: the revelation that President Warren G. Harding’s secretary of the interior, Albert B. Fall, had secretly leased federal oil reserves in California and Wyoming to private oil companies in return for gifts and loans.

The great stock market crash of October 1929 ushered in the most serious and most prolonged economic depression the country had ever known. By 1933, an estimated 12 million men and women were out of work; personal savings were wiped out on a vast scale through a disastrous series of corporate bankruptcies and bank failures. Relief for the unemployed was left to private charities and local governments, which were incapable of handling the enormous task.

The inauguration of the successful Democratic presidential candidate, Franklin D. Roosevelt, in March 1933 ushered in a new era of US history, in which the federal government was to assume a much more prominent role in the nation’s economic affairs. Proposing to give the country a “New Deal,” Roosevelt accepted national responsibility for alleviating the hardships of unemployment; relief measures were instituted, work projects were established, the deficit spending was accepted in preference to ignoring public distress. The federal Social Security program was inaugurated, as were various measures designed to stimulate and develop the economy through federal intervention. Unions were strengthened through the National Labor Relations Act, which established the right of employees’ organizations to bargain collectively with employers. Union membership increased rapidly, and the dominance of the American Federation of Labor was challenged by the newly formed Congress of Industrial Organizations, which organized workers along industrial lines.

The depression of the 1930s was worldwide, and certain nations attempted to counter economic stagnation by building large

military establishments and embarking on foreign adventures. Following German, Italian, and Japanese aggression, World War II broke out in Europe during September 1939. In 1940, Roosevelt, disregarding a tradition dating back to Washington that no president should serve more than two terms, ran again for reelection. He easily defeated his Republican opponent, Wendell Willkie, who, along with Roosevelt, advocated increased rearmament and all possible aid to victims of aggression. The United States was brought actively into the war by the Japanese attack on the Pearl Harbor naval base in Hawaii on 7 December 1941. The forces of Germany, Italy, and Japan were now arrayed over a vast theater of war against those of the United States and the British Commonwealth; in Europe, Germany was locked in a bloody struggle with the Soviet Union. US forces waged war across the vast expanses of the Pacific, in Africa, in Asia, and in Europe. Italy surrendered in 1943; Germany was successfully invaded in 1944 and conquered in May 1945; and after the United States dropped the world’s first atomic bombs on Hiroshima and Nagasaki, the Japanese capitulated in August. The Philippines became an independent republic soon after the war, but the United States retained most of its other Pacific possessions, with Hawaii becoming the 50th state in 1959.

Roosevelt, who had been elected to a fourth term in 1944, died in April 1945 and was succeeded by Harry S Truman, his vice president. Under the Truman administration, the United States became an active member of the new world organization, the United Nations. The Truman administration embarked on large-scale programs of military aid and economic support to check the expansion of communism. Aid to Greece and Turkey in 1948 and the Marshall Plan, a program designed to accelerate the economic recovery of Western Europe, were outstanding features of US postwar foreign policy. The North Atlantic Treaty (1949) established a defensive alliance among a number of West European nations and the United States. Truman’s Point Four program gave technical and scientific aid to developing nations. When, following the North Korean attack on South Korea on 25 June 1950, the UN Security Council resolved that members of the UN should proceed to the aid of South Korea, US naval, air, and ground forces were immediately dispatched by President Truman. An undeclared war ensued, which eventually was brought to a halt by an armistice signed on 27 June 1953.

In 1952, Dwight D. Eisenhower, supreme commander of Allied forces in Europe during World War II, was elected president on the Republican ticket, thereby bringing to an end 20 years of Democratic presidential leadership. In foreign affairs, the Eisenhower administration continued the Truman policy of containing the USSR and threatened “massive retaliation” in the event of Soviet aggression, thus heightening the Cold War between the world’s two great nuclear powers. Although Republican domestic policies were more conservative than those of the Democrats, the Eisenhower administration extended certain major social and economic programs of the Roosevelt and Truman administrations, notably Social Security and public housing. The early years of the Eisenhower administration were marked by agitation (arising in 1950) over charges of Communist and other allegedly subversive activities in the United States—a phenomenon known as McCarthyism, after Republican Senator Joseph R. McCarthy of Wisconsin, who aroused much controversy with unsubstantiated allegations that Communists had penetrated the US government,

especially the Army and the Department of State. Even those who personally opposed McCarthy lent their support to the imposition of loyalty oaths and the blacklisting of persons with left-wing backgrounds.

A major event of the Eisenhower years was the US Supreme Court's decision in *Brown v. Board of Education of Topeka* (1954) outlawing segregation of whites and blacks in public schools. In the aftermath of this ruling, desegregation proceeded slowly and painfully. In the early 1960s, sit-ins, "freedom rides," and similar expressions of nonviolent resistance by blacks and their sympathizers led to a lessening of segregation practices in public facilities. Under Chief Justice Earl Warren, the high court in 1962 mandated the reapportionment of state and federal legislative districts according to a "one person, one vote" formula. It also broadly extended the rights of defendants in criminal trials to include the provision of a defense lawyer at public expense for an accused person unable to afford one, and established the duty of police to advise an accused person of his or her legal rights immediately upon arrest.

In the early 1960s, during the administration of Eisenhower's Democratic successor, John F. Kennedy, the Cold War heated up as Cuba, under the regime of Fidel Castro, aligned itself with the Soviet Union. Attempts by anti-Communist Cuban exiles to invade their homeland in the spring of 1961 failed despite US aid. In October 1962, President Kennedy successfully forced a showdown with the Soviet Union over Cuba in demanding the withdrawal of Soviet-supplied "offensive weapons"—missiles—from the nearby island. On 22 November 1963, President Kennedy was assassinated while riding in a motorcade through Dallas, Texas; hours later, Vice President Lyndon B. Johnson was inaugurated president. In the November 1964 elections, Johnson overwhelmingly defeated his Republican opponent, Barry M. Goldwater, and embarked on a vigorous program of social legislation unprecedented since Roosevelt's New Deal. His "Great Society" program sought to ensure black Americans' rights in voting and public housing, to give the underprivileged job training, and to provide persons 65 and over with hospitalization and other medical benefits (Medicare). Measures ensuring equal opportunity for minority groups may have contributed to the growth of the woman's rights movement in the late 1960s. This same period also saw the growth of a powerful environmental protection movement.

US military and economic aid to anti-Communist forces in Vietnam, which had its beginnings during the Truman administration (while Vietnam was still part of French Indochina) and was increased gradually by presidents Eisenhower and Kennedy, escalated in 1965. In that year, President Johnson sent US combat troops to South Vietnam and ordered US bombing raids on North Vietnam, after Congress (in the Gulf of Tonkin Resolution of 1964) had given him practically carte blanche authority to wage war in that region. By the end of 1968, American forces in Vietnam numbered 536,100 men, but US military might was unable to defeat the Vietnamese guerrillas, and the American people were badly split over continuing the undeclared (and, some thought, ill-advised or even immoral) war, with its high price in casualties and materiel. Reacting to widespread dissatisfaction with his Vietnam policies, Johnson withdrew in March 1968 from the upcoming presidential race, and in November, Republican Richard M. Nixon, who had been the vice president under Eisenhower,

was elected president. Thus, the Johnson years—which had begun with the new hopes of a Great Society but had soured with a rising tide of racial violence in US cities and the assassinations of civil rights leader Martin Luther King, Jr., and US senator Robert F. Kennedy, among others—drew to a close.

President Nixon gradually withdrew US ground troops from Vietnam but expanded aerial bombardment throughout Indochina, and the increasingly unpopular and costly war continued for four more years before a cease-fire—negotiated by Nixon's national security adviser, Henry Kissinger—was finally signed on 27 January 1973 and the last US soldiers were withdrawn. The most protracted conflict in American history had resulted in 46,163 US combat deaths and 303,654 wounded soldiers, and had cost the US government \$112 billion in military allocations. Two years later, the South Vietnamese army collapsed, and the North Vietnamese Communist regime united the country.

In 1972, during the last year of his first administration, Nixon initiated the normalization of relations—ruptured in 1949—with the People's Republic of China and signed a strategic arms limitation agreement with the Soviet Union as part of a Nixon-Kissinger policy of pursuing détente with both major Communist powers. (Earlier, in July 1969, American technology had achieved a national triumph by landing the first astronaut on the moon.) The Nixon administration sought to muster a "silent majority" in support of its Indochina policies and its conservative social outlook in domestic affairs. The most momentous domestic development, however, was the Watergate scandal, which began on 17 June 1972 with the arrest of five men associated with Nixon's reelection campaign, during a break-in at Democratic Party headquarters in the Watergate office building in Washington, DC. Although Nixon was reelected in 1972, subsequent disclosures by the press and by a Senate investigating committee revealed a complex pattern of political "dirty tricks" and illegal domestic surveillance throughout his first term. The president's apparent attempts to obstruct justice by helping his aides cover up the scandal were confirmed by tape recordings (made by Nixon himself) of his private conversations, which the Supreme Court ordered him to release for use as evidence in criminal proceedings. The House voted to begin impeachment proceedings, and in late July 1974, its Judiciary Committee approved three articles of impeachment. On 9 August, Nixon became the first president to resign the office. The following year, Nixon's top aides and former attorney general, John N. Mitchell, were convicted of obstruction and were subsequently sentenced to prison.

Nixon's successor was Gerald R. Ford, who in October 1973 had been appointed to succeed Vice President Spiro T. Agnew when Agnew resigned following his plea of *nolo contendere* to charges that he had evaded paying income tax on moneys he had received from contractors while governor of Maryland. Less than a month after taking office, President Ford granted a full pardon to Nixon for any crimes he may have committed as president. In August 1974, Ford nominated Nelson A. Rockefeller as vice president (he was not confirmed until December), thus giving the country the first instance of a nonelected president and an appointed vice president serving simultaneously. Ford's pardon of Nixon, as well as continued inflation and unemployment, probably contributed to his narrow defeat by a Georgia Democrat, Jimmy Carter, in 1976.

President Carter's forthright championing of human rights—though consistent with the Helsinki accords, the “final act” of the Conference on Security and Cooperation in Europe, signed by the United States and 34 other nations in July 1974—contributed to strained relations with the USSR and with some US allies. During 1978–79, the president concluded and secured Senate passage of treaties ending US sovereignty over the Panama Canal Zone. His major accomplishment in foreign affairs, however, was his role in mediating a peace agreement between Israel and Egypt, signed at the camp David, Md., retreat in September 1978. Domestically, the Carter administration initiated a national energy program to reduce US dependence on foreign oil by cutting gasoline and oil consumption and by encouraging the development of alternative energy resources. But the continuing decline of the economy because of double-digit inflation and high unemployment caused his popularity to wane, and confusing shifts in economic policy (coupled with a lack of clear goals in foreign affairs) characterized his administration during 1979 and 1980; a prolonged quarrel with Iran over more than 50 US hostages seized in Tehrān on 4 November 1979 contributed to public doubts about his presidency. Exactly a year after the hostages were taken, former California Governor Ronald Reagan defeated Carter in an election that saw the Republican Party score major gains throughout the United States. The hostages were released on 20 January 1981, the day of Reagan's inauguration.

Reagan, who survived a chest wound from an assassination attempt in Washington, DC, in 1981, used his popularity to push through significant policy changes. He succeeded in enacting income tax cuts of 25%, reducing the maximum tax rate on unearned income from 70% to 50%, and accelerating depreciation allowances for businesses. At the same time, he more than doubled the military budget, in constant 1985 dollars, between 1980 and 1989. Vowing to reduce domestic spending, Reagan cut benefits for the working poor, reduced allocations for food stamps and Aid to Families With Dependent Children by 13%, and decreased grants for the education of disadvantaged children. He slashed the budget of the Environmental Protection Agency and instituted a flat rate reimbursement system for the treatment of Medicare patients with particular illnesses, replacing a more flexible arrangement in which hospitals had been reimbursed for “reasonable charges.”

Reagan's appointment of Sandra Day O'Connor as the first woman justice of the Supreme Court was widely praised and won unanimous confirmation from the Senate. However, some of his other high-level choices were extremely controversial—none more so than that of his secretary of the interior, James G. Watt, who finally resigned on October 1983. To direct foreign affairs, Reagan named Alexander M. Haig, Jr., former NATO supreme commander for Europe, to the post of secretary of state; Haig, who clashed frequently with other administration officials, resigned in June 1982 and was replaced by George P. Shultz. In framing his foreign and defense policy, Reagan insisted on a military buildup as a precondition for arms-control talks with the USSR. His administration sent money and advisers to help the government of El Salvador in its war against leftist rebels, and US advisers were also sent to Honduras, reportedly to aid groups of Nicaraguans trying to overthrow the Sandinista government in their country. Troops were also dispatched to Lebanon in September 1982, as part of

a multinational peacekeeping force in Beirut, and to Grenada in October 1983 to oust a leftist government there.

Reelected in 1984, President Reagan embarked on his second term with a legislative agenda that included reduction of federal budget deficits (which had mounted rapidly during his first term in office), further cuts in domestic spending, and reform of the federal tax code. In military affairs, Reagan persuaded Congress to fund on a modest scale his Strategic Defense Initiative, commonly known as Star Wars, a highly complex and extremely costly space-based antimissile system. In 1987, the downing of an aircraft carrying arms to Nicaragua led to the disclosure that a group of National Security Council members had secretly diverted \$48 million that the federal government had received in payment from Iran for American arms to rebel forces in Nicaragua. The disclosure prompted the resignation of two of the leaders of the group, Vice Admiral John Poindexter and Lieutenant Colonel Oliver North, as well as investigations by House and Senate committees and a special prosecutor, Lawrence Walsh. The congressional investigations found no conclusive evidence that Reagan had authorized or known of the diversion. Yet they noted that because Reagan had approved of the sale of arms to Iran and had encouraged his staff to assist Nicaraguan rebels despite the prohibition of such assistance by Congress, “the President created or at least tolerated an environment where those who did know of the diversion believed with certainty that they were carrying out the President's policies.”

Reagan was succeeded in 1988 by his vice president, George H.W. Bush. Benefiting from a prolonged economic expansion, Bush handily defeated Michael Dukakis, governor of Massachusetts and a liberal Democrat. On domestic issues, Bush sought to maintain policies introduced by the Reagan administration. His few legislative initiatives included the passage of legislation establishing strict regulations of air pollution, providing subsidies for child care, and protecting the rights of the disabled. Abroad, Bush showed more confidence and energy. While he responded cautiously to revolutions in Eastern Europe and the Soviet Union, he used his personal relationships with foreign leaders to bring about comprehensive peace talks between Israel and its Arab neighbors, to encourage a peaceful unification of Germany, and to negotiate broad and substantial arms cuts with the Russians. Bush reacted to Iraq's invasion of Kuwait in 1990 by sending 400,000 soldiers to form the basis of a multinational coalition, which he assembled and which destroyed Iraq's main force within seven months. This conflict became known as the Gulf War.

One of the biggest crises that the Bush administration encountered was the collapse of the savings and loan industry in the late eighties. Thrift institutions were required by law to pay low interest rates for deposits and long-term loans. The creation of money market funds for the small investor in the eighties which paid higher rates of return than savings accounts prompted depositors to withdraw their money from banks and invest it in the higher yielding mutual funds. To finance the withdrawals, banks began selling assets at a loss. The deregulation of the savings and loan industry, combined with the increase in federal deposit insurance from \$40,000 to \$100,000 per account, encouraged many desperate savings institutions to invest in high-risk real-estate ventures, for which no state supervision or regulation existed. When the majority of such ventures predictably failed, the federal govern-

ment found itself compelled by law to rescue the thrifts. It is estimated that this will cost to taxpayers \$345 billion, in settlements that will continue through 2029.

In his bid for reelection in 1992, Bush faced not only Democratic nominee Bill Clinton, governor of Arkansas, but also third-party candidate Ross Perot, a Dallas billionaire who had made his fortune in the computer industry. In contrast to Bush's first run for the presidency, when the nation had enjoyed an unusually long period of economic expansion, the economy in 1992 was just beginning to recover from a recession. Although data released the following year indicated that a healthy rebound had already begun in 1992, the public perceived the economy during election year as weak. Clinton took advantage of this perception in his campaign, focusing on the financial concerns of what he called "the forgotten middle class." He also took a more centrist position on many issues than more traditional Democrats, promising fiscal responsibility and economic growth. Clinton defeated Bush, winning 43% of the vote to Bush's 38%. Perot garnered 18% of the vote.

At its outset, Clinton's presidency was plagued by numerous setbacks, most notably the failure of his controversial health care reform plan, drawn up under the leadership of first lady Hillary Rodham Clinton. Major accomplishments included the passage, by a narrow margin, of a deficit-reduction bill calling for tax increases and spending cuts and Congressional approval of the North American Free Trade Agreement, which removed or reduced tariffs on most goods moving across the borders of the United States, Canada, and Mexico. Although supporters and critics agreed that the treaty would create or eliminate relatively few jobs—two hundred thousand—the accord prompted heated debate. Labor strenuously opposed the agreement, seeing it as accelerating the flight of factory jobs to countries with low labor costs such as Mexico, the third-largest trading partner of the United States. Business, on the other hand, lobbied heavily for the treaty, arguing that it would create new markets for American goods and insisting that competition from Mexico would benefit the American economy.

By the fall of 1994, many American workers, still confronting stagnating wages, benefits, and living standards, had yet to feel the effects of the nation's recovery from the recession of 1990–91. The resulting disillusionment with the actions of the Clinton administration and the Democrat-controlled Congress, combined with the widespread climate of social conservatism resulting from a perceived erosion of traditional moral values led to an overwhelming upset by the Republican party in the 1994 midterm elections. The GOP gained control of both houses of Congress for the first time in over 40 years, also winning 11 gubernatorial races, for control of a total of 30 governorships nationwide. The Republican agenda—increased defense spending and cuts in taxes, social programs, and farm subsidies—had been popularized under the label "Contract with America," the title of a manifesto circulated during the campaign.

The ensuing confrontation between the nation's Democratic president and Republican-controlled Congress came to a head at the end of 1995, when Congress responded to presidential vetoes of appropriations and budget bills by refusing to pass stop gap spending measures, resulting in major shutdowns of the federal government in November and December. The following summer, however, the president and Congress joined forces to reform the welfare system through a bill replacing Aid to Families with De-

pendent Children with block grants through which welfare funding would largely become the province of the states.

The nation's economic recovery gained strength as the decade advanced, with healthy growth, falling unemployment, and moderate interest and inflation levels. Public confidence in the economy was reflected in a bull market on the stock exchange, which gained 60% between 1995 and 1997. Bolstered by a favorable economy at home and peace abroad, Clinton's faltering popularity rebounded and in 1996 he became the first Democratic president elected to a second term since Franklin D. Roosevelt in 1936, defeating the Republican candidate, former Senate majority leader Robert Dole, and Independent Ross Perot, whose electoral support was greatly reduced from its 1992 level. The Republicans retained control of both houses of Congress. In 1997, President Clinton signed into law a bipartisan budget plan designed to balance the federal budget by 2002 for the first time since 1969, through a combination of tax and spending cuts. In 1998–99, the federal government experienced two straight years of budget surpluses.

In 1998, special prosecutor Kenneth Starr submitted a report to Congress that resulted in the House of Representatives passing four articles of impeachment against President Clinton. In the subsequent trial in the Senate, the articles were defeated.

Regulation of the three large financial industries underwent significant change in late 1999. The Gramm-Leach-Bliley Act (also known as the Financial Modernization Act) was passed by Congress in November 1999. It cleared the way for banks, insurance companies, and securities companies to sell each other's services and to engage in merger and acquisition activity. Prior to the Act's passage, activities of the banking, insurance and securities industries were strictly limited by the Glass Steagall Act of 1933, which Gramm-Leach-Bliley repealed.

Health care issues received significant attention in 2000. On 23 November 1998, 46 states and the District of Columbia together reached a settlement with the large US tobacco companies over compensation for smoking-related healthcare costs incurred by the states. Payments to the states, totaling \$206 billion, were scheduled to be made over 25 years beginning in 1999. Most states passed Patients' Rights legislation, and all 50 states and the District of Columbia passed Children's Health Insurance Programs (CHIP) legislation to provide health care to children in low-income families.

The ongoing strong economy continued through the late 1990s and into 2000. Economic expansion set a record for longevity, and—except for higher gasoline prices during summer 2000, stemming from higher crude oil prices—inflation continued to be relatively low. By 2000, there was additional evidence that productivity growth had improved substantially since the mid-1990s, boosting living standards while helping to hold down increases in costs and prices despite very tight labor markets.

In 2000, Hispanics replaced African Americans as the largest minority group in the United States. (Hispanics numbered 35.3 million in 2000, or 12.5% of the population, compared with 34.7 million blacks, or 12.3% of the population.)

The 2000 presidential election was one of the closest in US history, pitting Democratic vice president Al Gore against Republican Party candidate George W. Bush, son of former president George H. W. Bush. The vote count in Florida became the determining factor in the 7 November election, as each candidate need-

ed to obtain the state's 25 electoral college votes in order to capture the 270 needed to win the presidency. When in the early hours of 8 November Bush appeared to have won the state's 25 votes, Gore called Bush to concede the election. He soon retracted the concession, however, after the extremely thin margin of victory triggered an automatic recount of the vote in Florida. The Democrats subsequently mounted a series of legal challenges to the vote count in Florida, which favored Bush. Eventually, the US Supreme Court, in *Bush v. Gore*, was summoned to rule on the election. On 12 December 2000, the Court, divided 5–4, reversed the Florida state supreme court decision that had ordered new recounts called for by Al Gore. George W. Bush was declared president. Gore had won the popular vote, however, capturing 48.4% of votes cast to Bush's 47.9%.

Once inaugurated, Bush called education his top priority, stating that “no child should be left behind” in America. He affirmed support for Medicare and Social Security, and called for pay and benefit increases for the military. He called upon charities and faith-based community groups to aid the disadvantaged. Bush announced a \$1.6 trillion tax cut plan (subsequently reduced to \$1.35 trillion) in his first State of the Union Address as an economic stimulus package designed to respond to an economy that had begun to falter. He called for research and development of a missile-defense program, and warned of the threat of international terrorism.

The threat of international terrorism was made all too real on 11 September 2001, when 19 hijackers crashed 4 passenger aircraft into the North and South towers of the World Trade Center, the Pentagon, and a field in Stony Creek Township in Pennsylvania. The World Trade Center towers were destroyed. Approximately 3,000 people were confirmed or reported dead as a result of all four 11 September 2001 attacks. The terrorist organization al-Qaeda, led by Saudi-born Osama bin Laden, was believed to be responsible for the attacks, and a manhunt for bin Laden began.

On 7 October 2001, the United States and Britain launched air strikes against known terrorist training camps and military installations within Afghanistan, ruled by the Taliban regime that supported the al-Qaeda organization. The air strikes were supported by leaders of the European Union and Russia, as well as other nations. By December 2001, the Taliban were defeated, and Afghan leader Hamid Karzai was chosen to lead an interim administration for the country. Remnants of al-Qaeda still remained in Afghanistan and the surrounding region, and a year after the 2001 offensive more than 10,000 US soldiers remained in Afghanistan to suppress efforts by either the Taliban or al-Qaeda to regroup. As of 2005, Allied soldiers continued to come under periodic attack in Afghanistan.

As a response to the 11 September 2001 terrorist attacks, the US Congress that October approved the USA Patriot Act, proposed by the Bush administration. The act gave the government greater powers to detain suspected terrorists (or also immigrants), to counter money-laundering, and increase surveillance by domestic law enforcement and international intelligence agencies. Critics claimed the law did not provide for the system of checks and balances that safeguard civil liberties in the United States.

Beginning in late 2001, corporate America suffered a crisis of confidence. In December 2001, the energy giant Enron Corporation declared bankruptcy after massive false accounting practices

came to light. Eclipsing the Enron scandal, telecommunications giant WorldCom in June 2002 disclosed that it had hid \$3.8 billion in expenses over 15 months. The fraud led to WorldCom's bankruptcy, the largest in US history (the company had \$107 billion in assets).

In his January 2002 State of the Union Address, President Bush announced that Iran, Iraq, and North Korea constituted an “axis of evil,” sponsoring terrorism and threatening the United States and its allies with weapons of mass destruction. Throughout 2002, the United States pressed its case against Iraq, stating that the Iraqi regime had to disarm itself of weapons of mass destruction. In November 2002, the UN Security Council passed Resolution 1441, calling upon Iraq to disarm itself of any chemical, biological, or nuclear weapons it might possess and to allow for the immediate return of weapons inspectors (they had been expelled in 1998). UN and IAEA (International Atomic Energy Agency) weapons inspectors returned to Iraq, but the United States and the United Kingdom expressed dissatisfaction with their progress, and indicated military force might be necessary to remove the Iraqi regime, led by Saddam Hussein. France and Russia, permanent members of the UN Security Council, and Germany, a nonpermanent member, in particular, opposed the use of military force. The disagreement caused a diplomatic rift in the West that was slow to repair.

After diplomatic efforts at conflict resolution failed by March 2003, the United States, on 19 March, launched air strikes against targets in Baghdad and war began. On 9 April, Baghdad fell to US forces, and work began on restoring basic services to the Iraqi population, including providing safe drinking water, electricity, and sanitation. On 1 May, President Bush declared major combat operations had been completed. Iraqi dictator Saddam Hussein was captured by US forces on 13 December 2003 and placed in custody.

In May 2004, the Abu Ghraib scandal erupted. Photographs of US soldiers engaged in acts of abuse—including physical, sexual, and psychological—against Iraqi prisoners being held at the Abu Ghraib military prison outside Baghdad were made public. The fact that the prison had been a place of torture and execution under Saddam Hussein's rule made the abuse seem even more degrading. Seven US suspects were named for carrying out the abuse; most were given prison sentences on charges ranging from conspiracy to assault, but some thought higher-ranking officials, including Secretary of Defense Donald Rumsfeld, should resign as well.

US forces increasingly became the targets of attacks in Iraq as an insurgency against the US military presence began. By late 2005, nearly 1,900 US soldiers had been killed since major combat operations were declared over on 1 May 2003. Some 138,000 US troops remained in Iraq in late 2005, and that number was expected to increase as a referendum on a new Iraqi constitution in October 2005 and national elections in December 2005 were to be held.

The 2004 presidential election was held on 2 November. President George W. Bush and Vice President Dick Cheney defeated Democratic challengers John F. Kerry and John R. Edwards. Bush received approximately 3 million more popular votes than Kerry, and won the electoral vote 286 to 251. (One electoral vote went to John Edwards when an elector pledged to Kerry voted for “John Edwards” instead.) The vote in Ohio was the deciding factor, and

upon conceding Ohio, Kerry conceded the election. The campaign was run on such issues as terrorism, the War in Iraq, the economy, and to a lesser extent issues of morality and values—antigay marriage measures were on the ballots in 11 states, and all passed.

In August 2005, Hurricane Katrina landed on the Gulf Coast of the United States, in what was one of the worst natural disasters in US history. The city of New Orleans, Louisiana, was evacuated, but some 150,000 people were unable to leave before the storm hit. A day after the storm appeared to have bypassed the city's center, levees were breached by the storm surge and water submerged the metropolis. Rescuers initially ignored the bodies of the dead in the search to find the living. Those unable to leave the city were sheltered in the Louisiana Superdome and New Orleans Convention Center; air conditioning, electricity, and running water failed, making for unsanitary and uncomfortable conditions. They were later transferred to other shelters, including the Houston Astrodome. Looting, shootings, and carjackings exacerbated already devastating conditions. The costs of the hurricane and flooding were exceedingly high in terms of both loss of life and economic damage: more than 1,000 people died and damages were estimated to reach \$200 billion. Katrina had global economic consequences, as imports, exports, and oil supplies—including production, importation, and refining—were disrupted. The Federal Emergency Management Agency (FEMA) of the Department of Homeland Security, and President Bush were criticized in varying degrees for their lack of adequate response to the disaster. FEMA director Michael D. Brown resigned his position amid the furor. Race and class issues also came to the fore, as the majority of New Orleans residents unable to evacuate the city and affected by the catastrophe were poor and African American.

13 GOVERNMENT

The Constitution of the United States, signed in 1787, is the nation's governing document. In the first 10 amendments to the Constitution, ratified in 1791 and known as the Bill of Rights, the federal government is denied the power to infringe on rights generally regarded as fundamental to the civil liberties of the people. These amendments prohibit the establishment of a state religion and the abridgment of freedom of speech, press, and the right to assemble. They protect all persons against unreasonable searches and seizures, guarantee trial by jury, and prohibit excessive bail and cruel and unusual punishments. No person may be required to testify against himself, nor may he be deprived of life, liberty, or property without due process of law. The 13th Amendment (1865) banned slavery; the 15th (1870) protected the freed slaves' right to vote; and the 19th (1920) guaranteed the franchise to women. In all, there have been 27 amendments, the last of which, proposed in 1789 but ratified in 1992, denied the variation of the compensation of Senators and Representatives until an election intervened. The Equal Rights Amendment (ERA), approved by Congress in 1972, would have mandated equality between the sexes; only 35 of the required 38 states had ratified the ERA by the time the ratification deadline expired on 30 June 1982.

The United States has a federal form of government, with the distribution of powers between the federal government and the states constitutionally defined. The legislative powers of the federal government are vested in Congress, which consists of the House of Representatives and the Senate. There are 435 members

of the House of Representatives. Each state is allotted a number of representatives in proportion to its population as determined by the decennial census. Representatives are elected for two-year terms in every even-numbered year. A representative must be at least 25 years old, must be a resident of the state represented, and must have been a citizen of the United States for at least seven years. The Senate consists of two senators from each state, elected for six-year terms. Senators must be at least 30 years old, must be residents of the states from which they are elected, and must have been citizens of the United States for at least nine years. One-third of the Senate is elected in every even-numbered year.

Congress legislates on matters of taxation, borrowing, regulation of international and interstate commerce, formulation of rules of naturalization, bankruptcy, coinage, weights and measures, post offices and post roads, courts inferior to the Supreme Court, provision for the armed forces, among many other matters. A broad interpretation of the "necessary and proper" clause of the Constitution has widened considerably the scope of congressional legislation based on the enumerated powers.

A bill that is passed by both houses of Congress in the same form is submitted to the president, who may sign it or veto it. If the president chooses to veto the bill, it is returned to the house in which it originated with the reasons for the veto. The bill may become law despite the president's veto if it is passed again by a two-thirds vote in both houses. A bill becomes law without the president's signature if retained for 10 days while Congress is in session. After Congress adjourns, if the president does not sign a bill within 10 days, an automatic veto ensues.

The president must be "a natural born citizen" at least 35 years old, and must have been a resident of the United States for 14 years. Under the 22nd Amendment to the Constitution, adopted in 1951, a president may not be elected more than twice. Each state is allotted a number of electors based on its combined total of US senators and representatives, and, technically, it is these electors who, constituted as the electoral college, cast their vote for president, with all of the state's electoral votes customarily going to the candidate who won the largest share of the popular vote of the state (the District of Columbia also has three electors, making a total of 538 votes). Thus, the candidate who wins the greatest share of the popular vote throughout the United States may, in rare cases, fail to win a majority of the electoral vote. If no candidate gains a majority in the electoral college, the choice passes to the House of Representatives.

The vice president, elected at the same time and on the same ballot as the president, serves as ex officio president of the Senate. The vice president assumes the power and duties of the presidency on the president's removal from office or as a result of the president's death, resignation, or inability to perform his duties. In the case of a vacancy in the vice presidency, the president nominates a successor, who must be approved by a majority in both houses of Congress. The Congress has the power to determine the line of presidential succession in case of the death or disability of both the president and vice president.

Under the Constitution, the president is enjoined to "take care that the laws be faithfully executed." In reality, the president has a considerable amount of leeway in determining to what extent a law is or is not enforced. Congress's only recourse is impeachment, to which it has resorted only three times, in proceedings

against presidents Andrew Johnson, Richard Nixon, and Bill Clinton. Both the president and the vice president are removable from office after impeachment by the House and conviction at a Senate trial for “treason, bribery, or other high crimes and misdemeanors.” The president has the power to grant reprieves and pardons for offenses against the United States except in cases of impeachment.

The president nominates and “by and with the advice and consent of the Senate” appoints ambassadors, public ministers, consuls, and all federal judges, including the justices of the Supreme Court. As commander in chief, the president is ultimately responsible for the disposition of the land, naval, and air forces, but the power to declare war belongs to Congress. The president conducts foreign relations and makes treaties with the advice and consent of the Senate. No treaty is binding unless it wins the approval of two-thirds of the Senate. The president’s independence is also limited by the House of Representatives, where all money bills originate.

The president also appoints as his cabinet, subject to Senate confirmation, the secretaries who head the departments of the executive branch. As of 2005, the executive branch included the following cabinet departments: Agriculture (created in 1862), Commerce (1913), Defense (1947), Education (1980), Energy (1977), Health and Human Services (1980), Housing and Urban Development (1965), Interior (1849), Justice (1870), Labor (1913), State (1789), Transportation (1966), Treasury (1789), Veterans’ Affairs (1989), and Homeland Security (2002). The Department of Defense—headquartered in the Pentagon, the world’s largest office building—also administers the various branches of the military: Air Force, Army, Navy, defense agencies, and joint-service schools. The Department of Justice administers the Federal Bureau of Investigation, which originated in 1908; the Central Intelligence Agency (1947) is under the aegis of the executive office. Among the several hundred quasi-independent agencies are the Federal Reserve System (1913), serving as the nation’s central bank, and the major regulatory bodies, notably the Environmental Protection Agency (1970), Federal Communications Commission (1934), Federal Power Commission (1920), Federal Trade Commission (1914), and Interstate Commerce Commission (1887).

Regulations for voting are determined by the individual states for federal as well as for local offices, and requirements vary from state to state. In the past, various southern states used literacy tests, poll taxes, “grandfather” clauses, and other methods to disfranchise black voters, but Supreme Court decisions and congressional measures, including the Voting Rights Act of 1965, more than doubled the number of black registrants in Deep South states between 1964 and 1992. In 1960, only 29.1% of the black voting-age population was registered to vote; by the mid-1990s, that percentage had risen to over 65%.

As of the November 2004 presidential election, there were over 16 million registered African American voters (64.4% of those African Americans eligible to vote). The number of registered Hispanic voters increased from 2.5 million in 1972 to 9 million in 2004 (34.3% of eligible Hispanic voters). Sixty-four percent of eligible voters cast ballots in the 2004 presidential election, up from 60% in 2000. Voter registration was reported to be 72% nationwide. The next presidential election was to be held November 2008.

¹⁴POLITICAL PARTIES

Two major parties, Democratic and Republican, have dominated national, state, and local politics since 1860. These parties are made up of clusters of small autonomous local groups primarily concerned with local politics and the election of local candidates to office. Within each party, such groups frequently differ drastically in policies and beliefs on many issues, but once every four years, they successfully bury their differences and rally around a candidate for the presidency. Minority parties have been formed at various periods in US political history, but most have generally allied with one of the two major parties, and none has achieved sustained national prominence. The most successful minority party in recent decades—that of Texas billionaire Ross Perot in 1992—was little more than a protest vote. Various extreme groups on the right and left, including a small US Communist Party, have had little political significance on a national scale; in 1980, the Libertarian Party became the first minor party since 1916 to appear on the ballot in all 50 states. The Green Party increased its showing in the 2000 election, with presidential candidate Ralph Nader winning 2.7% of the vote. Independent candidates have won state and local office, but no candidate has won the presidency without major party backing.

Traditionally, the Republican Party is more solicitous of business interests and gets greater support from business than does the Democratic Party. A majority of blue-collar workers, by contrast, have generally supported the Democratic Party, which favors more lenient labor laws, particularly as they affect labor unions; the Republican Party often (though not always) supports legislation that restricts the power of labor unions. Republicans favor the enhancement of the private sector of the economy, while Democrats generally urge the cause of greater government participation and regulatory authority, especially at the federal level.

Within both parties there are sharp differences on a great many issues; for example, northeastern Democrats in the past almost uniformly favored strong federal civil rights legislation, which was anathema to the Deep South; eastern Republicans in foreign policy are internationalist-minded, while Midwesterners of the same party constituted from 1910 through 1940 the hard core of isolationist sentiment in the country. More recently, “conservative” headings have been adopted by members of both parties who emphasize decentralized government power, strengthened private enterprise, and a strong US military posture overseas, while the designation “liberal” has been applied to those favoring an increased federal government role in economic and social affairs, disengagement from foreign military commitments, and safeguards for civil liberties.

President Nixon’s resignation and the accompanying scandal surrounding the Republican Party hierarchy had a telling, if predictable, effect on party morale, as indicated by Republican losses in the 1974 and 1976 elections. The latent consequences of the Vietnam and Watergate years appeared to take their toll on both parties, however, in growing apathy toward politics and mistrust of politicians among the electorate. Ronald Reagan’s successful 1980 presidential bid cut into traditional Democratic strongholds throughout the United States, as Republicans won control of the US Senate and eroded state and local Democratic majorities. On the strength of an economic recovery, President Reagan won reelection in November 1984, carrying 49 of 50 states (with a com-

bined total of 525 electoral votes) and 58.8% of the popular vote; the Republicans retained control of the Senate, but the Democrats held on to the House. Benefiting from a six-year expansion of the economy, Republican George H.W. Bush won 54% of the vote in 1988. As Reagan had, Bush successfully penetrated traditionally Democratic regions. He carried every state in the South as well as the industrial states of the North.

Bush's approval rating reached a high of 91% in March of 1991 in the wake of the Persian Gulf War. By July of 1992, however, that rating had plummeted to 25%, in part because Bush appeared to be disengaged from domestic issues, particularly the 1991 recession. Bill Clinton, governor of Arkansas and twenty years younger than Bush, presented himself to the electorate as a "New Democrat." He took more moderate positions than traditional New Deal Democrats, including calling for a middle-class tax cut, welfare reform, national service, and such traditionally Republican goals as getting tough on crime. The presidential race took on an unpredictable dimension with the entrance of Independent Ross Perot, a Texas billionaire. Perot, who attacked the budget deficit and called for shared sacrifice, withdrew from the race in July and then re-entered it in October. Clinton won the election with 43% of the vote, Bush received 38%, and Perot captured 18%, more than any third-party presidential candidate since Theodore Roosevelt in 1912. As of 1992, Democrats enjoyed a large advantage over Republicans in voter registration, held both houses of congress, had a majority of state governorships, and controlled most state legislative bodies. In 1996 Bill Clinton became the first Democratic president since Franklin Roosevelt to be elected to a second term, with 49% of the popular vote to 41% for Republican Bob Dole, and 8% for Ross Perot, who ran as a Reform Party candidate. Republicans retained control of the House and Senate.

Aided by a growing climate of conservatism on moral issues and popular discontent with the pace of economic recovery from the recent recession, the Republicans accomplished an historic upset in the 1994 midterm elections, gaining control of both houses of Congress for the first time since 1952. They gained 52 seats in the House, for a majority of 230–204, and 8 seats in the Senate, for a majority that came to 53–47 once Democrat Richard Shelby of Alabama changed parties shortly after the election. The Republicans also increased their power at the state level, winning 11 governorships, for a national total of 30. The number of state legislatures under Republican control increased from 8 to 19, with 18 controlled by the Democrats and 12 under split control. After the 1998 election, the Republican majority had eroded slightly in the House, with the 106th Congress including 223 Republicans, 210 Democrats, and 2 Independents; the Senate included 55 Republicans and 45 Democrats.

The major candidates in the 2000 presidential election were Republican George W. Bush, son of former president George H.W. Bush; his vice presidential running mate was Dick Cheney. The Democratic candidate was Vice President Al Gore, Jr. (Clinton administration 1992–2000). Gore chose Joseph Lieberman, senator from Connecticut, as his running mate. Lieberman, an Orthodox Jew, became the first Jew to run for national office. Following the contested presidential election of 2000, George W. Bush emerged as president following a ruling by the US Supreme Court. Gore won the popular vote, with 48.4%, to 47.9% for Bush, but Bush won the electoral college vote, 271–266, with one blank vote in the

electoral college cast. Sectional and demographic differences were evident in the 2000 election, with the Northeast, parts of the Midwest, the Pacific states, and most urban areas voting Democratic, and the South, West, and rural communities voting Republican.

Following the November 2002 mid-term elections, Republicans held 229 of 435 seats in the House of Representatives, and there were 205 Democrats and 1 independent in the House. The Republicans held an extremely thin margin in the Senate, of 51 seats, to the Democrats' 48. There was one independent in the Senate, former Republican Jim Jeffords. Following the election, Nancy Pelosi became the Democratic majority leader in the House of Representatives, the first woman to head either party in Congress. As a result of the 2002 election, there were 60 women, 37 African Americans, and 22 Hispanics in the House of Representatives, and 14 women in the Senate. There were no African American or Hispanic senators following the 2002 election.

The 2004 presidential election was won by incumbent George W. Bush and his running mate Dick Cheney. They defeated Democrats John F. Kerry and John Edwards. Bush received 286 electoral votes, Kerry 251, and Edwards 1 when an elector wrote the name "John Edwards" in on the electoral ballot. Bush received a majority of the popular vote—50.73%, to Kerry's 48.27%—or three million more votes than Kerry. Voter turnout was the highest since 1968, at 64%. The composition of the 109th Congress after the 2004 election was as follows: 55 Republicans, 44 Democrats, and 1 Independent in the Senate, and 232 Republicans, 202 Democrats, and 1 independent in the House of Representatives. The next elections for the Senate and House of Representatives were to be held November 2006.

The 1984 election marked a turning point for women in national politics. Geraldine A. Ferraro, a Democrat, became the first female vice presidential nominee of a major US political party; no woman has ever captured a major-party presidential nomination. In the 109th Congress (2005–06), 14 women served in the US Senate, and 68 women held seats in the US House of Representatives (including delegates).

The 1984 presidential candidacy of Jesse L. Jackson, election, the first African American ever to win a plurality in a statewide presidential preference primary, likewise marked the emergence of African Americans as a political force, especially within the Democratic Party. In 1992 an African American woman, Democrat Carol Moseley Braun of Illinois, won election to the Senate, becoming the first black senator; Moseley Braun lost her reelection bid in 1998. She was a candidate for president in 2004.

There were 42 African Americans in the House of Representatives and one in the Senate in the 109th Congress. Twenty-six Hispanics were serving in the House and two in the Senate, a record number. Eight members of Congress were of Asian/Hawaiian/or other Pacific Islander ethnicity, six in the House of Representatives and two in the Senate. There was one Native American in the House. (These numbers include delegates.)

15 LOCAL GOVERNMENT

Governmental units within each state comprise counties, municipalities, and such special districts as those for water, sanitation, highways, and parks and recreation. There are more than 3,000 counties in the United States; more than 19,000 municipalities, including cities, villages, towns, and boroughs; nearly 15,000 school

districts; and at least 31,000 special districts. Additional townships, authorities, commissions, and boards make up the rest of the nearly 85,000 local governmental units.

The 50 states are autonomous within their own spheres of government, and their autonomy is defined in broad terms by the 10th Amendment to the US Constitution, which reserves to the states such powers as are not granted to the federal government and not denied to the states. The states may not, among other restrictions, issue paper money, conduct foreign relations, impair the obligations of contracts, or establish a government that is not republican in form. Subsequent amendments to the Constitution and many Supreme Court decisions added to the restrictions placed on the states. The 13th Amendment prohibited the states from legalizing the ownership of one person by another (slavery); the 14th Amendment deprived the states of their power to determine qualifications for citizenship; the 15th Amendment prohibited the states from denying the right to vote because of race, color, or previous condition of servitude; and the 19th, from denying the vote to women.

Since the Civil War, the functions of the state have expanded. Local business—that is, business not involved in foreign or interstate commerce—is regulated by the state. The states create subordinate governmental bodies such as counties, cities, towns, villages, and boroughs, whose charters they either issue or, where home rule is permitted, approve. States regulate employment of children and women in industry, and enact safety laws to prevent industrial accidents. Unemployment insurance is a state function, as are education, public health, highway construction and safety, operation of a state highway patrol, and various kinds of personal relief. The state and local governments still are primarily responsible for providing public assistance, despite the large part the federal government plays in financing welfare.

Each state is headed by an elected governor. State legislatures are bicameral except Nebraska's, which has been unicameral since 1934. Generally, the upper house is called the senate, and the lower house the house of representatives or the assembly. Bills must be passed by both houses, and the governor has a suspensive veto, which usually may be overridden by a two-thirds vote.

The number, population, and geographic extent of the more than 3,000 counties in the United States—including the analogous units called boroughs in Alaska and parishes in Louisiana—show no uniformity from state to state. The county is the most conspicuous unit of rural local government and has a variety of powers, including location and repair of highways, county poor relief, determination of voting precincts and of polling places, and organization of school and road districts. City governments, usually headed by a mayor or city manager, have the power to levy taxes; to borrow; to pass, amend, and repeal local ordinances; and to grant franchises for public service corporations. Township government through an annual town meeting is an important New England tradition.

From the 1960s into the 21st century, a number of large cities began to suffer severe fiscal crises brought on by a combination of factors. Loss of tax revenues stemmed from the migration of middle-class residents to the suburbs and the flight of many small and large firms seeking to avoid the usually higher costs of doing business in urban areas. Low-income groups, many of them unskilled blacks and Hispanic migrants, came to constitute large segments

of city populations, placing added burdens on locally funded welfare, medical, housing, and other services without providing the commensurate tax base for additional revenues.

¹⁶JUDICIAL SYSTEM

The Supreme Court, established by the US Constitution, is the nation's highest judicial body, consisting of the chief justice of the United States and eight associate justices. All justices are appointed by the president with the advice and consent of the Senate. Appointments are for life "during good behavior," otherwise terminating only by resignation or impeachment and conviction.

The original jurisdiction of the Supreme Court is relatively narrow; as an appellate court, it is open to appeal from decisions of federal district courts, circuit courts of appeals, and the highest courts in the states, although it may dismiss an appeal if it sees fit to do so. The Supreme Court, by means of a writ of certiorari, may call up a case from a district court for review. Regardless of how cases reach it, the Court enforces a kind of unity on the decisions of the lower courts. It also exercises the power of judicial review, determining the constitutionality of state laws, state constitutions, congressional statutes, and federal regulations, but only when these are specifically challenged.

The Constitution empowers Congress to establish all federal courts inferior to the Supreme Court. On the lowest level and handling the greatest proportion of federal cases are the district courts—including one each in Puerto Rico, Guam, the Virgin Islands, the Northern Mariana Islands, and the District of Columbia—where all offenses against the laws of the United States are tried. Civil actions that involve cases arising under treaties and laws of the United States and under the Constitution, where the amount in dispute is greater than \$5,000, also fall within the jurisdiction of the district courts. District courts have no appellate jurisdiction; their decisions may be carried to the courts of appeals, organized into 13 circuits. These courts also hear appeals from decisions made by administrative commissions. For most cases, this is usually the last stage of appeal, except where the court rules that a statute of a state conflicts with the Constitution of the United States, with federal law, or with a treaty. Special federal courts include the Court of Claims, Court of Customs and Patent Appeals, and Tax Court.

State courts operate independently of the federal judiciary. Most states adhere to a court system that begins on the lowest level with a justice of the peace and includes courts of general trial jurisdiction, appellate courts, and, at the apex of the system, a state supreme court. The court of trial jurisdiction, sometimes called the county or superior court, has both original and appellate jurisdiction; all criminal cases (except those of a petty kind) and some civil cases are tried in this court. The state's highest court, like the Supreme Court of the United States, interprets the constitution and the laws of the state.

The grand jury is a body of from 13 to 24 persons that brings indictments against individuals suspected of having violated the law. Initially, evidence is presented to it by either a justice of the peace or a prosecuting county or district attorney. The trial or petit jury of 12 persons is used in trials of common law, both criminal and civil, except where the right to a jury trial is waived by consent of all parties at law. It judges the facts of the case, while the court is concerned exclusively with questions of law. The US accepts the

compulsory jurisdiction of the International Court of Justice with reservations.

17 ARMED FORCES

The armed forces of the United States of America in 2005 numbered 1.473 million on active duty and 1.29 million in the Ready Reserve, a category of participation that allows regular training with pay and extended active duty periods for training. Membership in all US armed forces is voluntary and has been since 1973 when conscription expired as the Vietnam war was winding down. The active duty force includes 196,100 women, who serve in all grades and all occupational specialties except direct ground combat units and some aviation billets.

In the 1990s, the armed forces reduced their personnel numbers and force structure because of the diminished threat of a nuclear war with the former Soviet Union or a major conflict in central Europe. Despite the interlude of the Gulf War, 1990–91, the force reductions continued throughout the decade, forcing some restructuring of the active duty forces, with emphasis on rapid deployment to deter or fight major regional conflicts much like the Gulf War, in Korea, elsewhere in the Middle East, or Latin America (e.g. Cuba). The conventional force debate centered on whether the United States could or should maintain forces to fight two regional conflicts simultaneously. In the spring of 1999, the United States took part in the NATO air campaign in response to the crisis in Kosovo, and the ensuing US participation in peacekeeping operations in the region brought with it the prospect of another long-term overseas deployment.

For the purposes of administration, personnel management, logistics, and training, the traditional four military services in the Department of Defense remain central to strategic planning. The US Army numbers 502,000 soldiers on active duty, and are deployed into 10 divisions (two armored, four mechanized infantry, two light infantry, one air assault and one airborne), as well as into various armored cavalry, aviation, artillery, signals, psychological operations, ranger, Special Forces, civil affairs and air defense units. Army missions involving special operations are given to Special Forces groups, an airborne ranger regiment, an aviation group, and a psychological warfare group, with civil affairs and communications support units. The Army had 7,620 main battle tanks, 6,719 infantry fighting vehicles, 14,900 armored personnel carriers, 6,530 towed or self-propelled artillery pieces, some 268 fixed wing aircraft, and 4,431 armed and transport helicopters. The Army National Guard (355,900) emphasizes the preparation of combat units up to division size for major regional conflicts, while the Army Reserve (351,350) prepares individuals to fill active units or provide combat support or service support/technical/medical units upon mobilization. In addition, the National Guard retains a residual state role in suppressing civil disturbances and providing disaster relief.

The US Navy had 376,750 active personnel. The service has seen its role shift from nuclear strategic deterrence and control of sea routes to Europe and Asia, to the projection of naval power from the sea. Naval task forces normally combine three combat elements: air, surface, and subsurface. The Navy had up to 80 nuclear-powered submarines, that consisted of 16 strategic ballistic missile (SSBN) and 64 tactical/attack (SSGN and SSN) submarines. The latter ships can launch cruise missiles at land targets.

As of 2005, naval aviation was centered on 12 carriers (nine nuclear-powered) and 11 carrier aircraft wings, which included armed ASW helicopters and armed long-range ASW patrol aircraft, as well as a large fleet of communications and support aircraft. The Navy controlled 983 combat capable fixed wing aircraft and 608 helicopters of all types. Naval aviation reserves provided additional wings for carrier deployment. The surface force included 27 cruisers (22 with advanced anti-air suites), 49 destroyers, 30 frigates, 38 amphibious ships, 26 mine warfare ships, and 21 patrol and coastal combatants. More ships are kept in ready reserve or were manned by surface line reserve units. The fleet support force also included specialized ships for global logistics that are not base-dependent.

The Marine Corps, a separate branch of the Navy, was organized into three active divisions and three aircraft wings of the Fleet Marine Force, which also included three Force Service Support groups and special operations and antiterrorism units. The Marine Corps (173,350; 11,311 reservists) emphasized amphibious landings but trained for a wide-range of contingency employments. The Marines had 344 combat capable fixed wing aircraft, 304 helicopters of all types, 403 main battle tanks, 1,311 amphibious armored vehicles, and about 1,511 artillery pieces (926 towed).

As of 2005, the US Air Force had 379,500 active personnel, and was focused on becoming rapidly deployable rather than US-based. Almost all its aircraft are now dedicated to nonstrategic roles in support of forward deployed ground and naval forces. The Air Force stressed the missions of air superiority and interdiction with complementary operations in electronic warfare and reconnaissance, but it also included 29 transport squadrons. Air Force personnel manage the US radar and satellite early-warning and intelligence effort. The Air Force Reserve and Air National Guard (roughly 183,200 active reserves) provided a wide range of flying and support units, and its flying squadrons had demonstrated exceptional readiness and combat skills on contingency missions. Air Force reserves, for example, were the backbone of the air refueling and transport fleets.

The armed forces were deployed among a range of functional unified or specified commands for actual missions. Strategic forces were under the US Strategic Command, which was a combined service command that controlled the United States' strategic nuclear deterrence forces, which as of 2005, was made up of 550 land-based ICBMs, 16 Navy fleet ballistic missile submarines (SSBNs), and 85 operational long-range bombers (B-52s and B-1As). Land-based ICBMs are under the Air Force Space Command, while the long-range bomber force was under the Air Force Air Combat Command. The Strategic Command was also responsible for strategic reconnaissance and intelligence collection, and the strategic early warning and air defense forces. In 2002 the Treaty of Moscow was signed between the United States and Russia to reduce deployed nuclear weapons by two-thirds by the year 2012. As of 2002, the United States had more than 10,000 operational nuclear warheads.

The conventional forces were deployed to a mix of geographic and organizational commands, including the Atlantic, European, Central, Southern, Northern and Pacific commands, as well as to specific organizational commands such as the Transportation Command, Special Operations Command and Air Mobility Command. Major operational units are deployed to Germany, Korea,

and Japan as part of collective security alliances, in addition to forces stationed throughout other countries in the Middle East, Africa, Southeast Asia, Western and Eastern Europe, and Latin America. Approximately 19,000 US troops are stationed in Afghanistan with Operation Enduring Freedom.

Patterns of defense spending reflected the movement away from Cold War assumptions and confrontation with the former Soviet Union and the People's Republic of China. During the 1980s when defense spending hovered around \$300 billion a year and increased roughly 30% over the decade, defense spending absorbed roughly 6% of the gross domestic spending, 25% of federal spending, and 16% of net public spending. In the early 1990s, when the defense budget slipped back to the \$250–\$260 billion level, the respective percentages were 4.5, 18, and 11, the lowest levels of support for defense since the Korean War (1950). In 1999, the defense budget was \$276.7 billion or 3.2% of GDP. In 2005, US defense budget outlays totaled \$465 billion.

18 INTERNATIONAL COOPERATION

The United States is a charter member of the United Nations, having joined on 24 October 1945. The United States participates in ECE, ECLAC, ESCAP, and all the nonregional specialized agencies. The United States is a permanent member of the UN Security Council. The United States participates in numerous intergovernmental organizations, including the Asian Development Bank, the African Development Bank, OECD, APEC, the Colombo Plan, the Euro-Atlantic Partnership Council, the European Bank for Reconstruction and Development, G-5, G-7, G-8, the Paris Club (G-10), OSCE, and the WTO. Hemispheric agencies include the Inter-American Development Bank and the OAS. The country is an observer in the Council of Europe and a dialogue partner with ASEAN.

In 1992, the United States, Canada, and Mexico signed the North American Free Trade Agreement (NAFTA), creating a free-trade zone among the three countries. It was ratified by all three governments in 1993 and took effect the following year.

NATO is the principal military alliance to which the United States belongs. The ANZUS alliance was a mutual defense pact between Australia, New Zealand, and the United States; in 1986, following New Zealand's decision to ban US nuclear-armed or nuclear-powered ships from its ports, the United States renounced its ANZUS treaty security commitments to New Zealand. The country is a signatory of the 1947 Río Treaty, an inter-American security agreement. The United States has supported UN missions and operations in Kosovo (est. 1999), Liberia (est. 2003), Georgia (est. 1993), and Haiti (est. 2004). The United States belongs to the Nuclear Suppliers Group (London Group), the Zangger Committee, the Nuclear Energy Agency, and the Organization for the Prohibition of Chemical Weapons. It holds observer status in the European Organization for Nuclear Research (CERN).

In environmental cooperation, the United States is part of the Central American–US Joint Declaration (CONCAUSA), the Antarctic Treaty, Conventions on Air Pollution and Whaling, Ramsar, CITES, the London Convention, International Tropical Timber Agreements, the Montréal Protocol, MARPOL, the Nuclear Test Ban Treaty, and the UN Conventions on Climate Change and Desertification.

19 ECONOMY

The US economy is the world's largest. In variety and quantity, the natural resources of the United States probably exceed those of any other nation, with the possible exception of the former Soviet Union. The United States is among the world's leading exporters of coal, wheat, corn, and soybeans. However, because of its vast economic growth, the United States depends increasingly on foreign sources for a long list of raw materials, including oil.

By the middle of the 20th century, the United States was a leading consumer of nearly every important industrial raw material. The industry of the United States produced about 40% of the world's total output of goods, despite the fact that the country's population comprised about 6% of the world total and its land area about 7% of the earth's surface.

In absolute terms the United States far exceeds every other nation in the size of its gross domestic product (GDP), which more than tripled between 1970 and 1983. In 1998 the nation's GDP in purchasing power parity terms (PPP) reached a record \$8.5 trillion in current dollars, with per capita GDP reaching \$31,500. Per capita GDP (PPP) stood at \$40,100 in 2004, and the nation's GDP (PPP) was \$11.75 trillion.

Inflation was not as significant a factor in the US economy in the 1990s and early 2000s as it was in the 1970s and 1980s. The US inflation rate tends to be lower than that of the majority of industrialized nations. For the period 1970–78, for example, consumer prices increased by an annual average of 6.7%, less than in every other Western country except Austria, Luxembourg, Switzerland, and West Germany, and well below the price increase in Japan. The double-digit inflation of 1979–81 came as a rude shock to most Americans, with economists and politicians variously blaming international oil price rises, federal monetary policies, and US government spending.

The United States entered the post–World War II era with the world's largest, and strongest, economy. Public confidence in both business and government was strong, the nation enjoyed the largest peacetime trade surplus in its history, and the gross national product grew to a record \$482.7 billion by the end of the 1950s. In the sixties the country enjoyed the most sustained period of economic expansion it had known, accompanied by rising productivity and low unemployment. Real income rose 50% during the decade, and US investment in foreign countries reached \$49 billion in 1965, up from \$11.8 billion in 1950. Big business and big government were both powerful forces in the economy during this period, when large industrial corporations accounted for vast portions of the national income, and the federal government expanded its role in such areas as social welfare, scientific research, space technology, and development of the nation's highway system.

After two decades of prosperity, Americans experienced an economic downturn in the 1970s, a period known for the unprecedented combination of lagging economic growth and inflation that gave birth to the term *stagflation*. Foreign competitors in Japan and Europe challenged the global dominance of American manufacturers, and oil crises in 1973–74 and 1979 shook public confidence in the institutions of both government and business. The forced bailouts of Chrysler and Lockheed were symbolic of the difficult transition to a new economic era, marked by the growing importance of the service sector and the ascendancy of small businesses.

During Ronald Reagan's first presidential term, from 1980 to 1984, the nation endured two years of severe recession followed by two years of robust recovery. The inflation rate was brought down, and millions of new jobs were created. The economic boom of the early and mid-eighties, however, coincided with a number of alarming developments. Federal budget deficits, caused by dramatic increases in the military budget and by rising costs of entitlement programs such as Medicaid and Medicare, averaged more than \$150 billion annually. By 1992, the total deficit reached \$290 billion, or \$1,150 for every American. In addition, corporate debt rose dramatically, and household borrowing grew twice as fast as personal income. The eighties also witnessed a crisis in the banking industry, caused by a combination of factors, including high inflation and interest rates, problem loans to developing countries, and speculative real estate ventures that caused thousands of banks to fail when the real estate boom of the early eighties collapsed.

The disparity between the affluent and the poor widened at the end of the 20th century. The share of the nation's income received by the richest 5% of American families rose from 18.6% in 1977 to 24.5% in 1990, while the share of the poorest 20% fell from 5.7% to 4.3%. Externally, the nation's trade position deteriorated, as a high level of foreign investment combined with an uncompetitive US dollar to create a ballooning trade deficit. In 1990, the American economy plunged into a recession. Factors contributing to the slump included rising oil prices following Iraq's invasion of Kuwait, a sharp increase in interest rates, and declining availability of credit. Output fell 1.6% and 1.7 million jobs were cut. Unemployment rose from 5.2% in 1989 to 7.5% in 1991, but had fallen to 4.5% by 1998.

The recovery that began in March 1991 inaugurated a sustained period of expansion that, as of mid-2000, was the third longest since World War II, characterized by moderation in the key areas of growth, inflation, unemployment, and interest rates. Real GDP growth, which fluctuated between 2% and 3.5% throughout the period, was 3.9% for 1998. After peaking at 7.5%, unemployment declined steadily throughout the early and mid-1990s, falling to 5.6% in 1995, 5.3% at the end of 1996, and in 1998, remaining below 5%. After 1993/94, inflation mostly remained under 3%. One exception to the generally moderate character of the economy was the stock market, which rose 60% between 1995 and 1997, buoyed by the combination of low unemployment and low inflation, as well as strong corporate earnings. Further cause for optimism was the bipartisan balanced-budget legislation enacted and signed into law in 1997. The plan, combining tax and spending cuts over a five-year period, was aimed at balancing the federal budget by 2002 for the first time since 1969. In early 2001, the government projected a budget surplus of \$275 billion for the fiscal year ending that September. That surplus would soon be reversed.

At the beginning of the 21st century, significant economic concerns—aside from the inevitable worry over how long the boom could last without an eventual downturn—included the nation's sizable trade deficit, the increasing medical costs of an aging population, and the failure of the strong economy to improve conditions for the poor. Since 1975, gains in household income were experienced almost exclusively by the top 20% of households. However, in the late 1990s and early 2000s, productivity was con-

tinuing to grow, inflation was relatively low, and the labor market was tight.

Economic growth came to a standstill in the middle of 2001, largely due to the end of the long investment boom, especially in the information technology sector. The economy was in recession in the second half of 2001, and the service sector was affected as well as manufacturing. The 11 September 2001 terrorist attacks on the United States exacerbated the poor economic situation. Average real GDP growth rose by only 0.3% in 2001. The US economy, which had driven global economic growth during the 1990s, became the cause of a worldwide economic downturn, including in the rest of North America, Europe, Japan, and in the developing economies of Latin America and Southeast Asia strongly influenced by trends in the US economy.

The economy began to recover, slowly, in 2002, with GDP growth estimated at 2.45%. Analysts attributed the modest recovery to the ability of business decision-makers to respond to economic imbalances based on real-time information, on deregulation, and on innovation in financial and product markets. Nevertheless, domestic confidence in the economy remained low, and coupled with major corporate failures (including Enron and WorldCom) and additional stock market declines, growth remained sluggish and uneven. Economic growth slowed at the end of 2002 and into 2003, and the unemployment rate rose to 6.3% in July 2003. The CPI inflation rate fell to under 1.5% at the beginning of 2003, which raised concerns over the risk of deflation. As well, there was a substantial rise in military spending as a result of the war in Iraq which began in March 2003.

Following the start of the war in Iraq, consumer spending rebounded, as did stock prices; the housing market remained strong; inflation was low; the dollar depreciated on world markets; additional tax cuts were passed; there was an easing of oil prices; and productivity growth was strong. Nevertheless, in 2003, the federal budget deficit was projected to reach \$455 billion, the largest shortfall on record.

The American economy grew at the rate of 4.3% in the third quarter of 2005, despite the ravages of Hurricane Katrina, which destroyed the port city of New Orleans and closed down a large portion of the energy industry. Unemployment hovered around 5% in 2005. Productivity had grown by 4.7%. But the nation's fast-growing economy had shaky underpinnings. Oil prices were at their highest level in real terms since the early 1980s, at \$53.27/barrel. The inflation rate, which ran above 4% in late 2005, was at its highest level since 1991 (although core inflation, which excludes volatile energy and food prices, was still relatively modest). Wage growth was sluggish, and the jobs market was lagging the recovery. The current account deficit ballooned to record levels, and consumer spending was increasingly tied to prices in the overinflated housing market. The government ran a deficit of \$412 billion in 2004, or 3.6% of GDP, but the deficit was forecast to narrow to \$331 billion in 2006. Analysts projected that US deficits would average about 3.5% of GDP until about 2015.

20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 the United States's gross domestic product (GDP) was estimated at \$12.4 trillion. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and com-

puted on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange based on current dollars. The per capita GDP was estimated at \$41,800. The annual growth rate of GDP was estimated at 3.5%. The average inflation rate in 2005 was 3.2%. It was estimated that agriculture accounted for 1% of GDP, industry 20.7%, and services 78.3%.

According to the World Bank, in 2003 remittances from citizens working abroad totaled \$3.031 billion or about \$10 per capita.

The World Bank reports that in 2003 household consumption in United States totaled \$7.385 trillion or about \$25,379 per capita based on a GDP of \$10.9 trillion, measured in current dollars rather than PPP. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the period 1990 to 2003 household consumption grew at an average annual rate of 3.7%. In 2001 it was estimated that approximately 13% of household consumption was spent on food, 9% on fuel, 4% on health care, and 6% on education. It was estimated that in 2004 about 12% of the population had incomes below the poverty line.

2¹ LABOR

The US labor force, including those who were unemployed, totaled 149.3 million in 2005. Of that total in that same year, farming, fishing and forestry accounted for 0.7% of the workforce, with manufacturing, extraction, transportation and crafts at 22.9%, managerial, professional and technical at 34.7%, sales and office at 25.4% and other services at 16.3%. Also that year, the unemployment rate was put at 5.1%. Earnings of workers vary considerably with type of work and section of country. In the first quarter of 2003, the national average wage was \$15.27 per hour for nonagricultural workers, with an average workweek of 33.8 hours. Workers in manufacturing had a national average wage of \$15.64, (including overtime), with the longest average workweek of all categories of workers at 40.4 hours in the first quarter of 2003.

In 2002, 13.2% of wage and salary workers were union members—16.1 million US citizens belonged to a union that year. In 1983, union membership was 20.1%. In 2002, there were 34 national labor unions with over 100,000 members, the largest being the National Educational Association with 2.7 million members as of 2003. The most important federation of organized workers in the United States is the American Federation of Labor–Congress of Industrial Organizations (AFL–CIO), whose affiliated unions had 13 million members as of 2003, down from 14.1 million members in 1992. The major independent industrial and labor unions and their estimated 2002 memberships are the International Brotherhood of Teamsters, 1,398,412, and the United Automobile Workers, some 710,000 (the majority of whom work for General Motors, Ford, and Daimler-Chrysler). Most of the other unaffiliated unions are confined to a single establishment or locality. US labor unions exercise economic and political influence not only through the power of strikes and slowdowns but also through the human and financial resources they allocate to political campaigns (usually on behalf of Democratic candidates) and through the selective investment of multibillion-dollar pension funds.

The National Labor Relations Act of 1935 (the Wagner Act), the basic labor law of the United States, was considerably modified by the Labor-Management Relations Act of 1947 (the Taft-Hart-

ley Act) and the Labor-Management Reporting and Disclosure Act of 1959 (the Landrum-Griffin Act). Closed-shop agreements, which require employers to hire only union members, are banned. The union shop agreement, however, is permitted, if it allows the hiring of nonunion members on the condition that they join the union within a given period of time.

As of 2003, 23 states had right-to-work laws, forbidding the imposition of union membership as a condition of employment. Under the Taft-Hartley Act, the president of the United States may postpone a strike for 90 days in the national interest. The act of 1959 requires all labor organizations to file constitutions, bylaws, and detailed financial reports with the Secretary of Labor, and stipulates methods of union elections. The National Labor Relations Board seeks to remedy or prevent unfair labor practices and supervises union elections, while the Equal Employment Opportunity Commission seeks to prevent discrimination in hiring, firing, and apprenticeship programs.

The number of work stoppages and of workers involved reached a peak in the late 1960s and early 1970s, declining steadily thereafter. In 2002, there were 19 major stoppages involving 46,000 workers resulting in 660,000 workdays idle, compared with 1995, when there were 31 major stoppages involving 191,500 workers resulting in 5,771,000 days idle; a major stoppage was defined as one involving 1,000 workers or more for a minimum of one day or shift.

2² AGRICULTURE

In 2004, the United States produced a substantial share of the world's agricultural commodities. Agricultural exports reached almost \$63.9 billion in 2004. The United States had an agricultural trade surplus of \$4 billion in 2004, 14th highest among the nations.

Between 1930 and 2004, the number of farms in the United States declined from 6,546,000 to an estimated 2,110,000. The total amount of farmland increased from 399 million hectares (986 million acres) in 1930 to 479 million hectares (1.18 billion acres) in 1959 but declined to 380 million hectares (938 million acres) in 2002. From 1930 to 2004, the size of the average farm tripled from 61 to 179 hectares (from 151 to 443 acres), a result of the consolidation effected by large-scale mechanized production. The farm population, which comprised 35% of the total US population in 1910, declined to 25% during the Great Depression of the 1930s, and dwindled to less than 2% by 2004.

A remarkable increase in the application of machinery to farms took place during and after World War II (1939–45). Tractors, trucks, milking machines, grain combines, corn pickers, and pick-up balers became virtual necessities in farming. In 1920 there was less than one tractor in use for every 400 hectares (1,000 acres) of cropland harvested; by 2003 there were five tractors per 400 hectares. Two other elements essential to US farm productivity are chemical fertilizers and irrigation. Fertilizers and lime represent more than 6% of farm operating expenses. Arable land under irrigation amounted to 12% of the total in 2003.

Substantial quantities of corn, the most valuable crop produced in the United States, are grown in almost every state; its yield and price are important factors in the economies of the regions where it is grown. Production of selected US crops in 2004 (in 1,000 metric tons), and their percent of world production were wheat,

58,737 (9.3%); corn, 299,917 (33.2%); rice, 10,469 (1.7%); soybeans, 85,013 (41.6%); cotton, 5,062 (20.5%); and tobacco, 398.8 (6.1%).

23 ANIMAL HUSBANDRY

The livestock population in 2005 included an estimated 95.8 million head of cattle, 60.6 million hogs, and 6.1 million sheep and lambs. That year, there were 1.9 billion chickens, and 88 million turkeys. Milk production totaled 80.1 million metric tons in that year, with Wisconsin, California, and New York together accounting for much of the total. Wisconsin, Minnesota, and California account for more than half of all US butter production, which totaled 608,900 metric tons in 2005; in that year, the United States was the world's largest producer of cheese, with almost 4.5 million metric tons (24% of the world's total). The United States produced an estimated 15% of the world's meat supply in 2005. In 2005, meat animals accounted for \$4.97 billion in exports; dairy and eggs, \$1.17 billion.

24 FISHING

The 2003 commercial catch was 5.48 million tons. Food fish make up 80% of the catch, and nonfood fish, processed for fertilizer and oil, 20%. Aquaculture accounts for about 10% of total production.

Alaska pollock, with landings of 1,524,904 tons, was the most important species in quantity among the commercial fishery landings in the United States in 2003. Other leading species by volume included Gulf menhaden, 522,195 tons; Atlantic menhaden, 203,263 tons; Pacific cod, 257,436 tons; North Pacific hake, 140,327 tons; and American cupped oyster, 183,940 tons. In 2003, exports of fish products totaled \$3,398 million (fourth after China, Thailand, and Norway).

Aquacultural production consists mostly of catfish, oysters, trout, and crayfish. In 2004, there were 1,147 catfish and 601 trout farms in the United States, with sales of \$425 million and \$64 million, respectively.

Pollution is a problem of increasing concern to the US fishing industry; dumping of raw sewage, industrial wastes, spillage from oil tankers, and blowouts of offshore wells are the main threats to the fishing grounds. Overfishing is also a threat to the viability of the industry in some areas, especially Alaska.

25 FORESTRY

US forestland covers about 226 million hectares (558.4 million acres), or 25% of the land area. Major forest regions include the eastern, central hardwood, southern, Rocky Mountain, and Pacific coast areas. The National Forest Service lands account for approximately 19% of the nation's forestland. Extensive tracts of land (4 million acres or more) are under ownership of private lumber companies in Alabama, Arkansas, Florida, Georgia, Maine, Oregon, and Washington. During 1990–2000, forested area increased by an annual average of 38,000 hectares (93,900 acres) per year.

Domestic production of roundwood during 2004 amounted to 458.3 million cu m (16.2 billion cu ft), or 1.7% of world production, of which softwoods accounted for roughly 60%. Other forest products in 2004 included 54.3 million metric tons of wood pulp, 83.6 million metric tons of paper and paperboard (excluding newsprint), and 44.2 million cu m (1.56 billion cu ft) of wood-

based panels. Rising petroleum prices in the late 1970s sparked a revival in the use of wood as home heating fuel, especially in the Northeast. Fuelwood and charcoal production amounted to 43.6 million cu m (1.5 billion cu ft) in 2004.

Throughout the 19th century, the federal government distributed forestlands lavishly as a means of subsidizing railroads and education. By the turn of the century, the realization that the forests were not inexhaustible led to the growth of a vigorous conservation movement, which was given increased impetus during the 1930s and again in the late 1960s. Federal timberlands are no longer open for private acquisition, although the lands can be leased for timber cutting and for grazing. In recent decades, the states also have moved in the direction of retaining forestlands and adding to their holdings when possible.

26 MINING

Rich in a variety of mineral resources, the United States was a world leader in the production of many important mineral commodities, such as aluminum, cement, copper, pig iron, lead, molybdenum, phosphates, potash, salt, sulfur, uranium, and zinc. The leading mineral-producing states were Arizona (copper, sand and gravel, portland cement, molybdenum); California (portland cement, sand and gravel, gold, boron); Michigan (iron ore, portland cement, sand and gravel, magnesium compounds); Georgia (clays, crushed and broken stone, portland and masonry cement, sand and gravel); Florida (phosphate rock, crushed and broken stone, portland cement, sand and gravel); Utah (copper, gold, magnesium metal, sand and gravel); Texas (portland cement, crushed and broken stone, magnesium metal, sand and gravel); and Minnesota (iron ore, construction and industrial sand and gravel, crushed and broken stone). Oklahoma and New Mexico were important for petroleum and natural gas, and Kentucky, West Virginia, and Pennsylvania, for coal. Iron ore supported the nation's most basic nonagricultural industry, iron and steel manufacture; the major domestic sources were in the Lake Superior area, with Minnesota and Michigan leading all other states in iron ore yields.

27 ENERGY AND POWER

The United States is the world's leading energy producer and consumer.

According to British Petroleum (BP), as of the end of 2003, the United States had proven oil reserves of 29.4 billion barrels. Oil production that year averaged 7.4 million barrels per day, with domestic demand averaging 20 million barrels per day. As a result, the United States in 2003 was a net oil importer. In 2003, imports of all oil products averaged 12.3 million barrels per day, of which crude oil accounted for an average of 9.7 million barrels per day. Refined oil production in 2003 averaged 17.8 million barrels per day.

At year-end in 2003, the United States had proven reserves of natural gas totaling 5.29 trillion cu m (186.9 trillion cu ft), according to BP. Gross production that year, according to the Energy Information Administration (EIA), totaled 24,056.00 billion cu ft. Of that amount in 2003, some 98 billion cu ft was vented or flared, and 3,548 billion cu ft was re-injected. Marketed production totaled 19,912 billion cu ft, with dry production at 19,036 billion cu ft. Demand in that same year for dry production totaled 22,375 billion cu ft. As with oil, the United States was a net importer of

natural gas. Imports of dry natural gas in 2003 totaled 3,996 billion cu ft, while dry exports totaled 692 billion cu ft, according to the EIA.

The United States had recoverable coal reserves of 246.6 billion metric tons at the end of 2004, according to BP. Of that amount, anthracite and bituminous coal reserves totaled 111.3 billion metric tons, with sub-bituminous and lignite reserves totaling 135.3 billion metric tons, according to BP. In 2003 according to the EIA, coal production by the United States totaled 1.1 billion short tons, of which 988 million short tons consisted of bituminous coal, with anthracite output totaling 1.3 million short tons. Lignite or brown coal output that year totaled 80.6 million short tons, according to the EIA.

In 2003, US electric power generation capacity by public and private generating plants totaled 932.832 million kW, of which 736.728 million kW of capacity belonged to conventional thermal fuel plants, followed by nuclear plant at 98.794 million kW. Hydroelectric capacity that year totaled 79.366 million kW, with geothermal/other capacity at 17.944 million kW. Electric power output in 2003 totaled 3,891.720 billion kWh, of which conventional thermal plants generated 2.76 billion kWh, followed by nuclear plants at 763.733 billion kWh, hydroelectric facilities at 275.806 billion kWh and geothermal/other facilities at 93.531 billion kWh.

During the 1980s, increasing attention was focused on the development of solar power, synthetic fuels, geothermal resources, and other energy technologies. Such energy conservation measures as mandatory automobile fuel-efficiency standards and tax incentives for home insulation were promoted by the federal government, which also decontrolled oil and gas prices in the expectation that a rise in domestic costs to world-market levels would provide a powerful economic incentive for consumers to conserve fuel. In 2001 the United States had 1,694 MW of installed wind power.

28 INDUSTRY

Although the United States remains one of the world's preeminent industrial powers, manufacturing no longer plays as dominant a role in the economy as it once did.

Between 1979 and 1998, manufacturing employment fell from 20.9 million to 18.7 million, or from 21.8% to 14.8% of national employment. Throughout the 1960s, manufacturing accounted for about 29% of total national income; by 1987, the proportion was down to about 19%. In 2002, manufacturing was experiencing a decline due to the recession that began in March 2001. In 2004, industry accounted for 19.7% of GDP. That year, 22.7% of the labor force was engaged in manufacturing, extraction, transportation, and crafts.

Industrial activity within the United States has been expanding southward and westward for much of the 20th century, most rapidly since World War II. Louisiana, Oklahoma, and especially Texas are centers of industrial expansion based on petroleum refining; aerospace and other high technology industries are the basis of the new wealth of Texas and California, the nation's leading manufacturing state. The industrial heartland of the United States is the east-north-central region, comprising Ohio, Indiana, Illinois, Michigan, and Wisconsin, with steelmaking and automobile manufacturing among the leading industries. The Middle At-

lantic states (New Jersey, New York, and Pennsylvania) and the Northeast are also highly industrialized; but of the major industrial states in these two regions, Massachusetts has taken the lead in reorienting itself toward such high-technology industries as electronics and information processing.

Large corporations are dominant especially in sectors such as steel, automobiles, pharmaceuticals, aircraft, petroleum refining, computers, soaps and detergents, tires, and communications equipment. The growth of multinational activities of US corporations has been rapid in recent decades.

The history of US industry has been marked by the introduction of increasingly sophisticated technology in the manufacturing process. Advances in chemistry and electronics have revolutionized many industries through new products and methods: examples include the impact of plastics on petrochemicals, the use of lasers and electronic sensors as measuring and controlling devices, and the application of microprocessors to computing machines, home entertainment products, and a variety of other industries. Science has vastly expanded the number of metals available for industrial purposes, notably such light metals as aluminum, magnesium, and titanium. Integrated machines now perform a complex number of successive operations that formerly were done on the assembly line at separate stations. Those industries have prospered that have been best able to make use of the new technology, and the economies of some states have been largely based on it.

In the 1980s and 1990s, the United States was the world leader in computer manufacturing. At the beginning of the 21st century, however, the high-tech manufacturing industry registered a decline. Semiconductor manufacturing had been migrating out of the United States to East Asian countries, especially China, Taiwan, and Singapore, and research and development in that sector declined from 1999–2003. Certain long-established industries—especially clothing and steelmaking—have suffered from outmoded facilities that (coupled with high US labor costs) have forced the price of their products above the world market level. In 2005, the United States was the world's third-leading steel producer (after China and Japan). Employment in the steel-producing industry fell from 521,000 in 1974 to 187,500 in 2002. Automobile manufacturing was an ailing industry in the 1980s, but rebounded in the 1990s. The "Big Three" US automakers—General Motors (GM), Ford, and Daimler-Chrysler—manufactured over 60% of the passenger cars sold in the United States in 1995. In 2005, however, General Motors (GM) announced it was cutting 30,000 North American manufacturing jobs, the deepest cuts since 1991, when GM eliminated 74,000 jobs over four years. Passenger car production, which had fallen from 7.1 million units in 1987 to 5.4 million in 1991, rose to 6.3 million by 1995 and to 8.3 million in 1999. In 2003, over 12 million motor vehicles were produced in the United States.

The United States had a total of 148 oil refineries as of January 2005, with a production capacity as of September 2004 of 17.1 million barrels per day. Crude oil and refined petroleum products are crucial imports, however.

29 SCIENCE AND TECHNOLOGY

In 2003, an estimated \$284.6 billion was spent on research and development (R&D). Since 1980, industry's share of funding for R&D has grown to exceed the share provided by the federal gov-

ernment. In 2003, the proportions were 63.1% from industry and 31.2% from the federal government, followed by 5.7% from higher education. As of 2002, national spending on R&D amounted to 2.67% of GDP. In that same year, high technology exports were valued at \$162.345 billion, or 32% of the country's manufactured exports. There were an estimated 4,099 scientists and engineers engaged in research and development per million people for the period 1990–2001.

In 1998 NASA's budget was \$9.9 billion. In 1960 NASA spent only \$1.1 billion. Launching of the space shuttle orbiter *Columbia* began in 1981; a fleet of four reusable shuttles, which would replace all other launch vehicles was planned. However, the January 1986 *Challenger* disaster, in which seven crew members died, cast doubt on the program. The three remaining shuttles were grounded, and the shuttles were redesigned for increased safety. A new shuttle, *Endeavour*, was built to take the place of *Challenger*. President Reagan, following the *Challenger* disaster, banned the shuttle from commercial use for nine years. The shuttle's return to space began with the launch of the shuttle *Atlantis* in September 1988. Following the catastrophic breakup of the space shuttle *Columbia* in February 2003, NASA suspended the launch schedule until the cause of the accident was determined.

The National Science Foundation (founded in 1950) is one of the chief government agencies funding scientific research. The American Association for the Advancement of Science (founded in 1848) promotes public understanding of science and technology. The National Academy of Sciences (founded in 1863) and the National Academy of Engineering (founded in 1964) are both headquartered in Washington, DC. In 1996, more than 95,000 students in the United States earned master's degrees in science and engineering. In 2002, of all bachelor's degrees awarded, 17.1% were in the sciences (natural, mathematics and computers, engineering).

30 DOMESTIC TRADE

Total retail sales for 2004 were \$3.5 trillion. Total e-commerce sales were estimated at \$69.2 billion, an increase of 23.5% over 2003. The growth of great chains of retail stores, particularly in the form of the supermarket, was one of the most conspicuous developments in retail trade following the end of World War II. Nearly

Principal Trading Partners – United States (2003)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	723,608.6	1,305,091.6	-581,483.0
Canada	169,451.6	227,600.1	-58,148.5
Mexico	97,452.4	139,700.4	-42,248.0
Japan	52,061.6	121,232.3	-69,170.7
United Kingdom	33,893.8	43,741.6	-9,847.8
Germany	28,845.9	69,613.2	-40,767.3
China	28,416.6	163,250.1	-134,833.5
Korea, Republic of	24,097.3	38,344.9	-14,247.6
Netherlands	20,694.8	11,435.3	9,259.5
Other Asia nes	17,487.6	33,017.7	-15,530.1
France-Monaco	17,340.1	29,897.5	-12,557.4

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

100,000 single-unit grocery stores went out of business between 1948 and 1958; the independent grocer's share of the food market dropped from 50% to 30% of the total in the same period. With the great suburban expansion of the 1960s emerged the planned shopping center, usually designed by a single development organization and intended to provide different kinds of stores in order to meet all the shopping needs of the particular area. Between 1974 and 2000, the square footage occupied by shopping centers in the United States grew at a far greater rate than the nation's population.

Installment credit is a major support for consumer purchases in the United States. Most US families own and use credit cards, and their frequency of use has grown significantly in the 1990s and 2000s with aggressive marketing by credit card companies which have made cards available to households that didn't qualify in the past. The number of credit cards per household in 2004 was 8. The number of credit cards in circulation in 2004 was 641 million. The average household credit card debt in the United States in 2004 was approximately \$8,650, and the total credit card debt in the United States in 2004 was some \$800 billion. The use of debit cards was expected to exceed the use of credit cards in 2005.

The US advertising industry is the world's most highly developed. Particularly with the expansion of television audiences, spending for advertising has increased almost annually to successive record levels. Advertising expenditures in 2003 reached an estimated \$249 billion, up from \$66.58 billion in 1982 and \$11.96 billion in 1960. Of the 2003 total, \$87.8 billion was spent in radio, broadcast television, and cable television; \$57.2 billion was spent on print media (newspapers and magazines); and internet advertising amounted to \$5.6 billion.

In 2003 merchant wholesalers had combined total sales of \$2.88 trillion.

31 FOREIGN TRADE

The volume of the US exports and imports exceeds that of any country. However, the value of US external sector as a percentage of GDP is comparatively low. The foreign trade position of the United States deteriorated in the 1980s as the United States became a debtor nation with a trade deficit that ballooned from \$24 billion to over \$100 billion by the end of the 1980s; by 2004, the trade deficit had reached an estimated \$618 billion, a 24% increase over 2003. Exports of goods and services totaled \$1.14 trillion in 2004, while imports totaled \$1.76 trillion. The gap in merchandise trade with China jumped some 31% to nearly \$162 billion in 2004, by far the largest gap than with any other trading partner. The United States' largest trading partners were Canada, Mexico, Japan, the United Kingdom, China, and Germany.

The United States' major exports include transistors, aircraft, motor vehicle parts, automobiles, computers, telecommunications equipment, medicines, chemicals, and soybeans, fruit, and corn. Major imports include computers, motor vehicle parts, automobiles, telecommunications equipment, office machines, electric power machinery, clothing medicines, furniture, toys, crude oil, and agricultural products.

32 BALANCE OF PAYMENTS

Since 1950, the United States has generally recorded deficits in its overall payments with the rest of the world, despite the fact that

United States—2005 Exports, Imports, and Trade Balance by Country and Area

In millions of dollars. Details may not equal totals due to rounding. (X) Not applicable. (-) Represents zero or less than one-half of value shown. January–December, Cumulative.

COUNTRY	TRADE BALANCE	RANK	EXPORTS F.A.S.	RANK	IMPORTS CUSTOMS	RANK
Total, BOP Basis	-782,740.2	(X)	894,630.8	(X)	1,677,371.0	(X)
Net Adjustments	-15,263.3	(X)	-11,346.8	(X)	3,916.5	(X)
Total, Census Basis	-767,476.9	(X)	905,977.6	(X)	1,673,454.5	(X)
Afghanistan	194.8	205	262.2	93	67.3	132
Albania	-18.7	102	18.5	179	37.2	146
Algeria	-9,279.0	20	1,167.4	60	10,446.4	27
Andorra	9.9	152	10.5	187	0.7	203
Angola	-7,555.3	24	929.0	66	8,484.4	33
Anguilla	28.4	168	32.2	160	3.8	180
Antigua and Barbuda	186.0	204	190.4	105	4.4	177
Argentina	-461.8	67	4,121.9	32	4,583.6	46
Armenia	19.3	160	65.5	142	46.2	143
Aruba	-2,360.8	36	558.9	76	2,919.7	54
Australia	8,486.0	229	15,828.2	14	7,342.2	35
Austria	-3,509.7	30	2,593.3	42	6,102.9	39
Azerbaijan	87.1	193	132.5	116	45.4	144
Bahamas	1,086.8	222	1,786.7	51	699.9	80
Bahrain	-80.8	92	350.8	88	431.6	89
Bangladesh	-2,373.3	35	319.8	90	2,693.0	56
Barbados	363.0	212	394.9	84	31.9	150
Belarus	-310.2	71	34.9	158	345.2	97
Belgium	5,667.7	226	18,690.6	12	13,022.9	24
Belize	119.3	199	217.6	101	98.3	124
Benin	71.8	187	72.3	138	0.5	205
Bermuda	403.2	216	490.5	82	87.3	128
Bhutan	2.4	135	3.1	208	0.6	204
Bolivia	-73.7	94	219.5	99	293.2	102
Bosnia-Herzegovina	-52.9	96	17.6	181	70.5	131
Botswana	-110.9	88	67.3	141	178.2	112
Brazil	-9,063.8	21	15,371.7	15	24,435.5	15
British Indian Ocean Territories	0.4	125	0.8	219	0.4	208
British Virgin Islands	91.3	194	124.9	117	33.6	148
Brunei	-513.1	64	49.6	150	562.7	82
Bulgaria	-186.3	81	267.9	92	454.3	85
Burkina Faso	23.0	163	25.1	174	2.1	188
Burma (Myanmar)	5.4	142	5.5	201	0.1	220
Burundi	3.7	137	8.1	198	4.4	176
Cambodia	-1,697.3	45	69.7	139	1,767.0	64
Cameroon	-40.8	98	117.3	119	158.2	117
Canada	-78,485.6	3	211,898.7	1	290,384.3	1
Cape Verde	7.2	148	9.9	190	2.6	185
Cayman Islands	627.2	219	680.7	70	53.5	138
Central African Republic	9.1	151	14.8	183	5.7	171
Chad	-1,444.3	49	53.8	149	1,498.1	67
Chile	-1,441.7	50	5,222.6	29	6,664.3	37
China	-201,544.8	1	41,925.3	4	243,470.1	2
Christmas Island	1.6	132	2.0	214	0.4	210
Cocos (Keeling) Island	0.6	128	1.0	217	0.5	207
Colombia	-3,387.0	31	5,462.4	28	8,849.4	31
Comoros	-1.2	113	0.3	224	1.4	192
Congo (DROC)	-198.6	78	65.0	143	263.6	107
Congo (ROC)	-1,518.8	47	104.1	123	1,622.9	65
Cook Islands	-0.4	116	1.4	216	1.7	189
Costa Rica	183.3	203	3,598.6	36	3,415.3	50
Côte d'Ivoire	-1,073.7	55	124.2	118	1,198.0	72
Croatia	-205.7	77	158.6	109	364.3	94
Cuba	369.0	213	369.0	86	(-)	226
Cyprus	53.6	181	84.2	131	30.5	152
Czech Republic	-1,139.3	54	1,053.6	63	2,192.9	59
Denmark	-3,225.8	32	1,918.4	49	5,144.2	43
Djibouti	46.5	177	47.6	151	1.1	198
Dominica	58.2	183	61.5	146	3.3	183
Dominican Republic	115.0	198	4,718.7	30	4,603.7	45
East Timor	8.6	150	8.7	197	0.1	219
Ecuador	-3,794.9	29	1,963.8	47	5,758.7	41
Egypt	1,068.0	221	3,159.3	38	2,091.2	60
El Salvador	-134.5	86	1,854.3	50	1,988.8	62

United States—2005 Exports, Imports, and Trade Balance by Country and Area (cont.)

COUNTRY	TRADE BALANCE	RANK	EXPORTS F.A.S.	RANK	IMPORTS CUSTOMS	RANK
Equatorial Guinea	-1,279.7	51	281.5	91	1,561.1	66
Eritrea	29.8	172	31.1	163	1.3	196
Estonia	-366.0	70	145.4	113	511.4	84
Ethiopia	448.3	217	510.1	81	61.8	134
Falkland Islands	-0.2	117	9.0	195	9.3	164
Faroe Islands	-1.7	111	2.5	210	4.3	178
Federal Republic of Germany	-50,567.2	4	34,183.7	6	84,750.9	5
Federated States of Micronesia	23.8	164	25.3	173	1.6	191
Fiji	-141.3	85	28.2	169	169.5	114
Finland	-2,087.6	40	2,254.1	44	4,341.7	47
France	-11,431.7	16	22,410.4	9	33,842.1	10
French Guiana	26.9	167	27.0	172	0.1	217
French Polynesia	51.7	179	111.8	121	60.1	135
French Southern and Antarctic Lands	0.2	124	0.3	225	0.1	222
Gabon	-2,716.5	34	99.1	125	2,815.6	55
Gambia	30.2	173	30.6	165	0.4	209
Gaza Strip Administered by Israel	-1.2	112	0.2	226	1.4	193
Georgia	19.5	161	213.9	102	194.4	111
Ghana	179.0	202	337.4	89	158.4	116
Gibraltar	158.6	201	163.3	108	4.6	174
Greece	308.5	211	1,192.2	59	883.7	78
Greenland	-12.2	105	5.1	202	17.3	156
Grenada	76.6	188	82.4	133	5.9	169
Guadeloupe	52.4	180	54.5	148	2.1	187
Guatemala	-302.0	72	2,835.4	40	3,137.4	53
Guinea	18.9	159	93.6	129	74.7	130
Guinea-Bissau	2.0	133	2.1	213	0.1	218
Guyana	56.8	182	176.7	107	119.9	121
Haiti	262.4	209	709.6	69	447.2	87
Heard and McDonald Islands	0.1	122	0.2	227	(-)	225
Honduras	-495.4	66	3,253.8	37	3,749.2	49
Hong Kong	7,459.3	228	16,351.0	13	8,891.7	30
Hungary	-1,537.9	46	1,023.3	64	2,561.2	57
Iceland	243.0	208	512.0	80	269.0	105
India	-10,814.8	18	7,989.4	22	18,804.2	18
Indonesia	-8,960.4	22	3,053.9	39	12,014.3	26
Iran	-78.7	93	95.8	127	174.5	113
Iraq	-7,679.7	23	1,374.0	55	9,053.7	29
Ireland	-19,397.4	11	9,335.7	20	28,733.1	13
Israel	-7,093.1	25	9,737.3	19	16,830.5	19
Italy	-19,484.9	10	11,524.3	16	31,009.3	12
Jamaica	1,325.2	223	1,700.8	52	375.6	93
Japan	-82,519.2	2	55,484.5	3	138,003.7	4
Jordan	-622.7	59	644.2	71	1,266.8	69
Kazakhstan	-562.9	62	538.3	77	1,101.1	74
Kenya	284.5	210	632.5	72	348.0	96
Kiribati	1.3	130	2.4	211	1.1	197
Korea, North	5.8	145	5.8	199	(-)	227
Korea, South	-16,016.5	12	27,765.0	7	43,781.4	7
Kuwait	-2,359.9	37	1,974.9	46	4,334.8	48
Kyrgyzstan	26.5	166	31.1	162	4.6	175
Laos	5.6	144	9.8	191	4.2	179
Latvia	-184.6	82	177.5	106	362.2	95
Lebanon	379.3	214	465.7	83	86.4	129
Lesotho	-399.6	68	4.0	205	403.6	91
Liberia	-21.5	100	69.3	140	90.8	127
Libya	-1,506.5	48	83.8	132	1,590.3	(X)
Liechtenstein	-276.0	74	19.7	178	295.7	101
Lithuania	-243.9	75	390.0	85	633.9	81
Luxembourg	393.6	215	782.4	68	388.8	92
Macao	-1,147.4	53	101.6	124	1,249.0	70
Macedonia (Skopje)	-16.6	104	31.6	161	48.1	142
Madagascar	-295.4	73	28.2	168	323.6	99
Malawi	-87.5	90	28.0	170	115.5	122
Malaysia	-23,224.3	7	10,460.8	18	33,685.2	11
Maldives	3.8	138	9.3	193	5.5	172
Mali	28.8	170	32.4	159	3.6	182
Malta	-88.9	89	193.7	104	282.7	103
Marshall Islands	58.3	184	75.5	136	17.2	157

United States—2005 Exports, Imports, and Trade Balance by Country and Area (cont.)

COUNTRY	TRADE BALANCE	RANK	EXPORTS F.A.S.	RANK	IMPORTS CUSTOMS	RANK
Martinique	12.7	157	35.0	157	22.2	155
Mauritania	85.3	192	86.1	130	0.8	202
Mauritius	-191.0	79	30.9	164	221.9	109
Mayotte	(-)	120	(-)	230	(-)	228
Mexico	-49,743.8	5	120,364.8	2	170,108.6	3
Moldova	-10.2	106	40.1	154	50.2	140
Monaco	-20.7	101	16.8	182	37.5	145
Mongolia	-121.8	87	21.9	177	143.6	118
Montserrat	3.9	139	4.8	203	1.0	201
Morocco	79.2	190	525.0	79	445.8	88
Mozambique	50.9	178	62.8	144	11.9	160
Namibia	-17.3	103	112.2	120	129.6	120
Nauru	1.5	131	1.6	215	0.1	215
Nepal	-86.5	91	24.7	175	111.2	123
Netherlands	11,622.6	230	26,484.6	8	14,862.0	22
Netherlands Antilles	215.2	206	1,137.6	61	922.4	77
New Caledonia	11.2	154	38.4	155	27.2	153
New Zealand	-503.4	65	2,651.8	41	3,155.2	52
Nicaragua	-555.3	63	625.5	73	1,180.8	73
Niger	13.0	158	78.5	135	65.5	133
Nigeria	-22,618.2	8	1,621.2	53	24,239.4	16
Niue	0.5	127	0.6	220	0.1	216
Norfolk Island	0.2	123	0.4	223	0.2	214
Norway	-4,834.4	28	1,941.9	48	6,776.3	36
Oman	39.9	175	594.9	75	555.0	83
Pakistan	-2,001.6	41	1,251.6	57	3,253.2	51
Palau	11.7	155	12.2	185	0.5	206
Panama	1,835.0	224	2,162.0	45	327.1	98
Papua New Guinea	-3.1	107	55.3	147	58.5	136
Paraguay	844.2	220	895.8	67	51.6	139
Peru	-2,809.7	33	2,309.4	43	5,119.2	44
Philippines	-2,355.0	38	6,895.4	25	9,250.4	28
Pitcairn Island	-0.6	114	0.5	221	1.0	200
Poland	-680.8	58	1,267.7	56	1,948.6	63
Portugal	-1,196.8	52	1,131.9	62	2,328.7	58
Qatar	538.8	218	986.6	65	447.9	86
Republic of Yemen	-59.6	95	219.0	100	278.6	104
Reunion	-2.0	110	3.8	206	5.8	170
Romania	-598.7	60	608.9	74	1,207.6	71
Russia	-11,344.3	17	3,962.4	33	15,306.7	20
Rwanda	4.2	140	10.5	188	6.3	167
San Marino	3.3	136	4.7	204	1.4	194
São Tomé and Príncipe	9.9	153	10.2	189	0.2	213
Saudi Arabia	-20,379.8	9	6,812.8	26	27,192.6	14
Senegal	154.8	200	158.5	110	3.7	181
Serbia and Montenegro	77.9	189	132.5	115	54.6	137
Seychelles	12.0	156	17.9	180	5.9	168
Sierra Leone	28.5	169	37.8	156	9.3	163
Singapore	5,532.2	225	20,642.2	11	15,110.1	21
Slovakia	-810.9	57	149.8	112	960.7	76
Slovenia	-179.2	83	233.8	98	413.0	90
Solomon Islands	0.9	129	2.3	212	1.4	195
Somalia	8.5	149	8.8	196	0.3	211
South Africa	-1,978.7	42	3,906.9	34	5,885.6	40
Spain	-1,701.0	44	6,913.6	24	8,614.6	32
Sri Lanka	-1,885.3	43	197.6	103	2,082.9	61
St. Helena	-0.5	115	2.7	209	3.3	184
St. Kitts and Nevis	44.4	176	94.1	128	49.7	141
St. Lucia	103.0	197	135.4	114	32.4	149
St. Pierre and Miquelon	-0.1	118	1.0	218	1.1	199
St. Vincent and the Grenadines	29.8	171	45.4	153	15.7	158
Sudan	94.5	195	108.1	122	13.6	159
Suriname	80.4	191	245.7	95	165.3	115
Svalbard, Jan Mayen Island	5.6	143	5.7	200	(-)	223
Swaziland	-187.0	80	11.9	186	198.9	110
Sweden	-10,105.6	19	3,715.4	35	13,821.0	23
Switzerland	-2,280.0	39	10,719.8	17	12,999.9	25
Syria	-168.5	84	155.0	111	323.6	100
Taiwan	-12,756.6	13	22,069.2	10	34,825.8	8

United States—2005 Exports, Imports, and Trade Balance by Country and Area (cont.)

COUNTRY	TRADE BALANCE	RANK	EXPORTS F.A.S.	RANK	IMPORTS CUSTOMS	RANK
Tajikistan	-212.2	76	28.8	167	241.0	108
Tanzania	62.7	185	96.4	126	33.7	147
Thailand	-12,633.1	14	7,256.6	23	19,889.8	17
Togo	21.5	162	27.9	171	6.4	166
Tokelau	69.0	186	79.8	134	10.8	161
Tonga	4.3	141	9.7	192	5.4	173
Trinidad and Tobago	-6,474.1	26	1,416.7	54	7,890.9	34
Tunisia	-2.6	108	261.2	94	263.8	106
Turkey	-913.1	56	4,269.0	31	5,182.1	42
Turkmenistan	101.8	196	237.1	97	135.3	119
Turks and Caicos Islands	228.3	207	237.8	96	9.4	162
Tuvalu	(-)	119	(-)	228	0.1	221
Uganda	36.8	174	62.6	145	25.8	154
Ukraine	-565.1	61	533.0	78	1,098.0	75
United Arab Emirates	7,014.1	227	8,482.4	21	1,468.3	68
United Kingdom	-12,444.8	15	38,587.8	5	51,032.6	6
Uruguay	-375.6	69	356.7	87	732.3	79
Uzbekistan	-21.8	99	73.8	137	95.6	125
Vanuatu	6.6	147	9.1	194	2.5	186
Vatican City	23.9	165	24.2	176	0.3	212
Venezuela	-27,557.2	6	6,420.9	27	33,978.1	9
Vietnam	-5,438.0	27	1,193.2	58	6,631.2	38
Wallis and Futuna	0.4	126	0.4	222	(-)	224
West Bank Administered by Israel	2.1	134	3.7	207	1.6	190
Western Sahara	(-)	121	(-)	229	(-)	229
Western Samoa	6.6	146	14.5	184	7.9	165
Zambia	-2.6	109	29.1	166	31.7	151
Zimbabwe	-48.8	97	45.5	152	94.3	126
Unidentified	216.3	(X)	216.3	(X)	(-)	(X)
North America	-128,229.4	(X)	332,263.5	(X)	460,492.9	(X)
Western Europe	-125,453.7	(X)	200,260.3	(X)	325,714.0	(X)
Euro Area	-91,384.0	(X)	137,496.7	(X)	228,880.7	(X)
European Union (25)	-122,338.2	(X)	186,437.3	(X)	308,775.5	(X)
European Union (15)	-117,160.3	(X)	181,718.3	(X)	298,878.5	(X)
European Free Trade Association	-7,147.4	(X)	13,193.5	(X)	20,340.9	(X)
Eastern Europe	-18,539.6	(X)	10,994.0	(X)	29,533.6	(X)
Former Soviet Republics	-13,566.9	(X)	6,604.3	(X)	20,171.2	(X)
Organization for Economic Cooperation & Develop- ment (OECD) in Europe	-125,232.5	(X)	199,207.8	(X)	324,440.4	(X)
Pacific Rim Countries	-328,066.4	(X)	223,334.0	(X)	551,400.4	(X)
Asia-Near East	-30,550.8	(X)	31,893.6	(X)	62,444.3	(X)
Asia-(NICS)	-15,781.6	(X)	86,827.5	(X)	102,609.1	(X)
Asia-South	-16,966.6	(X)	10,045.2	(X)	27,011.8	(X)
Assoc. of South East Asia Nations (ASEAN)	-49,278.2	(X)	49,636.7	(X)	98,914.9	(X)
APEC	-488,815.3	(X)	575,440.1	(X)	1,064,255.4	(X)
South/Central America	-50,460.1	(X)	72,413.0	(X)	122,873.0	(X)
Twenty Latin American Republics	-96,587.6	(X)	182,836.4	(X)	279,424.0	(X)
Central American Common Market	-1,304.0	(X)	12,167.5	(X)	13,471.5	(X)
Latin American Free Trade Association	-97,865.1	(X)	162,709.5	(X)	260,574.6	(X)
North Atlantic Treaty Organization (NATO) Allies	-198,120.9	(X)	406,259.2	(X)	604,380.0	(X)
Organization of Petroleum Exporting Countries (OPEC)	-92,866.6	(X)	32,073.8	(X)	124,940.4	(X)
Unidentified	216.3	(X)	216.3	(X)	(-)	(X)

(1) Detailed data are presented on a Census basis. The information needed to convert to a BOP basis is not available.

(2) Countries included in Euro Area are also included in European Union. See Page 27 of the FT-900 release for a list of countries.

(3) Selected countries are included in more than one area grouping. Indonesia is included in both OPEC and Pacific Rim;

Venezuela is included in both OPEC and Other South/Central America.

(4) The export totals reflect shipments of certain grains, oilseeds, and satellites that are not included in the country/area totals.

NOTE: For information on data sources, nonsampling errors and definitions, see the information section on page 27 of the FT-900 release, or at www.census.gov/ft900 or www.bea.gov/bea/di/home/trade.htm.

Balance of Payments – United States (2003)

(In billions of US dollars)

Current Account		-530.7
Balance on goods	-544.3	
Imports	-1,260.7	
Exports	716.4	
Balance on services	47.8	
Balance on income	33.3	
Current transfers	-67.4	
Capital Account		-3.1
Financial Account		544.2
Direct investment abroad	-173.8	
Direct investment in United States	39.9	
Portfolio investment assets	-72.3	
Portfolio investment liabilities	544.5	
Financial derivatives	...	
Other investment assets	-38.8	
Other investment liabilities	244.8	
Net Errors and Omissions		-12.0
Reserves and Related Items		1.5

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

it had an unbroken record of annual surpluses up to 1970 on current-account goods, services, and remittances transactions. The balance of trade, in the red since 1975, reached a record deficit of \$618 billion in 2004. The current account deficit in 2004 was 5.5% of GDP, or an estimated \$635 billion.

The nation's stock of gold declined from a value of \$22.9 billion at the start of 1958 to \$10.5 billion as of 31 July 1971, only two weeks before President Nixon announced that the United States would no longer exchange dollars for gold. From 1990–2004, the value of the gold stock was stable at \$11 billion. The US holds 8,140 metric tons of gold, and in December 2005, gold was trading at nearly \$500 an ounce.

33 BANKING AND SECURITIES

The Federal Reserve Act of 1913 provided the United States with a central banking system. The Federal Reserve System dominates US banking, is a strong influence in the affairs of commercial banks, and exercises virtually unlimited control over the money supply. The Federal Reserve Bank system is an independent government organization, with important posts appointed by the president and approved by the Senate.

Each of the 12 federal reserve districts contains a federal reserve bank. A board of nine directors presides over each reserve bank. Six are elected by the member banks in the district. Of this group, three may be bankers; the other three represent business, industry, or agriculture. The Board of Governors of the Federal Reserve System (usually known as the Federal Reserve Board) appoints the remaining three, who may not be officers, directors, stockholders, or employees of any bank and who are presumed therefore to represent the public.

The Federal Reserve Board regulates the money supply and the amount of credit available to the public by asserting its power to alter the rediscount rate, by buying and selling securities in the open market, by setting margin requirements for securities pur-

chases, by altering reserve requirements of member banks in the system, and by resorting to a specific number of selective controls at its disposal. The Federal Reserve Board's role in regulating the money supply is held by economists of the monetarist school to be the single most important factor in determining the nation's inflation rate.

Member banks increase their reserves or cash holdings by rediscounting commercial notes at the federal reserve bank at a rate of interest ultimately determined by the Board of Governors. A change in the discount rate, therefore, directly affects the capacity of the member banks to accommodate their customers with loans. Similarly, the purchase or sale of securities in the open market, as determined by the Federal Open Market Committee, is the most commonly used device whereby the amount of credit available to the public is expanded or contracted. The same effect is achieved in some measure by the power of the Board of Governors to raise or lower the reserves that member banks must keep against demand deposits. Credit tightening by federal authorities in early 1980 pushed the prime rate—the rate that commercial banks charge their most creditworthy customers—above 20% for the first time since the financial panics of 1837 and 1839, when rates reached 36%. As federal monetary policies eased, the prime rate dropped below 12% in late 1984; as of 2000 it was below 10%. In mid-2003 the federal funds rate was reduced to 1%, a 45-year low.

The financial sector is dominated by commercial banks, insurance companies, and mutual funds. There was little change in the nature of the sector between the 1930s, when it was rescued through the creation of regulatory bodies and deposit insurance, and the 1980s, when the market was deregulated. In the 1980s, the capital markets underwent extensive reforms. The markets became increasingly internationalized, as deregulation allowed foreign-owned banks to extend their operations. There was also extensive restructuring of domestic financial markets—interest-rate ceilings were abolished and competition between different financial institution intensified, facilitated by greater diversification.

Commercial and investment banking activities are separated in the United States by the Glass Steagall Act, which was passed in 1933 during the Great Depression. Fears that investment banking activities put deposits at risk led to a situation where commercial banks were unable to deal in nonbank financial instruments. This put them at severe commercial disadvantage, and the pressure for reform became so strong that the Federal Reserve Board has allowed the affiliates of commercial banks to enter a wide range of securities activities since 1986. Attempts to repeal the act were unsuccessful until November 1999, when the Gramm-Leach-Bliley Act (also known as the Financial Modernization Act) was passed by Congress. The Gramm-Leach-Bliley Act repealed Glass-Steagall and allows banks, insurance companies, and stock brokers and mutual fund companies to sell each other's products and services. These companies are also now free to merge or acquire one another.

The expansion and diversification in financial services was facilitated by information technology. Financial deregulation led to the collapse of many commercial banks and savings and loan associations in the second half of the 1980s. In the 1990s, change has continued in the form of a proliferation of bank mergers; with the passage in 1999 of Gramm-Leach-Bliley, further consolidation of the industry was predicted.

Prior to 1994 the banking system was highly fragmented; national banks were not allowed to establish branches at will, as they were subject to the banking laws of each state. Within states, local banks faced similar restraints on their branching activities. In 1988, only 22 states permitted statewide banking of national banks, while 18 allowed limited banking and ten permitted no branches. Consequently in 1988 over 60% of US commercial banks had assets of less than \$150 million, while only 3% had assets valued at \$500 million or more.

Such regulation rendered US banks vulnerable to merger and acquisition. Acquisitions have generally taken place through bank holding companies, which then fall under the jurisdiction of the Federal Reserve System. This has allowed banks to extend their business into nonbank activities such as insurance, financial planning, and mortgages, as well as opening up geographical markets. The number of such holding companies is estimated at 6,500. These companies are believed to control over 90% of total bank assets.

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 removed most of the barriers to interstate bank acquisitions and interstate banking. The new act allowed banks to merge with banks in other states although they must operate them as separate banks. In addition, banks are allowed to establish branches in neighboring states. Restrictions on branching activity were lifted as of June 1997. The legislation allowed banks to lessen their exposure to regional economic downturns. It also ensured a continuing stream of bank mergers. Liberalization has encouraged a proliferation of in-store banking at supermarkets. International Banking Technologies, Inc., reported that the number of supermarket bank branches rose to 7,100 in 1998, up from 2,191 in 1994. In the mid-1990s, the number of supermarket branch banks grew at an annual rate of around 30%, but growth from 1997 to 1998 slowed to just over 10%.

Under the provisions of the Banking Act of 1935, all members of the Federal Reserve System (and other banks that wish to do so) participate in a plan of deposit insurance (up to \$100,000 for each individual account as of 2003) administered by the Federal Deposit Insurance Corporation (FDIC).

Savings and loan associations are insured by the Federal Savings and Loan Insurance Corporation (FSLIC). Individual accounts were insured up to a limit of \$100,000. Savings and loans failed at an alarming rate in the 1980s. In 1989 the government signed legislation that created the Resolution Trust Corporation. The RTC's job is to handle the savings and loans bailout, expected to cost taxpayers \$345 billion through 2029. Approximately 30 million members participated in thousands of credit unions chartered by a federal agency; state-chartered credit unions had over 20 million members.

The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$1,595.5 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$6,961.2 billion. The money market rate, the rate at which financial institutions lend to one another in the short term, was 3.89%. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 1.25%.

When the New York Stock Exchange (NYSE) opened in 1817, its trading volume was 100 shares a day. On 17 December 1999, 1.35 billion shares were traded, a record high for shares traded in a single day. Record-setting trading volume occurred for 1999 as a whole, with 203.9 billion shares traded (a 20% increase over 1998) for a total value of \$8.9 trillion, up from \$7.3 trillion in 1998. In 1996, 51 million individuals and 10,000 institutional investors owned stocks or shares in mutual funds traded on the NYSE. The two other major stock markets in the United States are the American Stock Exchange (AMEX) and the NASDAQ (National Association of Securities Dealers). The NASD (National Association of Securities Dealers) is regulated by the SEC (Securities and Exchange Commission). As of 2004, the New York Stock Exchange, the NASDAQ, and the American Stock Exchange had a combined total of 5,231 companies listed. Total market capitalization that same year came to \$16.3 trillion.

3⁴ INSURANCE

The number of life insurance companies has shrunk in recent years. Between 1985 and 1995 the number fell from 2,261 to 1,840. In 1998, there were 51 life insurance mergers and acquisitions. Competition between financial institutions has been healthy and premium income has risen steadily. The overwhelming majority of US families have some life insurance with a legal reserve company, the Veterans Administration, or fraternal, assessment, burial, or savings bank organization. The passage in 1999 of the Gramm-Leach-Bliley Act allowed insurance companies, banks, and securities firms to sell each other's products and services; restrictions were also lifted on cross-industry mergers and acquisitions. In 2003, the value of all direct insurance premiums written totaled \$1.1 trillion, of which nonlife premiums accounted for \$574.6 billion. In that same year, State Farm Mutual Group was the top nonlife insurer, with direct written nonlife premiums of \$47.2 billion, while Metropolitan Life & Affiliated was the nation's leading life insurer, with direct written life insurance premiums of \$27.6 billion.

Hundreds of varieties of insurance may be purchased. Besides life, the more important coverages include accident, fire, hospital and medical expense, group accident and health, automobile liability, automobile damage, workers' compensation, ocean marine, and inland marine. Americans buy more life and health insurance than any other group except Canadians and Japanese. During the 1970s, many states enacted a "no fault" form of automobile insurance, under which damages may be awarded automatically, without recourse to a lawsuit.

3⁵ PUBLIC FINANCE

Under the Budget and Accounting Act of 1921, the president is responsible for preparing the federal government budget. In fact, the budget is prepared by the Office of Management and Budget (established in 1970), based on requests from the heads of all federal departments and agencies and advice from the Board of Governors of the Federal Reserve System, the Council of Economic Advisers, and the Treasury Department. The president submits a budget message to Congress in January. Under the Congressional Budget Act of 1974, the Congress establishes, by concurrent resolution, targets for overall expenditures and broad functional categories, as well as targets for revenues, the budget deficit, and

Public Finance – United States (2003)

(In billions of US dollars, central government figures)

	1,902.4	100.0%
Revenue and Grants		
Tax revenue	1,086.5	57.1%
Social contributions	758.3	39.9%
Grants	...	...
Other revenue	57.6	3.0%
Expenditures	2,311.9	100.0%
General public services	281.9	12.2%
Defense	442.5	19.1%
Public order and safety	31.9	1.4%
Economic affairs	161.9	7.0%
Environmental protection	...	...
Housing and community amenities	45.8	2.0%
Health	541.9	23.4%
Recreational, culture, and religion	4.5	0.2%
Education	61	2.6%
Social protection	740.5	32.0%

(...) data not available or not significant.

SOURCE: *Government Finance Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

the public debt. The Congressional Budget Office monitors the actions of Congress on individual appropriations bills with reference to those targets. The president exercises fiscal control over executive agencies, which issue periodic reports subject to presidential perusal. Congress exercises control through the comptroller general, head of the General Accounting Office, who sees to it that all funds have been spent and accounted for according to legislative intent. The fiscal year runs from 1 October to 30 September. The public debt, subject to a statutory debt limit, has been raised by Congress 70 times since 1950. The debt rose from \$43 billion in 1939/40 to more than \$3.3 trillion in 1993 to more than \$8.2 trillion in early 2006. In 1993, pressured by Congressional Republicans, President Bill Clinton introduced a taxing and spending plan to reduce the rate of growth of the federal deficit. The Clinton administration calculated the package of tax increases and spending cuts would pare down the deficit by \$500 billion over a four-year period; in fiscal year 1997/98, the budget experienced an estimated surplus of \$69 billion. However, the tax cuts and extensive military spending of President George W. Bush in the first term of the new millennium erased the surplus and pushed the economy to a record \$455 billion deficit for the 2003 fiscal year, followed by \$412 billion for 2004.

The US Central Intelligence Agency (CIA) estimated that in 2005 the central government took in revenues of approximately \$2.1 trillion and had expenditures of \$2.4 trillion. Revenues minus expenditures totaled approximately -\$347 billion. Public debt in 2005 amounted to 64.7% of GDP. Total external debt in 2006 was \$8.837 trillion.

The International Monetary Fund (IMF) reported that in 2003, the most recent year for which it had data, central government revenues in \$1,902.4 billion and expenditures were \$2,311.9 billion. The value of revenues was \$1.9 billion and expenditures \$2.3 billion. Government outlays by function were as follows: general public services, 12.2%; defense, 19.1%; public order and safety, 1.4%; economic affairs, 7.0%; housing and community amenities,

2.0%; health, 23.4%; recreation, culture, and religion, 0.2%; education, 2.6%; and social protection, 32.0%.

3⁶TAXATION

Measured as a proportion of the GDP, the total US tax burden is less than that in most industrialized countries. Federal, state, and local taxes are levied in a variety of forms. The greatest source of revenue for the federal government is the personal income tax, which is paid by citizens and resident aliens on their worldwide income. The main state-level taxes are sales and income taxes. The main local taxes are property and local income taxes.

Generally, corporations are expected to prepay, through four installments, 100% of estimated tax liability. US corporate taxes are famous for their complexity, and it is estimated that amount spent trying to comply with, minimize and/or avoid business taxes is equal to half the tax yield. As of 2004, the United States had a top corporate federal tax rate of 35%, although the effective rate is actually 39.5%. Generally, corporations having taxable income in excess of \$75,000 but not over \$10 million are taxed at a 34% rate, with the first \$75,000 taxed at graduated rates of 15–25%. However those whose income falls between \$335,000 and \$10 million are taxed at the full 34% which includes the initial \$75,000. Corporations with income of over \$15 million but not over \$18,333,333 are subject to an additional 3% tax, while those corporations whose taxable income is over \$18,333,333 are taxed at the 35% rate. The federal government also imposes an Alternative Minimum Tax (AMT). The purpose of the AMT is to prevent what is considered an overuse of tax deductions. As a result, the AMT is effectively a separate tax system with its own credit limitations and allowable deductions. Under the AMT, a 20% flat rate is applied to alternative minimum taxable income (AMTI), which the corporation must pay if the calculated AMT is greater than the regular tax. Conversely, if the calculated regular tax is more than the calculated AMT, then the regular tax must be paid. State and local governments may also impose their own corporate income taxes. Generally, these taxes use the federal definitions of taxable income as the starting point when applying their income taxes. Capital gains from assets held as investments are taxed at the same rates as ordinary income. Dividends, interest and royalties paid to nonresidents are subject to a withholding tax of 30%.

The United States has a progressive personal income tax structure that as of 2004, had a top rate of 35%. As with corporations, individuals can be subject to an AMT. With rates of 26% and 28%, the AMT, as it applies to individuals, is similar to the AMT charged to corporations in that the individual must pay whichever is highest, the regular tax or the AMT. Individuals may also be subject to inheritance and gift taxes, as well as state and local income taxes, all of which vary from state-to-state and locality-to-locality. Capital gains from assets held for under a year (short term) are taxed at higher rates than gains derived from assets held for more than a year (long term). Long term capital gains for individuals are taxed at a 15% rate, while those individuals who fall into lower-income tax brackets would be subject to a 5% rate. Certain capital gains derived from real estate are subject to a 25% tax rate.

The United States has not adopted a national value-added tax (VAT) system. The main indirect taxes are state sales taxes. There is an importation duty of 0.7% on imported goods. Excise taxes are levied on certain motor vehicles, personal air transporta-

tion, some motor fuels (excluding gasohol), alcoholic beverages, tobacco products, tires and tubes, telephone charges, and gifts and estates.

37 CUSTOMS AND DUTIES

Under the Trade Agreements Extension Act of 1951, the president is required to inform the US International Trade Commission (known until 1974 as the US Tariff Commission) of contemplated concessions in the tariff schedules. The commission then determines what the “peril point” is; that is, it informs the president how far the tariff may be lowered without injuring a domestic producer, or it indicates the amount of increase necessary to enable a domestic producer to avoid injury by foreign competition. Similarly, the act provides an “escape clause,”—in effect, a method for rescinding a tariff concession granted on a specific commodity if the effect of the concession, once granted, has caused or threatens to cause “serious injury” to a domestic producer. The Trade Expansion Act of 1962 grants the president the power to negotiate tariff reductions of up to 50% under the terms of GATT.

In 1974, The US Congress authorized the president to reduce tariffs still further, especially on goods from developing countries. As the cost of imported oil rose in the mid-1970s, however, Congress became increasingly concerned with reducing the trade imbalance by discouraging “dumping” of foreign goods on the US market. The International Trade Commission is required to impose a special duty on foreign goods offered for sale at what the commission determines is less than fair market value.

Most products are dutiable under most-favored nation (MFN) rates or general duty rates. The import tariff schedules contain over 10,000 classifications, most of which are subject to interpretation. Besides duties, the United States imposes a 17% “user fee” on all imports. Excise taxes and harsher maintenance fees are also imposed on certain imports. Under the terms of the North American Free Trade Agreement (NAFTA), which was approved by Congress in 1993, tariffs on goods qualifying as North American under the rules of origin will be phased out over a 15-year period.

38 FOREIGN INVESTMENT

From the end of World War II through 1952, US government transfers of capital abroad averaged about \$5,470 million annually, while private investments averaged roughly \$730 million. Portfolio investment represented less than \$150 million a year, or only 2.5% of the annual aggregate.

After 1952, however, direct private investment began to increase and portfolio investment rose markedly. In the late 1950s, new private direct investment was increasing yearly by \$2 billion or more, while private portfolio investment and official US government loans were climbing by a minimum annual amount of \$1 billion each. During the 1960–73 period, the value of US-held assets abroad increased by nearly 12% annually. From the mid-1970s through the early 1980s, it rose most years by at least 15%, and doubled between 1980 and 1990. Direct investments abroad had a book value of \$711.6 billion in 1995, over half of which was invested in Europe, with the single greatest concentration (\$119.9 billion) in the United Kingdom. Asia and the Pacific Islands had the second-largest regional total (\$126 billion), with Japan (\$39 billion) the leading country.

Foreign direct investment in the United States has risen rapidly, from \$6.9 billion in 1960 to \$27.7 billion in 1975 and \$183 billion at the end of 1985. As of 1995 foreign direct investment in the United States was valued at \$560 billion, of which \$363.5 billion originated in Europe (\$119.9 billion in the United Kingdom). Asia and the Pacific was the other major source of foreign direct investment, of which close to 90% (\$108.6 billion) came from Japan. Total foreign assets in 1994 (current cost) were over \$3.16 trillion. Over one-third of the investment volume was in manufacturing. In 1998 foreign direct investment reached \$174.4 billion, up from \$103.4 billion in 1997, and then increased to \$283 billion in 1999. Foreign direct investment inflow into the United States peaked at a world record of \$301 billion in 2000. In the global economic slowdown of 2001, foreign direct investment inflows dropped to \$124.4 billion. The worldwide decline in foreign investment after the 11 September 2001 terrorist attacks was most dramatic in the United States. In 2002, estimated foreign direct investment inflow dropped more than 64% to an estimated \$52.6 billion. Foreign direct investment inflow rose to \$78.8 billion in 2004, up 26% from 2003. In 2004, the major investors in the United States were Canada, the United Kingdom, Germany, France, Switzerland, and Australia.

US outward foreign direct investment in 2004 totaled \$83.5 billion, with Canada, the United Kingdom, Switzerland, Japan, Ireland, and Mexico the largest recipients of US FDI.

39 ECONOMIC DEVELOPMENT

By the end of the 19th century, regulation rather than subsidy had become the characteristic form of government intervention in US economic life. The abuses of the railroads with respect to rates and services gave rise to the Interstate Commerce Commission in 1887, which was subsequently strengthened by numerous acts that now stringently regulate all aspects of US railroad operations.

The growth of large-scale corporate enterprises, capable of exercising monopolistic or near-monopolistic control of given segments of the economy, resulted in federal legislation designed to control trusts. The Sherman Antitrust Act of 1890, reinforced by the Clayton Act of 1914 and subsequent acts, established the federal government as regulator of large-scale business. This tradition of government intervention in the economy was reinforced during the Great Depression of the 1930s, when the Securities and Exchange Commission and the National Labor Relations Board were established. The expansion of regulatory programs accelerated during the 1960s and early 1970s with the creation of the federal Environmental Protection Agency, Equal Employment Opportunity Commission, Occupational Safety and Health Administration, and Consumer Product Safety Commission, among other bodies. Subsidy programs were not entirely abandoned, however. Federal price supports and production subsidies remained a major force in stabilizing US agriculture. Moreover, the federal government stepped in to arrange for guaranteed loans for two large private firms—Lockheed in 1971 and Chrysler in 1980—where thousands of jobs would have been lost in the event of bankruptcy.

During this period, a general consensus emerged that, at least in some areas, government regulation was contributing to inefficiency and higher prices. The Carter administration moved to deregulate the airline, trucking, and communications industries;

subsequently, the Reagan administration relaxed government regulation of bank savings accounts and automobile manufacture as it decontrolled oil and gas prices. The Reagan administration also sought to slow the growth of social-welfare spending and attempted, with only partial success, to transfer control over certain federal social programs to the states and to reduce or eliminate some programs entirely. Ironically, it was a Democrat, Bill Clinton, who, in 1996, signed legislation that replaced Aid to Families with Dependent Children with a system of block grants that would enable the states to design and run their own welfare programs.

Some areas of federal involvement in social welfare, however, seem safely entrenched. Old age and survivors' insurance, unemployment insurance, and other aspects of the Social Security program have been accepted areas of governmental responsibility for decades. With the start of the 21st century, the government faced the challenge of keeping the Medicare program solvent as the postwar baby-boomer generation reached retirement age. Federal responsibility has also been extended to insurance of bank deposits, to mortgage insurance, and to regulation of stock transactions. The government fulfills a supervisory and regulatory role in labor-management relations. Labor and management customarily disagree on what the role should be, but neither side advocates total removal of government from this field.

Since the Reciprocal Trade Agreement Act of 1934, government regulation of foreign trade has tended toward decreased levels of protection, a trend maintained by the 1945 Trade Agreements Extension Act, the 1962 Trade Expansion Act, and the 1974 Trade Act. The goals of free trade have also been furthered since World War II by US participation in the International Monetary Fund (IMF), the World Bank, and the General Agreement on Tariffs and Trade (GATT). With the formation in 1995 of the World Trade Organization (WTO), most-favored-nation policies were expanded to trade in services and other areas.

In 1993, Congress approved the North American Free Trade Agreement, which extended the Free Trade Agreement between Canada and the United States to include Mexico. NAFTA, by eliminating tariffs and other trade barriers, created a free trade zone with a combined market size of \$6.5 trillion and 370 million consumers. The effect on employment was uncertain—estimates varied from a loss of 150,000 jobs over the ensuing ten years to a net gain of 200,000. Labor intensive goods-producing industries, such as apparel and textiles, were expected to suffer, while it was predicted that capital goods industries would benefit. It was anticipated that US automakers would benefit in the short run by taking advantage of the low wages in Mexico and that US grain farmers and the US banking, financial, and telecommunications sectors would gain enormous new markets. As of 2005, the pros and cons of NAFTA were still being hotly debated. Spokespersons for organized labor claimed in 2000 that the agreement had resulted in a net loss of 420,000 jobs, while advocates of free trade insisted that 311,000 new jobs had been created to support record US exports to Canada and Mexico, with only 116,000 workers displaced—a net gain of 195,000 jobs.

In 2003, President George W. Bush introduced, and Congress passed a tax cut of \$350 billion designed to stimulate the economy, which was in a period of slow growth. This came on the heels of a \$1.35 trillion tax cut passed in 2001 and a \$96 billion stimulus package in 2002. Democrats cited the loss of 2.7 million private

sector jobs during the first three years of the Bush administration as evidence that the president did not have control over the economy. In 1998, for the first time since 1969, the federal budget closed the fiscal year with a surplus. In 2000, the government was running a surplus of \$236 billion, or a projected \$5.6 trillion over 10 years. By mid-2003, the federal budget had fallen into deficit; the deficit stood at \$455 billion, which was 4.2% of gross domestic product (GDP). The budget deficit stood at \$412 billion in 2004, or 3.6% of GDP, and was forecast to decline to \$331 billion in 2006.

US businesses are at or near the forefront of technological advances, but the onrush of technology has created a "two-tier" labor market, in which those at the bottom lack the education and professional and technical skills of those at the top, and, increasingly, fail to receive comparable pay raises, health insurance coverage, and other benefits. Since 1975, practically all the gains in household income have gone to the top 20% of households. Other long-term problems facing the US economy are inadequate investment in economic infrastructure, the rapidly rising medical and pension costs of an aging population, significant trade, current account, and budget deficits, and the stagnation of family income in the lower economic groups. Congress in 2003 passed an overhaul of the Medicare program to provide prescription drug coverage for the elderly and disabled; the provisions went into effect in January 2006.

40 SOCIAL DEVELOPMENT

Social welfare programs in the United States depend on both the federal government and the state governments for resources and administration. Old age, survivors', disability, and the Medicare (health) programs are administered by the federal government; unemployment insurance, dependent child care, and a variety of other public assistance programs are state administered, although the federal government contributes to all of them through grants to the states.

The Food and Nutrition Service of the US Department of Agriculture oversees several food assistance programs. Eligible Americans take part in the food stamp program, and eligible pupils participate in the school lunch program. The federal government also expends money for school breakfasts, nutrition programs for the elderly, and in commodity aid for the needy. The present Social Security program differs greatly from that created by the Social Security Act of 1935, which provided that retirement benefits be paid to retired workers aged 65 or older. Since 1939, Congress has attached a series of amendments to the program, including provisions for workers who retire at age 62, for widows, for dependent children under 18 years of age, and for children who are disabled prior to age 18. Disabled workers between 50 and 65 years of age are also entitled to monthly benefits. Other measures increased the number of years a person may work; among these reforms was a 1977 law banning mandatory retirement in private industry before age 70. The actuarial basis for the Social Security system has also changed. In 1935 there were about nine US wage earners for each American aged 65 or more; by the mid-1990s, however, the ratio was closer to three to one.

In 1940, the first year benefits were payable, \$35 million was paid out. By 1983, Social Security benefits totaled \$268.1 billion, paid to more than 40.6 million beneficiaries. The average monthly

benefit for a retired worker with no dependents in 1960 was \$74; in 1983, the average benefit was \$629.30. Under legislation enacted in the early 1970s, increases in monthly benefits were pegged to the inflation rate, as expressed through the Consumer Price Index. Employers, employees, and the self-employed are legally required to make contributions to the Social Security fund. Currently, 6.2% of employee earnings (12.4% of self-employed earnings) went toward old-age, disability, and survivor benefits. Wage and salary earners pay Social Security taxes under the Federal Insurance Contributions Act (FICA). As the amount of benefits and the number of beneficiaries have increased, so has the maximum FICA payment. As of 2004 the maximum annual earnings for contribution and benefit purposes was \$87,000.

Workers compensation laws vary according to states. Most laws were enacted before 1920; the program covering federal employees was instituted in 1908. Insurance is compulsory through public or private carriers. In most states the employer fund the total cost. There is a special federal program for miners with black lung disease (pneumoconiosis). The laws governing unemployment compensation originate in the states as well, and therefore benefits vary from state to state in duration and amount. Generally unemployment benefits amount to 50% of earnings, and federal law provides an additional 13 weeks of payments in states with high unemployment. Federal and state systems provide aid in the form of cash payments, social services, and job training to assist needy families.

Private philanthropy plays a major role in the support of relief and health services. The private sector plays an especially important role in pension management.

41 HEALTH

The US health care system is among the most advanced in the world. Escalating health care costs resulted in several proposals for a national health care program in the 1970s, early 1980s, and early 1990s. Most reform measures relied either on market-oriented approaches designed to widen insurance coverage through tax subsidies on a federally controlled single-payer plan, or on mandatory employer payments for insurance coverage. The health care industry continues to struggle with continued rising costs, as well as the financial burden of providing care to over 40 million people who were uninsured. The percentage among the nation's poor was much higher.

In response to rising costs, the popularity of managed care grew rapidly in the latter half of the 1990s. By 2000, 59% of the population was insured by either an HMO (health maintenance organization) or PPO (preferred provider organization). In such organizations, medical treatment, laboratory tests, and other health services for each patient are subject to the approval of the insurer before they can be covered. From 1987 to 1996, enrollment in health maintenance organizations (HMOs) doubled. By the end of the decade, however, the quality of treatment under managed care organizations was coming under increased scrutiny.

Life expectancy for someone born in 2005 was 77.71 years. Infant mortality has fallen from 38.3 per 1,000 live births in 1945 to 6.50 per 1,000 live births in 2005. The birth rate in 2002 was 14.1 per 1,000 people. In 1999, 56.5% of US adults were overweight and 21.1% were obese. Although health indicators continued to im-

prove overall 2004, pronounced disparities between different segments of the population remained.

Leading causes of death were: heart disease, cancer, cerebrovascular diseases, chronic lower respiratory diseases, accidents, diabetes mellitus, pneumonia and influenza, Alzheimer's disease, suicide, and homicide.

Cigarette smoking has been linked to heart and lung disease; about 20% of all deaths in the United States were attributed to cigarette smoking. Smoking has decreased overall since the late 1980s. The overall trend in smoking mortality suggests a decrease in smoking among males since the 1960s, but an increase in mortality for female smokers. On 23 November 1998, the Master Settlement Agreement was signed, the result of a lawsuit brought by 46 states and the District of Columbia against tobacco companies for damages related to smoking. Payments from the settlement, totaling \$206 billion, began in 1999.

The rate of HIV infection (resulting in acquired immune deficiency syndrome—AIDS), has risen since first being identified in 1981. There were a cumulative total of 750,000 AIDS cases in the 1980s and 1990s, with 450,000 deaths from the disease. In the latter 1990s, both incidence and mortality decreased with the introduction of new drug combinations to combat the disease. The number of AIDS cases declined by 30% between 1996 and 1998 and deaths were cut in half. In 2004, the number of people living with HIV/AIDS was estimated at 950,000, with the number of deaths from AIDS that year estimated at 14,000. AIDS continued to affect racial and ethnic minorities disproportionately. HIV prevalence was 0.60 per 100 adults in 1999.

Medical facilities in the United States included 5,810 hospitals in 2000, with 984,000 beds (down from 6,965 hospitals and 1,365,000 beds in 1980). As of 2004, there were an estimated 549 physicians, 773 nurses, 59 dentists, and 69 pharmacists per 100,000 people. Of the total number of active classified physicians, the largest areas of activity were internal medicine, followed by general and family practice and pediatrics.

Per capita health care expenditures rose from \$247 in 1967 to about \$3,380 in 1993. National health care spending reached \$1 trillion in 1996 and was projected to reach \$1.9 trillion by 2006. Hospital costs, amounting to over \$371 billion in 1997, represented 34% of national health care spending in that year. In the late 1990s, total health care expenditures stabilized at around 13% of GDP, with most expenditures being made by the private sector.

Medicare payments have lagged behind escalating hospital costs; payments in 2000 totaled \$215.9 billion. Meanwhile, the elderly population in the United States is projected to increase to 18% of the total population by 2020, thus exacerbating the conundrum of health care finance.

42 HOUSING

The housing resources of the United States far exceed those of any other country, with 122,671,734 housing units serving about 109,902,090 households, according to 2004 American Community Survey estimates. About 67% of all occupied units were owner-occupied, with about 10% of the total housing stock standing vacant. The average household had 2.6 people. The median home value was estimated at \$151,366. The median payment for rent and utilities of rental properties was \$694 per month. California had the highest number of housing units at over 12 million (in

2000); the state also had the highest estimated median housing value of owner-occupied units, at \$391,102 in 2004. Wyoming had the lowest number of housing stock with an estimated 223,854 in 2000. The lowest estimated median housing value of owner-occupied units was found in Arkansas at \$79,006 in 2004.

The vast majority of housing units are single-unit structures; 61% are single-family detached homes. Over 9.5 million dwellings are found in buildings of 20 units or more. Over 8.7 million dwellings are mobile homes. About 14.9% of the total housing stock was built in 1939 or before. The decade of 1970–79 had the most homes built, with 21,462,868 units, 17.6% of the existing stock. During the period 1990–99, there were 19,007,934 units built, about 15% of the existing stock. Houses being built in the 1990s were significantly larger than those built in the 1970s. The average area of single-family housing built in 1993 was 180.88 sq m (1,947 sq ft), compared to 139.35 sq m (1,500 sq ft) in 1970. The median number of rooms per dwelling was estimated at 5.4 in 2004.

43 EDUCATION

Education is the responsibility of state and the local governments. However, federal funds are available to meet special needs at primary, secondary, or higher levels. Each state specifies the age and circumstances for compulsory attendance. The most common program of compulsory education requires attendance for ages 6 to 16; however, most school programs continue through twelve years of study, with students graduating at age 17 or 18. The high school diploma is only granted to students who complete this course of study, no certificates of completion are granted at previous intervals. Those who leave school before completion of grade 12 may choose to take a General Educational Development Test (GED) that is generally considered to be the equivalent to a state-approved diploma.

Regular schools, which educate a person toward a diploma or degree, include both public and private schools. Public schools are controlled and supported by the local authorities, as well as state or federal governmental agencies. Private schools are controlled and supported by religious or private organizations. Elementary schooling generally extends from grade one through grade five or six. Junior high or middle school programs may cover grades six through eight, depending on the structure of the particular school district. High schools generally cover grades 9 through 12. At the secondary level, many schools offer choices of general studies or college preparatory studies. Vocational and technical programs are also available. Some schools offer advanced placement programs through which students (after appropriate exams) may earn college credits while still in high school. The school year begins in September and ends in June.

In 2003, about 58% of children between the ages of three and five were enrolled in some type of preschool program. Primary school enrollment in 2003 was estimated at about 92% of age-eligible students. The student-to-teacher ratio for primary school was at about 14:1 in 2003; the ratio for secondary school was about 15:1. In 2003, private schools accounted for about 10.8% of primary school enrollment and 9.2% of secondary enrollment. As of 2003, about 87% of the population ages 25–29 had received a high school diploma or equivalency certificate.

In 2003, about 1.1 million students were home schooled. In a home schooling program, students are taught at home by their parents or tutors using state-approved curriculum resources. Most of these students (about 82%) receive their entire education at home. Others may attend some classes at local schools or choose to attend public high school after completing preliminary grades through home schooling.

Colleges include junior or community colleges, offering two-year associate degrees; regular four-year colleges and universities; and graduate or professional schools. Both public and private institutions are plentiful. Eight of the most prestigious institutions in the country are collectively known as the Ivy League. These schools are some of the oldest in the country and are known for high academic standards and an extremely selective admissions process. Though they are all now independent, nonsectarian organizations, most of them were founded or influenced by religious groups. They include: Yale University (1701, Puritans), University of Pennsylvania (1740, Quaker influence), Princeton University (1746, Presbyterian), Harvard University (1638, Puritan), Dartmouth College (1769, Puritan), Cornell University (1865), Columbia University (1754, Anglican), and Brown University (1764, Baptist).

The cost of college education varies considerably depending on the institution. There are county and state universities that receive government funding and offer reduced tuition for residents of the region. Students attending both public and private institutions may be eligible for federal aid in the form of grants or loans. Institutions generally offer their own scholarship and grant programs as well.

There are over 4,000 nondegree institutions of higher learning, including educational centers offering continuing education credits for professionals as well as general skill-based learning programs. Certificate programs are available in a number of professions and trades. Technical and vocational schools are also available for adults. In 2003, it was estimated that about 83% of the tertiary age population were enrolled in tertiary education programs. The adult literacy rate has been estimated at about 97%.

Beyond this, there are numerous public and private community organizations that offer educational programming in the form of workshops, lectures, seminars, and classes for adults interested in expanding their educational horizons.

As of 2003, public expenditure on education was estimated at 5.7% of GDP, or 17.1% of total government expenditures.

44 LIBRARIES AND MUSEUMS

The American Library Association has reported that, as of 2004, there were an estimated 117,664 libraries in the country, including 9,211 public libraries (with over 16,500 buildings), 3,527 academic libraries, 93,861 school libraries, 9,526 special libraries, 314 armed forces libraries, and 1,225 government libraries.

The largest library in the country and the world is the Library of Congress, with holdings of over 130 million items, including 29 million books and other printed materials, 2.7 million recordings, 12 million photographs, 4.8 million maps, and 58 million manuscripts. The Library of Congress serves as the national library and the site of the US Copyright Office. The government maintains a system of presidential libraries and museums, which serve as ar-

chive and research centers that preserve documents and other materials of historical value related to the presidency. Starting with Herbert Hoover, the 31st president of the United States, there has been a library and museum established for each president. State governments maintain their own libraries as well.

The country's vast public library system is administered primarily by municipalities. The largest of these is the New York Public Library system with 89 branch locations and over 42.7 million items, including 14.9 million bound volumes. Other major public library systems include the Cleveland Public Library (over 9.7 million items), Los Angeles County Public Library (over 9.6 million items, 8.7 million books), the Chicago Public Library (6.5 million), the Boston Public Library system (6.1 million books, including 1.2 million rare books and manuscripts), and the Free Library of Philadelphia (6 million items).

Noted special collections are those of the Pierpont Morgan Library in New York; the Huntington Library in San Marino, Calif.; the Folger Shakespeare Library in Washington, DC; the Hoover Library at Stanford University; and the rare book divisions of Harvard, Yale, Indiana, Texas, and Virginia universities.

Among the leading university libraries are those of Harvard (with about 15 million volumes in 90 libraries), Yale, Illinois (Urbana-Champaign), Michigan (Ann Arbor), California (Berkeley), Columbia, Stanford, Cornell, California (Los Angeles), Chicago, Wisconsin (Madison), and Washington (Seattle).

There are over 5,000 nonprofit museums in the United States. The most numerous type is the historic building, followed in descending order by college and university museums, museums of science, public museums of history, and public museums of art. The Smithsonian Institute in Washington, DC, sponsors 18 national museums and the National Zoo. Sixteen of the Smithsonian national museums are located in the Smithsonian complex of Washington, DC; these include the Natural History Museum, the American History Museum, the Air and Space Museum, American Art Museum, and the American Indian Museum. The American Indian Museum, Heye Center, and the Cooper-Hewitt, National Design Museum are Smithsonian-sponsored museums located in New York.

Other eminent US museums include the American Museum of Natural History, the Metropolitan Museum of Art, the Museum of Modern Art, the Guggenheim Museum, the Whitney Collection of American Art, the Frick Collection, and the Brooklyn Museum, all in New York City; the Boston Museum of Fine Arts; the Art Institute of Chicago and the Chicago Museum of Natural History; the Franklin Institute and Philadelphia Museum of Art, both in Philadelphia; and the M. H. de Young Memorial Museum in San Francisco. Also of prominence are the Cleveland Museum of Art, the St. Louis Museum of Art, and the Baltimore Museum of Art.

45 MEDIA

All major electric communications systems are privately owned but regulated by the Federal Communications Commission. The United States uses wire and radio services for communications more extensively than any other country in the world. In 2003, there were an estimated 621 mainline telephones for every 1,000 people. The same year, there were approximately 543 mobile phones in use for every 1,000 people. The Post Office Department

of the United States was replaced on 1 July 1971 by the US Postal Service, a financially autonomous federal agency. In addition to mail delivery, the Postal Service provides registered, certified, insured, express and COD mail service, issues money orders, and operates a postal savings system. Since the 1970s, numerous privately owned overnight mail and package delivery services have been established.

Radio serves a variety of purposes other than broadcasting. It is widely used by ships and aircraft for safety; it has become an important tool in the movement of buses, trucks, and taxicabs. Forest conservators, fire departments, and the police operate with radio as a necessary aid; it is used in logging operations, surveying, construction work, and dispatching of repair crews. In 2004, broadcasting stations on the air comprised over 12,000 radio stations (both AM and FM) and more than 1,500 television stations. Nearly 1,000 stations were affiliated with five major networks: NBC, ABC, CBS, FOX (all commercial), and PBS (Public Broadcasting System). As of 1997 the United States had some 9,000 cable television systems. In 2003, there were an estimated 2,109 radios and 938 television sets for every 1,000 people. About 255 of every 1,000 people were cable subscribers. Also in 2003, there were 658.9 personal computers for every 1,000 people and 551 of every 1,000 people had access to the Internet. There were 198,098 secure Internet servers in the country in 2004.

In 2005 there were over 1,500 daily newspapers in the United States. It has been estimated that about 20 large newspaper chains account for almost 60% of the total daily circulation. The US daily newspapers with the largest circulations as of 2004 were: *USA Today* (national), 2,220,863; *Wall Street Journal* (national), 2,106,774; *New York Times*, 1,121,057; *Los Angeles Times* (CA), 902,164; *New York Daily News*, 715,052; *Washington Post* (DC), 707,690; *New York Post*, 686,207; *Chicago Tribune* (IL), 600,988; *Houston Chronicle* (TX), 554,783; *Dallas Morning News* (TX), 519,014; *San Francisco Chronicle* (CA), 505,022; *Chicago Sun-Times* (IL), 481,980; *Long Island/New York Newsday*, 481,816; *Boston Globe* (MA), 451,471; *Arizona Republic*, 413,268; *Star-Ledger* (Newark, NJ), 400,042; *Journal-Constitution* (Atlanta, GA), 386,015; *Star Tribune* (Minneapolis, MN), 381,094; *Philadelphia Inquirer* (PA), 368,883; and *Cleveland Plain Dealer* (OH), 354,309. *The Christian Science Monitor* is published for daily national circulation by the Christian Science Church based in Massachusetts; circulation in 2004 was about 60,723. *Investor's Business Daily*, based in Los Angeles, California, also has a national circulation, reaching about 191,846 in 2004.

In 2004, the most popular consumer magazine in the country was *AARP the Magazine*, published bimonthly by the American Association of Retired Persons (AARP) with a circulation of over 22.6 million. *The AARP Bulletin* came in second with a circulation of about 22.1 million. The two general circulation magazines that appealed to the largest audiences were *Reader's Digest* (about 10 million) and *TV Guide* (about 9 million). *Time* and *Newsweek* were the leading news magazines, with 2004 weekly circulations of 4,034,272 and 3,135,476 respectively.

The US book-publishing industry consists of the major book companies (mainly in the New York metro area), nonprofit university presses distributed throughout the United States, and nu-

merous small publishing firms. In 1994, 51,863 book titles were published in the United States.

The US Constitution provides for freedom of speech and of the press in its Bill of Rights, and the government supports these rights. Citizens enjoy a wide range of opinions in all media, where debate, editorial opinion, and government opposition viewpoints are represented in some form or another. Nearly all media are privately owned.

46 ORGANIZATIONS

A number of industrial and commercial organizations exercise considerable influence on economic policy. The National Association of Manufacturers and the US Chamber of Commerce, with numerous local branches, are the two central bodies of business and commerce. Various industries have their own associations, concerned with cooperative research and questions of policy alike.

Practically every profession in the United States is represented by one or more professional organizations. Among the most powerful of these are the American Medical Association, comprising regional, state, and local medical societies; the American Bar Association, also comprising state and local associations; the American Hospital Association; and the National Education Association. The most prestigious scientific and technical institutions are the National Academy of Sciences (founded 1863) and the National Academy of Engineering (1964).

Many private organizations are dedicated to programs of political and social action. Prominent in this realm are the National Association for the Advancement of Colored People (NAACP), the Urban League, the American Civil Liberties Union (ACLU), Common Cause, and the Anti-Defamation League. The League of Women Voters, which provides the public with nonpartisan information about candidates and election issues, began sponsoring televised debates between the major presidential candidates in 1976. The National Organization for Women and the National Rifle Association have each mounted nationwide lobbying campaigns on issues affecting their members. There are thousands of political action committees (PACs) that disburse funds to candidates for the House and Senate and other elected offices.

The great privately endowed philanthropic foundations and trusts play an important part in encouraging the development of education, art, science, and social progress in the United States. Prominent foundations include the Carnegie Corporation and the Carnegie Endowment for International Peace, the Ford Foundation, the Guggenheim Foundation, the Mayo Association for the Advancement of Medical Research and Education, and the Rockefeller Foundation.

Private philanthropy was responsible for the establishment of many of the nation's most eminent libraries, concert halls, museums, and university and medical facilities; private bequests were also responsible for the establishment of the Pulitzer Prizes. Merit awards offered by industry and professional groups include the "Oscars" of the Academy of Motion Picture Arts and Sciences, the "Emmys" of the National Academy of Television Arts and Sciences, and the "Grammys" of the National Academy of Recording Arts and Sciences.

Funds for a variety of community health and welfare services are funneled through United Way campaigns, which raise funds

annually. The American Red Cross has over 3,000 chapters, which pay for services and activities ranging from disaster relief to blood donor programs. The Salvation Army is also a prominent national organization supporting programs of social welfare and advancement. There are several national associations dedicated to research and education for specific fields of medicine and particular diseases and conditions, such as the American Cancer Society, the American Heart Association, and the March of Dimes.

There are numerous youth clubs and associations across the country. The Boy Scouts of America, the Girl Scouts of the USA, rural 4-H Clubs, and the Young Men's and the Young Women's Christian Associations are among the organizations devoted to recreation, sports, camping, and education. There are youth organizations for political parties, such as the Young Republicans and Young Democrats, and Junior ROTC (Reserve Officers' Training Corps) for the Army, Navy, Air Force, and Marines. Most national religious and service associations have youth chapters.

The largest religious organization in the United States is the National Council of the Churches of Christ in the USA, which embraces 32 Protestant and Orthodox denominations, whose adherents total more than 42 million. Many organizations, such as the American Philosophical Society, the American Association for the Advancement of Science, and the National Geographic Society, are dedicated to the enlargement of various branches of human knowledge. National, state, and local historical societies abound, and there are numerous educational, sports, and hobbyist groups.

The larger veterans' organizations are the American Legion, the Veterans of Foreign Wars of the United States, the Catholic War Veterans, and the Jewish War Veterans. Fraternal organizations, in addition to such international organizations as the Masons, include indigenous groups such as the Benevolent and Protective Order of Elks, the Loyal Order of Moose, and the Woodmen of the World. Many, such as the Ancient Order of Hibernians in America, commemorate the national origin of their members. One of the largest fraternal organizations is the Roman Catholic Knights of Columbus.

47 TOURISM, TRAVEL, AND RECREATION

Among the most striking scenic attractions in the United States are: the Grand Canyon in Arizona; Carlsbad Caverns in New Mexico; Yosemite National Park in California; Yellowstone National Park in Idaho, Montana, and Wyoming; Niagara Falls, partly in New York; and the Everglades in Florida. The United States has a total of 49 national parks. Popular coastal resorts include those of Florida, California, and Cape Cod in Massachusetts. Historical attractions include the Liberty Bell and Constitution Hall in Philadelphia; the Statue of Liberty in New York City; the White House, the Capitol, and the monuments to Washington, Jefferson, and Lincoln in the District of Columbia; the Williamsburg historical restoration in Virginia; various Revolutionary and Civil War battlefields and monuments in the East and South; the Alamo in San Antonio; and Mt. Rushmore in South Dakota. Among many other popular tourist attractions are the movie and television studios in Los Angeles; the cable cars in San Francisco; casino gambling in Las Vegas and in Atlantic City, New Jersey; thoroughbred horse racing in Kentucky; the Grand Ole Opry in Nashville, Tennessee; and such amusement parks as Disneyland (Anaheim, California) and Walt Disney World (near Orlando, Florida). For abundance

and diversity of entertainment— theater, movies, music, dance, and sports—New York City has few rivals. In April 1993, Amtrak began the country's first regularly scheduled transcontinental passenger service, from Los Angeles to Miami.

Americans' recreational activities range from the major spectator sports—professional baseball, football, basketball, ice hockey, soccer; and horse racing; and collegiate football and basketball—to home gardening. Participant sports are a favorite form of recreation, including jogging, aerobics, tennis, and golf. Skiing is a popular recreation in New England and the western mountain ranges, while sailing, power boating, rafting, and canoeing are popular water sports.

Foreign visitors to the United States numbered 41.2 million in 2003, down from 51 million in 2000. Of these visitors, 31% came from Canada and 25% from Mexico. Hotel rooms numbered 4.4 million with an occupancy rate of 61%. With a few exceptions, such as Canadians entering from the Western Hemisphere, all visitors to the United States are required to have passports and visas.

The cost of traveling in the United States varies from city to city. According to 2005 US government estimates, daily expenses were approximately \$187 in Chicago, \$272 in New York, \$230 in Washington, DC, and \$174 in Miami. Costs are lower in smaller cities and rural areas.

48 FAMOUS AMERICANS

Printer, publisher, inventor, scientist, statesman, and diplomat, Benjamin Franklin (1706–90) was America's outstanding figure of the colonial period. George Washington (1732–99), leader of the colonial army in the American Revolution, became first president of the United States and is known as the "father of his country." Chief author of the Declaration of Independence, founder of the US political party system, and third president was Thomas Jefferson (1743–1826). His leading political opponents were John Adams (1735–1826), second president, and Alexander Hamilton (b. West Indies, 1755–1804), first secretary of the treasury, who secured the new nation's credit. James Madison (1751–1836), a leading figure in drawing up the US Constitution, served as fourth president. John Quincy Adams (1767–1848), sixth president, was an outstanding diplomat and secretary of state.

Andrew Jackson (1767–1845), seventh president, was an ardent champion of the common people and opponent of vested interests. Outstanding senators during the Jackson era were John Caldwell Calhoun (1782–1850), spokesman of the southern planter aristocracy and leading exponent of the supremacy of states' rights over federal powers; Henry Clay (1777–1852), the great compromiser, who sought to reconcile the conflicting views of the North and the South; and Daniel Webster (1782–1852), statesman and orator, who championed the preservation of the Union against sectional interests and division. Abraham Lincoln (1809–65) led the United States through its most difficult period, the Civil War, in the course of which he issued the Emancipation Proclamation. Jefferson Davis (1808–89) served as the only president of the short-lived Confederacy. Stephen Grover Cleveland (1837–1908), a conservative reformer, was the strongest president in the latter part of the 19th century. Among the foremost presidents of the 20th century have been Nobel Peace Prize winner Theodore Roosevelt (1858–1919); Woodrow Wilson (1856–1924), who led the nation during World War I and helped establish the League of Nations;

and Franklin Delano Roosevelt (1882–1945), elected to four terms spanning the Great Depression and World War II. The presidents during the 1961–2000 period have been John Fitzgerald Kennedy (1917–63), Lyndon Baines Johnson (1908–73), Richard Milhous Nixon (1913–94), Gerald Rudolph Ford (Leslie Lynch King, Jr., b.1913), Jimmy Carter (James Earl Carter, Jr., b.1924), Ronald Wilson Reagan (1911–2004), George Herbert Walker Bush (b.1924), and Bill Clinton (William Jefferson Blythe III, b.1946). George Walker Bush (b.1946) became the 43rd president and first president of the 21st century.

Of the outstanding US military leaders, four were produced by the Civil War: Union generals Ulysses Simpson Grant (1822–85), who later served as the eighteenth president, and William Tecumseh Sherman (1820–91); and Confederate generals Robert Edward Lee (1807–70) and Thomas Jonathan "Stonewall" Jackson (1824–63). George Catlett Marshall (1880–1959), army chief of staff during World War II, in his later capacity as secretary of state under President Harry S. Truman (1884–1972), formulated the Marshall Plan, which did much to revitalize Western Europe. George Smith Patton, Jr. (1885–1945) was a leading general who commanded major units in North Africa, Sicily, and Europe in World War II. Douglas MacArthur (1880–1964) commanded the US forces in Asia during World War II, oversaw the postwar occupation and reorganization of Japan, and directed UN forces in the first year of the Korean conflict. Dwight D. Eisenhower (1890–1969) served as supreme Allied commander during World War II, later becoming the thirty-fourth president. William Childs Westmoreland (1914–2005) commanded US military operations in the Vietnam War from 1964 to 1968 and served as US Army Chief of Staff from 1968 to 1972. H. Norman Schwarzkopf (b.1934) commanded the successful allied invasion of Iraq in the Persian Gulf War. General Colin Luther Powell (b.1937), former Secretary of State (2001–2005) and highest ranking African American government official in the history of the United States (a position assumed by Condoleezza Rice in 2005), was a general in the army who also served as National Security Advisor (1987–1989) and Chairman of the Joint Chiefs of Staff (1989–1993).

John Marshall (1755–1835), chief justice of the United States from 1801 to 1835, established the power of the Supreme Court through the principle of judicial review. Other important chief justices were Edward Douglass White (1845–1921), former president William Howard Taft (1857–1930), and Earl Warren (1891–1974), whose tenure as chief justice from 1953 to 1969 saw important decisions on desegregation, reapportionment, and civil liberties. The justice who enjoyed the longest tenure on the court was William O. Douglas (1898–1980), who served from 1939 to 1975; other prominent associate justices were Oliver Wendell Holmes (1841–1935), Louis Dembitz Brandeis (1856–1941), and Hugo Lafayette Black (1886–1971).

Indian chiefs renowned for their resistance to white encroachment were Pontiac (1729?–69), Black Hawk (1767–1838), Tecumseh (1768–1813), Osceola (1804?–38), Cochise (1812?–74), Geronimo (1829?–1909), Sitting Bull (1831?–90), Chief Joseph (1840?–1904), and Crazy Horse (1849?–77). Other significant Indian chiefs were Hiawatha (fl. 1500), Squanto (d.1622), and Sequoyia (1770?–1843). Historical figures who have become part of American folklore include pioneer Daniel Boone (1734–1820); silversmith, engraver, and patriot Paul Revere (1735–1818); fron-

tiersman David “Davy” Crockett (1786–1836); scout and Indian agent Christopher “Kit” Carson (1809–68); James Butler “Wild Bill” Hickok (1837–76); William Frederick “Buffalo Bill” Cody (1846–1917); and the outlaws Jesse Woodson James (1847–82) and Billy the Kid (William H. Bonney, 1859–81).

Inventors and Scientists

Outstanding inventors were Robert Fulton (1765–1815), who developed the steamboat; Eli Whitney (1765–1825), inventor of the cotton gin and mass production techniques; Samuel Finley Breese Morse (1791–1872), who invented the telegraph; and Elias Howe (1819–67), who invented the sewing machine. Alexander Graham Bell (b.Scotland, 1847–1922) gave the world the telephone. Thomas Alva Edison (1847–1931) was responsible for hundreds of inventions, among them the long-burning incandescent electric lamp, the phonograph, automatic telegraph devices, a motion picture camera and projector, the microphone, and the mimeograph. Lee De Forest (1873–1961), the “father of the radio,” developed the vacuum tube and many other inventions. Vladimir Kosma Zworykin (b.Russia, 1889–1982) was principally responsible for the invention of television. Two brothers, Wilbur Wright (1867–1912) and Orville Wright (1871–1948), designed, built, and flew the first successful motor-powered airplane. Amelia Earhart (1898–1937) and Charles Lindbergh (1902–74) were aviation pioneers. Pioneers in the space program include John Glenn (b.1921), the first US astronaut to orbit the earth, and Neil Armstrong (b.1930), the first man to set foot on the moon.

Benjamin Thompson, Count Rumford (1753–1814), developed devices for measuring light and heat, and the physicist Joseph Henry (1797–1878) did important work in magnetism and electricity. Outstanding botanists and naturalists were John Bartram (1699–1777); his son William Bartram (1739–1832); Louis Agassiz (b.Switzerland, 1807–73); Asa Gray (1810–88); Luther Burbank (1849–1926), developer of a vast number of new and improved varieties of fruits, vegetables, and flowers; and George Washington Carver (1864–1943), known especially for his work on industrial applications for peanuts. John James Audubon (1785–1851) won fame as an ornithologist and artist.

Distinguished physical scientists include Samuel Pierpont Langley (1834–1906), astronomer and aviation pioneer; Josiah Willard Gibbs (1839–1903), mathematical physicist, whose work laid the basis for physical chemistry; Henry Augustus Rowland (1848–1901), who did important research in magnetism and optics; and Albert Abraham Michelson (b.Germany, 1852–1931), who measured the speed of light and became the first of a long line of US Nobel Prize winners. The chemists Gilbert Newton Lewis (1875–1946) and Irving Langmuir (1881–1957) developed a theory of atomic structure.

The theory of relativity was conceived by Albert Einstein (b.Germany, 1879–1955), generally considered the greatest mind in the physical sciences since Newton. Percy Williams Bridgman (1882–1961) was the father of operationalism and studied the effect of high pressures on materials. Arthur Holly Compton (1892–1962) made discoveries in the field of X rays and cosmic rays. The physical chemist Harold Clayton Urey (1893–1981) discovered heavy hydrogen. Isidor Isaac Rabi (b.Austria, 1898–1988), nuclear

physicist, did important work in magnetism, quantum mechanics, and radiation. Enrico Fermi (b.Italy, 1901–54) created the first nuclear chain reaction, in Chicago in 1942, and contributed to the development of the atomic and hydrogen bombs. Also prominent in the splitting of the atom were Leo Szilard (b.Hungary, 1898–1964), J. Robert Oppenheimer (1904–67), and Edward Teller (b.Hungary, 1908–2003). Ernest Orlando Lawrence (1901–58) developed the cyclotron. Carl David Anderson (1905–91) discovered the positron. Mathematician Norbert Wiener (1894–1964) developed the science of cybernetics.

Outstanding figures in the biological sciences include Theobald Smith (1859–1934), who developed immunization theory and practical immunization techniques for animals; the geneticist Thomas Hunt Morgan (1866–1945), who discovered the heredity functions of chromosomes; and neurosurgeon Harvey William Cushing (1869–1939). Selman Abraham Waksman (b.Russia, 1888–1973), a microbiologist specializing in antibiotics, was co-discoverer of streptomycin. Edwin Joseph Cohn (1892–1953) is noted for his work in the protein fractionalization of blood, particularly the isolation of serum albumin. Philip Showalter Hench (1896–1965) isolated and synthesized cortisone. Wendell Meredith Stanley (1904–71) was the first to isolate and crystallize a virus. Jonas Edward Salk (1914–95) developed an effective killed-virus poliomyelitis vaccine, and Albert Bruce Sabin (1906–93) contributed oral, attenuated live-virus polio vaccines.

Adolf Meyer (b.Switzerland, 1866–1950) developed the concepts of mental hygiene and dementia praecox and the theory of psychobiology; Harry Stack Sullivan (1892–1949) created the interpersonal theory of psychiatry. Social psychologist George Herbert Mead (1863–1931) and behaviorist Burrhus Frederic Skinner (1904–90) were influential in the 20th century. Psychiatrist Aaron Temkin Beck (b.1921) is regarded as the founder of cognitive therapy, and Albert Ellis (b.1913) developed rational-emotive therapy.

A pioneer in psychology who was also an influential philosopher was William James (1842–1910). Other leading US philosophers are Charles Sanders Peirce (1839–1914); Josiah Royce (1855–1916); John Dewey (1859–1952), also famous for his theories of education; George Santayana (b.Spain, 1863–1952); Rudolf Carnap (b.Germany, 1891–1970); Willard Van Orman Quine (1908–2000), Richard Rorty (b.1931), Hilary Putnam (b.1926), John Rawls (1921–2002), Robert Nozick (1938–2002), and linguist and political philosopher Noam Chomsky (b.1928). Educators of note include Horace Mann (1796–1859), Henry Barnard (1811–1900), and Charles William Eliot (1834–1926). Noah Webster (1758–1843) was the outstanding US lexicographer, and Melvil Dewey (1851–1931) was a leader in the development of library science. Thorstein Bunde Veblen (1857–1929) wrote books that have strongly influenced economic and social thinking. Also important in the social sciences have been sociologists Talcott Parsons (1902–79) and William Graham Sumner (1840–1910) and anthropologist Margaret Mead (1901–78).

Social Reformers

Social reformers of note include Dorothea Lynde Dix (1802–87), who led movements for the reform of prisons and insane asylums;

William Lloyd Garrison (1805–79) and Frederick Douglass (Frederick Augustus Washington Bailey, 1817–95), prominent abolitionists; Elizabeth Cady Stanton (1815–1902) and Susan Brownell Anthony (1820–1906), leaders in the women's suffrage movement; Clara Barton (1821–1912), founder of the American Red Cross; economist Henry George (1839–97), advocate of the single-tax theory; Eugene Victor Debs (1855–1926), labor leader and an outstanding organizer of the Socialist movement in the United States; Jane Addams (1860–1935), who pioneered in settlement house work; Robert Marion La Follette (1855–1925), a leader for progressive political reform in Wisconsin and in the US Senate; Margaret Higgins Sanger (1883–1966), pioneer in birth control; Norman Thomas (1884–1968), Socialist Party leader; and Martin Luther King, Jr. (1929–68), a central figure in the black civil rights movement and winner of the Nobel Peace Prize in 1964. Betty Friedan (1921–2006), Gloria Steinem (b.1934), and bell hooks (b.Gloria Jean Watkins, 1952) are contemporary feminists.

Religious leaders include Roger Williams (1603–83), an early advocate of religious tolerance in the United States; Jonathan Edwards (1703–58), New England preacher and theologian; Elizabeth Ann Seton (1774–1821), the first American canonized in the Roman Catholic Church; William Ellery Channing (1780–1842), a founder of American Unitarianism; Joseph Smith (1805–44), founder of the Church of Jesus Christ of Latter-day Saints (Mormon) and his chief associate, Brigham Young (1801–77); and Mary Baker Eddy (1821–1910), founder of the Christian Science Church. Paul Tillich (b.Germany, 1886–1965) and Reinhold Niebuhr (1892–1971) were outstanding Protestant theologians of international influence. Pat Robertson (b.1930), televangelist and leader of the Christian Coalition organization, and Jerry Falwell (b.1933), a fundamentalist Baptist pastor, televangelist, and founder of the Moral Majority movement and Liberty University, are contemporary leaders of the Christian religious right.

Famous US businessmen include Éléuthère Irénée du Pont de Nemours (b.France, 1771–1834), John Jacob Astor (Johann Jakob Ashdour, b.Germany, 1763–1848), Cornelius Vanderbilt (1794–1877), Andrew Carnegie (b.Scotland, 1835–1919), John Pierpont Morgan (1837–1913), John Davison Rockefeller (1839–1937), Andrew William Mellon (1855–1937), Henry Ford (1863–1947), and Thomas John Watson (1874–1956). William Henry “Bill” Gates III (b.1955), co-founder of the Microsoft Corp., was the richest person in the world as of 2006. Other corporate leaders in the 21st century include: Warren Edward Buffett (b.1930), Louis V. Gerstner, Jr., (b.1942), H. Wayne Huizenga (b.1937), Steve Jobs (b.1955), Sam Walton (1918–1992), John Francis “Jack” Welch Jr. (b.1935), and Sanford I. Weill (b.1933).

Literary Figures

The first US author to be widely read outside the United States was Washington Irving (1783–1859). James Fenimore Cooper (1789–1851) was the first popular US novelist. Three noted historians were William Hickling Prescott (1796–1859), John Lothrop Motley (1814–77), and Francis Parkman (1823–93). The writings of two men of Concord, Mass.—Ralph Waldo Emerson (1803–82) and Henry David Thoreau (1817–62)—influenced philosophers, political leaders, and ordinary men and women in many parts of

the world. The novels and short stories of Nathaniel Hawthorne (1804–64) explore New England's Puritan heritage. Herman Melville (1819–91) wrote the powerful novel *Moby-Dick*, a symbolic work about a whale hunt that has become an American classic. Mark Twain (Samuel Langhorne Clemens, 1835–1910) is the best-known US humorist. Other leading novelists of the later 19th and early 20th centuries were William Dean Howells (1837–1920), Henry James (1843–1916), Edith Wharton (1862–1937), Stephen Crane (1871–1900), Theodore Dreiser (1871–1945), Willa Cather (1873–1947), and Sinclair Lewis (1885–1951), first US winner of the Nobel Prize for literature (1930). Later Nobel Prize-winning US novelists include Pearl Sydenstricker Buck (1892–1973), in 1938; William Faulkner (1897–1962), in 1949; Ernest Hemingway (1899–1961), in 1954; John Steinbeck (1902–68), in 1962; Saul Bellow (b.Canada, 1915–2005), in 1976; Isaac Bashevis Singer (b.Poland, 1904–91), in 1978; and Toni Morrison (b.1931), in 1993. Among other noteworthy writers are Zora Neale Hurston (1891–1960), Henry Miller (1891–1980), James Thurber (1894–1961), Francis Scott Key Fitzgerald (1896–1940), Vladimir Nabokov (b.Russia, 1899–1977), Thomas Wolfe (1900–1938), Richard Wright (1908–60), Eudora Welty (1909–2001), John Cheever (1912–82), Bernard Malamud (1914–1986), Carson McCullers (1917–1967), Norman Mailer (b.1923), James Baldwin (1924–87), Jack Kerouac (1922–1969), John Updike (b.1932), Philip Roth (b.1933), Paul Auster (b.1947), John Barth (b.1930), Donald Barthelme (1931–1989), T. Coraghessan Boyle (b.1948), Sandra Cisneros (b.1954), Joan Didion (b.1934), Stephen Dixon (b.1936), E.L. Doctorow (b.1931), Louise Erdrich (b.1954), William Gaddis (1922–1998), Carl Hiaasen (b.1953), Oscar Hijuelos (b.1951), John Irving (b.1942), Jamaica Kincaid (b.Elaine Cynthia Potter Richardson, 1949), Jhumpa Lahiri (b.Nilanjana Sudeshna, 1967), Jonathan Lethem (b.1964), Cormac McCarthy (b.1933), Larry McMurtry (b.1936), Bharati Mukherjee (b.1940), Joyce Carol Oates (b.1938), Marge Piercy (b.1936), E. Annie Proulx (b.1935), Thomas Pynchon (b.1937), J.D. Salinger (b.1919), Wallace Stegner (1909–93), Gore Vidal (b.1925), Kurt Vonnegut Jr. (b.1922), Alice Walker (b.1944), Tom Wolfe (b.1931), and Tobias Wolff (b.1945).

Noted US poets include Henry Wadsworth Longfellow (1807–82), Edgar Allan Poe (1809–49), Walt Whitman (1819–92), Emily Dickinson (1830–86), Edwin Arlington Robinson (1869–1935), Robert Frost (1874–1963), Wallace Stevens (1879–1955), William Carlos Williams (1883–1963), Marianne Moore (1887–1972), Edward Estlin Cummings (1894–1962), Hart Crane (1899–1932), Langston Hughes (1902–67), and Rita Dove (b.1952). Ezra Pound (1885–1972) and Nobel laureate Thomas Stearns Eliot (1888–1965) lived and worked abroad for most of their careers. Wystan Hugh Auden (b.England, 1907–73), who became an American citizen in 1946, published poetry and criticism. Elizabeth Bishop (1911–79), Robert Lowell (1917–77), Allen Ginsberg (1926–97), and Sylvia Plath (1932–63) are among the best-known poets since World War II. Robert Penn Warren (1905–89) won the Pulitzer Prize for both fiction and poetry and became the first US poet laureate. Carl Sandburg (1878–1967) was a noted poet, historian, novelist, and folklorist. The foremost US dramatists are Eugene (Gladstone) O'Neill (1888–1953), who won the Nobel Prize for literature in 1936; Tennessee Williams (Thomas Lanier Wil-

liams, 1911–83); Arthur Miller (1915–2005); and Edward Albee (b.1928). Neil Simon (b.1927) is among the nation's most popular playwrights and screenwriters. August Wilson (1945–2005) won the Pulitzer Prize twice, for *Fences* (1985) and *The Piano Lesson* (1990), both of which depicted the African American experience.

Artists

Two renowned painters of the early period were John Singleton Copley (1738–1815) and Gilbert Stuart (1755–1828). Outstanding 19th-century painters were James Abbott McNeill Whistler (1834–1903), Winslow Homer (1836–1910), Thomas Eakins (1844–1916), Mary Cassatt (1845–1926), Albert Pinkham Ryder (1847–1917), John Singer Sargent (b.Italy, 1856–1925), and Frederic Remington (1861–1909). More recently, Edward Hopper (1882–1967), Georgia O'Keeffe (1887–1986), Thomas Hart Benton (1889–1975), Charles Burchfield (1893–1967), Norman Rockwell (1894–1978), Ben Shahn (1898–1969), Mark Rothko (b.Russia, 1903–70), Jackson Pollock (1912–56), Andrew Wyeth (b.1917), Robert Rauschenberg (b.1925), and Jasper Johns (b.1930) have achieved international recognition.

Sculptors of note include Augustus Saint-Gaudens (1848–1907), Gaston Lachaise (1882–1935), Jo Davidson (1883–1952), Daniel Chester French (1850–1931), Alexander Calder (1898–1976), Louise Nevelson (b.Russia, 1899–1988), and Isamu Noguchi (1904–88). Henry Hobson Richardson (1838–86), Louis Henry Sullivan (1856–1924), Frank Lloyd Wright (1869–1959), Louis I. Kahn (b.Estonia, 1901–74), and Eero Saarinen (1910–61) were outstanding architects. Contemporary architects of note include Richard Buckminster Fuller (1895–1983), Edward Durrell Stone (1902–78), Philip Cortelyou Johnson (1906–2005), Ieoh Ming Pei (b.China, 1917), and Frank Gehry (b.1929). The United States has produced many fine photographers, notably Mathew B. Brady (1823?–96), Alfred Stieglitz (1864–1946), Edward Steichen (1879–1973), Edward Weston (1886–1958), Ansel Adams (1902–84), and Margaret Bourke-White (1904–71).

Entertainment Figures

Outstanding figures in the motion picture industry are D. W. (David Lewelyn Wark) Griffith (1875–1948), Sir Charles Spencer “Charlie” Chaplin (b.England, 1889–1978), Walter Elias “Walt” Disney (1906–66), and George Orson Welles (1915–85). John Ford (1895–1973), Howard Winchester Hawks (1896–1977), Frank Capra (b.Italy, 1897–1991), Sir Alfred Hitchcock (b.England, 1899–1980), and John Huston (1906–87) were influential motion picture directors; Mel Brooks (Kaminsky, b.1926), George Lucas (b.1944), and Steven Spielberg (b.1947) have achieved remarkable popular success. Woody Allen (Allen Konigsberg, b.1935) has written, directed, and starred in comedies on stage and screen. World-famous American actors and actresses include the Barrymores, Ethel (1879–1959) and her brothers Lionel (1878–1954) and John (1882–1942); Humphrey Bogart (1899–1957); James Cagney (1899–1986); Spencer Tracy (1900–1967); Helen Hayes Brown (1900–93); Clark Gable (1901–60); Joan Crawford (Lucille Fay LeSueur, 1904–77); Cary Grant (Alexander Archibald Leach, b.England, 1904–86); Greta Garbo (Greta Louisa Gustafsson, b.Sweden, 1905–90); Henry Fonda (1905–82) and his daughter, Jane (b.1937); John Wayne (Marion Michael Morrison, 1907–

79); Bette (Ruth Elizabeth) Davis (1908–89); Katharine Hepburn (1909–2003); Judy Garland (Frances Gumm, 1922–69); Marlon Brando (1924–2004); Marilyn Monroe (Norma Jean Mortenson, 1926–62); and Dustin Hoffman (b.1937). Among other great entertainers are W. C. Fields (William Claude Dukenfield, 1880–1946), Al Jolson (Asa Yoelson, b.Russia, 1886–1950), Jack Benny (Benjamin Kubelsky, 1894–1974), Fred Astaire (Fred Austerlitz, 1899–1987), Bob (Leslie Townes) Hope (b.England, 1903–2003), Bing (Harry Lillis) Crosby (1904–78), Frank (Francis Albert) Sinatra (1915–98), Elvis Aaron Presley (1935–77), and Barbra (Barbara Joan) Streisand (b.1942). The first great US “showman” was Phineas Taylor Barnum (1810–91).

Composers and Musicians

The foremost composers are Edward MacDowell (1861–1908), Charles Ives (1874–1954), Ernest Bloch (b.Switzerland, 1880–1959), Virgil Thomson (1896–89), Roger Sessions (1896–1985), Roy Harris (1898–1979), Aaron Copland (1900–90), Elliott Carter (b.1908), Samuel Barber (1910–81), John Cage (1912–92), and Leonard Bernstein (1918–90). George Rochberg (1918–2005), George Crumb (b.1929), Steve Reich (b.1936), and Philip Glass (b.1937) have won more recent followings. The songs of Stephen Collins Foster (1826–64) have achieved folk-song status. Leading composers of popular music are John Philip Sousa (1854–1932), George Michael Cohan (1878–1942), Jerome Kern (1885–1945), Irving Berlin (Israel Baline, b.Russia, 1888–1989), Cole Porter (1893–1964), George Gershwin (1898–1937), Richard Rodgers (1902–79), Woody Guthrie (1912–67), Stephen Joshua Sondheim (b.1930), Paul Simon (b.1941), and Bob Dylan (Robert Zimmerman, b.1941). Preeminent in the blues traditions are Leadbelly (Huddie Ledbetter, 1888–1949), Bessie Smith (1898?–1937), and Muddy Waters (McKinley Morganfield, 1915–83). Leading jazz figures include the composers Scott Joplin (1868–1917), James Hubert “Eubie” Blake (1883–1983), Edward Kennedy “Duke” Ellington (1899–1974), and William “Count” Basie (1904–84), and performers Louis Armstrong (1900–1971), Billie Holiday (Eleanora Fagan, 1915–59), John Birks “Dizzy” Gillespie (1917–93), Charlie “Bird” Parker (1920–55), John Coltrane (1926–67), and Miles Davis (1926–91).

Many foreign-born musicians have enjoyed personal and professional freedom in the United States; principal among them were pianists Artur Schnabel (b.Austria, 1882–1951), Arthur Rubinstein (b.Poland, 1887–1982), Rudolf Serkin (b.Bohemia, 1903–91), Vladimir Horowitz (b.Russia, 1904–89), and violinists Jascha Heifetz (b.Russia, 1901–87) and Isaac Stern (b.USSR, 1920). Among distinguished instrumentalists born in the United States are Benny Goodman (1909–86), a classical as well as jazz clarinetist, and concert pianist Van Cliburn (Harvey Lavan, Jr., b.1934). Singers Paul Robeson (1898–1976), Marian Anderson (1897–1993), Maria Callas (Maria Kalogeropoulos, 1923–77), Leontyne Price (b.1927), and Beverly Sills (Belle Silverman, b.1929) have achieved international acclaim. Isadora Duncan (1878–1927) was one of the first US dancers to win fame abroad. Martha Graham (1893–91) pioneered in modern dance. George Balanchine (b.Russia, 1904–83), Agnes De Mille (1905–93), Jerome Robbins (1918–98), Paul Taylor (b.1930), and Twyla Tharp (b.1941) are

leading choreographers; Martha Graham (1893–1991) pioneered in modern dance.

Sports Figures

Among the many noteworthy sports stars are baseball’s Tyrus Raymond “Ty” Cobb (1886–1961) and George Herman “Babe” Ruth (1895–1948); football’s Samuel Adrian “Sammy” Baugh (b.1914), Jim Brown (b.1936), Francis A. “Fran” Tarkenton (b.1940), and Orenthal James Simpson (b.1947); and golf’s Robert Tyre “Bobby” Jones (1902–71) and Mildred “Babe” Didrikson Zaharias (1914–56). William Tatum “Bill” Tilden (1893–1953), Billie Jean (Moffitt) King (b.1943), Chris Evert (b.1954), Martina Navratilova (b.Czechoslovakia, 1956), Andre Agassi (b.1970), Peter (“Pete”) Sampras (b.1971), and sisters Venus (b.1980) and Serena (b.1981) Williams have starred in tennis; Joe Louis (Joseph Louis Barrow, 1914–81) and Muhammad Ali (Cassius Marcellus Clay, b.1942) in boxing; William Felton “Bill” Russell (b.1934) Wilton Norman “Wilt” Chamberlain (1936–99), and Michael Jordan (b.1963) in basketball; Mark Spitz (b.1950) and Michael Phelps (b.1985) in swimming; Eric Heiden (b.1958) in speed skating; and Jesse Owens (1913–80) in track and field.

49 DEPENDENCIES

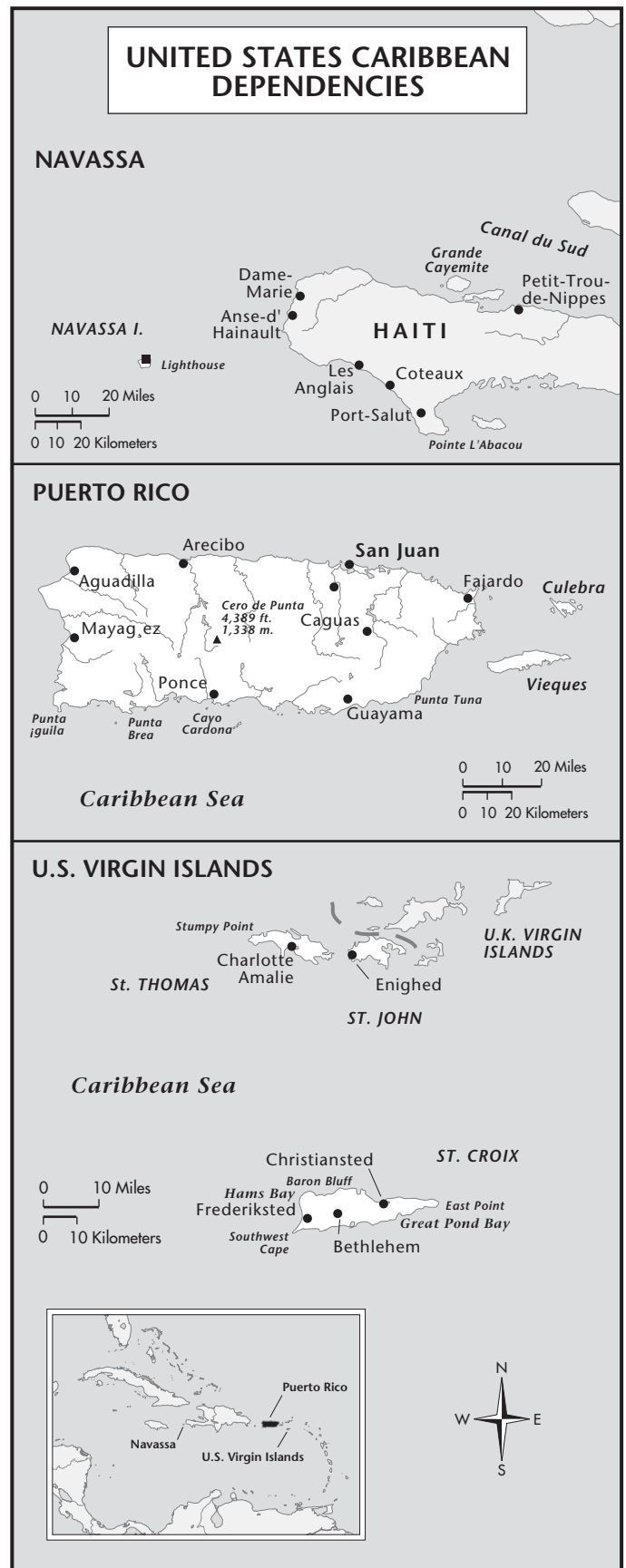
As of January 1988, US dependencies, in addition to those listed below, included American Samoa, Guam, Midway, Wake Island, and the Northern Mariana Islands; see the *Asia* volume. Sovereignty over the Panama Canal Zone was transferred to Panama on 1 October 1979; the canal itself reverted to Panamanian control until 31 December 1999.

Navassa

Navassa, a 5-sq-km (2-sq-mi) island between Jamaica and Haiti, was claimed by the United States under the Guano Act of 1856. The island, located at 18°24' N and 75°1' W, is uninhabited except for a lighthouse station under the administration of the coast guard.

Puerto Rico

Puerto Rico—total area 9,104 sq km (3,515 sq mi)—is the smallest and most easterly of the Greater Antilles, which screen the Caribbean Sea from the Atlantic proper. It lies between 17°51' and 18°31' N and 65°13' and 67°56' W, being separated from the Dominican Republic on the island of Hispaniola to the W by the Mona Passage, 121 km (75 mi) wide, and from the Virgin Islands on the E by Vieques Sound and the Virgin Passage. Roughly rectangular, the main island of Puerto Rico extends 179 km (111 mi) E–W and 58 km (36 mi) N–S. It is crossed from east to west by mountain ranges, the most prominent being the Cordillera Central, rising to nearly 1,338 m (4,390 ft). The coastal plain is about 24 km (15 mi) wide at its broadest point, and approximately one-third of the island’s land is arable. About 50 short rivers flow rapidly to the sea. Islands off the coast include Mona and Desecheo to the W and Vieques and Culebra to the E. The mildly tropical climate is moderated by the surrounding sea, and seasonal variations are slight. The prevailing winds are the northeast trades. In San Juan on the northern coast, mean temperatures range from 24°C (75 °F) for January to 27°C (81 °F) for July. Mean annual rainfall varies from 91 cm (36 in) on the south coast to 152 cm (60 in) in San Juan and



may total more than 457 cm (180 in) on the northern mountain slopes in the interior. Tropical fruits and other vegetation abound. As of 1991, endangered species on the island included the Puerto Rican plain pigeon, Puerto Rican parrot, Puerto Rican boa, giant anole, and hawksbill, leatherback, olive ridley, and green sea turtles.

The population was estimated at 3,927,188 in 2006. San Juan, the capital, had an estimated population of 422,000, with a metropolitan area of more than one million. The population has more than doubled since 1930, despite extensive migration to the US mainland. Improved economic conditions on the island and diminishing opportunities in the United States had slowed the trend by 1970; net out-migration was -2.12 migrants per 1000 population in 2001. Thousands of Puerto Ricans commute annually between Puerto Rico and the United States.

Puerto Ricans are of Spanish descent (80%), black (8%), or mixed ancestry (10%). Nearly all of the Amerindian inhabitants (about 0.4% of the population in 2002) were exterminated in the 16th century. Spanish is the official language, but many Puerto Ricans also speak English, which is required as a second language in the schools. The Roman Catholic religion is predominant (85%), but evangelical Protestant sects also have wide followings.

San Juan is the busiest commercial air center in the Caribbean and there is excellent air service to New York, Miami, other points in the Caribbean, and Latin America. More than 40 steamship companies provide overseas freight and passenger service; San Juan, Ponce, and Mayagüez are the principal ports. In 1998 there were 14,400 km (9,020 mi) of paved highway; trucks carry the bulk of overland freight.

Archaeological finds indicate that at least three Amerindian cultures settled on the island now known as Puerto Rico, long before its European discovery by Christopher Columbus on 19 November 1493. The first group, belonging to the Archaic Culture, are believed to have come from Florida. Having no knowledge of agriculture or pottery, they relied on the products of the sea; their remains have been found mostly in caves. The second group, the Igneri, came from northern South America. Descended from South American Arawak stock, the Igneri brought agriculture and pottery to the island; their remains are found mostly in the coastal areas. The third culture, the Taíno, also of Arawak origin, combined fishing with agriculture. A peaceful, sedentary tribe, the Taíno were adept at stonework and lived in many parts of the island; to these Amerindians, the island was known as Borinquén.

Columbus, accompanied by a young nobleman named Juan Ponce de León, landed at the western end of the island—which he called San Juan Bautista (St. John the Baptist)—and claimed it for Spain. Not until colonization was well under way would the island acquire the name Puerto Rico (“rich port”), with the name San Juan Bautista applied to the capital city. The first settlers arrived on 12 August 1508, under the able leadership of Ponce de León, who sought to transplant and adapt Spanish civilization to Puerto Rico’s tropical habitat. The small contingent of Spaniards compelled the Taíno, numbering perhaps 30,000, to mine for gold; the rigors of forced labor and the losses from rebellion reduced the Taíno population to about 4,000 by 1514, by which time the mines were nearly depleted. With the introduction of slaves from Africa, sugarcane growing became the leading economic activity.

Puerto Rico was briefly held by the English in 1598 and San Juan was besieged by the Dutch in 1625; otherwise, Spanish rule continued until the latter part of the 19th century. The island was captured by US forces during the Spanish-American War, and under the Treaty of Paris (December 1898) Puerto Rico was ceded outright to the United States. It remained under direct military rule until 1900, when the US Congress established an administration with a governor and an executive council, appointed by the US president, and a popularly elected House of Delegates. In 1917, Puerto Ricans were granted US citizenship.

In 1947, Congress provided for popular election of the governor, and in 1948, Luis Muñoz Marín was elected to that office. A congressional act of 1950, affirmed by popular vote in the island on 4 June 1951, granted Puerto Rico the right to draft its own constitution. The constitution was ratified by popular referendum on 3 March 1952. Puerto Rico’s new status as a free commonwealth voluntarily associated with the United States became effective on 25 July. The commonwealth status was upheld in a plebiscite in 1967, with 60.5% voting for continuation of the commonwealth and 38.9% for Puerto Rican statehood. In 1993 the plebiscite vote drew nearly 1.7 million voters or 73.6% of those eligible. The voters choose to keep the commonwealth status 48.4% to 46.2% for statehood, and 4.4% for independence.

The Commonwealth of Puerto Rico enjoys almost complete internal autonomy. The chief executive is the governor, elected by popular vote to a four-year term. The legislature consists of a 28-member Senate and 51-member House of Representatives elected by popular vote to four-year terms. The Supreme Court and lower courts are tied in with the US federal judiciary, and appeals from Puerto Rican courts may be carried as far as the US Supreme Court.

The Popular Democratic Party (PDP) was the dominant political party until 1968, when Luis A. Ferré, a New Progressive Party (NPP) candidate, who had supported the statehood position in the 1967 plebiscite, won the governorship. The NPP also won control of the House, while the PDP retained the Senate. The PDP returned to power in 1972 but lost to the NPP in 1976 and again, by a very narrow margin, in 1980; in 1984, it took roughly two-to-one majorities in both houses. The pro-commonwealth PDP remained in control of the government in every election from 1984–92, when Pedro Rosselló, a New Progressive and supporter of statehood, was elected governor; Rosselló was reelected in 1996. In the November 2000 election, Sila M. Calderon of the PDP was elected governor. There is a small but vocal independence movement, divided into two wings: the moderates, favoring social democracy, and the radicals, supporting close ties with the Fidel Castro regime in Cuba. Puerto Rico elects a commissioner to serve a four-year term as a nonvoting member of the US House of Representatives. In November 2000, PPD candidate Anibal Acevedo-Vila was elected commissioner from Puerto Rico.

For more than 400 years, the island’s economy was based almost exclusively on sugar. Since 1947, agriculture has been diversified, and a thriving manufacturing industry has been established; since 1956 there has been increasing emphasis on hotel building to encourage the expansion of the tourist industry. By 2000, the gross domestic product (GDP) reached \$43.9 billion, up from \$15.8 billion in 1986. The leading industrial products were pharmaceuticals, electronics, apparel, food products, and tourism. Sugar pro-

cessing, once the dominant industry, now plays a lesser role. In 1952, there were only 82 labor-intensive plants on the island. By 1990 there were 2,000 plants—most capital intensive—in Puerto Rico.

US taxes do not apply in Puerto Rico, since the commonwealth is not represented in Congress. New or expanding manufacturing and hotel enterprises are granted exemptions of varying lengths and degrees from income taxes and municipal levies. In 1940, when annual income per capita was \$118, agricultural workers made as little as 6 cents an hour, and the illiteracy rate was 70%. By 2005, per capita GDP was \$18,600, and illiteracy had declined to just 6% (estimated to be slightly higher for females).

In 2001, Puerto Rico's exports totaled \$46.9 billion, imports totaled \$29.1 billion. Each year, an estimated 5 million tourists visit Puerto Rico.

In 1995/96, 621,370 pupils were enrolled in public schools. Enrollment in the 14 institutions of higher education was 156,439 in 1994/95; the main state-supported university is the University of Puerto Rico, with its main campus at Rico Piedras. Other institutions of higher learning are the Catholic University of Puerto Rico in Ponce, and the Inter-American University with campuses at Hato Rey, San Germán, and elsewhere.

In 2004, there were 1.1 million main telephone lines on the island; that year there were an estimated 2.7 million mobile cellular telephone lines, up from 169,265 in 1996. As of 2004, 127 radio stations (74 AM, 53 FM) were operation. In 2006, there were 32 broadcast television stations. The two largest Spanish-language daily newspapers, both from San Juan, are *El Vocero de Puerto Rico* (259,000 daily circulation in 2002), and *El Nuevo Día* (227,000). Publishing in English is *The San Juan Star* (daily circulation 76,873).

Virgin Islands of the United States

The Virgin Islands of the United States lie about 64 km (40 mi) n of Puerto Rico and 1,600 km (1,000 mi) sse of Miami, between 17°40' and 18°25' N and 64°34' and 65°3' N. The island group extends 82 km (51 mi) N-s and 80 km (50 mi) E-w with a total area of at least 353 sq km (136 sq mi). Only 3 of the more than 50 islands and cays are of significant size: St. Croix, 218 sq km (84 sq mi) in area; St. Thomas, 83 sq km (32 sq mi); and St. John, 52 sq km (20 sq mi). The territorial capital, Charlotte Amalie, on St. Thomas, has one of the finest harbors in the Caribbean.

St. Croix is relatively flat, with a terrain suitable for sugarcane cultivation. St. Thomas is mountainous and little cultivated, but it has many snug harbors. St. John, also mountainous, has fine beaches and lush vegetation; about two-thirds of St. John's area has been declared a national park. The subtropical climate, with temperatures ranging from 21–32°C (70–90 °F) and an average temperature of 25°C (77°F), is moderated by northeast trade winds. Rainfall, the main source of fresh water, varies widely, and severe droughts are frequent. The average yearly rainfall is 114 cm (45 in), mostly during the summer months.

The population of the US Virgin Islands was estimated at 123,498 in 2002, up from 96,569 at the time of the 1980 census. St. Croix has two principal towns: Christiansted and Frederiksted. Economic development has brought an influx of new residents, mainly from Puerto Rico, other Caribbean islands, and the US mainland. Most of the permanent inhabitants are descendants of

slaves who were brought from Africa in the early days of Danish rule, and about 80% of the population is black. English is the official and most widely spoken language.

Some of the oldest religious congregations in the Western Hemisphere are located in the Virgin Islands. A Jewish synagogue there is the second-oldest in the New World, and the Lutheran Congregation of St. Thomas, founded in 1666, is one of the three oldest congregations in the United States. As of 1999, Baptists made up an estimated 42% of the population, Roman Catholics 34%, and Episcopalians 17%.

In 2000 there were 856 km (531.6 mi) of roads in the US Virgin Islands; the US Virgin Islands has the only US roads where driving is done on the left side of the road. Cargo-shipping services operate from Baltimore, Jacksonville, and Miami via Puerto Rico. In addition, weekly shipping service is available from Miami. Both St. Croix and St. Thomas have airports, with St. Croix's facility handling the larger number of jet flights from the continental United States and Europe.

Excavations at St. Croix in the 1970s uncovered evidence of a civilization perhaps as ancient as AD 100. Christopher Columbus, who reached the islands in 1493, named them for the martyred virgin St. Ursula. At this time, St. Croix was inhabited by Carib Indians, who were eventually driven from the island by Spanish soldiers in 1555. During the 17th century, the archipelago was divided into two territorial units, one controlled by the British, the other (now the US Virgin Islands) controlled by Denmark. The separate history of the latter unit began with the settlement of St. Thomas by the Danish West India Company in 1672. St. John was claimed by the company in 1683 and St. Croix was purchased from France in 1733. The holdings of the company were taken over as a Danish crown colony in 1754. Sugarcane, cultivated by slave labor, was the backbone of the islands' prosperity in the 18th and early 19th centuries. After brutally suppressing several slave revolts, Denmark abolished slavery in the colony in 1848. A long period of economic decline followed, until Denmark sold the islands to the United States in 1917 for \$25 million. Congress granted US citizenship to the Virgin Islanders in 1927. In 1931, administration of the islands was transferred from the Department of the Navy to the Department of the Interior, and the first civilian governor was appointed. In the late 1970s, the Virgin Islands government began to consider ways to expand self-rule. A UN delegation in 1977 found little interest in independence, however, and a locally drafted constitution was voted down by the electorate in 1979.

The chief executive of the Virgin Islands is the territorial governor, elected by direct popular vote (prior to 1970, territorial governors were appointed by the US president). Constitutionally, the US Congress has plenary authority to legislate for the territory. Enactment of the Revised Organic Act of the Virgin Islands on 22 July 1954 vested local legislative power—subject to veto by the governor—in a unicameral legislature. Since 1972, the islands have sent one nonvoting representative to the US House of Representatives. Courts are under the US federal judiciary; the two federal district court judges are appointed by the US president. Territorial court judges, who preside over misdemeanor and traffic cases, are appointed by the governor and confirmed by the legislature. The district court has appellate jurisdiction over the territorial court.

Tourism, which accounts for approximately 70% of both GDP and employment is the islands' principal economic activity. The

number of tourists rose dramatically throughout the late 1960s and early 1970s, from 448,165 in 1964 to over 2 million per year in the 1990s, continuing into the early 2000s. Rum remains an important manufacture, with petroleum refining (on St. Croix) a major addition in the late 1960s. Economic development is promoted by the US-government-owned Virgin Islands Corp. In 2002 the gross domestic product per capita was \$14,500. The unemployment rate was 6.2% in 2003. Exports for 1992 totaled \$1.8 billion while imports totaled \$2.2 billion. The island's primary export is refined petroleum products. Raw crude oil constitutes the Virgin Island's principal import. In 1990, median family income was \$24,036.

The territorial Department of Health provides hospital and medical services, public health services, and veterinary medicine. Education is compulsory. The College of the Virgin Islands is the territory's first institution of higher learning. There were about 70,900 main line telephones in 2004, and 41,000 mobile cellular phones. The Virgin Islands had 22 radio stations (6 AM, 16 FM) and 5 broadcast television stations in 2004.

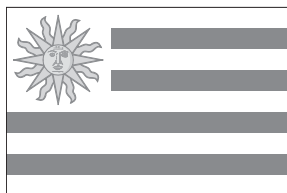
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URUGUAY

Oriental Republic of Uruguay
República Oriental del Uruguay



CAPITAL: Montevideo

FLAG: The flag, approved in 1830, has four azure blue horizontal stripes on a white background; on a white canton is a golden sun, alternately straight and wavy. This “Sun of May” symbolizes Uruguay’s independence.

ANTHEM: *Himno Nacional*, which begins “Orientales, la patria o la tumba” (“Easterners [Uruguayans], our country or death”).

MONETARY UNIT: The Uruguayan peso (UP), of 100 centésimos replaced the new peso in 1993 at the rate of UP1 = 1,000 new pesos. There are coins of 10, 20, and 50 centésimos and 1, 2, 5, and 10 new pesos, and notes of 1, 5, 10, 20, and 50 Uruguayan pesos. UP1 = \$0.04023 (\$1 = UP24.86) as of 2005.

WEIGHTS AND MEASURES: The metric system is the legal standard, but some traditional measures also are used.

HOLIDAYS: New Year’s Day, 1 January; Epiphany, 6 January; Landing of the 33, 19 April; Labor Day, 1 May; Battle of Las Piedras, 18 May; Birthday of Artigas, 19 June; Constitution Day, 18 July; Independence Day, 25 August; Columbus Day, 12 October; All Souls’ Day, 2 November; Blessing of the Waters, 8 December; Christmas Day, 25 December.

TIME: 9 AM = noon GMT.

¹ LOCATION, SIZE, AND EXTENT

The second-smallest South American country, Uruguay is situated in the southeastern part of the continent. It has an area of 176,220 sq km (68,039 sq mi), extending 555 km (345 mi) NNW–SSE and 504 km (313 mi) ENE–WSW. Comparatively, the area occupied by Uruguay is slightly smaller than the state of Washington. Bounded on the N and NE by Brazil, on the SE and S by the Atlantic Ocean, and on the W by Argentina, Uruguay has a total land boundary length of 1,564 km (972 mi) and a coastline of 660 km (410 mi). The Uruguay River and the Río de la Plata separate Uruguay from Argentina. The Cuareim and Yaguarón rivers and the Laguna Merín separate it from Brazil.

Uruguay’s capital city, Montevideo, is located in the southern part of the country on the Atlantic coast.

² TOPOGRAPHY

The general character of the land is undulating hills, with a few forest areas along the banks of the numerous streams. Southern Uruguay consists mostly of rolling plains and is an eastward extension of the Argentine pampas. The Atlantic coastline is fringed with tidal lakes and sand dunes. Low, unbroken stretches of level land line the banks of the two border rivers, the Uruguay and the Plata. The northern section is broken by occasional ridges and low ranges (cuchillas), alternating with broad valleys, and is a southern extension of Brazil. The highest point in the country, Catedral, is 514 m (1,686 ft) above sea level. The most noteworthy feature of the northwest landscape is the Cuchilla de Haedo. The Cuchilla Grande runs northeastward from the southern region to the Brazilian border. The Negro, which rises in Brazil, crosses Uruguayan

territory and flows into the Uruguay River, which separates Uruguay from Argentina.

³ CLIMATE

The climate is temperate; the average temperature in June, the coolest month, is about 15°C (59°F), and the average for January, the warmest month, is 25°C (77°F). The weather is transitional between the weather of the humid Argentine pampas and that of southern Brazil. Rainfall is evenly distributed throughout the year; it averages about 105 cm (41 in), varying from 97 cm (38 in) in Montevideo to nearly 127 cm (50 in) farther north. There are from 120 to 180 sunny days a year. Frost is virtually unknown.

⁴ FLORA AND FAUNA

Uruguay is primarily a grass-growing land, with vegetation that is essentially a continuation of the Argentine pampas. Forest areas are relatively small. The most useful hardwoods are algarrobo, guayabo, quebracho, and urunday; other hardwoods include arazá, coronilla, espinillo, lapacho, lignum vitae, and nandubay. The acacia, alder, aloe, eucalyptus (imported from Australia), ombú, poplar, and willow are common softwoods. Palms are indigenous to the valleys. Rosemary, myrtle, scarlet-flowered ceibo, and mimosa are common. Most of the valleys are covered with aromatic shrubs while the rolling hills are blanketed with white and scarlet verbena.

Large animals have virtually disappeared from the eastern regions. The carpincho (water hog), fox, deer, nutria, otter, and small armadillo roam the northern foothills. On the pampas are the hornero (ovenbird), quail, partridge, and crow. The avestruz

(a small ostrich similar to the Argentine rhea), swan, and royal duck are found at lagoons. Fish include pompano, salmon, and corvina. The principal reptiles are cross vipers and tortoises. Seals are found on Lobos Island, near Punta del Este.

As of 2002, there were at least 81 species of mammals, 115 species of birds, and over 2,200 species of plants throughout the country.

5 ENVIRONMENT

Air and water pollution are environmental concerns in Uruguay. Air pollution, which is worse in the larger population centers, is caused primarily by Uruguay's own industries and by an energy plant in neighboring Brazil. Water pollution from mining and industrial sources threatens the nation's water supply, especially pollution from the meat packing and tannery industry. Uruguay has 59 cu km of renewable water resources with 91% of annual withdrawals used for farming activity and 3% for industrial purposes. About 98% of the population has access to safe drinking water. Natural hazards to the environment include drought, flooding, and fires.

Erosion of the soil affects the nation's agricultural productivity. The nation's cities produce about 0.5 million tons of solid waste per year. Government agencies with environmental responsibilities include the Division of Environmental Health, within the Ministry of Public Health; the Ministry of Agriculture; and the Interior Ministry.

According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), 6 types of mammals, 24 species of birds, 3 types of reptiles, 4 species of amphibians, 11 species of fish, 1 species of invertebrate, and 1 species of plant were threatened. Endangered species included the tundra peregrine falcon, two species of turtle (green sea and leatherback), and two species of crocodile (spectacled caiman and broad-nosed caiman). The glaucous macaw has become extinct.

6 POPULATION

The population of Uruguay in 2005 was estimated by the United Nations (UN) at 3,419,000, which placed it at number 127 in population among the 193 nations of the world. In 2005, approximately 13% of the population was over 65 years of age, with another 24% of the population under 15 years of age. There were 94 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 0.6%, a rate the government viewed as too low, presenting challenges for economic development. The projected population for the year 2025 was 3,831,000. The population density was 19 per sq km (50 per sq mi), about double that of South America as a whole.

The UN estimated that 93% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 0.82%. The capital city, Montevideo, had a population of 1,341,000 in that year.

7 MIGRATION

The basic sources of immigration to Uruguay were Spain and Italy. English, French, German, Slavic, and Swiss immigrants also settled in various departments (provinces). In the 1930s, restrictions were placed on immigration, and the importation of seasonal farm workers was stopped. There were 103,002 foreign-born

people in 1985. Substantial emigration by Uruguayans for political or economic reasons occurred during the mid-1970s and early 1980s. Official figures suggest that about 180,000 Uruguayans left between 1963–75 and an estimated 500,000 between 1975–95. Argentina and Brazil were the main destinations. Nearly 93% live in urban centers, with 42% concentrated around the capital city.

As of 2000, Uruguay had 89,000 migrants, including less than 100 refugees. In 2004, there were 97 refugees and 10 asylum seekers. The net migration rate in 2005 was an estimated -0.28 migrants per 1,000 population. The government views the immigration level as too low and the emigration level as too high. In 2003 worker remittances were \$35.3 million.

8 ETHNIC GROUPS

About 88% of the inhabitants of Uruguay are white and of European origin, mostly Spanish and Italian; a small percentage is descended from Portuguese, English, and other Europeans. *Mestizos* (those of mixed white and Amerindian lineage) represent 8% of the population and mulattoes and blacks about 4%. The indigenous Charrúa Amerindians were virtually wiped out early in the colonial era.

9 LANGUAGES

Spanish is the official language. Uruguayan Spanish, like Argentine Spanish, has been somewhat modified by the Italians who migrated in large numbers to both countries. In general, the language of Uruguay is softer than that of Castile and some words are different from those commonly used in Spain. The *gauchos* have influenced the language, particularly in words dealing with their way of life. *Brazilero* (Portunol), a Portuguese-Spanish mix, is spoken on the Brazilian frontier.

10 RELIGIONS

About 58% of Uruguayans identify themselves as Roman Catholic. Approximately 9% of the population are Protestant or other Christian. The primary mainline Protestant denominations include Anglicans, Methodists, Lutherans, and Baptists. Others include Pentecostals, Mennonites, Eastern Orthodox, Mormons, and Jehovah's Witnesses. The Unification Church has a somewhat strong presence within the country. There are small communities of Muslims and Baha'is. About 30,000 Jews reside in the country.

11 TRANSPORTATION

After World War II, the Uruguayan government purchased the British-owned railroads and nationalized the entire system. The railroads are run by the State Railway Administration. Four main lines connect the western and northern areas with Montevideo. In 2004, there were 2,073 km (1,287 mi) of track, all of it standard gauge and government-owned.

Highways have surpassed railroads as the principal means of conveyance of passengers and freight. In 2002, there were an estimated 8,764 km (5,446 mi) of roads, of which 7,800 km (4,847 mi) were paved. The Investment and Economic Development Commission's 10-year plan (1965-74) provided about \$87 million for highway construction and improvement. A five-year plan for transport and public works, covering the years 1983-87 and partly financed by the IBRD and IDB, provided for construction of 10,000 km (6,200 mi) of new roads. In 1986, the IDB approved a

loan of \$36 million to help finance a highway development project. Two sections of highway (Routes 1 and 5) in addition to a main artery funneling traffic into Montevideo were scheduled for improvement. In 2003, there were 669,700 motor vehicles, of which 547,800 were passenger cars and 121,900 commercial vehicles.

Montevideo is the major Uruguayan port. Colonia and Nueva Palmira are free ports. There are some 1,600 km (994 mi) of inland waterways, of which the most important are the Plata and the Uruguay, the latter having a depth of 4.3 m (14 ft) as far as Paysandú. Uruguay's merchant fleet in 2005, consisted of 11 vessels of 1,000 GRT or more, totaling 10,918 GRT.

There were an estimated 64 airports in 2004, of which 9 had paved runways as of 2005. Carrasco, an airport 19 km (12 mi) from the center of Montevideo, is used by most international carriers between Europe, Brazil, and Argentina. Frequent air service links Buenos Aires with Montevideo. The state-owned Primeras Líneas Uruguayas de Navegación Aérea (PLUNA) offers service to the principal departmental capitals as well as international flights. In 2003, about 464,000 passengers were carried on scheduled domestic and international airline flights.

12 HISTORY

During the 16th century, only a few Spanish expeditions landed on the Banda Oriental, or east bank of the Uruguay River. Most of them were driven off by the native Charrúa Amerindians. Jesuit and Franciscan missionaries landed in 1624, and formed permanent settlements. By 1680, Portuguese from Brazil had founded Colonia do Sacramento as a rival to Buenos Aires, on the opposite bank of the estuary. Thereafter, the area was a focal point for Spanish-Portuguese rivalry.

Montevideo was founded in 1726, and Uruguay became part of the viceroyalty of La Plata, which the Spaniards established in Buenos Aires in 1776. During the Napoleonic Wars, the British invaded the region of La Plata and captured Buenos Aires and Montevideo (1806–07), but they were forced out in 1807. After Buenos Aires refused to give Uruguay autonomy, the Uruguayan national hero, José Gervasio Artigas, declared Uruguay independent in 1815. A year later, Brazilians attacked Montevideo from the north, but Artigas led a revolutionary movement against them. The struggle continued from 1816 to 1820, when the Portuguese captured Montevideo and Artigas had to flee to Paraguay. Uruguay was annexed to Brazil in 1821 and was known as the Cisplatine Province.

On 25 August 1825, Juan Antonio Lavalleja, at the head of a group of patriots called the "treinta y tres orientales" ("33 Easterners"), issued a declaration of independence. After a three-year fight, a peace treaty signed on 28 August 1828 guaranteed Uruguay's independence. Disappointed in his hopes for the presidency, Lavalleja launched a series of rebellions. During this period of political turmoil and civil war, the two political parties around which Uruguayan history has traditionally revolved, the Colorados (reds) and the Blancos (whites), were founded. Uruguay's first president, Gen. José Fructuoso Rivera, an ally of Artigas, founded the Colorados. The second president, Brig. Gen. Manuel Oribe, a friend of Lavalleja, founded the Blancos.

The 19th century was largely a struggle between the two factions. Some measure of national unity was achieved in the 1860s. In 1865, Uruguay allied with Brazil and Argentina to defeat Para-



LOCATION: 30°06' to 35°02' s; 53°05' to 59°29' w. BOUNDARY LENGTHS: Brazil, 1,003 kilometers (623 miles); Atlantic coastline, 565 kilometers (351 miles); Argentina, 495 kilometers (308 miles). TERRITORIAL SEA LIMIT: 200 miles.

guay in the Paraguayan War (1865–70), also known as the War of the Triple Alliance and the Trigarantine War. However, it was not until the election of José Batlle y Ordóñez as president in 1903 that Uruguay matured as a nation.

The Batlle administrations (1903–07, 1911–15) marked the period of greatest progress. A distinguished statesman, Batlle initiated the social welfare system codified in the Uruguayan constitution. From then on, Uruguay's social programs, funded primarily by earnings of beef and wool in foreign markets, gave Uruguay the sobriquet "Switzerland of South America."

After World War II, the Colorados ruled, except for an eight-year period from 1958–66. It was during the administration of President Jorge Pacheco Areco (1967–72) that Uruguay entered a political and social crisis. As wool declined in world markets, export earnings no longer kept pace with the need for greater social expenditures. Political instability resulted, most dramatical-

ly in the emergence of Uruguay's National Liberation Movement, popularly known as the Tupamaros. This well-organized urban guerrilla movement mounted a campaign of kidnapping, assassination, and bank robbery while espousing Marxist and nationalist ideals.

In November 1971, Colorado candidate Juan María Bordaberry Arocena was elected president, and the Colorados retained control of the Senate and Chamber of Deputies. After Bordaberry assumed office in March 1972, the Tupamaros ended a temporary truce and returned to the offensive. Their activities, coupled with the worsening economic situation, exacerbated Uruguay's political uncertainty. Gradually, the military assumed a greater role in government, and by 1973 was in control of the system. By the end of 1973, the Tupamaros had been crushed.

Military officers were named in 1974 to head all state-run enterprises, including the Central Bank. The 1966 constitution was suspended and political activity was banned. Military leaders ousted Bordaberry from the presidency in 1976, because of his refusal to restore constitutional rule, and they named a new president, Aparicio Méndez Manfredini. The OAS and other international organizations denounced Uruguay for human rights violations. In 1979, Amnesty International estimated the number of political prisoners at 6,000. In mid-1981, the military government began to negotiate with leaders of the traditional parties, and in September 1981, a "transitional" president, Georgio Álvarez Armellino, was installed.

Intraparty elections took place in November 1982, followed by legislative and presidential voting in November 1984. The moderate government of Colorado candidate Julio María Sanguinetti Cairolo took office in March 1985. Lacking a majority in Congress, Sanguinetti worked closely with other political leaders to reach a consensus on major issues.

One of the first acts of the new government was to release all political prisoners. Another was to declare amnesty for former military and police leaders accused of human rights violations. In an attempt to reconcile warring factions, the government initiated a "social dialogue" with employers and union leaders to reduce social tension. However, slow progress on the economic front led to the 1989 election of the Blanco candidate, Luis Alberto Lacalle.

Lacalle engaged in an ambitious attempt to liberalize the Uruguayan economy. He emphasized deficit reduction, reforms in education, labor, and the civil service, as well as the privatization of state enterprises. However, these plans were dealt a serious blow in 1993, when a plebiscite failed to ratify a set of proposals for liberalization. In November 1994, Sanguinetti was returned to office in the closest elections ever recorded in Uruguay's history. The three-way race between the Colorado, Blanco, and Broad Front (a leftist coalition) parties ended in just a slight majority for Sanguinetti and the Colorados. Both the Blanco and Broad Front candidates were only a few votes behind. It was the first time the Broad Front party had come within reach of the presidency. The Broad Front also gained the municipal government of Montevideo, Uruguay's capital, in 1989 and again in 1994. In the 1990s, the left had discarded revolutionary rhetoric and become more moderate and more appealing to centrist voters. At the same time, many Uruguayans had grown more critical of the traditional parties.

Sanguinetti himself immediately embarked on a program of economic reforms, including a long-range plan for cutting back

on Uruguay's historically generous social programs and benefits, including 20 days of vacation after a year of work, paid maternity leave, and a generous retirement package. As a member of Mercosur (Mercado Común del Sur—Southern Cone Common Market), Uruguay faced growing pressure to liberalize its economy during the 1990s, as economic giants, and Mercosur partners Brazil and Argentina had done. Yet voters had twice rejected privatization of state-owned companies, some of which were profitable and often even competitive. The economy also had done well, with the GDP averaging 4.2% growth between 1992–98.

By 1999, the country's economic picture had changed. The troubled Argentinean and Brazilian economies affected Uruguay, where the economy contracted by 2%. Instead of panicking and clamoring for a cut in social benefits and privatization of state industries, presidential candidates from the right and left called for a cautious approach to economic reforms as they neared the October 1999 elections. Tabaré Ramón Vázquez, the former socialist mayor of Montevideo and candidate representing the Broad Front, finished first in the presidential election, with 39% of the vote. He had appealed for caution, gaining the largest number of votes for a leftist coalition in the country's history. But Vázquez failed to gain a 51% majority, forcing a presidential runoff. The Colorado candidate, Jorge Batlle Ibáñez, had unsuccessfully run for the presidency four times and finished second with 31% in the October election. The Blanco candidate, Luis Lacalle, had finished third with 21.5%.

The 72-year-old Batlle, whose great-uncle had built the country's social programs, was not about to dismantle them. He positioned his party as a moderate alternative to Vázquez's leftist coalition. But ultimately, he persevered at the polls by aligning the Colorados with their historic foes: the Blancos. The Blancos aligned themselves with Batlle in exchange for political concessions and ministerial posts. In the November runoff election, Batlle gained 54.1% of the vote to Vázquez's 45.9%. Batlle was inaugurated in March 2000 and named five Blancos to his cabinet. The Blancos and the Colorados also held a slim majority in the Senate, with 17 of 31 seats, and a majority in the lower house, with 54 of 99 seats.

Faced with a shrinking economy and having inherited a country in an economic recession, Batlle faced the economic and political crisis in Argentina, Uruguay's closest and most important ally. The economy remained in a recession in 2000 and 2001, but things got even worse in 2002, when the economy shrunk by 11%. During Batlle's term, the economy shrunk altogether by almost 20%. Though unemployment remained high in recent years, less than 10% of the population lived in poverty by the end of Batlle's term. Yet, Batlle was unsuccessful in adopting a strategy that could generate sustained economic growth and restore dynamism to his country's economy.

In the 2004 elections, the Broad Front capitalized on the discontent with the established traditional Colorado and Blanco parties. Tabaré Vázquez won the presidential election in the first round, with 50.4%. Blanco Party candidate Jorge Larrañaga obtained 34.3% and Guillermo Stirling from the ruling Colorado party won 10.4%. The Broad Front also did extremely well in the parliamentary elections, winning an outright majority of votes and securing control of the Senate (17 of 31 seats) and of the Chamber of Deputies (52 of 99 seats). For the first time in several decades, Uruguay was to be ruled by a party other than the Colorado or Blan-

co. Vázquez's Broad Front could safely adopt all necessary reforms and implement much needed policies to bring about economic growth and make up for the years of recession and stagnation. The next elections were to be held in October 2009.

Although the economy was a healthy 12.3% in 2004, when Vázquez took office in March of 2005, Uruguay was poorer than in 1998. With a solid 6% growth in his first year, driven by a recovery in Argentina and Brazil, Vázquez was able to increase social spending and help boost employment. Yet, Uruguay's long-term structural deficiencies remained and opportunities for the private sector remained scant. In spite of being a committed leftist, President Vázquez adopted a pragmatic approach to government. He sought to attract foreign investors and made significant efforts to liberalize the economy. Tensions with Argentina, over the construction of a cellulose plant on a river both countries share, underlined President Vázquez's intention to make his country more competitive. Because Uruguay enjoys one of the most stable democracies in the region and boasts one of the lowest levels of inequality and the best-educated workforce in Latin America, the potential for economic growth associated with economic liberalization seemed promising. Yet, the government will need to work hard to liberalize the economy and protect its wide and comprehensive social spending safety net that has helped make Uruguay one of the countries with the lowest levels of poverty in the region. Although he was inaugurated in early 2005, Vázquez showed strong leadership and an ability to bring together Uruguayans in a way that made observers optimistic about the future of the country.

13 GOVERNMENT

The constitution of 1830 underwent numerous revisions, notably in 1917, 1934, 1952, and 1966. This constitution provided for a republican government, divided into three branches: executive, legislative, and judicial. From 1951 to 1966, the executive consisted of a *colegiado*, or council, of nine ministers, six from the majority party and three from the minority. In the 1966 elections, however, the electorate reinstated the positions of president and a vice president, popularly elected for a five-year term, together with a council of ministers.

According to the constitutional revision of 1966, the congress (or General Assembly) consisted of the Senate and the Chamber of Deputies. The Senate had 30 popularly elected senators, plus the vice president of the republic as the thirty-first voting member. The Chamber of Deputies had 99 deputies, popularly elected by departments (provinces). The right to vote was extended to all citizens 18 years of age or older, with female suffrage in local elections as early as 1919 and in national elections in 1934.

From June 1973, when President Bordaberry dissolved the Assembly and suspended the constitution, until March 1985, Uruguay was ruled by executive decree, subject to veto by the military, with legislative functions carried out by the 25-member Council of State, appointed by the executive. A new constitution, providing for the permanent participation of the armed forces in government by means of a National Security Council, was drafted by the Council of State but rejected by 57.2% of the voters in a referendum on 30 November 1980.

In March 1985, democracy was restored under President Sanguinetti; in July, the government set up a National Constituent

Assembly to devise constitutional reforms that would be submitted to the electorate for ratification. In the elections of November 1994, the proposed reform of 14 articles of the constitution was again rejected, this time by 63% of Uruguayan voters.

Direct democracy provisions, in the form of referendums and legislative proposals initiated by citizens, are widely practiced in Uruguay. Although electoral participation has fallen in recent years, Uruguay remained as one of the most democratically participatory countries in the western hemisphere.

14 POLITICAL PARTIES

Uruguay has Latin America's oldest two-party system. The *Colorados* (reds) and *Blancos* (whites), formed during the conflicts of the 1830s and 1840s, persisted into the 1990s. The *Colorados* are traditional Latin American liberals, representing urban business interests, and favoring limitation on the power of the Catholic Church. The *Blancos* (officially called the National Party) are conservatives, defenders of large landowners and the Church.

For more than 90 years, until the 1958 elections, the executive power was controlled by the *Colorados*. Under such leaders as Batlle, the party promulgated a progressive program advocating public education, advanced labor laws, government ownership of public utilities, and separation of church and state. After eight years of *Blanco* government, the *Colorado* party regained power in the 1966 election.

The results of the November 1971 balloting were so close that the final tabulation took more than two months to ascertain; the *Colorados* won 36.3% of the vote; the *Blancos*, 35.7%; and the Broad Front (*Frente Amplio*, a left-wing coalition that included the *Tupamaros*), 16.6%. These three groups, plus the Christian Democratic Party (*Partido Democrático Cristiano—PDC*), formed in 1962 from the former Catholic Civic Union, made up the Uruguayan party system at the time of the military takeover.

Political activities were suspended following the constitutional crisis of June 1973, and in December 1973 the Communist and Socialist parties were outlawed. In June 1980, the military began to liberalize, as they permitted political meetings of nonleftist groups. In November 1982, they allowed for intraparty elections in each of three parties: the *Colorados*, the National Party (*Blancos*), and the small Civic Union (an outgrowth of the Christian Democrats). In the voting, party candidates who had campaigned against the military's proposed constitution in 1980 took more than 60% of the vote.

Neither *Blanco* leader Wilson Ferreira Aldunate nor Broad Front leader Liber Seregni Mosquera was allowed to participate in the elections, but both retained their party posts. In the November 1984 elections, *Colorado* candidate Julio María Sanguinetti Cairolo won the presidency with 38.6% of the vote. The *Colorados* also won pluralities in the Chamber of Deputies and the Senate. Aldunate and Seregni frequently consulted with President Sanguinetti, and previously outlawed parties were legalized. In 1985, the *PDC* and *FIDEL* belonged to the Broad Front, and the National Liberation Movement (*Movimiento de Liberación Nacional—MLN*), also known as the *Tupamaros*, reconstituted years after their destruction in 1973, announced their intention to give up violence and join the Broad Front as a legal party.

In 1989, *Blanco* candidate Lacalle took 37% of the vote. Jorge Batlle, of the *Colorado* party, unable to capitalize on name recog-

dition, received 29%, while *Liber Seregni Mosquera* of the Broad Front received 20%. The Blancos also carried a plurality in each house of the legislature, followed respectively by the Colorados, the Broad Front, and the “New Space (or Sector)” Coalition, which consists of the PDC and the Civic Union.

As more people grow disenchanted with market reforms in Latin America, leftist coalitions have become more palatable to voters. In Uruguay, the Broad Coalition candidate *Tabaré Vázquez* made an impressive show at the polls, finishing first with 39% of the vote in the October 1999 presidential election. His success forced historic foes Blancos and Colorados to back *Jorge Batlle* in the November runoff election. While *Batlle* persevered, the leftist coalition managed to increase its total vote behind *Vázquez* (45.9%). The *Batlle* presidency was characterized by a further weakening of the traditional parties. Faced by the opposition of the Broad Front, *Batlle* was forced to rely on the 22 deputies and 7 senators from the National Party that, together with the 33 deputies and 10 senators from the Colorado party, comprised a majority in the 99-seat Chamber of Deputies and 31-seat Senate.

After the 2004 presidential and legislative election, the strength of the Colorado and National (Blanco) party was further diminished. The leftist Broad Front commands a majority control of both chambers. Although the Colorado and National parties have remained formally separated, they have constituted a center-right allied opposition against the *Vázquez* Broad Front government. The Broad Front, as of 2005, was the largest and most powerful party in Uruguay.

15 LOCAL GOVERNMENT

Uruguay territorially is divided into 19 departments (provinces). Under the 1966 constitutional revision, each department had a unicameral legislature, but all 19 legislatures were dissolved by President *Bordaberry* on 28 June 1973. Following the installation of the democratic government in 1985, the departments returned to their pre-1973 status of limited autonomy under the central government.

16 JUDICIAL SYSTEM

Most of the nation's legal system was suspended in 1973, but in 1981, the military government restored the independence of the civilian judiciary. In that year, a Supreme Judicial Council was empowered to name Supreme Court justices and supervise the judiciary. Below the Supreme Court are appellate courts and lower civil and criminal courts, justices of the peace, electoral and administrative courts, and an accounts court. A parallel military court system operates under its own procedure. When the Supreme Court hears cases involving the military, two military justices join the court. Civilians are tried in the military court only in time of war or insurrection. The judiciary is structurally independent of the executive and this separation of powers is respected in practice.

The constitution prohibits the arbitrary interference with privacy, family, home, or correspondence, and the government authorities respect these provisions in practice.

The legal system is based on Spanish civil law. Uruguay accepts the compulsory jurisdiction of the international court of justice.

17 ARMED FORCES

The armed forces of Uruguay had 24,000 active personnel in 2005. The Army numbered 15,200, organized into four regional divisions. Equipment included 15 main battle tanks and 68 light tanks. The Navy (including the naval aviation arm and a naval infantry force) numbered 5,700 members. Major naval units included three frigates and nine patrol/coastal vessels. The Air Force had 3,100 personnel and 31 combat capable aircraft, including 18 fighter ground attack aircraft. There was a 920-member paramilitary guard in two units. The defense budget in 2005 totaled \$163 million. Uruguay participated in UN peacekeeping and had troops and observers stationed in 12 countries or regions.

18 INTERNATIONAL COOPERATION

Uruguay is a charter member of the United Nations, having joined 18 December 1945, and belongs to ECLAC and several nonregional specialized agencies, such as the FAO, the World Bank, ILO, UNCTAD, UNESCO, UNIDO, IAEA, and the WHO. Uruguay is also a member of the South American Community of Nations (CSN), the Inter-American Development Bank, G-77, the Latin American Economic System (LAES), the Latin American Integration Association (LAIA), the WTO, the OAS, and the Río Group. In 1995, Uruguay became a founding member (with Brazil, Argentina, and Paraguay) of the Southern Cone Common Market, known as Mercosur (*Mercado Comun del Sur*).

Uruguay is a guest in the Nonaligned Movement and a member of the Agency for the Prohibition of Nuclear Weapons in Latin America and the Caribbean (OPANAL). The country has supported UN missions and operations in India and Pakistan (est. 1949), Western Sahara (est. 1991), Ethiopia and Eritrea (est. 2000), Sierra Leone (est. 1999), Burundi (est. 2004), Cyprus (est. 1964), and Georgia (est. 1993), among others. The country is a signatory of the 1947 Río Treaty, an inter-American security agreement.

In environmental cooperation, Uruguay is part of the Antarctic Treaty, the Basel Convention, the Convention on Biological Diversity, Ramsar, CITES, the Kyoto Protocol, the Montréal Protocol, MARPOL, and the UN Conventions on the Law of the Sea, Climate Change, and Desertification.

19 ECONOMY

Uruguay's economy remains dependent on agriculture. Agricultural production, combined with the industrial sector based on the transformation of agricultural products, makes up more than half of the country's exports. However, the service sector, especially tourism and financial services, was growing quickly in the early 2000s. In 2005 the service sector was estimated to be over 65% of GDP and employed about 70% of the labor force. Agriculture, however, was still important, particularly livestock production for export and consumption, as well as for inputs for other sectors of the economy. Agriculture accounts for 7% of GDP but employs 14% of the labor force. Industry (agro-industry, chemicals, and consumer goods for local consumption) declined in recent years as the service sector expanded, particularly in terms of employment. Industry employs 16% of the work force, but accounts for 28% of GDP. There is a mixture of private and state en-

terprises with the economy generally open to foreign trade and investment.

Due partly to the demand generated by World War II and the Korean War for industrial products and also to government efforts to attain a fair degree of economic self-sufficiency and to improve foreign trade, the value of Uruguay's industrial output doubled between 1936 and 1960. Between 1960 and 1970, the industrial growth rate leveled off as the limitations of an import-substitution strategy became apparent. Encouragement of nontraditional manufactured exports led to industrial production increases averaging 6% annually during 1973–79. The lack of natural resources obliged Uruguay to import most raw materials needed by its industries.

In the early 1980s, in the wake of the second oil shock, the economic situation was characterized by an uninterrupted fall in real output, low levels of investment, high unemployment, mounting inflation, a severe imbalance in public finance, and a massive accumulation of arrears in private-sector debt to the domestic banking system, which in turn caused a potentially critical situation in the country's financial institutions. In mid-1985, the government negotiated agreements with the IMF and creditor banks that produced a standby credit from the Fund, a renegotiation of debt with foreign banks, and an economic-financial program with the IMF intended to reduce the public-sector deficit, inflation and the money supply, and to remedy the balance-of-payments disequilibrium.

Since 1990, the government has pursued a program of economic liberalization, which has included lowering of tariffs, Southern Common Market (Mercosur) integration, reducing deficit spending, controlling inflation, and downsizing government. Growth in GDP averaged 3.7% between 1988 and 1998, with an average 4.75% between 1997 and 1998. However, from 1999 to 2003 the economy experienced an uninterrupted series of contractions. Real GDP contracted 3.2% mainly due to the Brazilian currency devaluation of January 1999, which hurt both Uruguay's exports and its tourist receipts. The government entered into a precautionary standby arrangement with the IMF, but in 2000, the recession eased to 1% of GDP as the government pursued neo-liberal reforms supported by one-year standby agreements with the IMF.

In 2001, a local outbreak of hoof-and-mouth disease that hurt meat exports and the Argentine financial crisis combined with the global economic slowdown and the after-effects of the terrorist attacks on 11 September 2001 to produce a contraction of 2.5%. In 2002, the real decline in GDP reached 10.8%. Attempts were made to prevent the spread of the Argentinean meltdown to Uruguay through extended and enhanced standby agreements. These set a target of 1.7% contraction for 2002, one-tenth of what actually took place. In August 2002, the US government announced it was providing \$1.5 billion in short-term loans to Uruguay. That year unemployment reached a high of 19.4%, up from 10.3% in 1997; by 2005, unemployment was up slightly, to 12%.

Contributing to the improved economy were increased exports to North America, especially of meat. Foreign investment has also been encouraged, and new economic sectors have developed, notably a software industry. Furthermore, a successful debt swap helped restore confidence and significantly reduced risk. Uruguay's economy resumed growth in 2003, with a 2.5% rise in GDP. GDP grew about 12% in 2004 and 6.2% in 2005.

20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 Uruguay's gross domestic product (GDP) was estimated at \$32.9 billion. 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 based on current dollars. The per capita GDP was estimated at \$10,000. The annual growth rate of GDP was estimated at 6.2%. The average inflation rate in 2005 was 4.9%. It was estimated that agriculture accounted for 7.1% of GDP, industry 27.7%, and services 65.2%.

According to the World Bank, in 2003 remittances from citizens working abroad totaled \$32 million or about \$9 per capita and accounted for approximately 0.3% of GDP. Foreign aid receipts amounted to \$17 million or about \$5 per capita and accounted for approximately 0.2% of the gross national income (GNI).

The World Bank reports that in 2003 household consumption in Uruguay totaled \$8.15 billion or about \$2,411 per capita based on a GDP of \$11.2 billion, measured in current dollars rather than PPP. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the period 1990 to 2003 household consumption grew at an average annual rate of 2.4%. In 2001 it was estimated that approximately 22% of household consumption was spent on food, 14% on fuel, 11% on health care, and 30% on education. It was estimated that in 2003 about 21% of the population had incomes below the poverty line.

21 LABOR

Uruguay's labor force in 2005 was estimated at 1.52 million. In 2003, the services sector accounted for 73.9% of the workforce, with industry at 21.5%, agriculture at 4.5%, with the remainder in undefined occupations. The unemployment rate in 2005 was estimated at 12%.

In 1943, industrial wage boards with seven members (three for the government, two for the employers, and two for the employees) were established to fix minimum wages and settle wage disputes. Because the wage boards (*consejos de salarios*) were slow in reaching decisions, the Uruguayan labor force tended to use the strike as a first resort to force the initiation of negotiations. Since 1968, wages and prices have been controlled by the Price and Wage Commission. In July 1973, the National Workers' Convention, which claimed 400,000 members, was declared illegal. Laws enacted in August 1974 restricted trade-union membership to "free and nonpolitical" trade unions. Political activity by union officials was banned, as were strikes in the public sector, health, and commerce. Labor conditions returned to pre-1973 conditions with the 1985 government changeover. The sudden release of years of frustration triggered some 250 strikes in the ensuing year. Uruguay's sole labor confederation is the Inter-Union Workers Assembly-National Federation of Workers (PIT-CNT). In 2002, over 80% of the public sector workforce was unionized, with the number of union members in private industry at around 5%.

The eight-hour day and 48-hour week were instituted in 1915 and remained the standard in 2002. The law provides for one day of rest after every six days of work and grants holidays with pay,

plus an annual vacation bonus. The minimum wage was \$80 per month in 2002, but it functions in practice as an index for calculating wage rates rather than a measure of a minimum subsistence wage. Most workers earn more than this minimum. The minimum working age is 15, and it is generally enforced although the number of children working in the informal economy is increasing.

22 AGRICULTURE

Uruguay has a primarily agricultural and pastoral economy, but the importance of these sectors has been declining. The formation of the Mercosur common market in 1995 had a significant effect on Uruguayan agriculture by providing preferential access to neighboring countries, particularly Brazil. Agriculture and animal husbandry together contributed 13% of the GDP in 2003. About 40% of the agriculture's contribution to GDP comes from crops and the rest is from animal husbandry. About 77% of Uruguay's land area is devoted to stock raising and 7.4% to the cultivation of crops. In pasturage, large farms predominate, with farms of more than 1,000 hectares (2,500 acres) accounting for two-thirds of all farmland. Crops are grown mainly on small farms of less than 100 hectares (250 acres).

The principal crops harvested (in thousands of tons) in 2004 were rice, 1,262; wheat, 532; barley, 406; corn, 223; sorghum, 70; soybeans, 377; sunflower seeds, 177; oats, 26; apples, 72; and peaches, 14.

23 ANIMAL HUSBANDRY

Livestock is the basis of the economy. The production costs of stock raising are low, and the quality of the product is generally high. Hereford, Shorthorn, and Aberdeen Angus breeds account for 90% of all beef cattle, with Hereford the most numerous. Corriedale represents about 70% of the sheep stock, followed by Ideal (11%).

Uruguay is especially suited to the raising of sheep and cattle. In 2005, Uruguay had 9,712,000 sheep, second in South America after Brazil. There were also 11,700,000 head of cattle, 380,000 horses, 240,000 pigs, 16,000 goats, and 13,300,300 chickens in 2005. Milk production has expanded, reaching 1.5 million tons in 2005. The preferential duties provided under Mercosur have given Uruguay a great advantage in selling its dairy products to Brazil. The main products exported are cheese, whole and nonfat dry milk, and butter. Meat production in 2005 included 496,000 tons of beef and 26,500 tons of mutton. Beef consumption in Uruguay was about 60 kg per person in 1998, one of highest rates in the world. Leading exports of animals and animal products by value (in millions of dollars) in 2004 were: meat products, \$670.9 million; dairy and eggs, \$174.9 million; and wool, \$17.5 million.

The Ministry of Agriculture and Fisheries is responsible for stock raising and breeding, control of animal diseases, and improvement of existing grassland and arable resources. The National Meat Board acts as consultant to the government. The meat-packing industry, taken over by the government in 1958, has been restored to the private sector. The government encourages local production through a system of special licenses or customs documents for imported meat and livestock. Furthermore, imports of bull semen and embryos are numerically restricted and must comply with animal health requirements.

24 FISHING

Fishing underwent rapid growth in the 1970s. The government-promoted fishing industry made an average annual catch of about 6,000 tons in the 1960s; the catch increased to 20,600 tons in 1972 and, despite temporary setbacks, to 143,170 tons by 1991. In 2003, the total catch was 116,935 tons. Fish exports in 2003 amounted to \$108 million.

There are three fishing zones on the southern coast: the low zone, from Colonia to Piriápolis; the middle zone, from Piriápolis to Punta del Este, which is considered one of the finest fishing areas in the world; and the high zone, from Punta del Este to the Brazilian border. Principal commercial species include Argentine hake, whitemouth croaker, and striped weakfish. Other important sea fish are corvina negra (a kind of bass), mullet, sole, anchovy, mackerel, whiting, and shark. The finest freshwater fish is the dorado, a type of salmon.

25 FORESTRY

Uruguay has some 1,292,000 hectares (3,193,000 acres) of forestland. About 50,000 hectares (124,000 acres) were reforested annually from 1990 to 2000. The principal species cultivated are eucalyptus and pine; domestic woods are used primarily for windbreaks, fence posts, and firewood. Lumber suitable for building and construction is imported. Roundwood removals totaled 6,399,000 cu m (225.9 million cu ft) in 2004, with 67% used as fuel wood.

26 MINING

Uruguay's mining sector has traditionally been based on the economically significant exploitation of nonmetallic minerals for the construction, glass, and ceramics industries. The most important commodities were clays, bentonite, dolomite, feldspar, granite, gravel, gypsum, limestone, pebbles, quartz, sand, and talc. There was also minor production of semiprecious stones and ornamental rocks. Various types of clay were mined for producing brick, pipe, tile, and whiteware. Talc was mined for use in the paper industry and in ceramics, cosmetics, insecticides, and pharmaceuticals. Feldspar was mined for the ceramics industry and glass. Estimated production in tons (except where noted) for 2003 included: common sand, 2.7 million tons; limestone, 1.3 million tons; clays, 24,900 metric tons; gypsum, 1.130 million tons; agate, 420 metric tons; and amethyst, 170 metric tons. Also produced in 2003 were barite, bentonite, hydraulic cement, dolomite, feldspar, flagstone, gold, granite, gravel, iron ore, lime, marble, marl, onyx, quartz, stone (including ballast), sulfur, pryophyllite soapstone talc, travertine, and tufa tuff. Sand, common stone, and talcum were exported, although no minerals ranked among leading export commodities. Limestone had significant potential for export growth.

All products of the subsoil belonged to the state. There were more than 350 ongoing extraction projects; most were small scale. The past few years have seen a revival of minerals prospecting and exploitation, which had been idle for many years. Changes in national legislation have improved the business environment and opened the country to foreign investment, resulting in mining output growth of almost 4% per year in 1997–2001 and the implementation of gold and cement projects. There were deposits

of manganese, iron, lead, and copper, and commercial gold mining was begun in 1997 at the San Gregorio mine, Rivera Department, and at the Santa Teresa deposit in 2001. Agates, opals, and onyx were found in Salto and Artigas. In 2001, diamond exploration was begun, although there was no recorded diamond output in 2003 or 2002. Drilling began in 2001 on the Paso del Lugo nickel project.

27 ENERGY AND POWER

Uruguay, with no proven hydrocarbon resources, is heavily dependent upon hydropower and imports of oil, natural gas, and coal to meet its energy requirements.

In 2004, Uruguay's demand for oil averaged an estimated 31,000 barrels per day, all of it imported. The country however, does possess a crude oil refining capacity represented by the single La Teja facility, which as of 1 January 2004 had an estimated capacity of 50,000 barrels per day. As with oil, Uruguay imported all the natural gas it consumed. In 2002, Uruguay's demand for natural gas totaled an estimated 0.7 billion cu ft. Although Argentina has been Uruguay's chief supplier of natural gas, an energy crisis has forced Argentina to limit its exports of natural gas. To make up the shortfall, Uruguay, in September 2004, signed a natural gas supply contract with Bolivia. In 2002, Uruguay's demand for coal was met entirely by imports. In 2002, coal imports totaled an estimated 2,600 short tons.

Uruguay's electric power is provided by hydroelectric and diesel generating plants. In 2002, Uruguay's electric power generating capacity was estimated at 2.1 GW, of which conventional thermal plants accounted for 29% of capacity, and hydroelectric 71%. In that year, electric power output totaled 9.508 billion kWh, of which 9.442 billion kWh came from hydroelectric sources, followed by geothermal/other at 0.034 billion kWh and conventional thermal fueled plants at 0.032 billion kWh. Uruguay has one of Latin America's highest rates of electrification (95% as of 2002).

28 INDUSTRY

Although foreign trade depends mainly on agriculture, the production of industrial goods for domestic consumption is increasing, primarily in the fields of textiles, tires, shoes, leather apparel, cement, petroleum refining, and wine. World War II spurred the industrial growth of Uruguay, and now local industry supplies most of the manufactured products used. Most industry is concentrated in and around Montevideo.

Manufacturing output declined by an average of 1.3% annually between 1977 and 1987, and declined by an average of 0.10% per year during 1988–98. In 1998, manufacturing improved with 2.3% growth, accounting for 18% of GDP. Growth was led by oil refining, car production, and food production. However, in the first half of 1999 the manufacturing sector suffered a setback, declining by 6.1%. Reduction of domestic demand and a decrease in exports to Brazil and Argentina contributed to the overall decline. A recession that began in 1999 and continued into 2002 further hampered industrial growth. Sectors showing overall production decreases included textiles, vehicles, machinery, chemicals, paper, processed meat, and sugar. By 2004, industry as a whole accounted for 31.7% of GDP, a small increase over 2001 (29%).

The manufacturing sector still has severe structural problems as a legacy of the protectionist policies that stressed import substitu-

tion during the 1970s. With the Mercosur trade bloc, the domestic market for manufactured goods has opened to strong competition from Argentina and Brazil. The automotive, electronic, and machinery sectors will probably continue to decline because of competition among Mercosur partners. Uruguay produced 10,530 automobiles in 2001, down 27% from the 14,404 units produced in 2000; however, the government has prioritized the recovery of the automobile industry, considering it to be one of the possible pillars for the country's creation of new jobs.

With no proven hydrocarbon resources, Uruguay is wholly dependent on imports for oil, natural gas, and coal. The country's sole refinery is the 50,000-bbl/d La Teja facility. The state-owned oil company, Administración Nacional de Combustibles Alcohol y Portland (ANCAP), controls Uruguay's entire oil sector. Relying on imported oil and natural gas, as well as on domestic hydropower, has, at times, jeopardized Uruguay's energy supply. Since spring 2004, for instance, Uruguay dealt with a number of energy supply challenges—higher global oil prices, lower water levels in domestic hydropower facilities, and decreased power imports (including both electricity and natural gas) from Argentina. Hydropower remains Uruguay's main energy source, but a drought has left Uruguay's hydropower plants operating well below capacity in 2004–06, forcing the government to resort to running more expensive oil-fired power plants. Meanwhile, reduced imports of electricity and natural gas from Argentina, which has been experiencing its own energy crisis, have prompted the Uruguayan government to sign power supply contracts with Brazil (electricity) and Bolivia (natural gas) to make up for shortfalls.

29 SCIENCE AND TECHNOLOGY

The UNESCO Regional Office for Science and Technology in Latin America and the Caribbean is located in Montevideo. Learned societies include the Pediatrics Society, the Association of Uruguayan Engineers, the Chemical and Pharmaceutical Association, the Odontological Association, and the Surgical Society, all headquartered in Montevideo. The University of the Republic, founded in 1849 at Montevideo, has faculties of agronomy, sciences, engineering, medicine, dentistry, chemistry, and veterinary medicine. The Institute of Higher Studies, founded in 1928 at Montevideo, offers courses in biological climatology, geomorphology, paleontology, and mathematics. The Higher Institute of Electrical Engineering, Electronics, and Computing was founded in 1922 at Montevideo.

In 1987–97, science and engineering students accounted for 32% of college and university enrollments. In 2002, spending on research and development (R&D) totaled \$69.232 million, or 0.26% of GDP. Of that amount, the business sector accounted for the largest portion, 46.7%, followed by higher education at 31.4%. Government R&D spending accounted for 17.1%, with 4.7% coming from foreign sources. In that same year, there were 370 scientists and engineers, and 51 technicians per million people, engaged in R&D. High technology exports in 2002 totaled \$19 million, or 3% of all the country's manufactured exports.

30 DOMESTIC TRADE

Although the Uruguayan population is small, it has a relatively high purchasing power. Wholesale and retail trade accounted for 12.4% of GDP in 1996. The reasonably good transportation sys-

tem allows easy shipment of agricultural products to the capital. Chambers of commerce and other trade associations play an active role in interpreting local market demands. Overland trade has increased markedly since the Mercosur (Southern Common Market) pact was formed in the 1990s.

The labor market improved in 2004 with the average unemployment rate dropping from 17.1% in 2003 to 13.4%, and real average wages were starting to stabilize.

3¹ FOREIGN TRADE

Uruguay traditionally relied on foreign sales of wool, hides, and meat products for its export revenues, which increased steadily until 1998, and then dropped off slightly. Export revenues from goods and services annually increased by an average of 3.3% during 1977–87, and by 8.2% between 1988 and 1998. The value of imports fell by an average 1.7% per year during the 1980s, but has increased by an average of 17.1% annually during 1990–95. In 2000, exports increased by 2.6% and imports rose 3.3%.

Imports have been stimulated by falling tariffs, the ongoing implementation of Mercosur agreements, revaluation of the Uruguayan peso, and gradual liberalization of the economy. Rising imports of consumer goods reflect pent-up demand, while increased imports of capital goods reflect the need to upgrade industrial facilities to meet foreign competition. In the first half of 1999, Uruguay's exports declined by 25%. The nation's trade deficit nearly doubled between 1998 and 1999 as a result of the international financial recession.

Uruguay is a member of the Río Group, an association of Latin American states that deals with multilateral security issues (under the Inter-American Treaty of Reciprocal Assistance). Uruguay's location between Argentina and Brazil makes close relations with these two larger neighbors and Mercosur associate members Chile and Bolivia particularly important. Uruguay is a member of the Latin American Integration Association (ALADI), a trade association based in Montevideo that includes 10 South American countries plus Mexico and Cuba.

In 2004, Uruguay exported \$2.9 billion, mainly meat, wool, hides, leather, wool products, fish, rice, and furs. The major export markets are the United States (19.8%), Brazil (16.3%), Argen-

tina (7.6%), Germany (5.1%), Mexico (4.0%), and China (3.9%). Imports reached \$3.1 billion, mainly machinery, chemicals, fuel, and vehicles. The major suppliers are Brazil and Argentina (25.7% each), United States (9.0%), China (7.1%), and Germany (3.4%).

3² BALANCE OF PAYMENTS

Balance of payments deficits are common in Uruguay, owing to fluctuating world markets for agricultural exports and a high dependency on imports for raw materials and fuels. Traditionally, multilateral assistance, income from tourism, and inflow of capital from other Latin American countries has tended to offset the negative trade picture. The balance of payments in the 1980s and 1990s was affected by the continued weakening of international prices of Uruguay's exports, which are concentrated in a few products—meat, rice, wool, dairy products, and leather account for about half of the country's exports. The Batlle administration in the early 2000s was looking to expand trade with the United States and the rest of NAFTA. The country's trade with Mercosur has declined in recent years, in part due to a decline in Brazil's importance as a source for Uruguayan imports. Trade with Argentina subsequently increased.

The US Central Intelligence Agency (CIA) reported that in 2001 the purchasing power parity of Uruguay's exports was \$2.24 billion while imports totaled \$2.9 billion resulting in a trade deficit of \$660 million. The International Monetary Fund (IMF) reported that in 2001 Uruguay had exports of goods totaling \$2.15 billion and imports totaling \$2.92 billion. The services credit totaled \$1.13 billion and debit \$803 million.

Currently, the balance of payments is under control, although the account shows a modest deficit, reflecting the strong pickup in imports that, in part, is being financed by foreign direct investment. Gross international reserves are expected to increase, raising the coverage of dollar liabilities in the banking system by official reserves and bank foreign assets to about 62%. Several measures

Principal Trading Partners – Uruguay (2003)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	2,198.0	2,190.4	7.6
Brazil	470.8	459.8	11.0
United States	250.7	167.5	83.2
Argentina	154.9	571.7	-416.8
Germany	145.1	61.7	83.4
China	95.2	86.0	9.2
Mexico	90.8	20.5	70.3
Italy-San Marino-Holy See	88.9	50.2	38.7
Canada	86.8	10.5	76.3
United Kingdom	78.4	25.0	53.4
Spain	75.5	42.8	32.7

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

Balance of Payments – Uruguay (2003)

(In millions of US dollars)

Current Account		52.1
Balance on goods		181.8
Imports	-2,091.5	
Exports	2,273.3	
Balance on services		162.6
Balance on income		-363.9
Current transfers		71.6
Capital Account		...
Financial Account		-342.6
Direct investment abroad		-3.7
Direct investment in Uruguay		274.6
Portfolio investment assets		-521.7
Portfolio investment liabilities		22.9
Financial derivatives		...
Other investment assets		-1,252.8
Other investment liabilities		1,138.1
Net Errors and Omissions		1,248.5
Reserves and Related Items		-957.9

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

have been undertaken to maintain its stability. The fiscal program is well on track, and is attempting to exceed the primary surplus target of 3.4% of GDP in 2004. Expenditure restraint will be maintained, and public tariffs will continue to be adjusted in line with operational costs. No further tax reductions will be granted.

3³ BANKING AND SECURITIES

The Bank of the Republic (Banco de la República Oriental del Uruguay—BRDU), established in 1896, is a state bank with a government-appointed director. It operates as both a public and a private bank. It is the financial agent of the government; it also acts as an autonomous agency and, as a commercial bank, makes loans and receives deposits. It participates in determining financial policies and the allocation of foreign exchange for imports. One of its main functions is to provide rural credit.

The 1966 constitutional revision created a Central Bank (Banco Central del Uruguay—BCU), which is responsible for currency circulation, thus permitting the Bank of the Republic to concentrate on public and private credit. The third state bank is the Mortgage Bank (Banco Hipotecario del Uruguay—BHU). There are 21 private banks operating in Uruguay, the 3 public banks, 8 financial institutions, 12 offshore banks, and 6 savings and loans organizations.

In the early 1980s, economic recession produced a flood of bad debts, prompting the BCU to introduce a refinancing scheme in 1983, under which it took over the nonperforming loans of some financial institutions. This improved the liquidity of the financial system, but shifted the burden onto public finances. In 1999, the IMF criticized Uruguay's two large public banks as being less efficient and profitable than private banks, calling for banking reforms.

A policy of regular minidevaluations was introduced in mid-1975; currency stability was established in the late 1970s, but in November 1982, the peso, regarded as overvalued, was allowed to float freely. The peso has fallen against the dollar since that time. As of 1999, about 90% of the private sector's deposits in the banking system were dollar-denominated, and 75% of the overall credit to the private sector was in dollars. Most purchases were made in dollars. Net foreign reserves equaled \$2.43 billion at the end of 1998.

The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$1.0 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$11.1 billion. The money market rate, the rate at which financial institutions lend to one another in the short term, was 22.1%. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 71.66%.

The Montevideo Stock Exchange is supplemented by its Internet based partner, the Bolsa Electrónica de Valores (BEVSA). The number of firms raising risk capital through the stock exchange is very small, and only 19 companies are quoted on it. In 1999, practically no shares were traded in the stock market.

3⁴ INSURANCE

The State Insurance Bank (Banco de Seguros del Estado—BSE), launched early in 1912 by a bond issue, was granted a monopoly

on all insurance in 1919; however, private insurance companies were allowed to continue issuing life, fire, and marine insurance if they had been in business prior to creation of the state bank. An October 1993 law demonopolized the insurance industry, allowing an individual to purchase insurance with the company of his or her choice, as well as allowing Brazilian, UK, and Spanish companies among others to participate in the market. The Banco de Seguros del Estado remains, however, the only company permitted to insure occupational and health hazard. In 2003, the value of all direct insurance premiums written totaled \$238 million, of which nonlife premiums accounted for \$185 million. For that same year, the top nonlife and life insurer was Banco de Seguros del Estado, which had gross written nonlife and life insurance premiums of \$122.9 million and \$24.1 million, respectively.

3⁵ PUBLIC FINANCE

Under the inflationary pressures of the 1990s, budgetary expenditures generally exceeded revenues, although greater fiscal austerity caused a decrease in the budget deficit. In 1998, the number of government offices was reduced by one-third. The 1998 budget deficit was 0.9% of GDP, mostly financed by external loans (\$685 million). Because of falling tax revenues and increased spending, the deficit rose in 1999.

The US Central Intelligence Agency (CIA) estimated that in 2005 Uruguay's central government took in revenues of approximately \$4.4 billion and had expenditures of \$4.8 billion. Revenues minus expenditures totaled approximately -\$377 million. Public debt in 2005 amounted to 82.1% of GDP. Total external debt was \$9.931 billion.

The International Monetary Fund (IMF) reported that in 2001, the most recent year for which it had data, central government revenues in millions of pesos were 65,592 and expenditures were 77,487. The value of revenues in millions of US dollars was \$4,925 and expenditures \$5,956, based on a market exchange rate for 2001 of 13.3191 as reported by the IMF. Government outlays by function were as follows: general public services, 14.9%; defense, 4.2%; public order and safety, 4.7%; economic affairs, 5.8%; housing and community amenities, 1.6%; health, 6.6%; recreation, culture, and religion, 0.6%; education, 7.6%; and social protection, 56.5%.

3⁶ TAXATION

As of 2005, corporate tax is imposed on industrial and commercial income at a flat rate of 30%. Capital gains incurred by companies are taxed as ordinary income at the corporate rate. Individuals are not subject to a capital gains tax. A 30% withholding tax is also imposed on dividends and royalties paid to nonresidents. Other taxes include a commissions tax of 9% and a capital tax of 15%. Personal income and inheritance taxes were repealed in 1974. Other taxes include a net worth tax, a 2.8% tax on banking activities, a bank assets tax, farming and property taxes, consumption taxes, and insurance taxes.

The most important indirect tax is Uruguay's value-added tax (VAT) instituted in January 1968. The standard rate is 23% and there is a reduced rate of 14% on necessities such as foodstuffs, as well as on fruit, flowers, road passenger transport, and hotel accommodation services. Exempt are imports of crude oil, the transfer and rental of immovable property, agricultural goods and

raw materials, certain types of machinery, certain banking activities, and medical services.

37 CUSTOMS AND DUTIES

Uruguay is a member of the Southern Common Market (Mercosur) along with Argentina, Brazil and Paraguay. As of July 2003, the Mercosur common external tariff (CET) ranged from 0–20% on most goods, although there is a 21.5% rate. A general 23% VAT rate is applied, although a lower 10% rate is assessed on certain products, while a 14% rate is applied to medicines, certain basic foodstuffs, and certain primary products. Excise taxes ranged from 10–30% on soft drinks, cosmetics, and motor vehicles, to 70% on tobacco, 80% on alcohol, and 133% for gasoline. Almost all goods can be imported into Uruguay without restrictions or licenses.

Tariff preferences are also given to members of the LAFA. Uruguay also has a large number of bilateral investment agreements, mostly with EU countries.

Free trade zones operate in Colonia, Florida, Nueva Helvecia, Nueva Palmira, Río Negro, Rivera, San José, and Montevideo.

38 FOREIGN INVESTMENT

Historically, Uruguay maintained a number of state monopolies in which direct foreign equity participation was prohibited. Uruguay's Foreign Investment Law of 28 March 1974 closed certain industries to foreign investors: public water and drainage services, railroads, alcohol and petroleum refineries, electric, telephone, local telegraph, mail, port services, insurance, and issuance of mortgage bonds. Private investment in other sectors was generally welcomed.

From 1992 to 1998, foreign direct investment (FDI) amounted to about \$150 million annually, which reflected a relatively low pace of privatization, even though the government promoted investment in the mining, tourism, hydrocarbons, forestry, printing, and media sectors.

The 1998 Investment Promotion and Protection Law declared that promotion and protection of national and foreign investment was in the national interest. Foreign and national investments would be treated the same, and investment would be allowed without prior authorization or registration. Complete foreign ownership is allowed in most sectors except for oil and telecommunications. Privatization is often popularly opposed, and the state seeks to foster efficiency through de-monopolization and deregulation. State sectors that have been partially liberalized include insurance, mortgages, road building and repair, water sanitation and distribution, energy generation, piped gas distribution, and cellular phones.

From 1999 to 2001 FDI inflow increased steadily, from \$239 million to \$285 million, to \$320 million. Under the impact of the worldwide decline in outward FDI, flows to Uruguay in 2002 are estimated to have fallen about one-third, but rebounded in 2003. Main investors included Canada and the EU.

A law in February 2001 de-monopolized the telecommunications industry, which was controlled by ANTEL. The state-owned oil company ANCAP was the only importer and refiner of petroleum products in Uruguay, and was scheduled to remain a monopoly until 2006. There are nine free trade zones (FTZs), in the country, some state-owned and operated, others state-owned but

privately operated, and others privately owned and operated. FTZs offer tax and duty exemptions.

FDI was virtually insignificant at the beginning of the 1990s but increased quite steadily afterwards, accounting for 1.36% of GDP in 2000 and 2.46% of GDP in 2003. FDI in Uruguay has been historically low because of the country's small market, the lack of major privatizations, and the small number of firms that base their Mercosur-wide operations locally. Uruguay's FDI/GDP ratio of 1% is well below the Latin American/Caribbean average of about 3%, and that of its Southern Cone neighbors Argentina and Brazil, with 2.6% each, and Chile with 5.6%.

According to Uruguay's Central Bank, FDI stock declined from \$2.4 billion in 2001 to \$1.4 billion in 2002, mostly due to decreased asset values following the sharp 2002 economic contraction and devaluation. Economic recovery led the stock of FDI to increase to \$1.8 billion in 2003.

39 ECONOMIC DEVELOPMENT

Monopolies have traditionally been permitted in the fields of banking and insurance, postal services, ports, water, light and power, telephone services, and fuels. Industrial and commercial activities of the state must be organized as "autonomous entities." Other public services may be organized as autonomous entities, like decentralized services, or divisions under a ministry. Exceptions to this policy are state-operated postal and telephone services, customs houses, port administration, and public health.

The Committee on Investment and Economic Development, established in 1960, published a 10-year plan for 1965–75 for production, investment, and consumption. The plan, stressing industrial development and external financing, was superseded in April 1973 by the National Development Plan for 1973–77, prepared by the Planning and Budget Office. This plan projected an annual growth rate of 3.8% in real gross domestic product (GDP), or 2.5% per capita; increases in exports and imports were projected at 10.1% and 14.9%, respectively. Domestic investment was to rise at an annual rate of 15.1%—a projection quite remote from the actual average annual increase of 3.2% realized during 1966–72.

After the severe slump of the early 1980s, the decisive actions by the new government injected life into the economy. In particular, restructuring the heavy domestic debt burden of the industrial and agricultural sectors increased confidence in the economy. Domestic investment rose sharply, with some industries at full capacity.

The Lacalle administration continued the fiscal adjustment program in 1990 to reduce the budget deficit. A state-enterprises reforms law passed in September 1991 permitted partial privatization of certain state-owned enterprises. Uruguay also became an important trade partner and provider of services to Mercosur countries. The flip side of this relationship was Uruguay's dependency on and vulnerability to economic developments in its neighboring countries. A slowdown in Brazilian growth and a recession in Argentina caused Uruguay's economy to slip into recession in 1995 and in 1998.

The government instituted a three-stage stabilization program in 1994. The plan increased consumption and payroll taxes, instituted a program designed to downsize government, and planned for long-term social security reform. This plan continued into the late 1990s with moderate success, but a recession hit in 1999 that

exacerbated the problems of a state-monopolized economy dependent upon exports to Argentina and Brazil, and dependent on US dollars for the currency.

The financial crisis in Argentina in late 2001 and subsequent recession hurt exports and tourism in Uruguay, and Uruguay's banking crisis in 2002 was exacerbated by the situation in Argentina. In all, the Argentine economic crisis and its aftereffects caused a 10% contraction in Uruguay's economy. An outbreak of hoof-and-mouth disease among its cattle and an energy crisis in Brazil also adversely affected the economy. By 2002, the total debt stood at around \$13.5 billion, some 65% of GDP, and the fiscal deficit stood at around 3% of GDP. Uruguay is diversifying its export base, has a well-run offshore financial center, and has significantly improved the structure of the economy. Foreign direct investment reached \$248 million in 2001. Many formerly state-owned sectors had been liberalized by 2003, including insurance, mortgages, road construction and repair, piped-gas distribution, energy generation, water sanitation and distribution, cellular telephones, and airline transportation. In June 2005, the International Monetary Fund (IMF) approved a three-year \$1.13 billion Stand-By Arrangement for Uruguay. Oil refining was de-monopolized, but oil imports were to remain a monopoly until 2006.

Uruguay is characterized by an export-oriented agricultural sector, a well-educated workforce, and high levels of social spending. The economy grew about 10% in 2004 as a result of high commodity prices for Uruguayan exports, the weakness of the dollar against the euro, growth in the region, low international interest rates, and greater export competitiveness. By 2005, it had slowed to 6.2%.

40 SOCIAL DEVELOPMENT

Uruguay has frequently been referred to as South America's first welfare state. Some legislation dates back to 1829. Social legislation now provides for a day of rest in every week (plus Saturday afternoon), holidays with pay, minimum wages, annual cash and vacation bonuses, family allowances, compensation for unemployment or dismissal, workers' accident compensation, retirement pensions for rural and domestic workers, old age and disability pensions, and special consideration for working women and minors. The state also provides care for children and mothers, as well as for the blind, deaf, and mute. Free medical attention is available to the poor, as are low-cost living quarters for workers.

A dual social insurance program and private insurance system is in place. There is a separate system for bank employees, notaries, university graduates, members of the armed forces, and the police. All other employees and the self-employed are within the program. For pension coverage, employers withhold 15% of each employee's gross earnings and contribute 12.5% of payroll to the appropriate fund. Retirement is set at 60. Maternity and sickness benefits are also provided and are funded by contributions of 3% of earnings by the employee and 5% of payroll from the employer. Maternity benefits are paid at 100% of earnings for up to 12 weeks. Work injury and unemployment insurance are available to all employees.

Women account for nearly half of the work force but tend to be concentrated in lower paying jobs. Nevertheless, many attend the national university and pursue professional careers. Although the law prohibits sexual harassment in the workplace, few claims are

filed because it is not viewed as a problem. Spousal abuse is a serious social problem which is receiving greater attention by non-governmental organizations. The number of reported cases has increased dramatically, reflecting a greater willingness by women to confront the problem.

Black minorities, accounting for 6% of the population, are severely underrepresented in politics and in the professions. They face considerable discrimination in education and employment. Occasional reports of the use of excessive force by police are reported each year, and judicial delays can result in lengthy pretrial detention. Human rights organizations operate freely in Uruguay.

41 HEALTH

The government traditionally has placed great emphasis on preventive medicine and on the sociological approach to public health problems. The US Institute of Inter-American Affairs and the Uruguayan Ministry of Public Health created the Inter-American Cooperative Public Health Service, which built four health centers and clinics. For the region, life expectancy is high (76.13 years in 2005); infant mortality is low (11.95 per 1,000 live births in 2005); and the ratios of doctors and beds to the population are exceptionally good. Approximately 98% of the population had access to safe drinking water and 95% had adequate sanitation. As of 2004, there were an estimated 365 physicians, 86 nurses, and 116 dentists per 100,000 people. Total health care expenditure was estimated at 9.1% of GDP.

The Commission for the Fight against Tuberculosis is under the jurisdiction of the Ministry of Health; as a result of its efforts, tuberculosis is almost unknown in Uruguay today. The commission also deals with the social and economic effects of various diseases.

The major causes of death are heart diseases, cancer, and digestive disorders. Degenerative diseases rank higher as a cause of death in Uruguay than in most other Latin American countries.

As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 17.3 and 9 per 1,000 people. Maternal mortality was 26 per 1,000 live births. Contraceptive use was high, with nearly 85% of married women in Uruguay using some method of birth control. Immunization rates for children up to one year old were tuberculosis, 99%; diphtheria, pertussis, and tetanus, 88%; polio, 88%; and measles, 80%.

The HIV/AIDS prevalence was 0.30 per 100 adults in 2003. As of 2004, there were approximately 6,000 people living with HIV/AIDS in the country. There were an estimated 500 deaths from AIDS in 2003.

42 HOUSING

The housing situation is more favorable in Uruguay than in most Latin American countries. Housing construction, dominated by the public sector, is financed in large part by the Mortgage Bank. The National Institute of Low-Cost Housing builds low-cost dwellings for low-income workers and pensioners.

At last estimate, 98% of all housing units were made of durable materials including stone masonry, wood, zinc, or concrete. Owners occupied more than 55% of all dwellings; nearly 25% were rented; less than 20% were occupied by *usufructus* (households legally inhabiting someone else's living quarters); and about 1% were occupied by members of housing cooperatives. Of all hous-

ing units, more than 90% had private toilet facilities, and nearly 75% had water piped indoors. The preliminary results of the 2004 census indicated that there were about 1,274,052 housing units nationwide.

4³ EDUCATION

Education in elementary, secondary, and technical schools and at the University of the Republic in Montevideo is free. Elementary education, which lasts six years, is compulsory. Secondary education is in two stages of three years. Students may choose to attend a three or four year technical school at the upper secondary level. The academic year runs from March to December.

In 2001, about 62% of children between the ages of three and five were enrolled in some type of preschool program. Primary school enrollment in 2003 was estimated at about 90% of age-eligible students. The same year, secondary school enrollment was about 73% of age-eligible students. It is estimated that about 91.8% of all students complete their primary education. The student-to-teacher ratio for primary school was at about 21:1 in 2003; the ratio for secondary school was about 18:1. In 2003, private schools accounted for about 12.9% of primary school enrollment and 11.2% of secondary enrollment.

There are five major universities: the University of the Republic, the Catholic University, the University ORT Uruguay, Universidad de la Empresa, and the University of Montevideo. The University of Trabajo is a state-operated technical school. In 2003, it was estimated that about 37% of the tertiary age population were enrolled in tertiary education programs. The overall adult literacy rate for 2004 was estimated at about 97.7%.

As of 2003, public expenditure on education was estimated at 2.6% of GDP, or 9.6% of total government expenditures.

4⁴ LIBRARIES AND MUSEUMS

The National Library, founded in 1816, contains over 900,000 volumes, primarily modern but including a sizable historical collection. Other major collections are found in the special libraries of the Council of Secondary, Basic, and Higher Education (110,000 volumes), the Museum of Natural History (200,000), and at the Pedagogic Library (118,000). The University of the Republic in Montevideo (1849) holds nearly one million volumes.

The National Historical Museum exhibits artifacts of local Amerindian cultures and of Uruguayan historical development. The National Museum of Fine Arts has paintings by prominent Uruguayan artists, including Juan Manuel Blanes and Joaquín Torres García. Both are in Montevideo, as are the Museum of Industrial Arts, the Pedagogical Museum, and the Museum of the Discovery, a unique public affairs institution chronicling the impact of the European encounter with the new world. There are regional museums in Mercedes, Salto, San José de Mayo, and Tacuarembó.

4⁵ MEDIA

The state owns the telegraph and telephone services. In 2003, there were an estimated 280 mainline telephones for every 1,000 people. The same year, there were approximately 193 mobile phones in use for every 1,000 people.

Private broadcasting companies share the airwaves with the state-run public broadcasting company, SODRE. As of 2001, Uruguay had 91 AM and 149 FM radio stations and 20 television sta-

tions; color television broadcasting was introduced in 1981. In 2003 there were 603 radios and about 530 television sets for every 1,000 people. In 2003, there were 110.1 personal computers for every 1,000 people and 119 of every 1,000 people had access to the Internet. There were 79 secure Internet servers in the country in 2004.

In 2004 there were at least four major daily newspapers in Montevideo, including *El Diario*, 170,000, *El País*, 110,000; *El Diario Espanol*, 20,000; and *Últimas Noticias*, 19,500. The first newspaper in the Banda Oriental was the *Southern Star*, published by the British in 1807 during their brief occupation of Montevideo. *El Día*, founded by José Batlle y Ordóñez in 1886, helped lay the foundation for the social reforms of the first two decades of the 20th century.

The constitution provides for freedom of speech and the press and these rights are generally respected by the government. The government does retain the right to impose regulations or restrictions on speech and press if a person is inciting violence or insulting the state.

4⁶ ORGANIZATIONS

The two most important organizations of livestock farmers are the Rural Association and the Rural Federation, both founded by large landowners. Other employers' organizations include the Importers' and Wholesalers' Association and the Uruguayan Exporters' Union. The Chamber of Industries is a powerful organization, with a representative on the Export and Import Control Commission. There are several professional societies, including the National Council for Scientific and Technological Research, which serves also as a primary educational and research organization.

There are student-youth organizations associated with universities and political parties. Scouting and YMCA/YWCA programs are also active. International organizations with national chapters include Amnesty International, Defence for Children International, and the Red Cross.

4⁷ TOURISM, TRAVEL, AND RECREATION

Tourism, one of Uruguay's major enterprises, enjoys government support. The state owns many hotels along the coast, especially in the area of Punta del Este, 145 km (90 mi) east of Montevideo and one of the more sophisticated resorts in South America. Montevideo has been promoted as the "city of parks" because of its many parks and gardens.

The most popular sport in Uruguay is football (soccer); there is an intense rivalry between supporters of the two major teams, the Peñarol and the Nacional. Other popular sports include basketball, cycling, tennis, pelota, golf, and water sports. Uruguayan soccer teams won the World Cup in 1930 and 1950; the first World Cup competition was hosted by Uruguay in 1930.

All visitors must have a valid passport. Visas are required of all foreign visitors except for the citizens of 63 nations, including Australia, Canada, and the United States. Visas are valid for up to three months. Tourist arrivals numbered 1,508,055 in 2003. There were 18,160 hotel rooms with 41,759 beds. Tourism expenditure receipts totaled \$406 million that same year.

In 2004, the US Department of State estimated the cost of staying in Montevideo at \$133 per day; elsewhere costs ranged between \$133 and \$369 per day.

48 FAMOUS URUGUAYANS

The national hero of Uruguay is José Gervasio Artigas (1764–1850), who led the fight for independence against Brazil and Portugal. Juan Antonio Lavalleja (1786?–1853) directed the uprising that established Uruguay's independence in 1828. The nation's first two presidents were Gen. José Fructuoso Rivera (1790?–1854) and Brig. Gen. Manuel Oribe (1796?–1857), the founders of the Colorados and Blancos, respectively. One of Uruguay's greatest citizens was José Batlle y Ordóñez (1856–1929), who served twice as president of the country. José Pedro Varela (1845–79) was Uruguay's chief educational reformer.

One of the most respected defenders of Latin America's cultural tradition was José Enrique Rodó (1872–1917), whose *Ariel* and *Motivos de Proteo* fostered the idea of the superiority of Latin American culture. Juan Zorrilla de San Martín (1855–1933) was a 19th-century romantic poet whose finest work, *Tabaré*, describes Uruguay at the time of the Spanish conquest. Eduardo Acevedo Díaz (1851–1924) won fame as the writer of a gaucho novel, *Solidad* (1894). Other significant novelists are Carlos Reyles (1868–1938) and Javier de Viana (1872–1925). Horacio Quiroga (1878–1937) is regarded as one of Latin America's foremost short-story writers. The poets Julio Herrera y Reissig (1875–1910) and Juana de Ibarbourou (1895–1979) have attained a devoted audience beyond the borders of Uruguay. Emir Rodríguez Monegal (1921–85) is considered a leading writer and literary scholar.

The painter Juan Manuel Blanes (1830–1901) is best known for his *Episode of the Yellow Fever*. Pedro Figari (1861–1938) paint-

ed vivid scenes of early 19th-century Uruguay. Joaquín Torres García (1874–1949) founded his painting style on the principles of universalism and constructivism. Eduardo Fabini (1883–1951) is Uruguay's best-known composer. Francisco Curt Lange (b. Germany, 1903–1997), Latin America's foremost musicologist, founded various inter-American institutions and publications for the promotion of music of the Americas.

49 DEPENDENCIES

Uruguay has no territories or colonies.

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VENEZUELA

Republic of Venezuela
República de Venezuela

CAPITAL: Caracas

FLAG: The national flag consists of three equal horizontal bands of yellow (top), blue, and red with the coat of arms on the hoist side of the yellow band and an arc of eight white five-pointed stars centered in the blue band.

ANTHEM: *Himno Nacional*, beginning “Gloria al bravo pueblo” (“Glory to the brave people”).

MONETARY UNIT: The bolívar (B) is a paper currency of 100 céntimos. There are coins of 5, 25, and 50 céntimos and 1, 2, and 5 bolívares, and notes of 5, 10, 20, 50, 100, 500, and 1,000 bolívares. B1 = \$0.00048 (or \$1 = B2,090.75) as of 2005.

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

HOLIDAYS: New Year’s Day, 1 January; Declaration of Independence and Day of the Indian, 19 April; Labor Day, 1 May; Army Day and Anniversary of the Battle of Carabobo, 24 June; Independence Day, 5 July; Bolívar’s Birthday, 24 July; Civil Servants Day, 4 September; Columbus Day, 12 October; Christmas, 25 December; New Year’s Eve, 31 December. Movable holidays are Carnival (Monday and Tuesday before Ash Wednesday), Holy Thursday, Good Friday, and Holy Saturday. Numerous other bank holidays and local festivals are observed.

TIME: 8 AM = noon GMT.

¹ LOCATION, SIZE, AND EXTENT

Venezuela, located on the northern coast of South America, covers an area of 912,050 sq km (352,144 sq mi), extending 1,487 km (924 mi) WNW–ESE and 1,175 km (730 mi) NNE–SSW. Comparatively, the area occupied by Venezuela is slightly more than twice the size of the state of California. It is bordered on the N by the Caribbean Sea and the Atlantic Ocean, on the E by Guyana, on the S by Brazil, and on the W by Colombia, with a total land boundary of 4,993 km (3,103 mi) and a coastline of 2,800 km (1,740 mi). There are 72 offshore islands.

Venezuela claims more than 130,000 sq km (50,000 sq mi) of territory west of the Essequibo River in Guyana, an area which constitutes about three-fifths of Guyana. In 1985, UN mediation was requested by both countries but the matter has not been resolved. Conflicting maritime claims with Colombia in the Gulf of Venezuela remain unresolved as well, despite negotiations since 1970. Demarcation of the land boundary between the two nations began in February 1982.

Venezuela’s capital city, Caracas, is located in the northern part of the country on the Caribbean Sea coast.

² TOPOGRAPHY

Venezuela has four principal geographical divisions. In the north emerges a low extension of the Andes chain; to the west lies the hot basin of Lake Maracaibo; to the southeast spread the great plains (llanos) and forests; and south of the Orinoco River lie the unoccupied and largely unexplored Guiana Highlands, accounting for about half the country’s total area. The Orinoco at about 2,574 km (1,600 mi) long drains four-fifths of Venezuela. There are more

than 1,000 other rivers. About 90% of the nation’s population is concentrated between the northeastern plateau of the Andes, on which is located the capital, Caracas, and another Andean extension to the west along the Venezuela-Colombia border, covering approximately one-fourth of the total national area.

Outstanding geographical features include Angel Falls (979 m or 3,212 ft high) in the Guiana Highlands of southeastern Venezuela, the highest waterfall in the world; the navigable Lake Maracaibo in the west, which is about 80 km (50 mi) wide and 210 km (130 mi) long and is accessible to ocean shipping; and Pico Bolívar in the Sierra Nevada de Mérida, the highest peak in Venezuela (5,007 m/16,427 ft).

There are a number of fault lines running through the north central region of the country. The major fault is the San Sebastian, which serves as the border between the South American and Caribbean Tectonic Plates along the northern coast of the country; frequent earthquakes and landslides occur along this region.

³ CLIMATE

Although Venezuela lies entirely within the torrid zone, generally there are four climatic regions, based mainly on altitude: tropical, up to 760 m (2,500 ft) in elevation; subtropical, from 760–1,830 m (2,500–6,000 ft); temperate, from 1,830–2,740 m (6,000–9,000 ft); and cold, above 2,740 m (9,000 ft). In the tropical region, including the cities of Maracaibo and Ciudad Bolívar, mean annual temperatures range from 24° to 35°C (75° to 95°F). In the subtropical region, where Caracas is situated, the means range from 10° to 25°C (50° to 77°F). In January, in Caracas, the average minimum and maximum temperatures are 15°C (59° F) and 26°C (79° F), respectively; the range in July is 17–26°C (63–79°F). During the wet

season (May to October), the llanos and forest areas are swampy, green, and lush. Upon the advent of the dry season, the same areas become dry, brown, and parched. There is perpetual snow on several peaks of the Cordillera de Mérida.

4 FLORA AND FAUNA

The natural vegetation of the tropical zone varies from the rain forest regions of the lower Maracaibo Basin to the grasslands of the llanos. In the areas of insufficient rainfall are found xerophytic plants, as well as mimosa. The subtropical zone, tierra templada, was originally almost covered by a luxuriant forest, but it is now the nation's principal agricultural region. In the temperate region, only a small portion of the total land area, wild vegetation is sparse and scrubby. In the páramo region, from about 2,740–4,880 m (9,000–16,000 ft) in elevation, vegetation becomes even thinner and barely affords an existence for the few sheep and cattle raised by the local Amerindian population. Above 3,050 m (10,000 ft), the only vegetation seen is the espeletia, similar to the century plant, which grows to a height of about 1.8–2.1 m (6–7 ft).

The wild animals of Venezuela are abundant because of their relative isolation from human disturbance. The forests are populated with tapirs, sloths, anteaters, and a variety of monkeys. In the mountains are puma, margay, vampire bats, and deer. Semiwild horses, donkeys, and cattle are found in the plains. The forests are rich in tropical birds such as the cacique, crested coquette, heron, umbrella bird, manakin, cock-of-the-rock, parrot, macaw, and egret. Aquatic fowl include the pelican, heron, flamingo, and a muscovy duck weighing up to 9.1 kg (20 lb). More than 32 species of eagles are found in Venezuela. There are numerous reptiles, including the rattlesnake, coral snake, bushmaster, anaconda, and boa. Crocodiles are found in the lowland rivers. Fish, shellfish, tortoises, and sand tortoises are also plentiful.

As of 2002, there were at least 323 species of mammals, 547 species of birds, and over 21,000 species of plants throughout the country.

5 ENVIRONMENT

Pressing environmental problems—urbanization, the unrestricted use of pesticides, the pollution of waterways with untreated industrial wastes, increasing air pollution and gasoline consumption by automobiles, and the uncontrolled exploitation of soil and forest resources—led the government in 1976 to establish the Ministry of Environment and Renewable Natural Resources. The basic legislative instrument is the Organic Law of the Environment; other laws govern the protection of soils, forests, and water supplies, regulate public sanitation, and seek to prevent the contamination of waterways by oil. Incentives are offered to industry to avoid environmental damage.

Air pollution results from the activity of power plants and from industrial and vehicle exhaust emissions. In 2000, the total of carbon dioxide emissions was at 157.7 million metric tons. Water pollution is caused by contaminants from the oil industry, mining activity, and industrial chemicals. The nation's cities also produce about 3.6 million tons of solid waste per year. Venezuela has 722 cu km of renewable water resources with 46% of the annual withdrawal is used for farming activity and 10% for industrial purposes. As of 2002, 85% of urban dwellers and 70% of the rural population had access to improved water sources.

Between 1990–95, deforestation occurred at an average annual rate of 1.1%. Measures designed to prevent forest depletion include suspension of logging permits and a large-scale afforestation program. In 2000, about 56% of the total land area was forested and deforestation had slowed to an annual rate of about 0.4%. In 2003, over 60% of the total land area was protected, including five Ramsar wetland sites and one natural UNESCO World Heritage Site (Canaima National Park). In the Andes area, Venezuela loses up to 300 tons of soil per hectare due to land erosion by rivers.

According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), 26 types of mammals, 25 species of birds, 13 types of reptiles, 68 species of amphibians, 19 species of fish, 1 species of invertebrate, and 67 species of plants were threatened. Endangered species in Venezuela included the tundra peregrine falcon, red siskin, giant otter, five species of turtle (green sea, hawksbill, olive ridley, leatherback, and South American river), and three species of crocodile (spectacled caiman, American, and Orinoco).

6 POPULATION

The population of Venezuela in 2005 was estimated by the United Nations (UN) at 26,749,000, which placed it at number 42 in population among the 193 nations of the world. In 2005, approximately 5% of the population was over 65 years of age, with another 31% of the population under 15 years of age. There were 101 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 1.8%, a rate the government viewed as satisfactory. The projected population for the year 2025 was 35,406,000.

The overall population density was 29 per sq km (76 per sq mi), but in the relatively populous northwest, the density was more than twice the national average. Nevertheless, Venezuela remained one of the least densely populated countries in the Western Hemisphere. The Amazon River area (nearly 20% of the total) averages only about 0.8 population per sq km (0.3 per sq mi).

The UN estimated that 87% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 1.90%. The capital city, Caracas, had a population of 3,226,000 in that year. Other large cities and their estimated populations include Valencia, 2,330,000; Maracaibo, 2,182,000; Maracay, 1,138,000; and Barquisimeto, 1,009,000.

7 MIGRATION

For a time, Venezuela encouraged large-scale immigration in the hope that the newcomers would help increase the nation's food production. Although the yearly totals of foreigners entering Venezuela were high, a large portion of these immigrants remained only briefly. In the decades immediately before and after World War II, nearly 500,000 Europeans—mostly from Italy, Spain, and Portugal—came to Venezuela. By 1990, however, only 5.7% of the resident population was of foreign birth. In 1989 there were 18,893 immigrants and 9,643 emigrants. An estimated 300,000 illegal immigrants, most of them Colombians, were living in Venezuela in 1985. Internal migration in the 1980s was chiefly from the federal district to adjoining areas and eastward from the state of Zulia, in the far northwest. During the period 1990–97, 1,630 persons were given refugee status by the United Nations High Commissioner for Refugees (UNHCR) in Venezuela. As of 1999, government

sources reported at least 1,500,000 Colombians in Venezuela, of whom only 500,000 were legal residents. In June 1999 alone, some 3,500 Colombians entered the country following a paramilitary offensive in the Colombian area of La Guajira. The total number of migrants was 1,006,000 in 2000, including the small number of remaining refugees. In 2004, there were 244 refugees in Venezuela, 3,904 asylum seekers, and 26,350, originally from Colombia, who were of concern to UNHCR.

The net migration movement in 2005 was estimated as zero per 1,000 population. The government views the migration levels as satisfactory.

8 ETHNIC GROUPS

The original inhabitants of Venezuela were Amerindians, predominantly Caribs and Arawaks. The majority (about 68%) of the present population is mestizo (mixed race). Approximately 21% are European, primarily Spanish, Italian, Portuguese, and German. Blacks account for an estimated 8–10%, and Amerindians for about 2%. The Amerindians represent approximately 27 different groups. Arab peoples are also represented in the overall populace.

9 LANGUAGES

The official language is Spanish. It is fairly standardized throughout the country among the educated population, but there are marked regional variations. Numerous indigenous dialects are also spoken.

10 RELIGIONS

According to government estimates, about 70% of the population are Roman Catholic. Protestants constitute 29% of the population and the remaining 1% profess other religions or are atheists. Of the other religions, there are small but influential Muslim and Jewish communities. Caracas, the capital city, has a large mosque. Maria Lionza is a religious movement that blends Christian, African, and indigenous beliefs.

Venezuelans are constitutionally guaranteed freedom of religion provided that a faith is not contrary to public order or good custom. The state signed a concordat with the Vatican in 1964, which serves as the basis for government financial support of the Roman Catholic Church. While all registered religious groups can apply for government funds, the Catholic Church has been guaranteed a fixed amount from a limited government budget. Despite such financial support, government officials have often been politically at odds with local Catholic Church authorities.

11 TRANSPORTATION

The most important mode of domestic cargo and passenger transport is shipping over the country's more than 16,000 km (9,900 mi) of navigable inland waterways, of which 7,100 km (4,410 mi) are navigable to oceangoing vessels. A large percentage of Venezuelan tonnage is carried by ships of the government-owned Venezuelan Navigation Co. In 2005, the merchant fleet had 56 vessels of 1,000 GRT or more, totaling 740,919 GRT. Shallow-draught ships are able to reach Colombian river ports in the wet season. Shallow-draught river steamers are the principal means of transportation from the eastern llanos to Puerto Ordaz, which, thanks to constant dredging, is also reached by deep-draught oceangoing

vessels. Dredging operations also are maintained in Lake Maracaibo to allow the entry of oceangoing tankers. The government has invested substantially in the port of La Guaira, hoping to make it one of the most modern in the Caribbean area. Puerto Cabello handles the most cargo, and Maracaibo is the main port for oil shipments.

Highway and railroad construction is both costly and dangerous because of the rough mountainous terrain in the areas of dense population. Nevertheless, the government has undertaken massive highway construction projects throughout the country. Major ventures include the completion of the Caracas-La Guaira Autopista, which links the capital with its airport at Maiquetía and its seaport at La Guaira, and a section of the Pan-American Highway connecting Carora with the Colombian border. The General Rafael Urdañeta Bridge crosses the narrow neck of water connecting Lake Maracaibo with the Gulf of Venezuela and provides a direct surface link between Maracaibo and the east. By 2002, Venezuela had 96,155 km (59,751 mi) of highway, of which 32,308 km (20,076 mi) were paved. In 2003 there were 1,480,000 passenger cars and 1,157,138 commercial vehicles in Venezuela.

Venezuela's two railroads carry mostly freight. Rail transportation is concentrated in the northern states of Lara, Miranda, Carabobo, Aragua, and Yaracuy, with branches connecting the principal seaports with the important cities of the central highlands. As of 2004, the country's railway system totaled 682 km (424 mi), all of it standard gauge. The first 7.2-km (4.5-mi) section of a government-financed metro line in Caracas was opened in 1983.

Cities and towns of the remote regions are linked principally by air transportation. In 2004, there were an estimated 369 airports. As of 2005 a total of 128 had paved runways, and there was also one heliport. Venezuela has three main airlines, the government-owned Aerovías Venezolanas S.A. (AVENSA), Línea Aeropostal Venezolana (LAV), and Venezolana Internacional de Aviación, S.A. (VIASA); VIASA, an overseas service, is jointly run by AVENSA and LAV. A new airline, Aeronaves del Centro, began domestic flights in 1980. The government expanded Simón Bolívar International Airport at Maiquetía, near Caracas, to accommodate heavy jet traffic. In 2003, about 3.824 million passengers were carried on scheduled domestic and international airline flights.

12 HISTORY

As many as 400,000 Amerindians were living in the land now known as Venezuela when Christopher Columbus landed at the mouth of the Orinoco in August 1498, on his third voyage of discovery. The nation received its name, meaning "Little Venice," from Alonso de Ojeda, who sailed into the Gulf of Venezuela in August 1499 and was reminded of the Italian city by the native huts built on stilts over the water.

The first Europeans to settle Venezuela were Germans. Holy Roman Emperor Charles V granted the Welsers, a German banking firm, the right to colonize and develop Venezuela in exchange for the cancellation of a debt. Lasting a little less than 20 years, the administration of the Welsers was characterized by extensive exploration and organization of the territory but also by brutality toward the native population. In 1546, the grant was rescinded, and Venezuela was returned to the Spanish crown.

Under the Spanish, Eastern Venezuela was governed under the *audiencia* (region under a royal court) of Santo Domingo, and the

western and southern regions became a captaincy-general under the viceroyalty of Peru. Settlement of the colony was hampered by constant wars with the Amerindians, which did not stop until after a smallpox epidemic in 1580. Meanwhile, the province was carved into *encomiendas* (hereditary grants), which were given to the conquistadores as rewards. By the end of the century, however, the *encomienda* system was abandoned, and existing grants were declared illegal. The *cabildos*, or town councils, won more authority, and a national consciousness began to develop. In 1717, the western and southern provinces were incorporated into the viceroyalty of New Granada, and in 1783, the area of present-day Venezuela became a captaincy-general of Caracas.

The war for independence against Spain began in 1810. Francisco de Miranda (“El Precursor”), a military adventurer, was named leader of the Congress of Cabildos, which declared the independence of Venezuela on 5 July 1811. Royalist factions rallied to overthrow the new republic, which was weakened when an earthquake destroyed revolutionary strongholds and left royalist centers virtually untouched. Miranda was captured and sent to die in a dungeon in Cádiz, but Simón Bolívar, a native of Caracas who had served under Miranda, was able to flee to Colombia. He then led an army across the Andes into Venezuela, declaring “War to the death and no quarter to Spaniards.” In August 1812, he entered Caracas and assumed the title of Liberator (“El Libertador”). He was defeated and forced to flee to Jamaica, as the royalists again took control of the capital.

In December 1816, Bolívar, after landing in eastern Venezuela, established his headquarters in Angostura, now Ciudad Bolívar. He was aided by Gen. José Antonio Páez. The Congress of Angostura convened in October 1818 and in February 1819 elected Bolívar president of the Venezuelan republic. In the spring, he crossed the Andes, and in July, he entered Tunja, Colombia, with about 3,000 men and, after defeating the Spaniards at Boyacá, entered Bogotá. Under Bolívar’s leadership, Gran Colombia (Greater Colombia) was formed from Colombia, Ecuador, and Venezuela, with Bolívar as its president and military autocrat. The end of the Venezuelan war of independence came with Bolívar’s victory at Carabobo in June 1821.

In 1830, Venezuela seceded from Gran Colombia. A period of civil wars lasted from 1846 to 1870, when the caudillo Antonio Guzmán Blanco assumed power, attracted foreign investment and modernized the country. Guzmán was overthrown in 1888, and a few years later, Joaquín Crespo, a former puppet president of Guzmán, seized power. The next dictator, Cipriano Castro (1899–1908), was a colorful, if controversial, figure. A drunkard and a libertine, Castro also put Venezuela deeply into debt. When Castro refused to repay its outstanding loans, Germany, Great Britain, and Italy sent gunboats to blockade the Venezuelan coast. After mediation by the United States and a decision favorable to the European creditors by the Permanent Court of Arbitration at The Hague, Venezuela met its obligations by 1907. The next year, Castro sought medical care in Paris, leaving Venezuela in the hands of Juan Vicente Gómez. Gómez (1908–35) promptly seized power and ruled as dictator until his death. Although uneducated and practically illiterate, Gómez had a mind for business and proved a capable administrator. During his dictatorship, agriculture was developed and oil was discovered, making Venezuela the largest exporter of oil and thus one of the richest countries in Latin

America. Oil concessions attracted US, British, and Dutch companies, initiating an era of oil wealth that continues today.

After the death of Gómez, Venezuela began to move toward democracy. During two military governments, opposition parties were permitted, allowing the Democratic Action (Acción Democrática—AD) to organize. In 1945, the military scheduled an election, but many feared a fraudulent outcome. The AD deposed the military, and a junta named AD leader Rómulo Betancourt provisional president. Betancourt set elections for 1947, and conducted the first free election for president in Venezuelan history. The AD candidate Rómulo Gallegos, a distinguished novelist, was elected overwhelmingly, but within eight months, the military intervened in November 1948. A bloodless army coup backed by the armed forces and the United States replaced Gallegos with a military junta that ruled for four years. In December 1952, during the scheduled presidential election Marcos Pérez Jiménez seized power and became an absolute dictator. Venezuela took its last steps toward full democracy after January 1958, when a popular revolt with military backing drove Pérez Jiménez from power. An interim government consisting of a military junta held elections in December 1958, and leftist Romulo Betancourt was chosen president.

The Betancourt government (1959–64) instituted modest programs for fiscal and agrarian reform, school construction, the elimination of illiteracy, and diversification of the economy. However, a depression beginning in 1960 trammled these efforts and aggravated dissatisfaction with the regime. Betancourt was challenged by political instability coming from several fronts. The military, looking for a chance to return to power, engaged in several attempts to overthrow the government. Betancourt also opposed Fidel Castro, and allied with the United States against him. Castroites in Venezuela responded with a guerrilla campaign under the FALN (Armed Forces for National Liberation). Betancourt charged the Castro government with attempting to subvert his government by supporting the FALN. In February 1964, the OAS formally charged Cuba with an act of aggression against Venezuela as a result of the discovery of an arms shipment to guerrillas in November 1963.

The AD was reelected in December 1964, when Raúl Leoni won the presidency over five other candidates. In 1966, supporters of Pérez Jiménez staged an unsuccessful military uprising. In the same year, in a drive against continued Castro-supported terrorism, President Leoni suspended constitutional guarantees and empowered the police to make arrests without warrants, to hold suspects without bail for an indefinite period, and to enter the quarters of suspected terrorists without judicial permission.

In 1968, Venezuela passed another test of democracy by transferring power peacefully from AD to the opposition Social Christian Party. The victor, Rafael Caldera Rodríguez, governed along the same lines as his AD predecessors, maintained a set of social programs and benefited from increasing oil revenues. At this point, Venezuela’s future seemed assured, and public expenditures increased. The AD returned in 1973 with the victory of Carlos Andrés Pérez. By 1976, Pérez had brought about complete nationalization of the oil and iron industries. In the December 1978 elections, Luis Herrera Campíns, leader of the Social Christian Party, won the presidency.



LOCATION: 0°35' to 12°11' N; 60°10' to 73°25' W. BOUNDARY LENGTHS: Total coastline, 2,816 kilometers (1,750 miles); Guyana, 743 kilometers (462 miles); Brazil, 2,000 kilometers (1,243 miles); Colombia, 2,050 kilometers (1,274 miles). TERRITORIAL SEA LIMIT: 12 miles.

The next year, Venezuela received its first rude awakening, when the oil market dropped, thus threatening the foundations of the Venezuelan economic and political systems. There was soon a financial crisis as Venezuela struggled to make payments on its overextended debt. The crisis culminated in the devaluation of the national currency, the bolivar, which dropped to one-third of its previous value against the dollar. Venezuelan consumers responded angrily, and the early 1980s were years of unrest. In the elections of December 1983, the AD returned to power behind presidential candidate Jaime Lusinchi.

Lusinchi's tenure was marred by scandal and trouble in the midst of the world petroleum crisis. While the economy floundered through the 1980s, the government maintained public confidence by stressing a "social pact" with guarantees of housing, education, and public health. Some progress was made in boosting

non-oil exports, particularly in agriculture and mining, and the government promoted import substitution, particularly in food and manufacturing.

The 1988 elections brought back Carlos Andrés Pérez, who had been elected president 15 years earlier. Pérez immediately imposed austerity measures, removing government subsidies on a number of consumer goods, including gasoline. Prices rose and Caracas was rocked by rioting on a scale not seen since the uprising of 1958. The military was called in to quell the disturbances, but when the trouble finally died down, thousands had been killed or injured. The situation continued to deteriorate, and in 1992 Venezuela was shocked by two military coup attempts. The leader of the coup was an obscure and young military leader named Hugo Rafael Chávez Friaz. Venezuelans could not have guessed that Chávez, within a short few years, would be leading the nation.

Pérez seemed unmoved by the coup attempts, and his administration continued business as usual. A major scandal, with allegations of embezzlement and theft in office, brought him down. Pérez was suspended from office and later sentenced to 28 months in prison, and Ramón José Velásquez was named interim president until the regularly scheduled elections in December 1993.

In that election, Venezuelans chose Rafael Caldera, who ran under a coalition of four parties. The election of Caldera, who had been president during the brighter years of 1968–73, was an example of the level of impasse in the Venezuelan system. Unable to produce new leadership, former presidents were being returned to office. Even though Venezuela remained one of the wealthiest countries in Latin America, instability was rapidly increasing. The Venezuelan economy fell into a recession in 1993, which continued to worsen over the next four years. In order to enforce emergency economic measures, President Caldera suspended a number of civil rights in 1994–95.

The Venezuelan middle class plunged into poverty as inflation soared to 103% by 1995. Doctors, university professors, and national telephone company workers all went on strike during 1997, and several other groups threatened to strike as well. Within this fragile political atmosphere, Chávez reappeared on the political scene. Backed by the new party, Movement for the Fifth Republic, Chávez quickly established himself as a major contender in the 1998 presidential election. A charismatic populist, Chávez appealed to the nation's poor. The traditional parties that had ruled the country for some 40 years had impoverished the nation and pillaged its resources, he said, and promised to end the avarice and poverty. In December 1998, he won 57% of the votes to become president.

During his inauguration speech in February 1999, Chávez unveiled his intentions to dramatically change the political and social fabric of the nation. He promised a "peaceful democratic revolution." To some Venezuelans and international observers, Chávez's leftist rhetoric was alarming. Some saw a caudillo in the making, a man who reminded them too much of Cuba's Fidel Castro. But Castro, a close friend, said he and Chávez did not share the same political ideology, even though Chávez had become a vocal opponent of free-market economics. Chávez called for a new constitution, and in April, voters approved a 131-member National Constitutional Assembly (ANC) to rewrite the document. Backers of Chávez won 121 of the 131 seats in July elections. In December, 46% of the country's 11 million eligible voters went to the polls to decide the fate of the proposed constitution. Approved by 71% of those who voted, the new document, the country's 26th constitution, came into effect on 30 December 1999.

The new constitution eliminated the Senate and replaced it with a unicameral National Assembly. It gave the nation a new name to honor Bolívar: República Bolivariana de Venezuela (Bolivarian Republic of Venezuela). It consolidated power in the executive branch, extended the presidential term from four to six years, and eliminated a restriction that prevented the president from serving two consecutive terms. It banned the privatization of social security, health care, the oil industry, and other key state-owned enterprises. In January 2000, the ANC concluded its work and selected a 21-member National Commission to help rule the country until elections for the new National Assembly were held on 30 July 2000. Nearly all national, regional, and local offices were up for

grabs in the July "mega-elections," including the presidential office. Chávez easily won with 59.5% of the vote, securing the presidential post for 6 more years. Chávez's political party, the Fifth Republic Movement, captured 76 of the 165 seats of the unicameral assembly. But Chávez has enjoyed the support of other allied parties that give him control of the 108 seats in the legislature.

Chávez has remained a controversial figure. After pursuing land and oil reforms in 2001, he worked to strengthen his political power to the point of appointing a new board of directors to the state monopoly *Petroleos de Venezuela*. Trade unions and *Fedecamaras* business association declared a general strike to support *Petroleos de Venezuela* dissidents. The discontent with the economic and political situation led this group of business opposition leaders to back a military coup in April 2002; which caused a further distancing between the United States and Venezuela, the latter accusing the former of supporting the coup. The coup replaced Chávez with the head of the Chamber of Commerce, dissolved the National Assembly, Supreme Court and the constitution, but the interim government collapsed and two days later Chávez returned to office.

By the end of the year, the opposition's strikes crippled the oil industry. Organizers demanded the resignation of Chávez by creating a nine-week fuel stoppage, which caused fuel shortages and a precipitous economic decline; the economy shrunk 9% in 2003. Under the new constitution, which allows for a referendum to take place to remove the president before his accorded term in office, the opposition delivered three million signatures demanding that the referendum be held. The electoral body rejected the petition saying it failed to meet technical requirements, but, in the midst of social unrest, the opposition made the petition again by the end of the year. Finally, the referendum was held in August 2004 and president Chávez won, solidifying his confidence, which he demonstrated with sweeping economic changes.

In January 2005 President Chávez signed a decree on land reform that aimed to eliminate Venezuela's large states. Suspected organizers of the 2002 coup and oil industry shutdown such as Carlos Ortega were jailed, sentenced for 16 years for civil rebellion, treason, inciting illegal acts and possession of false documents. Chávez further demanded foreign oil companies in Venezuela to enter a state backed venture, a partnership with the state-run *Petroleos de Venezuela*. Furthermore, Chávez sought to diversify the sale of oil to other countries in the continent as well as to China.

Internationally Chávez has had as many critics as success stories. In June 2005 in the Summit of Caribbean Nations, *Petrocaribe* was launched. This agreement provides crude and refined products to the signing countries, giving them a two year grace period to pay for the shipments at a preferential 2% interest rate. If the market price exceeds certain levels Venezuela would finance a percentage of the cost over 25 years at 1% interest. Also, a part of the cost could be repaid in kind such as with rice, bananas or sugar. Similarly, Venezuela bought 4% of the first Ecuadorian bonds issued since the country's 1999 default, and agreed to buy \$2.4 billion of Argentine debt in 2006 to help it become independent of its IMF loans. Venezuela was also in the process of becoming a full voting member of MERCOSUR, strengthening the possibility for a united Latin American front, Chávez's outspoken desire. He even suggested the creation of an alternative to the IMF, called the

Bank of the South, for countries to be able to borrow money and free themselves from policies mandated by Washington. Chávez's confrontational style against the United States became even more blatant with the beginning of a pilot program at the end of 2005 to deliver discounted heating oil to nonprofit housing in poor areas of New York and Boston.

Chávez created a genuine fear of left wing governments in the region; however, his programs (free health care, subsidized food, and land reform) have been buoyed by windfall incomes from oil. Chávez himself has embittered relations with Chile, Mexico, and Colombia. But amidst the criticism, Chávez said he would run for another six-year term in the December 2006 elections.

The national flag, originally adopted in 1930, was modified in 2006. The new flag still features a tricolor of yellow, blue, and red horizontal stripes. An eighth star, honoring the province Guyana, was added to the arc of white stars on the blue stripe. The national coat of arms, also modified to include a bow and arrow, a machete, and the white horse running to the left (instead of turning its head to the right), appears on the hoist side of the yellow band.

13 GOVERNMENT

Of the 26 Venezuelan constitutions since its independence in 1811, the constitution of 1961 had been the longest in force until President Chávez called for a new constitution, approved by referendum and adopted in late 1999. One of the largest constitutional documents in Latin America, the charter calls for five branches of government; the legislative branch (a unicameral National Assembly), the judiciary, the electoral branch, the citizen's branch (to represent and defend the citizen's in their dealings with the State) and a strengthened and recallable presidency. The constitution also allows the state to play a greater role in the economy, reducing the autonomy of the Central Bank.

A novelty in Venezuela's constitution is a provision for midterm presidential plebiscites. If enough support exists, a plebiscite can be held three years after a presidential election. If the sitting president loses the plebiscite, she or he must resign from office. Other novel provisions regarding accountability instruments are also included in the constitution, but the social and political crises that emerged in 2001 prevented many constitutional features from being fully implemented.

The president is elected by direct popular vote for a six-year term and the president can seek consecutive terms. In the previous constitution, a president could not run for reelection until 10 years after the completion of a term, but immediate reelection is now allowed. The president must be a native citizen, at least 30 years of age, and a "layman." Presidential duties include the selection and removal of cabinet ministers and all other administrative officers and employees of the national government, as well as the appointment of state governors. The president is commander-in-chief of the armed forces, directs foreign affairs, and may make and ratify international treaties, conventions, and agreements. In the former document, there was no vice president, but the new constitution created the vice presidential office.

14 POLITICAL PARTIES

Before the formation of the existing political parties, political conflict in Venezuela was confined to the traditionally Latin American centralist-federalist debate, with few actual differences between

governments. Since the late 1950s, however, a stable party system evolved. Each political group had its own ballot with its own distinctive color and symbol, so that illiteracy was not a barrier to political participation. Constitutional provisions barring the military from political involvement further ensured the stability of the party system and the continuity of elected civilian leadership. Chávez came into office promising to dismantle the party system that dominated Venezuelan politics for more than four decades, however all parties were allowed to compete for national, regional, and municipal posts in the 2000 elections. The main problem remained the constant battle of the opposition against Chávez, even pulling out of the congressional poll and thus giving a sure majority of parliamentary seats to Chávez's supporters.

Since 1958, the dominant force in Venezuelan politics was the Democratic Action Party (Acción Democrática—AD). It grew out of the socialist movement, which unified under the National Democratic Party (PDN). That party splintered, with a Moscow-oriented group forming the Communist Party of Venezuela (PCV) and the nationalist and democratic-socialist faction creating the AD.

The left has been fragmented throughout modern Venezuelan politics. After the split between AD and the PCV, the advent of Fidel Castro in Cuba caused further fragmentation. A group of AD members left the party to form the Movement of the Revolutionary Left (Movimiento de Izquierda Revolucionaria—MIR). The Armed Liberation Forces (Fuerzas Armadas de Liberación Nacional—FALN) took to the field and attempted a guerrilla uprising. The PCV remained loyal to Moscow and at times battled the FALN openly. All of these movements were denounced by the AD, and in 1962 the MIR and PCV were barred from political activity. The FALN, which never bothered with legal political action, was subdued, and with it, hopes of a Castroite takeover died. One development from the left has been the emergence of the Movement for Socialism (Movimiento al Socialismo—MAS), which took 10% of the vote for the Chamber of Deputies in 1988. MAS is an attempt to rejuvenate the left by a faction of the old PCV.

The right has been characterized by small parties without much chance of electoral success alone. Some have been able to form coalitions with larger parties to achieve some success within the system. One such party, the Democratic Republican Union (Unión Republicana Democrática—URD), has been a governing partner with the AD during the Leoni government (1963–68). The Committee for Free Elections (Comité de Organización Política Electoral Independiente—COPEI), also known as the Social Christian Party (Partido Social-Cristiano), is a Christian Democratic party, with the center-right implications of that movement. It has succeeded as an opposition party to the AD, occasionally taking advantage of splits in the AD's governing coalition or within the AD itself.

In 1947, the AD won the first free elections ever held in Venezuela. The PCV also fielded a candidate, as did COPEI. These three parties were outlawed during the dictatorship of Pérez Jiménez, and carried on their activities clandestinely. In December 1958, after Pérez Jiménez had been driven from power, free elections were held. The presidential victor, Rómulo Betancourt, formed a coalition government of the AD, COPEI, and URD.

The AD and COPEI reached several agreements over the years to cooperate with each other and to exclude the more leftist par-

ties from the Venezuelan system. After the COPEI victory in 1968, Venezuela became a more competitive two-party system, with AD and COPEI competing for power. Agreements between AD and COPEI in 1970 and 1973 called for cooperation in appointive posts, so the competition has been controlled. AD and COPEI have dominated the system since, although the 1994 election of Caldera as the candidate of a four-party coalition, the National Convergence (Convergencia), suggested a movement away from the two-party arrangement.

Since 1998, Chávez, who came to power backed by the leftist Patriotic Pole, a coalition of parties that includes the Communist Party of Venezuela, has dramatically changed the power structure in the country. Chávez's Fifth Republic Movement is the largest party in Venezuela but is a highly personalist party. The two traditional parties, AD and COPEI, have not recovered from the 1998 election and despite having a few seats in parliament, have been unsuccessful in mounting an organized democratic opposition against Chávez. In the 2005 National Assembly elections the Fifth Republic Movement won 114 seats, PODEMOS, 15; PPT, 11; indigenous, 2; and other, 25. The next elections were to be held in 2010.

15 LOCAL GOVERNMENT

Venezuela is divided into 23 states, the Federal District, and 72 offshore islands grouped under a federal dependency.

State government has been traditionally weak, with the state governor being the agent of the federal government directed to enforce national laws and decrees, as well as state legislation. Governors (including the governor of the Federal District) are appointed by the president and may be removed by him. According to the constitution, the states are autonomous and are guaranteed the right to regulate their own affairs and they are given all powers not reserved to the nation or the municipalities. In reality, these powers are very few, since control of elections, education, health, agriculture, and labor are all delegated to the national government. The state legislatures are unicameral.

Municipalities are autonomous in the election of their officials, in all matters within their competence, and in action regarding the collection, creation, and expenditure of their revenues. City councils vary from 5 to 22 members according to population size. The council is popularly elected and, in turn, selects the mayor. According to the constitution, elections for state and municipal offices may not be held more often than once every two years or less often than once every five years.

16 JUDICIAL SYSTEM

In August 1999, the National Constitutional Assembly (ANC) declared a judicial emergency to reform the highly discredited judiciary. The ANC immediately dismissed 16 judges. By the end of the year, 200 judges had been fired, mostly for corruption.

While the judicial system was independent, it was corrupt and inefficient. Most crimes in Venezuela went unpunished and citizens often have taken the law into their own hands. In the prisons, more than 70% of inmates have never been formally charged with a crime and they languish behind bars for years before their cases are heard. Prisons have been criticized for inhumane conditions.

The ANC approved the new Organic Code of Criminal Procedures in 1999, replacing the inquisitorial system with an open

court system. For the first time, trials were open to the public, with oral proceedings and verdicts by juries or panels of judges. The new system introduced presumption of innocence and prevented police from arbitrarily detaining persons for more than eight days without charges. Judges no longer act as investigators. Now they are arbiters of law, presiding over court sessions where prosecutors and defense attorneys argue cases in open court. Police investigators now work under the supervision of prosecutors. While judicial reforms were applauded by human rights organizations, it was uncertain how they would affect the judicial system in the long run. Intensive training will be required for judges, attorneys, and police.

The Supreme Court of Justice remains the nation's highest tribunal and court of final appeal. The prosecutor general provides opinions to the courts, and investigates the violations of constitutional rights of prisoners and the criminal conduct of public employees. The Ministry of Justice oversees the lower court system, and selects and trains judges. The lower courts are made up of district and municipal courts, and trial and appeal courts that hear civil and criminal cases.

17 ARMED FORCES

Venezuela in 2005, had 82,300 active personnel in its armed forces, in addition to 23,000 members of the *Fuerzas Armadas de Cooperación*, an internal security force. The Army had 34,000 regulars, including 6 infantry divisions and 12 specialized brigades. Equipment included 81 main battle tanks and 116 light tanks. The Navy had an estimated 18,300 members, including an estimated 7,800 Marines, 1,000 Coast Guard members, and 500 naval aviation personnel. Major naval units included two tactical submarines and six frigates. The Air Force had 7,000 personnel, 125 combat capable aircraft, including 38 fighters and 16 fighter ground attack aircraft, and 25 support and 49 utility helicopters. The defense budget in 2004 (the latest year for which data was available) totaled \$953 million.

18 INTERNATIONAL COOPERATION

Venezuela is a charter member of the United Nations, having joined on 15 November 1945; it participates in ECLAC and several nonregional specialized agencies, such as UNCTAD, UNHCR, UNESCO, the World Bank, ILO, IAEA, and the WHO. Venezuela is a member of the Andean Community of Nations (CAN), the Caribbean Development Bank, the South American Community of Nations (CSN), G-3, G-15, G-19, G-24, G-77, the Inter-American Development Bank, the Association of Caribbean States (ACS), the Latin American Economic System (LAES), the Latin American Integration Association (LAIA), OPEC, OAS, the Río Group, and the WTO. The nation is an associate in Mercosur.

Venezuela is part of the Nonaligned Movement, the Agency for the Prohibition of Nuclear Weapons in Latin America and the Caribbean (OPANAL), and the Organization for the Prohibition of Chemical Weapons. In environmental cooperation, Venezuela is part of the Basel Convention, the Convention on Biological Diversity, Ramsar, CITES, International Tropical Timber Agreements, the Kyoto Protocol, the Montréal Protocol, MARPOL, the Nuclear Test Ban Treaty, and the UN Conventions on Climate Change and Desertification.

19 ECONOMY

During the colonial era and until the development of petroleum resources, the export of coffee and cocoa and the raising of cattle and goats provided the main supports for the economy. However, agriculture now accounts for only about 5% of the GDP. For over 40 years the economy has been completely dominated by the petroleum industry; in the mid-1980s, oil exports accounted for 90% of all export value, and in 2002 petroleum accounted for over one-third of the GDP, three-fourths of export revenues and half of government revenues. The Venezuelan economy is therefore greatly influenced by petroleum market conditions and Venezuela through its membership in OPEC has exercised influence on the rest of the world. The Venezuelan oil minister is reputed to be one of the principle architects of the first oil shock in 1973, and in 1999, Venezuela's decision to cut production to halt the continuing slide in oil prices led the way to their recovery in 2000 and after. The second most important mineral product is iron, and Venezuela's mineral wealth is augmented by frequent discoveries of additional reserves. Industrial development is fostered by government policy.

The average annual GDP growth during 1970–80 was 5%, with a peak of 7.2% during 1974–77, the years following the first oil shock and OPEC's quadrupling of oil prices. In the late 1970s, the economy began to stagnate as inflation ate up the real value of the oil price increases. Venezuela's GDP growth rate declined from 3.2% in 1978 to zero in 1979, with a negative rate of 1.5% recorded in 1980. In 1980 oil prices reached all-time highs, but the speculation was that they would continue to rise. Instead, recession and reduced demand in the main industrial markets brought oil prices sharply down, eventually collapsing in 1986 to levels prevailing, in real terms, before the first oil shock. Venezuela and many other Third World countries were left holding large amounts of high-interest short-term obligations with no way to earn the money in the stagnating world economy to pay them off. Venezuela's state-owned enterprises had accumulated short-term loans in the petrodollar market when high inflation had reduced real interests to near zero. The Reagan administration's tight money stance wrung inflation out of the system, and by 1982 soft markets for oil, iron ore, and aluminum were aggravating Venezuela's financial problems; GDP declined during 1983–85. During 1980–90, average annual GDP growth was only 1.1%.

After severe adjustments experienced during 1989 and 1990, the main economic indicators improved considerably in 1991 and 1992. Real GDP growth rose to 10.4% and 7.3%, respectively. Growth was led by expansion of the petroleum sector due mainly to the Persian Gulf War. Growth was also a result of the liberalization of the economy, including a privatization program initiated in 1990 and the restructuring of the public sector enterprises. However, growth slowed down and real GDP contracted by 1.0% in 1993. In April 1996, President Caldera announced a shift towards a more free market orientation coupled with fiscal austerity to revitalize the economy. The government devalued the currency, eliminated exchange controls, and raised domestic gasoline prices 369–862%. From 1988–98, real GDP growth averaged 2.5%. Inflation remained stubbornly high; between 1990 and 1996, consumer prices rose by an average of about 50% per year. The inflation rate was at 30% in 1998. A recession during 1998 due to low oil prices triggered a steep rise in the cost of living and halted eco-

nomical growth. GDP contracted 6.1% in 1999 as inflation rose to 20%, triggering the government's decision to restrict oil production to bring prices up from near-record lows. With the recovery of oil prices in 2000, the economy grew 3.2% in 2000, and inflation fell to 13.2%. In the context of the global economic slowdown of 2001, however, real growth declined to 2.1% as inflation fell to a relatively low 12%.

In 2002, however, politics overtook the economy. Populist President Hugo Chávez had been elected in 1998, with a term to run to 2006, a prospect seemingly all but intolerable to the opposition which saw in his "Bolivarian democratic revolution" ruination for the economy. Though the present constitution provides for a referendum on the continuance of the president in office midway through his term, that is, in August 2003, this also appeared too long to wait, particularly since it was quite likely Chávez would win such a referendum. In January 2002 and in December 2002 strikes were called against the government with the intention of forcing Chávez's resignation. From 12–14 April 2002, in fact, Chávez was briefly ousted with apparent close cooperation from the Bush administration, but then returned to power on a wave of popular and military support. After his return, however, no more oil was delivered to Cuba, allegedly for lack of payment, under a 2000 agreement that allowed Cuba to buy 53,000 barrels a day with 15 years to pay at low interest rates. Chávez had been accused of giving the nation's oil wealth away. A new wave of strikes began in December 2002 demanding an early referendum. The strike by oil workers lasted longest, over two months, costing the economy an estimated \$6 billion. By March 2003, oil production had returned to normal levels. The interruptions in production in 2002 contributed to an estimated 8.9% decline in GDP in 2002, with an increase in inflation to 15.5%. Further contraction is expected in 2003. Negotiations between the government and the opposition have been assisted by a "Group of Friends" that includes the OAS, the Carter Center, the United States, Brazil, Mexico, Chile, Portugal, and Spain.

The economy expanded by 17.9% in 2004, up from -7.7% in 2003. This was more the result of the market returning to normal output levels, rather than a miraculous boom. In 2005, the GDP growth rate was estimated at 6.5%, which is closer to what Venezuela would grow by in a "normal" year. In addition to higher oil prices, the economy was also aided by an increase in consumption. The inflation rate, although on a downward trend (it decreased from 21.7% in 2004, to 17.0% in 2005), continued to be a problem for the economy. Unemployment, in the same year, was estimated at 12.3%.

20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 Venezuela's gross domestic product (GDP) was estimated at \$161.7 billion. 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 based on current dollars. The per capita GDP was estimated at \$6,400. The annual growth rate of GDP was estimated at 8.3%. The average

inflation rate in 2005 was 15.7%. It was estimated that agriculture accounted for 4.6% of GDP, industry 48.2%, and services 47.2%.

According to the World Bank, in 2003 remittances from citizens working abroad totaled \$21 million or about \$1 per capita. Foreign aid receipts amounted to \$82 million or about \$3 per capita and accounted for approximately 0.1% of the gross national income (GNI).

The World Bank reports that in 2003 household consumption in Venezuela totaled \$5.79 billion or about \$2,252 per capita based on a GDP of \$83.4 billion, measured in current dollars rather than PPP. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the period 1990 to 2003 household consumption grew at an average annual rate of 0.1%. In 2001 it was estimated that approximately 30% of household consumption was spent on food, 17% on fuel, 16% on health care, and 13% on education. It was estimated that in 1998 about 47% of the population had incomes below the poverty line.

21 LABOR

Venezuela's labor force in 2005 was estimated at 12.31 million. As of 2003, the distribution of employment among major economic sectors was as follows: services 69.1%; industry 19.8%; agriculture 10.7%; and undefined occupations 0.4%. The unemployment rate was estimated at 12.3% in of 2005.

The Venezuelan labor movement, for all practical purposes, had its inception in 1928 with the formation of the Syndicalist Labor Federation of Venezuela. The movement, stunted by the Gómez dictatorship, grew rapidly after his death. After the election of Betancourt, the Confederation of Venezuelan Workers (Confederación de Trabajadores de Venezuela—CTV), which had been founded between 1945 and 1948 but outlawed by Pérez Jiménez, was reconstituted. Another major labor federation, the National Movement of Workers for Liberation (Movimiento Nacional de Trabajadores para la Liberación—MONTRAL), was formed in 1974. CTV has remained Venezuela's major labor confederation. The comprehensive labor code enacted in 1990 provides all public sector and private sector employees (except members of the armed forces) the right to form and join unions. Strikes are permitted but may not be called before a conciliation attempt is made. Voluntary arbitration is encouraged, but arbitration may be ordered by the Ministry of Labor; awards are binding on all parties for a period of not less than six months. If no agreement is reached, a strike may be called 120 hours after the government labor inspector has been notified. Approximately 10% of the labor force was unionized as of 2002.

The labor code sets the maximum workweek at 44 hours. Labor laws include provisions for an eight-hour day and a paid vacation of at least 15 workdays a year. In 2002 the monthly minimum wage was \$220 in the private sector for urban workers and \$198 for rural workers. Minimum wage workers in the private sector received mandatory food and transport bonuses. Until the age of 16, minors may work only with restrictions as to hours and working conditions. The labor ministry effectively enforces these provisions in the formal economic sector but more than one million children were believed to be working in the informal economy in 2002.

22 AGRICULTURE

In 2003, agriculture accounted for 4% of the GDP, engaging 8% of the economically active population. Venezuela continued to rely heavily on food and agricultural imports. Despite abundant resources favorable to agricultural production, 70% of cereals, and nearly all oilseeds consumed in Venezuela are imported.

Venezuela does not have the rich soil of many other Latin American countries. In 2003, 3,400,000 hectares (8,401,000 acres), or 3.9% of the total land area, were used for temporary or permanent crops. The most highly developed agricultural region is the basin of Lake Valencia, west of Caracas and inland from Puerto Cabello. The principal crop of this area is coffee. Before oil came to dominate the economy, coffee accounted for 40–60% of all income from exports.

The main field crops are sugarcane, rice, corn, and sorghum, and the chief fruits are bananas, plantains, oranges, coconuts, and mangoes. The most important agricultural items for industrial use are cotton, tobacco, and sisal. Two varieties of tobacco grown in Venezuela, black and Virginia blond; the latter is used for the most part to make certain popular brands of US cigarettes under license. Sisal is grown and widely used to make cordage and bags for sacking grains and coffee. Thin strings of the fiber are also employed in hammocks, household bags, doormats, hats, and sandals. Agricultural production in 2004 (in tons) included sugarcane, 9,832,000; bananas, 1,549,600; corn, 2,068,000; rice, 989,000; sorghum, 612,000; plantains, 428,500; oranges, 384,200; potatoes, 336,900; cotton, 7,800; tobacco, 6,000; sisal, 5,600; and tomatoes, 183,700.

Under an agrarian reform law of 1960, three kinds of land are subject to expropriation by the government: uncultivated lands; lands worked indirectly through renters, sharecroppers, and other intermediaries; and lands suitable for cultivation that are being devoted to livestock raising. Compensation is paid for expropriated lands. Between 1960 and 1980, 8,467,000 hectares (20,922,295 acres) of land were distributed to 155,200 farming families who had never previously owned property. However, the land reform was adversely affected by mass migration of rural people to the cities.

23 ANIMAL HUSBANDRY

Since colonial days, cattle raising has been the dominant livestock industry in Venezuela. Chiefly criollos, or Spanish longhorns, the cattle are raised on the unfenced ranges of the llanos. Crossbreeding with shorthorns has been going on since the last half of the 19th century and with zebu since 1915. The government has made considerable progress in eradicating tick and other infestations and hoof and mouth disease. It buys breeding stock from the United States, and finances programs to improve cattle production, processing, and distribution. The government also offers a subsidy for pasteurized milk, thereby helping to expand and improve the dairy industry.

Venezuela's livestock population in 2005 included 16,300,000 head of cattle, 13,200,000 goats, 3,100,000 hogs, 530,000 sheep, 500,000 horses, 440,000 burros, and 72,000 mules. Beef production increased from 147,000 tons in 1963 to 405,000 tons in 2005. In 2005, pork production was 118,000 tons; goat meat, 5,400 tons; mutton, 2,100 tons; and poultry, 686,000 tons. One of the few ar-

eas in which Venezuela is self-sufficient is beef, which is largely grass fed. Although significant amounts of pork and poultry are produced, they rely on imported feeds and other imported inputs. Fluid milk production reached 1,268,000 tons in 2005. Around 50% of the total fluid milk production is processed into cheese, 36% into powdered milk, 12% into pasteurized milk, and 2% into other dairy products. Venezuela relies on imports for 50% of its milk consumption.

24 FISHING

With its 2,816 km (1,750 mi) of open coast, Venezuela has vast fishing potential. Fish and fish products currently play a relatively minor role in Venezuela's international trade, but fish are extremely important domestically. Venezuela has the highest per capita fish consumption in Latin America, about three times that of the United States. The principal fishing areas are La Guaira, the Paraguaná peninsula, and the Cariaco-Margarita-Carúpano area. The total catch in 2003 was 540,161 tons, up from 284,235 tons in 1986.

The fish-canning industry, begun in the 1940s, has had difficulty finding a market, since there has long been a preference for imported canned fish of higher quality. In recent years, however, exports to the United States, the Netherlands Antilles, and other countries have increased. Tariff protection and improvements in quality have helped the industry.

25 FORESTRY

Forests covered about 56.1% of the land area in 2000. Partly because of the inaccessibility of forest areas, Venezuela's high-quality wood is very much underdeveloped. It is also misused by small farmers, who clear land for farming by burning trees without replacing them. The greatest concentration of forests lies south of the Orinoco, but the areas currently utilized are in the states of Portuguesa and Barinas. Cedar and mahogany are the principal trees cut; rubber, dividivi, mangrove bark, tonka beans, oil-bearing palm nuts, and medicinal plants are also produced. Roundwood output was 5.082 million cu m (179 billion cu ft) in 2004, with 75% used as fuel wood. Sawn wood production was 504,000 cu m (17,600,000 cu ft) that year. Virtually all sectors of the forest products industry rely on domestic output to meet domestic demand.

26 MINING

Venezuela is a leading producer of direct-reduced iron, and ranked among the top ten in the production of bauxite, alumina, and primary aluminum. In Latin America, Venezuela ranked second in iron ore and aluminum, behind Brazil, third in bauxite, alumina, and phosphate rock, and fourth in cement and steel. Other principal commodities were diamonds, ferroalloys, and gold. The top industry in 2003 was petroleum, which contributed 25% of Venezuela's gross domestic product (GDP). Iron ore mining, construction materials, steel and aluminum manufacturing were among the country's leading industries in that same year. The top export commodity in 2003 was petroleum, which accounted for \$22.2 billion out of total exports valued at \$27.7 billion. Other important exports were bauxite, aluminum, steel, and chemicals.

Output of iron ore and concentrate (gross weight), from the Cerro San Isidro (Los Barrancos) and Las Pailas (Bolívar) depos-

its, was 17.954 million metric tons in 2003. Direct-reduced iron output was 6.645 million metric tons in 2003. Iron ore production peaked in 1974, at 26.4 million tons, and bottomed out in 1983, at 9.4 million tons. In 1987-91, production averaged 19.34 million tons per year, ranking Venezuela tenth in the world. Iron mining was developed mainly by the Orinoco Mining Co., a subsidiary of US Steel, and by Iron Mines of Venezuela, a subsidiary of Bethlehem Steel. The industry was nationalized in 1975, and was controlled by the state enterprise C.V.G. Ferrominera Orinoco C.A. Bauxite production, from Los Pijiguaos mine (Bolívar), was 5.446 million metric tons in 2003. The mine's capacity was 6 million tons per year, and deposits of high-grade bauxite totaled 300 million tons. Alumina output was 1.882 million metric tons in 2003.

Gold mine output (metal content) in 2003 was 8,190 kg, down from 9,465 kg in 2002. Gold, the first metal found in Venezuela, reached its production peak in 1890, and was exported until 1950.

Gem diamond output was 11,080 carats in 2003, down from 45,707 carats in 2002. In that same year, industrial diamond output totaled 23,710 carats, down from 61,060 carats in 2002. The main diamond producing areas were: Aza karon, Guaniamo, Icabaru, Santa Elena and San Salvador de Gray. Production of hydraulic cement was 7 million metric tons in 2003, unchanged from 2002. Other minerals extracted were nickel, clays (including kaolin), feldspar, gypsum, lime, nitrogen, phosphate rock, salt (a government monopoly), sand and gravel, silica sand, stone (dolomite, granite, and limestone), and sulfur. Construction of the Minera Loma de Níquel, C.A., open-pit mine and ferronickel plant (on the boundary of Aragua and Miranda) was completed in 2000; it produced 2,472 tons of contained nickel the rest of the year, and was expected to produce 17,500 tons per year of contained nickel in ferronickel for 30 years, from reserves of 42.4 million tons (1.48% nickel). A total of 3,520,000 metric tons of amphibolite was produced in 2003, down from 18,610,000 metric tons in 2002. Minerals known to exist but not exploited were manganese (with deposits of several million tons), mercury, magnesite, cobalt, mica, cyanite, and radioactive materials.

The mining law of 1999, replacing that of 1945, established the rules for all mines and minerals (except hydrocarbons and some industrial minerals not found in government lands). The country's mineral resources belonged to the nation, and mining was permitted only through direct participation of government, concessions, and production authorization to the small mining sector, mining cooperatives, and artisanal miners. The private sector participated in the production of nonfuel minerals. However, government companies controlled a great portion of the production of bauxite, alumina, aluminum, diamond, gold, and iron ore.

27 ENERGY AND POWER

Venezuela has some of the world's largest reserves of natural gas and oil and is one of the main suppliers of oil to the United States. The country is also a founding member of the Organization of Petroleum Exporting Countries (OPEC).

As of 1 January 2005, Venezuela had proven oil reserves estimated at 77.2 billion barrels, according to the Oil and Gas Journal. However, that estimate does not include the country's significant deposits of extra heavy and bitumen oil, which could total as much as 270 billion barrels. In 2004, Venezuela's oil production

averaged an estimated 2,855,700 barrels per day, of which crude oil accounted for 88%. Domestic consumption in 2004 was estimated at 544,100 barrels per day. Oil exports, according to Petroleos de Venezuela SA (PdVSA) averaged 2.03 million barrels per day, in 2003. Of that amount, according to the PdVSA and the Energy Information Administration (EIA), 68% was sent to the United States (US). In 2004, exports of refined and crude oil averaged 1.53 million barrels per day to the United States, which accounted for 11.8% of all oil imports by the United States.

Venezuela, as of 1 January 2005, had proven reserves of natural gas estimated at 151 trillion cu ft, according to the Oil and Gas Journal. In 2003, the production and domestic consumption of natural gas in Venezuela each totaled an estimated 1,048.9 billion cu ft. According to Venezuela's government agency responsible for regulating the country's natural gas sector, Enagas, more than 70% of the nation's output of natural gas was consumed by its petroleum industry, which re-injects the gas to aid in the extraction of crude oil.

Venezuela's recoverable coal reserves were estimated at 528 million tons in 2003. Most of the country's coal is bituminous. In 2003, coal production totaled an estimated 7.8 million short tons, of which most was exported. In 2003, domestic coal consumption was estimated at 0.1 million short tons.

Venezuela, as of January 2003, had an installed electric power generating capacity estimated at 21.3 GW. Of that total, 62% came was hydroelectric, with the remainder made up of conventional fossil fuel plants. Total electrical output in 2003 was estimated at 87.4 billion kWh, of which consumption that year totaled an estimated 81.3 billion kWh. Venezuela's electric power sector however, continues to face power failures and disruptions. In the first seven months of 2005, the country suffered 46 major power disruptions, an increase of 70% from the same period in 2004, according to the Oficina de Operacion de Sistema Interconectados (OPSIS), the government agency responsible for regulating the country's electric system. Lowered hydropower output due to below average rainfall was one immediate reason. In addition, electricity theft/illegal hookups accounts for an estimated 25% of Venezuela's total demand.

28 INDUSTRY

Since the economy was largely dependent on oil (in 2003 it accounted for approximately 80% of exports and nearly 50% of fiscal revenues), Venezuela neglected other domestic industries for decades in favor of importing goods to satisfy Venezuelan consumer needs. The government has recently encouraged industrial diversification and development through protective tariffs and tax exemptions for reinvestment. Industrial output grew by 1.6% on average during the 1980s and by 3.8% annually during the 1990s. Manufacturing industries grew by an average of 4.3% annually during the 1980s and 1.7% per year between 1988 and 1998. In 1998, manufacturing accounted for an estimated 15% of GDP. Industry as a whole accounted for 40% of GDP in 2001.

Although much of Venezuela's petroleum is exported in crude form, petroleum refining is a major industry. Venezuela's five refineries had a total capacity of 1,282,000 barrels per day in 2002, and reserves were estimated at 74 billion barrels. The country is the world's fifth-largest producer of oil. A two-month general strike in 2002–03 severely affected oil production, but it began to

recover in March 2003. The steel industry operates at about 48% of capacity. The Venezuelan metal engineering industry produces auto body parts, valves, boilers, piping, wire mesh, and many other cast products. By 1983, Venezuela had the largest aluminum-smelting capacity in Latin America, with a total of 400,000 tons a year. Bauxite is processed in plants owned by the three state companies—Bauxalum, Venalum, and Alcasa. Other industries include shipbuilding, automobile assembly, and fertilizer manufacture. Venezuela produced 13,170 automobiles in 2001, down 38% from the 21,190 units produced in 2000.

The government is involved in a massive decentralization project to relocate industries in the peripheral cities and the interior. Valencia, the capital of Carabobo State, is a major new industrial center. A second major industrial development scheme has made Ciudad Guayana the hub of a vast industrial area with a 160-km (100-mi) radius. Puerto Ordaz was founded on the basis of the Cerro Bolívar iron ore deposits. West of Puerto Ordaz are the Matanzas steel mill, with a yearly capacity of 750,000 tons, and the Bauxalum bauxite-processing installation.

Venezuela has large and underexploited reserves of natural gas. In 2003, oil and natural gas production, water, whiskey, and the chemicals sector showed potential for growth. Further political unrest could undermine those sectors and the rest of the Venezuelan economy, however.

The industrial production growth rate in 2005 was 3.4%, lower than the overall GDP growth rate and an indicator that industry was not an economic growth engine. In 2005, industry accounted for 48.2% of the GDP and it employed less than 25% of the labor force. Services were the second-largest sector, with a 47.2% share of the economy, while agriculture came in last with only a 4.6% share.

29 SCIENCE AND TECHNOLOGY

The National Council of Scientific and Technological Research (founded in 1967) and the State Ministry for Science and Technology direct and coordinate research activities. Among the principal research institutes, academies, and learned societies are the National Academy of Medicine (1904), the Academy of Physical, Mathematical, and Natural Sciences (1917), and the Venezuelan Association for the Advancement of Science (1950). Major research institutes include the Institute of Experimental Medicine (1940), the Venezuelan Scientific Research Institute (1959), and the Center for Investigation of Petroleum Technology (1979). All of these societies and institutes are located in Caracas. Venezuela has 20 universities and colleges that offer courses in basic and applied sciences. In 1987–97, science and engineering students accounted for 26% of college and university enrollments. In 2002, research and development (R&D) expenditures amounted \$518.300 million, or 0.38% of GDP. Of that amount, government provided the largest portion at 60.6%, followed by the business sector at 20.9% and higher education 18.5%. In that same year, there were 222 scientists and engineers per million people, that were engaged in R&D. High technology exports in 2002 totaled \$94 million, or 3% of all manufactured exports.

30 DOMESTIC TRADE

The three primary distribution centers for import trade are the Caracas area, the Maracaibo area, and an area that centers on Ciu-

dad Bolívar and serves the vast inland llanos region and the Guiana Highlands. Located in Caracas are the main offices of the national and foreign banks, many of the important industries, and the largest commercial houses. Wholesale importers and distributors in Caracas cover the entire country by means of branch offices, stores, and traveling salespeople.

The most common and widespread form of retail selling used to be door-to-door, but the number of large shopping centers and supermarkets has risen in past years. Supermarkets handle over half of all retail food sales, with the rest mostly from *bodegas* (delicatessens) and *abastos* (small family-operated shops). There are also numerous farmers' markets throughout Caracas and the rest of Venezuela. Franchising has grown steadily throughout the past few years.

Stores are usually open from 9 AM to 12:30 PM and from 3 to 7 PM, Monday through Saturday. Normal banking hours are from 8:30 to 11:30 AM and from 2 to 4:30 PM on weekdays only. Business office hours are usually from 8:30 AM to 12:30 PM and 2:30 to 6 PM, Monday through Friday. Factories generally operate from 7:30 AM to 4:30 PM, Monday through Friday.

31 FOREIGN TRADE

Since 1950, Venezuelan foreign trade has gone through a number of bust and boom phases linked with oil prices. The first, between 1950 and 1957, was marked by the maturation of the new oil industry and high demand. The second, from the late 1950s through the 1960s, was characterized by a decline in world petroleum prices and a general drop in investment; during this period, exports of iron ore became increasingly important. The third phase, beginning in the early 1970s, featured a fivefold rise in petroleum prices and a staggering increase in the value of Venezuela's petroleum exports, despite declining output. The 1986 plunge in world oil prices was followed by a sustained period of growth in the sector, that lost momentum in 1998.

Crude petroleum (59%) and refined petroleum products (27%) are the main commodity exports of Venezuela, with refined petroleum products accounting for 4.5% of the world's total exports. Other exports include iron and steel (2.7%) and aluminum (2.5%).

Principal Trading Partners – Venezuela (2003)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	24,974.3	8,357.7	16,616.6
United States	11,074.9	2,754.0	8,320.9
Netherlands Antilles	4,140.9	22.4	4,118.5
Netherlands	2,058.9	83.7	1,975.2
Aruba	1,756.1	...	1,756.1
Colombia	650.8	713.0	-62.2
Cuba	642.0	...	642.0
United Kingdom	396.6	235.0	161.6
Trinidad and Tobago	384.3	24.5	359.8
Mexico	376.4	416.3	-39.9
Canada	294.7	219.7	75.0

(...) data not available or not significant.

SOURCE: 2003 International Trade Statistics Yearbook, New York: United Nations, 2004.

In 2005, exports reached \$52.7 billion (FOB—Free on Board), while imports grew to \$24.7 billion (FOB). In 2004, the bulk of exports went to the United States (55.6%), the Netherlands Antilles (4.7%), and the Dominican Republic (2.8%). Imports were dominated by non-oil goods, and mainly came from the United States (28.8%), Colombia (9.9%), Brazil (7%), and Mexico (4.1%).

32 BALANCE OF PAYMENTS

Venezuela has enjoyed an enviable balance-of-payments position for many years. Although the country was forced to import goods to satisfy the demand for many industrial, construction, and household items, its income from exports has more than equaled its expenditures for imports. Venezuela experienced foreign exchange problems throughout the 1990s, largely because of the fluctuation of world oil prices. Venezuela's balance of payments position deteriorated from its strong performance in 1991. In 1992, the merchandise trade surplus fell to \$1.6 billion, a drop of 66% from 1991, primarily due to the economic recovery program and a decline in exports. The current account balance rose from -3.7% of GDP in 1993 to an estimated 11.5% in 1996, but fell by 2.8% in 1998.

As of 2003, private consumption as a share of GDP had risen, and the shares of gross fixed investment and exports of goods and services fell. Venezuela's dependence upon oil exports continued to make it vulnerable to the vagaries of the international economy.

The US Central Intelligence Agency (CIA) reported that in 2001 the purchasing power parity of Venezuela's exports was \$29.5 billion while imports totaled \$18.4 billion resulting in a trade surplus of \$11.1 billion.

The International Monetary Fund (IMF) reported that in 2001 Venezuela had exports of goods totaling \$26.7 billion and imports totaling \$17.4 billion. The services credit totaled \$1.28 billion and debit \$4.61 billion.

Balance of Payments – Venezuela (2003)

(In millions of US dollars)

Current Account		11,524.0
Balance on goods	16,520.0	
Imports	-10,341.0	
Exports	26,861.0	
Balance on services	-2,616.0	
Balance on income	-2,387.0	
Current transfers	7.0	
Capital Account		...
Financial Account		-5,124.0
Direct investment abroad	-1,182.0	
Direct investment in Venezuela	2,520.0	
Portfolio investment assets	-573.0	
Portfolio investment liabilities	-775.0	
Financial derivatives	...	
Other investment assets	-3,756.0	
Other investment liabilities	-1,358.0	
Net Errors and Omissions		-946.0
Reserves and Related Items		-5,454.0

(...) data not available or not significant.

SOURCE: Balance of Payment Statistics Yearbook 2004, Washington, DC: International Monetary Fund, 2004.

Exports of goods and services reached \$22.8 billion in 2004, up from \$20.5 billion in 2003. Imports increased from \$10.3 billion in 2003, to \$17.2 billion in 2004. The resource balance was consequently positive in both years, deteriorating however from \$10.1 billion in 2003, to \$5.6 billion in 2004. The current account balance followed a similar path, decreasing from \$6.5 billion in 2003, to \$2.9 billion in 2004. Foreign exchange reserves (including gold) decreased to \$15 billion in 2005, covering more than ten months of imports.

33 BANKING AND SECURITIES

The Central Bank of Venezuela (Banco Central de Venezuela-BCV, founded in 1939) is the fiscal agent of the government, responsible for fixing the rediscount rates, holding the country's gold and foreign exchange reserves, making collections and payments on behalf of the Treasury, and buying foreign exchange acquired from the oil companies and from exporters and reselling it to the government or to commercial banks. It also cooperates with government departments and other institutions in the work of special commissions, and is the sole note-issuing agency.

The state banking system consists of the Central Bank, the Industrial Bank of Venezuela, the Workers' Bank, seven regional and development banks controlled by the Venezuelan Development Corp., and the Agricultural Bank. In the private sector there are commercial banks, investment banks, mortgage banks, and savings and loan associations. The country's first mortgage bank, the Mortgage Bank of Urban Credit, initiated operations in Caracas in 1958.

The government has traditionally played a key role in the financial system, not so much because of budget financing needs (which until recently were modest by Latin American standards) but because of its involvement in medium- and long-term credit institutions which were set up to meet deficiencies in the system of financial intermediation, and also to channel the high oil revenues into productive sectors. The commercial banking system is, however, almost entirely privately owned. In 2002 there were 38 commercial banks, 16 mortgage banks providing long-term loans for construction, land acquisition, or real estate development, and 29 financiers.

Until 1972, Caracas was the only city in Latin America with two stock exchanges: the Commercial Exchange of Caracas (founded in 1947, although informal trading in stocks has taken place in Caracas since 1805), controlled by the Caracas Chamber of Commerce, and the Commercial Exchange of Miranda State (founded in July 1958). The two exchanges were merged under the terms of the 1972 Capital Markets Law, which regulates the trading of securities and the activities of brokerage houses. There is also an exchange in Valencia. The National Securities Commission, established in 1973, oversees public securities transactions. Not all the securities of Venezuelan corporations are listed on the exchanges, and new securities are constantly added.

The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$12.8 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$22.9 billion. The money market rate, the rate at which financial institutions lend to one another in the short term, was 13.33%. The discount rate, the interest

rate at which the central bank lends to financial institutions in the short term, was 37%.

Venezuela's stock market was among the best performing in the world in 1996 because of restored confidence in economic policy and currency stability, but the Latin American financial crisis of the mid-90s put a damper on its success. The index of the Caracas stock exchange closed the year at 6,690.06, a 135% increase in dollar terms from the low base at the start of the year. In 2001, the index closed at 6,570.3, a drop of 3.7 % from 2000, although in 1998 it had dropped well below 5,000. The total market capitalization, at \$6.2 billion in 2001, had decreased by 24% from 2000, due to continued problems in the financial sector. As of 2004, a total of 59 companies were listed on the Caracas Stock Exchange, which had a market capitalization of \$6.117 billion. In that same year, the *Indioce de Capitalizacion* rose 34.9% from the previous year to 29,952.2.

34 INSURANCE

All insurance companies operating in Venezuela are under the direction of the Ministry of Development. The insurance industry is an important source of investment capital. It is regulated by the Superintendent of Insurance. Third-party automobile liability and workers' compensation, which is covered under the Social Security scheme, are considered compulsory in Venezuela. In 2003, the value of all direct insurance premiums written totaled \$2.158 billion, of which nonlife premiums accounted for \$2.093 billion. For that same year, the top nonlife insurer was Caracas de Liberty Mutual, which had gross written nonlife premiums of \$203 million, while the leading life insurer, Mapfre had gross written life insurance premiums of \$117.1 million.

35 PUBLIC FINANCE

Petroleum provided about 67% of total revenues in 1992, while personal and corporate income taxes represented only 29% of total current revenues that year. Although revenues increased greatly

Public Finance – Venezuela (2003)

(In billions of bolivares, central government figures)

Revenue and Grants	32,252.9	100.0%
Tax revenue	15,482.0	48.0%
Social contributions	796.8	2.5%
Grants	...	...
Other revenue	15,974.1	49.5%
Expenditures	37,786	100.0%
General public services	18,008.4	47.7%
Defense	1,665.8	4.4%
Public order and safety	1,120.6	3.0%
Economic affairs	1,892.3	5.0%
Environmental protection	...	...
Housing and community amenities	1,307.8	3.5%
Health	2,852.9	7.6%
Recreational, culture, and religion	583.4	1.5%
Education	6,993.6	18.5%
Social protection	3,361.3	8.9%

(...) data not available or not significant.

SOURCE: *Government Finance Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

in the 1980s, expenditures grew at an even faster rate, mainly because of heavy spending to combat the nation's pressing social and industrial problems. Falling oil prices in the mid-1980s caused a severe deterioration in the deficit. In 2002–03 a brief national oil strike triggered an economic depression. By 2004–05 oil prices had recovered, with petroleum revenues accounting for about half of the government budget in 2005.

The US Central Intelligence Agency (CIA) estimated that in 2005 Venezuela's central government took in revenues of approximately \$39.6 billion and had expenditures of \$41.2 billion. Revenues minus expenditures totaled approximately -\$1.6 billion. Public debt in 2005 amounted to 32% of GDP. Total external debt was \$39.79 billion.

The International Monetary Fund (IMF) reported that in 2003, the most recent year for which it had data, central government revenues in billions of bolivares were 32,252.9 and expenditures were 37,786. The value of revenues in millions of US dollars was \$20 and expenditures \$24, based on a official exchange rate for 2003 of 1,606.962 as reported by the IMF. Government outlays by function were as follows: general public services, 47.7%; defense, 4.4%; public order and safety, 3.0%; economic affairs, 5.0%; housing and community amenities, 3.5%; health, 7.6%; recreation, culture, and religion, 1.5%; education, 18.5%; and social protection, 8.9%.

3⁶ TAXATION

Almost all forms of taxation are the responsibility of the federal government; it apportions federal tax revenue to the states, which, in turn, allocate a portion to the municipalities. Cities may levy taxes on such items as water and other municipal services and the exploitation of community lands.

As of 2005, corporate income was progressively taxed with a top rate of 34%. There are three brackets—15%, 22% and 34%, except for that derived from the petroleum industry, which is taxed at 50%. Royalties derived from mining and their transfer are subject to a 60% rate. There are also municipal business taxes ranging from 0.5–10% depending on location and business activity involved. Capital gains are considered as part of corporate income. Dividends for oil companies are taxed at 50% and for mining companies at 60%. Dividends from other companies are taxed at 34%. There are also corporate registration fees and a 1% business assets tax.

The basic personal income tax schedule is progressive with a top tax rate of 34% for resident individuals. Nonresident persons are taxed at a flat rate of 34%. On payments due to nonresidents, technical aid is taxed at 10.2%, technical services at 17% and professional services at 30.6%. Salaries, premiums, and other sources of income for nonresidents are taxed at 34%. There are also inheritance and gift taxes, and a real estate tax.

A value-added tax (VAT) became effective in 1993 and as of 1 September 2005, has been levied at a standard rate of 14%, with a lower rate of 8%. The standard rate applies to most transactions, but those involving the sale of animal feed, domestic air passenger transport, meat, animals and professional services provided to the government are taxed at the lower rate. Services provided by banks, leasing companies, basic foodstuffs, farming machinery, ships, health and educational services, and the sale of bonds and shares are exempt. Luxury goods, including high value jewel-

ry and vehicles are subject to an additional 10% charge. There are also entertainment and advertising taxes (in the Federal District), and minor excise taxes on liquor, tobacco, cigarettes, and petroleum products.

3⁷ CUSTOMS AND DUTIES

Venezuela's customs duties are based on the Andean Pact's common external tariff (CET). Generally, there are four rates: 5%, 10%, 15%, or 20%, which are levied ad valorem, and are based on the products' CIF (cost, insurance, freight) value and on its gross weight, including the packaging. The average tariff rate is 10% except for automobiles, which carry a duty of 35%. Transit duties are required on certain goods, including hides, cocoa, coffee, and cotton. The government may also increase duties on items coming in from certain countries; in addition, it may establish import quotas or subject imports to licensing to protect domestic industry. Imports are also subject to Venezuela VAT. A 10% VAT is also applied to certain products including vehicles that hold less than nine people and which have a customs value or factory price of more than us\$44,000, certain motorcycles, coin or token operated game machines, and recreational or sport aircraft.

Venezuela has three free trade zones: the Isla de Margarita, the Paraguaná Peninsula Industrial Zone, and the Port of La Guaira.

After several years of negotiations, the Group of Three (Colombia, Mexico, and Venezuela) signed a free trade agreement in Cartagena. The agreement went into effect at the beginning of 1995 and commits the countries to lifting most trade restrictions by 2007. In 1995, Venezuela also implemented the Andean Pact with Colombia and Ecuador that established common external tariffs. Venezuela also has a preferential agreement with the Caribbean Common Market (CARICOM), which started tariff reductions in 1998. Venezuela also has a free trade accord with the Southern Cone Common Market (MERCOSUR).

3⁸ FOREIGN INVESTMENT

Before the 1970s, over 97% of the total foreign investment in Venezuela was made by firms representing the United States and the United Kingdom. In 1972, total foreign investment in Venezuela was \$5.5 billion, of which 85% was in oil. Of the total, 68% came from US sources, 9% from the Netherlands, and 7% from the United Kingdom. Until the mid-1970s, Venezuela imposed few restrictions on foreign investment. Beginning in 1974, however, new foreign investors were required to obtain advance authorization from the Superintendency of Foreign Investment (Superintendencia de Inversiones Extranjeras—SIEX). After the nationalization of petroleum companies on 1 January 1976, the total foreign investment in Venezuela declined sharply; by the end of 1984, registered US direct investment was \$1.7 billion, or approximately 55% of all foreign holdings in Venezuela.

The economic reforms started in 1989 stripped away many barriers to trade and investment. The government has been opening up production activities of the petroleum sector to foreign participation on a contract basis. In 1995, Venezuela's oil sector was opened to limited foreign participation in exploration and production, and political support has grown for a limited privatization of PdVSA, the state-owned oil company. Foreigners may now buy shares in national or mixed companies, but repatriation of dividends and their reinvestment of profits is restricted. Begin-

ning in 2000, a 34% tax on dividends was levied on foreign companies that had not sufficiently reinvested in the country.

Foreign direct investment (FDI) inflow totaled approximately \$4.5 billion in 1998, down from over \$5.5 billion in 1997. The fall in oil prices helped reduce FDI inflow further to \$3.3 billion in 1999, and their recovery (led by a Venezuelan decision to cut production) helped FDI increase to \$4.46 billion in 2000. However, with increasing political uncertainty in Venezuela and external economic slowdown, FDI inflow fell to \$3.4 billion in 2001 and collapsed to \$1.2 billion in 2002.

In 2000, official figures show the United States as the biggest source of FDI, with 14.6%, followed closely by the Netherlands, with 14.2%. However, US-based investment was also probably involved in flows from a number of offshore sites, such as the Bermudas (11.4% of inflow and the third-largest source in 2000) and the Cayman Islands (5.9%). Spain (10.3%), Colombia (8.8%), Japan (8.6%), and Switzerland (7.3%) were also significant sources. Total FDI stock as of 2000 was \$12.2 billion, of which the United States accounted for 34%; the Cayman Islands, 15.7%; the Netherlands, 7.9%; and Spain, 6%.

The US, as the largest investor in Venezuela, is estimated to have held a total FDI stock of \$10.8 billion, in 2003. In 2004, the total stock of investment was pegged at \$21 billion. A significant source of new investments was considered to be China—with a large chunk of its capital flows being directed through the Cayman Islands.

3⁹ ECONOMIC DEVELOPMENT

The Venezuelan economy has been directed by government policy since the 1970s. The iron and petroleum industries were nationalized in 1974–75, and the electrical generating industry was also a state enterprise. The government operated the salt and match industries; set the prices of pharmaceuticals, petroleum products, milk, meat, and other consumer goods and services; and controlled rents. The terms of Andean Pact membership also obligated the government to keep a tight rein on foreign trade and foreign investment.

Development policy from the 1950s through the late 1970s stressed import substitution, industrialization, and foreign investment. A new policy, inaugurated in 1979 and formulated in detail in the sixth national development plan (1981–85), was intended to eliminate price controls and reduce protectionism. The government also sought to reduce Venezuela's dependence on oil by industrial diversification, to pay more attention to agriculture, and to devote greater resources to social development, particularly housing, education, public services, and health. The economic crisis of the early 1980s led to a partial abandonment of the new policy. An economic adjustment program aimed at decreasing inflation, limiting imports, and cutting government spending was announced in 1983, and further austerity measures were imposed in 1984. In late 1986, the Lusinchi government announced a three-year plan to stimulate the economy through government spending.

Venezuela's economic reform program, initiated in 1989, focused on transforming the country from a traditionally state-dominated, oil-driven economy, toward a more market-oriented, diversified, and export-oriented economy. However, the financial crisis persisted and the administration assumed direct control over the banking system. Much of the liquidity created by the sup-

port for the financial sector was soaked up by the Central Bank. The government confirmed its commitment to selling off state enterprises. The bolivar was in free-fall before the government announced exchanged controls.

In 1996, the Caldera administration adopted an economic stabilization program with the backing of the International Monetary Fund (IMF). The fundamental goal of the plan was to reduce inflation by maintaining a surplus in consolidated public sector finances. The program also encouraged real growth in the non-oil economy. Deficit reduction through fiscal policy was also defined as a goal. The government increased general sales taxes, improved tax administration, and increased fuel prices. The program also called for the elimination of price controls on most goods and services.

The 1999–2000 economic plan called for reduced inflation, increased privatization, and higher taxes on foreign operations in Venezuela. An increase of the public budget was supposed to reduce inflation, as in the 1996 plan, but the traditional overspending of the government (one report claimed \$24,000 per month for pension plans in the state-run oil company) might undermine this plan. The dividends tax on foreign investment in Venezuela offsets any privatization plans by reducing the flow of capital from other countries. The country remains dependent upon oil revenues.

In April 2002, Hugo Chávez was temporarily ousted from power as president by the military; he returned to office two days later. Popular demonstrations against his presidency mounted throughout 2002 and into 2003. Beginning in December 2002, the opposition led a general strike in an attempt to force Chávez to resign. The strike shut down the oil industry for two months, but by mid-2003, oil output was almost back to normal. Nevertheless, the economy contracted by 29% in the first quarter of 2003, largely due to the effects of the strike, and it was forecast to decline by 12% over the course of the year. In February 2003, Chávez imposed foreign-exchange controls, and the country became short of dollars. Political opponents claimed the move was taken to curtail the private sector, and some say it continued the country's deindustrialization (six out of ten of the manufacturing businesses in existence when Chávez took power in 1998 had shut down by 2003). Inflation in the first five months of 2003 stood at 13.8%, and it was forecast to increase.

The recovery of the economy in 2004 and 2005 is expected to put the country back on a consistent growth pattern in the coming years. The economic expansion will be fueled by public-sector consumption and higher investment levels. By 2007, GDP growth rates will likely taper off, due to an uncertain policy environment and due to withdrawal of fiscal stimuli.

4⁰ SOCIAL DEVELOPMENT

The social security system was originally implemented in 1940, and was revised and amended by law in 1966, 1991, and 2001. The system covers medical care, maternity benefits, incapacity and invalidity, retirement and survivors' pensions, burial costs, and a marriage grant. These programs exclude temporary and casual workers; self-employed; and domestic workers. The employer is assessed about 5% on average of each employee's salary, with the worker paying about 2%. Old age pensions are provided at age 60 for men and age 55 for women, with early retirement permitted for those in arduous occupations. Medical coverage is financed by

an additional contribution of about 2% from employees and about 3.5% by employers. Unemployment benefits are paid for a period of 26 weeks. Maternity coverage is for 67% of earnings for up to six months.

Domestic abuse and violence against women has been aggravated by the nation's economic difficulties. Police are hesitant to intervene in domestic situations, and rape remains difficult to prove under current law. Consequently, domestic violence and rape are not often reported. In 2004, women made up approximately half of university students in Venezuela, and often pursue professions traditionally dominated by men. The constitution provides for sexual equality but women are still underrepresented in political and economic life. Women are protected by legislation that prohibits discrimination in pay or working conditions, but these are not always observed in practice. The National Institute for Women provides assistance in the economic advancement for women.

Approximately 25 indigenous ethnic groups exist in Venezuela. They have limited decision-making power on issues that directly affect their land. Few have been granted legal title to their lands. The human rights situation is poor, with reports of extrajudicial killings, arbitrary detentions, and the abuse of detainees. Human rights organizations operate openly. Prison conditions are extremely harsh.

41 HEALTH

Despite strenuous government efforts in the field of public health, Venezuela lacks a sufficient number of physicians for its booming population. As of 2004, there were an estimated 193 physicians, 64 nurses, and 52 dentists per 100,000 people. Total health care expenditure was estimated at 4.2% of GDP.

Commonly reported diseases included malaria and tuberculosis. Leading causes of death were: communicable diseases, neoplasms, injuries, and diseases of the circulatory system. Venezuela is virtually free of typhoid and yellow fever. To maintain this status, the Department of Health and Social Welfare continues its drainage and mosquito control programs. It also builds aqueducts and sewers in towns of fewer than 5,000 persons. Approximately 84% of the population had access to safe drinking water and 74% had adequate sanitation.

As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 20.2 and 4.1 per 1,000 people. The infant mortality rate, 50.2 per 1,000 live births in 1971, fell to 22.20 in 2005. In the same year life expectancy rose to an average of 74.31 years. About 13% of children under five years old were considered malnourished. Venezuela currently fortifies maize flour with iron and vitamin A. Immunization rates for children up to one year old were tuberculosis, 98%; diphtheria, pertussis, and tetanus, 60%; polio, 76%; and measles, 68%.

The HIV/AIDS prevalence was 0.70 per 100 adults in 2003. As of 2004, there were approximately 110,000 people living with HIV/AIDS in the country. There were an estimated 4,100 deaths from AIDS in 2003.

42 HOUSING

In 1928, the Workers' Bank was founded as a public housing agency of the federal government. Between 1959 and mid-1966, 23,881 low-cost units (houses and apartments) were constructed by the Workers' Bank throughout the country. By spending 75% of hous-

ing funds in rural areas and 25% in the cities, reversing the earlier ratio, the government hoped to cut down the exodus of peasants to Caracas and to maintain the nation's essential agricultural labor force. By 1969, the government had built 104,598 cheap and comfortable homes for lower-income groups, 57,675 in cities and 46,923 in rural areas.

Construction of low-cost housing units during the early 1970s proceeded at a rate of about 100,000 a year. During 1977-81, the public sector built 167,325 housing units, and the private sector 71,922. In 1981, the government introduced new low-interest housing loans, but that policy did not prevent a housing slump that persisted from 1982 through 1986 as a result of the general recession; housing units built by the public sector in 1986 totaled 91,666. The total number of housing units in the mid-1990s exceeded three million.

At the 2001 census, there were 6,242,621 housing units nationwide; about 83.5% were occupied. About 67% of all dwellings were detached single family homes. The average household had 4.4 members. Nearly 97% of all households had access to electricity, 90.7% had access to potable water, and 68% had access to appropriate sanitation systems.

43 EDUCATION

Public education from kindergarten through university is free, and education is compulsory for children ages 5 through 17. This includes one year of preschool, followed by nine years of elementary school. Children then undergo two to three years of secondary school, which comes in two stages: the first is designed to provide a general education in the sciences and the humanities; the second prepares students for the university and offers specialization in philosophy and literature, physical science and mathematics, or biological science. Technical and vocational schools provide secondary instruction in industry and commerce, the trades, nursing, and social welfare. The academic year runs from September to July.

In 2001, about 51% of children between the ages of three and five were enrolled in some type of preschool program. Primary school enrollment in 2003 was estimated at about 91% of age-eligible students. The same year, secondary school enrollment was about 59% of age-eligible students. It is estimated that about 89.7% of all students complete their primary education. In 2003, private schools accounted for about 14.3% of primary school enrollment and 25% of secondary enrollment.

There are 14 universities, both national and private, including the University of Venezuela (founded in 1725), Los Andes University (1785), Simón Bolívar University (1970), and the Open University (1977). Leading private institutions were the Andrés Bello Catholic University (1953), Santa María University (1953), and the Metropolitan University of Caracas (1970). Over 47 institutes of higher learning, colleges, and polytechnic institutes exist where students pursue at least 180 different fields or professions. In 2003, it was estimated that about 40% of the tertiary age population were enrolled in tertiary education programs. The adult literacy rate for 2004 was estimated at about 93%.

Approximately 20% of the national budget is assigned to education. As of 1995, public expenditure on education was estimated at 5% of GDP.

44 LIBRARIES AND MUSEUMS

Venezuela's largest library is the National Library, which was founded in 1883 and has over two million volumes. Both the National Library and National Archives are in Caracas, as are many of the largest libraries in the country. Other libraries include the Library of the Venezuelan Institute for Scientific Research (500,000 volumes), the National Academy of History (100,000), the Central University of Venezuela (280,000), Los Andes University in Mérida (500,000), the Andrés Bello Catholic University in Caracas (116,000), and public libraries and reading rooms in most state capitals.

Bolívar Museum, founded in 1911, has about 1,500 exhibits dealing with the life of Simon Bolívar and his fellow patriots in the independence movement. The National Pantheon, located in the restored Church of the Holy Trinity (dating from 1744), contains the ashes of Bolívar and the remains of other national heroes. The Birthplace of Bolívar (Bolívar's house) is also a national museum. The Fine Arts Museum, founded in 1938, contains paintings and sculpture by Venezuelan and foreign artists. The Natural Science Museum contains about 30,000 scientific exhibits. Other notable institutions include the Phelps Ornithological Collection, containing exhibits of thousands of Venezuelan birds, the Museum of Colonial Art, and the National Gallery of Art. All these museums are located in Caracas, as are the Fine Arts Museum of Caracas, the Museum of Folklore, and the Pedagogical Museum of Art History. In Ciudad Bolívar are the Talavera Museum, with pre-Columbian and colonial exhibits, and the Jesus Soto Museum of Modern Art, founded in 1971; in Maracaibo are the Natural Science Museum and Urdañeta Museum of Military History; and in Trujillo is the Cristóbal Mendoza Museum.

45 MEDIA

Venezuela is covered by a network of telephone, telegraph, and radiotelephone services and is also served by international cable and radiotelephone systems. In 1991, the government sold 40% of the state-owned CANTV to a consortium led by GTE. In 2003, there were an estimated 111 mainline telephones for every 1,000 people. The same year, there were approximately 273 mobile phones in use for every 1,000 people.

In 2004, there were 344 commercial radio stations and over 150 FM and AM community radio stations, as well as 31 television channels. In 2003, there were an estimated 192 radios and 186 television sets for every 1,000 people. About 32.4 of every 1,000 people were cable subscribers. Also in 2003, there were 60.9 personal computers for every 1,000 people and 60 of every 1,000 people had access to the Internet. There were 114 secure Internet servers in the country in 2004.

In 2004, there were 15 national newspapers, 77 regional newspapers, and 89 magazines and weekly journals. Leading daily Venezuelan newspapers published in Caracas, with their 2004 circulations, are: *Ultimas Noticias*, 200,000; *El Universal*, 120,000; *El Nacional*, 100,000 (down from 200,000 in 2002); and *Diario 2001*, 100,000. *Panorama*, published in Maracaibo, had a 2004 circulation rate of 120,000. *El Carabobeno* in Valencia had a 2004 circulation of 97,000.

Though the constitution provides for freedom of speech and of the press, there have been reports of government approved harassment and violence against media owners and reporters.

46 ORGANIZATIONS

Organization membership for the vast majority of Venezuelans is confined to labor unions and professional societies. Industrial, commercial, and agricultural management associations—including the National Association of Merchants and Industrialists, the Industrial Chamber of Caracas, the National Confederation of Associations of Agricultural Producers, and the National Association of Metallurgical Industries and Mining—are represented nationally by the Federation of Chambers, which is influential in shaping foreign and domestic trade policy. There are also professional associations representing a wide variety of occupations.

Educational and research organizations include the Academy of Mathematics, Physical, and Natural Sciences; the National Academy of Medicine, and the multinational Latin American Academy of Sciences. The Center for OPEC Studies, which focuses on cultural and socioeconomic issues uniting the OPEC member countries, is located in Caracas.

The Scout Association of Venezuela is one of the most active national youth organizations. Others include the Communist Youth of Venezuela, Junior Chamber, Youth for the New Alternative, Revolutionary Youth Copeyana, Youth for Democratic Action, and YMCA/YWCA.

There are national chapters of the Red Cross and Habitat for Humanity.

47 TOURISM, TRAVEL, AND RECREATION

Since the early 1970s, Venezuela has sought foreign investors for the construction, rehabilitation, and management of top-ranking hotels. As Venezuela's economic restructuring progresses, the tourism sector is expected to undergo privatization. Tourist attractions include Angel Falls, the many remembrances of Bolívar, numerous beach resorts, and the duty-free shopping and superb water sports facilities of the Isla de Margarita.

The most popular sports are baseball, football (soccer), bullfighting, cockfighting, horse racing, and water-related activities. Cultural life in the national capital offers, among other attractions, the Ballet Nuevo Mundo de Caracas. A valid passport is required for all visitors. Travelers from many countries, including the United States, are required to file a tourist card instead of a visa. All other nationals must have a visa.

In 2003, there were about 337,000 foreign visitors. Tourism receipts totaled \$368 million. That year there were 82,366 hotel rooms with 180,556 beds.

In 2005, the US Department of State estimated the cost of staying in Caracas at \$267 per day.

48 FAMOUS VENEZUELAN

No participant in the drama of Venezuelan history is as well known, both nationally and internationally, as the great Liberator of the South American revolution, Simón Bolívar (1783–1830). Renowned for his military genius and his ability to lead and to inspire, Bolívar also wrote brilliantly and prophetically on government and international politics. Among the greatest Venezuelan literary figures was Andrés Bello (1781–1864), outstanding in

journalism, history, law, literary criticism, philology, and philosophy. Francisco de Miranda (1750–1816) is credited with bringing the first printing press to Venezuela and publishing the first newspaper, *La Gaceta de Caracas*; he was also an adventurer who, for a three-month period in 1812, held dictatorial powers in Venezuela. For most of the period since independence was achieved, a series of dictators held power, including Antonio Guzmán Blanco (1829–99), Cipriano Castro (1858?–1924), Juan Vicente Gómez (1857?–1935), and Marcos Pérez Jiménez (1914–2001). Rómulo Betancourt (1908–81) was a leading political leader in the decades after World War II. President Hugo Chávez (b.1954) is the leader of the socialist “Bolivarian Revolution.”

Simón Rodríguez (1771–1854), called the “American Rousseau,” was the leading liberal scholar of the prerevolutionary period. Other writers of note were Rafael María Baralt (1810–60) and Juan Vicente González (1811–66), known as the father of Venezuelan national literature. Fermín Toro (1807–74) introduced the Indianist movement into Venezuelan romantic poetry. José Antonio Calcaño (1827–97) was referred to as “the Nightingale” for the flowing beauty of his verse. A noted poet and educator was Cecilio Acosta (1831–81), who was also Venezuela’s first corresponding member of the Spanish Royal Academy and the author of the Venezuelan penal code. Juan Antonio Pérez Bonalde (1846–92) is considered Venezuela’s greatest romantic novelist of the 19th century. The outstanding writers of the later 19th century were Manuel Díaz Rodríguez (1868–1927) and Manuel Fombona Palacio (1857–1903). The most famous contemporary writer, Rómulo Gallegos (1884–1969), gained world renown almost overnight with the publication of his *Doña Bárbara* in 1929. Other prominent contemporary writers include the poet, novelist, and playwright Mariano Picón Salas (1901–65); the novelist Ramón Díaz Sánchez (1903–68); the economist, historian, and novelist Arturo Uslar-Pietri (1906–2001); and the poet Juan Liscano (1915–2001).

Father Pedro Palacios y Sojo (fl.18th cent.) founded the Chacao Conservatory. Among his students were José Cayetano Carreño (1774–1836), José Angel Lamas (1775–1814), and Juan José Landaeeta (1780–1812). Teresa Carreño (1853–1917) won world fame as a concert pianist. Leading contemporary composers are Vicente Emilio Sojo (1887–1974), Juan Bautista Plaza (1898–1965), Juan Lecuna (1898–1954), and María Luisa Escobar (1903–1987).

The first painter of note in Venezuela was Juan Llovera (1785–1840). His son Pedro Llovera (fl.19th cent.) became the teacher of the first generation of 19th-century Venezuelan painters. Important Venezuelan painters of the 19th century were Martín Tovar y Tovar (1828–1902) and Arturo Michelena (1863–98). The best-known 20th-century painter was Tito Salas (1887–1974).

The outstanding pioneer of Venezuelan science was José María Vargas (1786–1854). The first university courses in mathematics and physics were introduced by Vargas’s contemporary Juan Manuel Cajigal (1802–56). Modern scientists include Gaspar Marcano

(1850–1910), famous for his investigations of blood; Luis Razetti (1862–1932), biologist and physician; and Arnoldo Gabaldón (b.1909), director of an antimalaria campaign from 1945 to 1948.

49 DEPENDENCIES

The 72 small, sparsely inhabited Caribbean islands, organized in 11 island groups off the Venezuelan coast are federal dependencies, with a total area of 120 sq km (46 sq mi). The chief economic activity in the region is fishing and pearl diving.

Venezuela has two territories, Delta Amacuro and Amazonas. Delta Amacuro, with an area of 40,200 sq km (15,521 sq mi), is located in the northeastern corner of Venezuela, bordering Guyana, and had an estimated population of 93,000 as of the mid-1990s. The capital city of Tucupita is situated on Caño Mánamo, one of the principal channels of the Orinoco Delta. It is a commercial center for the petroleum-producing area to the west and is also a loading port for cocoa exports. The remote Amazonas territory, located in the southern corner of Venezuela and bordered by Colombia and Brazil, is larger in area, with 175,750 sq km (67,857 sq mi). Its population was estimated at 80,000 in the mid-1990s, and its capital, Puerto Ayacucho, is scarcely more than a trading post.

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INDEX TO COUNTRIES AND TERRITORIES

This alphabetical list includes countries and dependencies (colonies, protectorates, and other territories) described in the encyclopedia. Countries and territories described in their own articles are followed by the continental volume (printed in *italics*) in which each appears. Country articles are arranged alphabetically in each volume. For example, Argentina, which appears in *Americas*, is listed this way: Argentina—*Americas*. Dependencies are listed here with the title of the volume in which they are treated, followed by the name of the article in which they are dealt with. In a few cases, an alternative name for the same place is given in parentheses at the end of the entry. The name of the volume *Asia and Oceania* is abbreviated in this list to *Asia*.

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 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 of America (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*