AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

105th Congress
2nd Session

JOINT COMMITTEE PRINT

S. PRT.
105–51

COUNTRY REPORTS ON ECONOMIC POLICY AND TRADE PRACTICES

REPORT

SUBMITTED TO THE

COMMITTEE ON FOREIGN RELATIONS
COMMITTEE ON FINANCE

OF THE

U.S. SENATE

AND THE

COMMITTEE ON
INTERNATIONAL RELATIONS
COMMITTEE ON WAYS AND MEANS

OF THE

U.S. HOUSE OF REPRESENTATIVES

BY THE

DEPARTMENT OF STATE

IN ACCORDANCE WITH SECTION 2202 OF THE OMNIBUS TRADE AND COMPETITIVENESS ACT OF 1988

APRIL 1998

Printed for the use of the Committees on Foreign Relations and Finance of the U.S. Senate, and International Relations and Ways and Means, House of Representatives

U.S. GOVERNMENT PRINTING OFFICE

46–400 CC WASHINGTON : 1998

COMMITTEE ON FOREIGN RELATIONS

JESSE HELMS, North Carolina, *Chairman*

RICHARD G. LUGAR, Indiana
PAUL COVERDELL, Georgia
CHUCK HAGEL, Nebraska
GORDON H. SMITH, Oregon
CRAIG THOMAS, Wyoming
ROD GRAMS, Minnesota
JOHN ASHCROFT, Missouri
BILL FRIST, Tennessee
SAM BROWNBACK, Kansas

JOSEPH R. BIDEN, Jr., Delaware
PAUL S. SARBANES, Maryland
CHRISTOPHER J. DODD, Connecticut
JOHN F. KERRY, Massachusetts
CHARLES S. ROBB, Virginia
RUSSELL D. FEINGOLD, Wisconsin
DIANNE FEINSTEIN, California
PAUL D. WELLSTONE, Minnesota

JAMES W. NANCE, *Staff Director*
EDWIN K. HALL, *Minority Staff Director*

COMMITTEE ON FINANCE

WILLIAM V. ROTH, Jr., Delaware, *Chairman*

JOHN H. CHAFEE, Rhode Island
CHARLES E. GRASSLEY, Iowa
ORRIN G. HATCH, Utah
ALFONSE M. D'AMATO, New York
FRANK H. MURKOWSKI, Alaska
DON NICKLES, Oklahoma
PHIL GRAMM, Texas
TRENT LOTT, Mississippi
JAMES M. JEFFORDS, Vermont
CONNIE MACK, Florida

DANIEL PATRICK MOYNIHAN, New York
MAX BAUCUS, Montana
JOHN D. ROCKEFELLER IV, West Virginia
JOHN BREAUX, Louisiana
KENT CONRAD, North Dakota
BOB GRAHAM, Florida
CAROL MOSELEY-BRAUN, Illinois
RICHARD H. BRYAN, Nevada
J. ROBERT KERREY, Nebraska

FRANKLIN G. POLK, *Staff Director and Chief Counsel*
MARK A. PATTERSON, *Minority Staff Director and Chief Counsel*

COMMITTEE ON INTERNATIONAL RELATIONS

BENJAMIN A. GILMAN, New York, *Chairman*

WILLIAM GOODLING, Pennsylvania
JAMES A. LEACH, Iowa
HENRY J. HYDE, Illinois
DOUG BEREUTER, Nebraska
CHRISTOPHER SMITH, New Jersey
DAN BURTON, Indiana
ELTON GALLEGLY, California
ILEANA ROS-LEHTINEN, Florida
CASS BALLENGER, North Carolina
DANA ROHRABACHER, California
DONALD A. MANZULLO, Illinois
EDWARD R. ROYCE, California
PETER T. KING, New York
JAY KIM, California
STEVEN J. CHABOT, Ohio
MARSHALL "MARK" SANFORD, South Carolina
MATT SALMON, Arizona
AMO HOUGHTON, New York
TOM CAMPBELL, California
JON FOX, Pennsylvania
JOHN McHUGH, New York
LINDSEY GRAHAM, South Carolina
ROY BLUNT, Missouri
JERRY MORAN, Kansas
KEVIN BRADY, Texas

LEE HAMILTON, Indiana
SAM GEJDENSON, Connecticut
TOM LANTOS, California
HOWARD BERMAN, California
GARY ACKERMAN, New York
ENI F.H. FALEOMAVAEGA, American Samoa
MATTHEW G. MARTINEZ, California
DONALD M. PAYNE, New Jersey
ROBERT ANDREWS, New Jersey
ROBERT MENENDEZ, New Jersey
SHERROD BROWN, Ohio
CYNTHIA A. McKINNEY, Georgia
ALCEE L. HASTINGS, Florida
PAT DANNER, Missouri
EARL HILLIARD, Alabama
WALTER CAPPS, California
BRAD SHERMAN, California
ROBERT WEXLER, Florida
STEVE ROTHMAN, New Jersey
BOB CLEMENT, Tennessee
BILL LUTHER, Minnesota
JIM DAVIS, Florida

RICHARD J. GARON, *Chief of Staff*
MICHAEL H. VAN DUSEN, *Democratic Chief of Staff*

COMMITTEE ON WAYS AND MEANS

BILL ARCHER, Texas, *Chairman*

PHILIP M. CRANE, Illinois
BILL THOMAS, California
E. CLAY SHAW, Jr., Florida
NANCY L. JOHNSON, Connecticut
JIM BUNNING, Kentucky
AMO HOUGHTON, New York
WALLY HERGER, California
JIM McCRERY, Louisiana
DAVE CAMP, Michigan
JIM RAMSTAD, Minnesota
JIM NUSSLE, Iowa
SAM JOHNSON, Texas
JENNIFER DUNN, Washington
MAC COLLINS, Georgia
ROB PORTMAN, Ohio
PHILIP S. ENGLISH, Pennsylvania
JOHN ENSIGN, Nevada
JON CHRISTENSEN, Nebraska
WES WATKINS, Oklahoma
J.D. HAYWORTH, Arizona
JERRY WELLER, Illinois
KENNY HULSHOF, Missouri

CHARLES B. RANGEL, New York
FORTNEY PETE STARK, California
ROBERT T. MATSUI, California
BARBARA B. KENNELLY, Connecticut
WILLIAM J. COYNE, Pennsylvania
SANDER M. LEVIN, Michigan
BENJAMIN L. CARDIN, Maryland
JIM McDERMOTT, Washington
GERALD D. KLECZKA, Wisconsin
JOHN LEWIS, Georgia
RICHARD E. NEAL, Massachusetts
MICHAEL R. McNULTY, New York
WILLIAM J. JEFFERSON, Louisiana
JOHN S. TANNER, Tennessee
XAVIER BECERRA, California
KAREN L. THURMAN, Florida

A.L. SINGLETON, *Chief of Staff*
JANICE MAYS, *Minority Chief Counsel*

C O N T E N T S

	Page
FOREWORD	VII
LETTER OF TRANSMITTAL	IX
INTRODUCTION	XI
TEXT OF SECTION 2202 OF THE OMNIBUS TRADE AND COMPETITIVENESS ACT OF 1988	XIII
NOTES ON PREPARATION OF THE REPORTS	XV
SOME FREQUENTLY USED ACRONYMS	XVII

COUNTRY REPORTS*

Africa:	
Ghana	1
Nigeria	5
South Africa	11
East Asia and the Pacific:	
Australia	17
China	22
Hong Kong*	30
Indonesia	34
Japan	40
Korea, Republic of	45
Malaysia	51
Philippines	57
Singapore	63
Taiwan*	68
Thailand	73
Europe:	
The European Union	81
Austria	91
Belgium	95
Bulgaria	100
Czech Republic	105
Denmark	110
Finland	115
France	122
Germany	126
Greece	131
Hungary	137
Ireland	141
Italy	146
Netherlands	152
Norway	157
Poland	161
Portugal	166
Romania	171
Russia	174
Spain	180

Page

Europe—Continued
Sweden 186
Switzerland 190
Turkey 194
Ukraine 199
United Kingdom 204

The Americas:
Argentina 209
Bahamas 214
Bolivia 218
Brazil 223
Canada 230
Chile 235
Colombia 241
Costa Rica 247
Dominican Republic 253
Ecuador 259
El Salvador 264
Guatemala 268
Haiti 273
Honduras 277
Jamaica 283
Mexico 290
Nicaragua 297
Panama 300
Peru 306
Trinidad and Tobago 311
Uruguay 316
Venezuela 320

Near East and North Africa:
Algeria 329
Bahrain 333
Egypt 338
Israel 345
Jordan 351
Kuwait 358
Morocco 362
Oman 367
Saudi Arabia 372
Syria 377

South Asia:
Bangladesh 383
India 389
Pakistan 395

*Reports also cover the following areas: Hong Kong and Taiwan.

FOREWORD

The reports on individual country economic policy and trade practices contained herein were prepared by the Department of State in accordance with section 2202 of the Omnibus Trade and Competitiveness Act of 1988 (P.L. 100-418).

Modeled on the State Department's annual reports on country human rights practices, the reports are intended to provide a single, comparative analysis of the economic policies and trade practices of countries with which the United States has significant economic or trade relationships. Because of the increasing importance of, and interest in, trade and economic issues, these reports are prepared to assist members in considering legislation in the areas of trade and economic policy.

JESSE HELMS,
Chairman, Committee on Foreign Relations.

WILLIAM V. ROTH, Jr.,
Chairman, Committee on Finance.

BENJAMIN A. GILMAN,
Chairman, Committee on International Relations.

BILL ARCHER,
Chairman, Committee on Ways and Means.

LETTER OF TRANSMITTAL

DEPARTMENT OF STATE,
Washington, DC, January 31, 1998.

Hon. JESSE HELMS,
Chairman, Committee on Foreign Relations.

Hon. WILLIAM V. ROTH, Jr.,
Chairman, Committee on Finance.

Hon. ALBERT GORE, Jr.,
President, U.S. Senate.

Hon. NEWT GINGRICH,
Speaker, House of Representatives.

Hon. BENJAMIN A. GILMAN,
Chairman, Committee on International Relations.

Hon. BILL ARCHER,
Chairman, Committee on Ways and Means.

DEAR SIRS: Section 2202 of the Omnibus Trade and Competitiveness Act of 1988 requires the Department of State to provide to the appropriate Committees of Congress a detailed report regarding the economic policy and trade practices of countries with which the U.S. has significant economic or trade relationships. In this regard, I am pleased to provide the enclosed report.

Sincerely,

BARBARA LARKIN,
Assistant Secretary, Legislative Affairs.

Enclosure

INTRODUCTION

COUNTRY REPORTS ON ECONOMIC POLICY AND TRADE PRACTICES

The Department of State is submitting to the Congress its Country Reports on Economic Policy and Trade Practices in compliance with Section 2202 of the Omnibus Trade and Competitiveness Act of 1988. As the legislation requires, we have prepared detailed reports on the economic policy and trade practices of countries with which the United States has significant economic or trade relationships. This is the Department of State's ninth annual report. It now includes reports on 75 countries, customs territories and customs unions.

Each report contains nine sections:

- *Key Economic Indicators:* Each report begins with a table showing data for key economic indicators in the national income, monetary, and trade accounts.
- *General Policy Framework:* This first narrative section gives an overview of macroeconomic trends.
- *Exchange Rate Policies:* The second section describes exchange rate policies and their impact on the price competitiveness of U.S. exports.
- *Structural Policies:* The third section examines structural policies, highlighting changes that may affect U.S. exports to that country.
- *Debt Management Policies:* The fourth section describes debt management policies and their implications for trade with the United States.
- *Significant Barriers to U.S. Exports and Investment:* The fifth section examines significant barriers, formal and informal, to U.S. exports and investment.
- *Export Subsidies Policies:* The sixth section focuses on government actions, policies, and practices that support exports from that country, including exports by small businesses.
- *Protection of U.S. Intellectual Property:* The seventh section discusses the country's laws and practices with respect to protection of intellectual property rights.
- *Worker Rights:* The final section has three parts.
  - —The first (subsections a through e) outlines the country's laws and practices with respect to internationally recognized worker rights.
  - —The second (subsection f) highlights conditions of worker rights in goods-producing sectors where U.S. capital is invested.

—Finally, a table cites the extent of such investment by sector where information is available.

The country reports are based on information supplied by U.S. Embassies, which is analyzed and reviewed by the Department of State in consultation with other U.S. Government agencies. The reports are intended to serve as general guides to economic conditions in specific countries. We have worked to standardize the reports, but there are unavoidable differences reflecting large variations in data availability. In some cases, access to reliable data is limited, particularly in countries making transitions to market economies. Nonetheless, each report incorporates the best information currently available. Because the reports were researched and compiled at/by post and due at State in mid-November, the conclusions and analysis may not fully or accurately reflect recent changes brought about because of the Asian financial crisis.

VONYA B. MCCANN,
Acting Assistant Secretary of State
for Economic and Business Affairs.

TEXT OF SECTION 2202 OF THE OMNIBUS TRADE AND COMPETITIVENESS ACT OF 1988

"The Secretary of State shall, not later than January 31 of each year, prepare and transmit to the Committee on [International Relations] *and the Committee on Ways and Means of the House of Representatives, to the Committee on Foreign Relations and the Committee on Finance of the Senate, and to other appropriate committees of the Congress, a detailed report regarding the economic policy and trade practices of each country with which the United States has an economic or trade relationship. The Secretary may direct the appropriate officers of the Department of State who are serving overseas, in consultation with appropriate officers or employees of other departments and agencies of the United States, including the Department of Agriculture and the Department of Commerce, to coordinate the preparation of such information in a country as is necessary to prepare the report under this section. The report shall identify and describe, with respect to each country:

1. The macroeconomic policies of the country and their impact on the overall growth in demand for United States exports;

2. The impact of macroeconomic and other policies on the exchange rate of the country and the resulting impact on price competitiveness of United States exports;

3. Any change in structural policies [including tax incentives, regulation governing financial institutions, production standards, and patterns of industrial ownership] that may affect the country's growth rate and its demand for United States exports;

4. The management of the country's external debt and its implications for trade with the United States;

5. Acts, policies, and practices that constitute significant trade barriers to United States exports or foreign direct investment in that country by United States persons, as identified under section 181(a)(1) of the Trade Act of 1974 (19 U.S.C. 2241(a)(1));

6. Acts, policies, and practices that provide direct or indirect government support for exports from that country, including exports by small businesses;

7. The extent to which the country's laws and enforcement of those laws afford adequate protection to United States intellectual property, including patents, trademarks, copyrights, and mask works; and

*In 1995, the Committee on Foreign Affairs changed its name to the Committee on International Relations.

8. The country's laws, enforcement of those laws, and practices with respect to internationally recognized worker rights (as defined in section 502(a)(4) of the Trade Act of 1974), the conditions of worker rights in any sector which produces goods in which United States capital is invested, and the extent of such investment."

NOTES ON PREPARATION OF THE REPORTS

Subsections a. through e. of the Worker Rights section (section 8) are abridged versions of section 6 in the Country Reports on Human Rights Practices for 1998, submitted to the Committees on International Relations of the House of Representatives and on Foreign Relations of the U.S. Senate in January 1998. For a comprehensive and authoritative discussion of worker rights in each country please refer to that report.

Subsection f. of the Worker Rights section highlights conditions of worker rights in goods-producing sectors where U.S. capital is invested. A table cites the extent of such investment by sector where information is available. The Bureau of Economic Analysis of the U.S. Department of Commerce has supplied information on the U.S. direct investment position at the end of 1995 for all countries for which foreign direct investment has been reported to it. Readers should note that "U.S. Direct Position Abroad" is defined as "the net book value of U.S. parent companies' equity in, and net outstanding loans to, their foreign affiliates" (foreign business enterprises owned 10 percent or more by U.S. persons or companies). Where a figure is negative, the U.S. parent owes money to the affiliate. The table does not necessarily indicate total assets held in each country. In some instances, the narrative refers to investments for which figures may not appear in the table.

SOME FREQUENTLY USED ACRONYMS

ADB—Asian Development Bank
BIS—Bank for International Settlements
CACM—Central American Common Market
CARICOM—Caribbean Common Market
CAP—Common Agricultural Policy (of the EU)
CCC—Commodity Credit Corporation (Department of Agriculture)
EBRD—European Bank for Reconstruction and Development
EFTA—European Free Trade Association
EMS—European Monetary System (of the EU)
ERM—Exchange Rate Mechanism (of the EU)
ESAF—Enhanced Structural Adjustment Facility
EU—European Union
EXIMBANK— U.S. Export-Import Bank
FOREX—foreign exchange
FY—fiscal year
GATS—General Agreement on Trade in Services
GATT—General Agreement on Tariffs and Trade
GDP—gross domestic product
GNP—gross national product
GSP—Generalized System of Preferences
IBRD—International Bank for Reconstruction and Development (World Bank)
IFIs—international financial institutions (IMF, World Bank and regional development banks)
ILO—International Labor Organization (of the United Nations)
IMF—International Monetary Fund
IDB—Inter-American Development Bank
IPR—intellectual property rights
LIBOR—London Interbank Offer Rate
MFN—most favored nation
NAFTA—North American Free Trade Agreement
NGOs—non-government organizations
NIS—Newly Independent States (of the former Soviet Union)
OECD—Organization for Economic Cooperation and Development
OPIC—U.S. Overseas Private Investment Corporation
PTT—Post, Telegraph and Telephone
SAP—Structural Adjustment Program (of the IMF/World Bank)
SDR—Special Drawing Rights (of the IMF)
STF—Structural Transformation Facility
TRIPs—WTO Agreement on Trade-Related Aspects of Intellectual Property Rights
UR—Uruguay Round of trade negotiations in the GATT

USD—U.S. dollar
VAT—value-added tax
WIPO—World Intellectual Property Organization
WTO—World Trade Organization

AFRICA

GHANA

Key Economic Indicators

[Millions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Income, Production and Employment:			
Nominal GDP [2]	6,179	6,342	6,012
Real GDP Growth (pct.) [3]	4.5	5.2	5.5
GDP by Sector:			
Agriculture	2,533	2,574	2,465
Manufacturing	525	539	511
Services	2,898	3,070	2,808
Government	809	882	788
Per Capita GDP	370	375	340
Labor Force (000)	6,000	6,150	6,250
Unemployment Rate (pct.)	N/A	N/A	N/A
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	37.5	34.2	40.0
Consumer Price Inflation	70.8	32.7	27.5
Exchange Rate (Cedis/USD-Annual Average)			
Official	1,200	1,637	2,205
Balance of Payments and Trade:			
Total Exports FOB [4]	1,431	1,571	1,600
Exports to U.S.[4]	196	171	166
Total Imports CIF [4]	1,687	1,937	1,903
Imports from U.S.[4]	167	294	325
Trade Balance [4]	(256)	366)	(303)
Balance with U.S.	29	(123)	(159)
External Public Debt	5,074	5,347	5,400
Fiscal Deficit/GDP (pct.)	0.9	-1.5	1.4
Current Account Deficit/GDP (pct.)	2.0	5.0	5.0
Debt Service Payments/GDP (pct.)	10.6	8.0	N/A
Gold and Foreign Exchange Reserves	592.9	709.9	700.0
Aid from U.S.	45	44	52
Aid from All Other Sources	715	696	N/A

[1] 1997 figures are all estimates based on available monthly data in October 1997
[2] GDP at factor cost
[3] Percentage changes calculated in local currency
[4] Merchandise trade

1. General Policy Framework

Ghana operates in a free market environment under a popularly-elected civilian government. In December, 1996, Ghana had its second experience in multiparty elections, since the inauguration of the 4th Republic in January, 1993, with the re-election of President Jerry John Rawlings for a second four-year term.

Rawlings headed a "provisional" regime from the end of 1981 until January, 1993, when democratic government under a written constitution was restored. Unlike the previous parliament, the present has an opposition presence with 67 seats out of 200. An independent judiciary acts as the final arbiter of Ghanaian laws. The next presidential and parliamentary elections are scheduled for the year 2000.

Since 1983 Ghana has pursued an economic reform agenda aimed generally at reducing government involvement in the economy and encouraging private sector de-

velopment. Inflationary pressures due to government expenditure overruns prior to 1992 and 1996 presidential and parliamentary elections and other factors continue to be felt. Government has introduced measures to control and monitor its spending. Despite measures being implemented to avoid fiscal deficit, first quarter data of 1997 still show another sizable fiscal deficit requiring continued high levels of domestic borrowing from the banking system and the public. While Ghana has benefited from IMP programs in recent years the current ESAF is off track due to fiscal and inflation problems.

The Bank of Ghana is currently pursuing a high interest rate policy in an attempt to absorb excess liquidity and contain inflationary pressures. Short-term interest rates are now in the 40-50 percent range. Inflation measured about 70 percent at year-end 1995 and has consistently declined to about 28 percent at the end of September, 1997. Adequate rains and good harvests this year have moderated upward pressure on food prices. However, growth in the money supply was 5 percent in the first quarter of 1997 which follows trends of the past years. This could have serious consequences for inflation and inflationary expectations in 1997.

The government's economic program has focused on the development of Ghana's private sector, which historically has been weak. Privatization of state-owned enterprises continues, with about two-thirds of 300 enterprises sold to private owners. Ghana achieved real economic growth of 5.2 percent in 1996, up from the 4.5 percent recorded in 1995. Growth in the mining sector has been particularly brisk in recent years while agriculture (which still accounts for about 40 percent of GDP) and manufacturing have recorded much slower growth. Other reforms adopted under the government's structural adjustment program include the elimination of exchange rate controls and the lifting of virtually all restrictions on imports. The establishment of an Interbank Foreign Exchange Market has greatly expanded access to foreign exchange. The elimination of virtually all local production subsidies is further indication of the government's intention to move toward a market orientation for the economy.

2. Exchange Rate Policy

The foreign exchange value of the Ghanaian cedi is established through the mechanism of an Interbank Market and Foreign Exchange Bureaus, and currency conversion is easily obtained. As the demand for imports has risen steadily, the government has allowed the cedi to depreciate. During the past 12 months the value of the cedi relative to the dollar has fallen by 28 percent and stood at 2260 cedi to the dollar in November 1997. Nevertheless, Ghana's high rate of inflation has resulted in an appreciation of the cedi's real exchange rate. In general, the exchange rate regime in Ghana does not have any particular impact on the competitiveness of U.S. exports.

3. Structural Policies

Ghana progressively wound down import quotas and surcharges as part of its structural adjustment program. Tariff structures are being adjusted in harmony with the ECOWAS Trade Liberalization Program. Importers now are required to sign a declaration that they will comply with Ghanaian tax and other laws. Imported goods currently enjoy generally unfettered access to the Ghanaian market.

The government professes strong support for the principle of free trade. However, it is also committed to the development of competitive domestic industries with exporting capabilities. The government is expected to continue to support domestic private enterprise with various financial incentives. Ghanaian manufacturers seek stronger protective measures and complain that Ghana's tariff structure places local producers at a competitive disadvantage relative to imports from countries enjoying greater production and marketing economies of scale. High local production costs frequently boost the price of locally-manufactured items above the landed cost of goods imported from Asia and elsewhere. Reductions in tariffs have increased competition for local producers and manufacturers while reducing the cost of imported raw materials.

The government repealed a 17.5 percent value-added tax (VAT) shortly after it was introduced in March 1995. The implementation of the tax was handled badly and resulted in widespread public protests and some street violence. The government has reverted to several previously-imposed taxes, including a sales tax. Government has set in motion a program to reintroduce a VAT bill and begin implementation in 1998,at a somewhat lower level than the previous proposed tax, after an extensive public education effort.

4. Debt Management Policies

Persistent balance of payments deficits have resulted in a continuing increase in foreign indebtedness. Swings in commodity prices, especially gold and cocoa, have a dramatic impact on Ghana's export revenues. In 1996 gold accounted for about 39 percent of total export receipts, while cocoa accounted for 35 percent and timber for 9 percent. On the import side capital goods are the largest category, followed by intermediate goods, fuel, and consumer goods.

Ghana's total outstanding external debt, including obligations to the IMF, totaled approximately USD 5.4 billion at the end of the first quarter of 1997. Outstanding obligations to the IMF under medium-term facilities stood at USD 503 million at the end of the same period. At that time, outstanding long-term debt was about USD 4.2 billion (about 78 percent of total debt), of which USD 1.2 billion and USD 3.0 billion were owed to bilateral creditors and multilateral institutions, respectively.

During the last decade the stocks of both domestic and external debt have risen sharply. High domestic interest rates and the depreciation of the cedi on foreign exchange markets have caused the debt service burden in cedi terms to grow steadily. Nearly one-quarter of total government expenditures during the first half of 1997 were for the payment of interest on the public debt.

5. Significant Barriers to U.S. Exports

Import licenses: Ghana eliminated its import licensing system in 1989 but retains a ban on the importation of a narrow range of products that do not affect U.S. exports. Importers must simply sign a declaration that they will comply with the Ghanaian tax code and other laws. Ghana is a member of the WTO.

Services barriers: The Ghanaian investment code proscribes foreign participation in the following sectors: small scale wholesale and retail sales, taxi and car rental services with fleets of fewer than ten vehicles, lotteries, and barber and beauty shops.

Standards, testing, labeling, and certification: Ghana has promulgated its own standards for food and drugs. The Ghana standards board, the testing authority, subscribes to accepted international practices for the testing of imports for purity and efficacy. Under Ghanaian law, imports must bear markings identifying in English the type of product being imported, the country of origin, the ingredients or components, and the expiration date, if any. Non-complying goods are subject to government seizure. The thrust of this law is to regulate imported food and drugs; however, by its terms the law applies to non-consumable imports as well. Locally-manufactured goods are subject to comparable testing, labeling, and certification requirements. Four pre-shipment inspection agencies contracted by government also perform testing and price verification for some selected imports that are above USD 5,000.

Investment barriers: The investment code guarantees free transferability of dividends, loan repayments, licensing fees and repatriation of capital; provides guarantees against expropriation or forced sale; and delineates dispute arbitration processes. Foreign investors are not subject to differential treatment on taxes, access to foreign exchange, imports or credit. Separate legislation covers investments in mining and petroleum and applies equally to foreign and Ghanaian investors. The investment code no longer requires prior project approval from the Ghana Investment Promotion Center (GIPC).

Government procurement practices: Government purchases of equipment and supplies are usually handled by the Ghana Supply Commission (the official purchasing agency) through international bidding and, at times, through direct negotiations. Former government import monopolies have been abolished. However, parastatal entities continue to import some commodities. The parastatals no longer receive government subsidies to finance imports. There has been a recent government directive to centralize the purchase of government vehicles.

6. Export Subsidies Policies

The Government of Ghana does not directly subsidize exports. Exporters are entitled to a 100 percent drawback of duty paid on imported inputs used in the processing of exported goods. Bonded warehouses have been established which allow importers to avoid duties on imported inputs used to produce merchandise for export. The Export Processing Zone (EPZ) Law, enacted in 1995, does not tax corporate profits for the first ten years of business operation.

7. Protection of U.S. Intellectual Property

After independence in 1957, Ghana instituted separate legislation for copyright (1961) and trademark (1965) protection based on British law. Subsequently, the government passed modified copyright and patent legislation in 1985 and 1992, respectively. Prior to 1992 the patent laws of the United Kingdom applied in Ghana. Ghana is a member of the Universal Copyright Convention, the World Intellectual Property Organization, and the English-Speaking African Regional Intellectual Property Organization. IPR holders have access to local courts for redress of grievances. Few infringement cases have been filed in Ghana in recent years. Ghana has not been identified as a priority country in connection with either the Special 301 Watch List or Priority Watch List.

Patent registration in Ghana presents no serious problems for foreign rights holders. Fees for registration vary according to the nature of the patent, but local and foreign applicants pay the same rate.

Ghana has not yet become a popular location for imitation designer apparel and watches. In cases where trademarks have been misappropriated, the price and quality disparity would be apparent to all but the most unsuspecting buyer.

Enforcement of foreign copyrights may be pursued in the Ghanaian courts, but few such cases have actually been filed in recent years. The bootlegging of computer software is an example of copyright infringement taking place locally. There are no data available to quantify the commercial impact of this practice. Pirating of videotapes is another local practice that affects U.S. exports, but the evidence suggests that this is not being done on a large scale. There is no evidence of a significant export market for Ghanaian-pirated books, cassettes, or videotapes.

In summary, infringement of intellectual property rights has not had a significant impact on U.S. exports to Ghana. Pirated computer software may become a more significant problem in the future, however, as computer use grows.

8. Worker Rights

a. *The Right of Association.*—Trade unions are governed by the Industrial Relations Act (IRA) of 1958, as amended in 1965 and 1972. Organized labor is represented by the Trades Union Congress (TUC), which was established in 1958. The IRA confers power on government to refuse to register a trade union, but this right has not been exercised by the current government or the previous military regime. No union leaders have been detained in recent years, nor has the right of workers to freely associate otherwise been circumscribed.

b. *The Right to Organize and Bargain Collectively.*—The IRA provides a framework for collective bargaining and protection against anti-union discrimination. Civil servants are prohibited by law from joining or organizing a trade union. However, in December, 1992, the government enacted legislation which allows each branch of the civil service to establish a negotiating committee to engage in collective bargaining for wages and benefits in the same fashion as trade unions in the private sector. While the right to strike is recognized in law and in practice, the government has on occasion taken strong action to end strikes, especially in cases involving vital government interests or public order. The IRA provides a mechanism for conciliation and arbitration before unions can resort to industrial actions or strikes.

c. *Prohibition of Forced or Compulsory Labor.*—Ghanaian law prohibits forced labor and it is not known to be practiced. The International Labor Organization (ILO) continues to urge the government to revise legislation that permits imprisonment with an obligation to perform labor for offenses that are not countenanced under ILO Convention 105, ratified by Ghana in 1958.

d. *Minimum Age of Employment of Children.*—Labor legislation in Ghana sets a minimum employment age of 15 and prohibits night work and certain types of hazardous labor for those under 18. The violation of child labor laws is common and young children of school age can often be found during the day performing menial tasks in the agricultural sector or in the markets. Observance of minimum age laws is eroded by local custom and economic circumstances that compel children to become wage earners at an early age. Inspectors from the Ministry of Labor and Social Welfare are responsible for enforcement of child labor laws. Employers who violate laws prohibiting heavy labor and night work by children are occasionally prosecuted.

e. *Acceptable Conditions of Work.*—In 1991 a Tripartite Commission composed of representatives from government, organized labor, and employers established minimum standards for wages and working conditions. The daily minimum wage com-

bines wages with customary benefits such as a transportation allowance. The current daily minimum wage is Cedis 2,000, about 90 cents at the present rate of exchange. This sum does not permit a single wage earner to support a family and frequently results in multiple wage earners and other family-based commercial activity. By law the maximum work week is 45 hours, but collective bargaining has established a 40-hour week for most unionized workers.

f. *Rights in Sectors with U.S. Investment.*—U.S. investment in Ghana is concentrated in the primary and fabricated metals sectors (aluminum smelting and gold mining), food and related products (tuna canning), petroleum marketing, and telecommunications. Labor conditions in these sectors do not differ significantly from the norm, save that wage scales in the metals and mining sectors are substantially higher than elsewhere in the Ghanaian economy. U.S. firms have a good record of compliance with Ghanaian labor laws.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		[1]
Total Manufacturing		[1]
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	[1]	
Machinery, except Electrical	0	
Electric & Electronic Equipment	3	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
Banking		0
Finance/Insurance/Real Estate		0
Services		0
Other Industries		[1]
TOTAL ALL INDUSTRIES		219

[1] Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis

NIGERIA

Key Economic Indicators

[Billions of U.S. dollars unless otherwise indicated]

	1995	1996	1997 [1]
Income, Production, and Employment:			
Nominal GDP [2]	47.0	48.7	N/A
Real GDP Growth (pct) [3]	2.2	3.3	1.4
GDP by Sector (pct):			
Agriculture	31.0	31.2	31.0
Manufacturing	6.9	6.5	6.0
Services	22.9	23.0	23.1
Government	10.2	9.9	N/A
Per Capita GDP (US$)	260	250	N/A
Labor Force (millions)	42.8	43.0	40.0
Unemployment Rate (pct)	30.0	27.0	30.0
Money and Prices (annual percentage growth:			
Money Supply Growth (M2)	10.3	25.7	N/A
Consumer Price Inflation	73.0	28.0	12.5
Exchange Rate (naira/ US$ - annual average):			
Official	22	22	22

Key Economic Indicators—Continued

[Billions of U.S. dollars unless otherwise indicated]

	1995	1996	1997 [1]
Parallel	83	84	87
Weighted Average	72	82	82
Balance of Payments and Trade:			
Total Exports FOB [4]	11.7	13.95	N/A
Exports to U.S.[5]	4.8	6.1	6.8
Total Imports CIF [4]	9.3	6.9	N/A
Imports from U.S.[5]	0.6	0.8	0.6
Trade Balance	2.4	9.2	N/A
Trade Balance with U.S.[5]	4.2	5.2	6.2
Current Account Deficit/GDP (pct)	-5.6	2.8	N/A
External Public Debt	32.5	28.1	N/A
Debt Service Payments/GDP (pct)	16.4	15.3	N/A
Fiscal Deficit/GDP (pct)	0.05	-1.6	N/A
Gold and Foreign Exchange Reserves	1.4	4.1	8.0
Aid from U.S. (US$ millions)	N/A	N/A	N/A
Aid from All Other Sources	N/A	N/A	N/A

[1] 1997 figures, except exchange rates, are all estimates based on available monthly data in November 1997.
[2] GDP at factor cost. Conversion to U.S. dollars done with official exchange rate of 21.9 naira to the dollar.
[3] Percentage changes calculated in local currency.
[4] Merchandise trade

Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1997 figures are estimates based on data available through November 1997.

1. General Policy Framework

Nigeria is Africa's most populous nation and the United States' fifth largest oil supplier. It offers investors a low-cost labor pool, abundant natural resources, and the largest domestic market in sub-Saharan Africa. However, it also suffers from an autocratic military government, inadequate infrastructure, confusing and inconsistent regulations, and endemic corruption. Nigeria's crucial petroleum sector provides the government with over 90 percent of all foreign exchange earnings and about 60 percent of budgetary revenue. Agriculture, which accounts for about 31 percent of GDP and employs about two-thirds of the labor force is dominated by small-scale subsistence farming. Nigeria is a member of the World Trade Organization.

After a period of relative fiscal austerity in the late 1980s, the Nigerian government ran budget deficits of up to 12 percent of GDP beginning in 1990. The deficit decreased to seven percent in 1994 and, by postponing government spending (including for debt service), in 1995 shrank to negligible proportions. In 1996, the budget had a surplus of 1.6 percent of GDP. For the majority of 1997, the budget ran a reported surplus. The deficit reduction and ensuing surplus came about primarily through austerity—e.g., foregoing government projects and infrastructure maintenance—as well as stronger-than-expected oil revenue and the simple failure to budget enough to cover scheduled debt service, resulting in arrears to foreign and domestic creditors. Priority recommendations by international financial institutions include unifying the dual exchange rate, greater budgetary transparency, reducing large government fuel price subsidies (the official price of gasoline was equivalent to about 55 cents per gallon in November 1997), shelving a number of government projects which are of doubtful economic value, and reducing leakages from government income due to corruption.

In previous years, monetary policy had been driven by the need to accommodate the government's budget deficit and a desire to reduce the inflationary impact of the budget deficit on the economy. Deficits at the federal level had been financed primarily by borrowing from the Central Bank of Nigeria (CBN), which held 84 percent of the government's domestic debt at the end of 1995. Since the Central Bank monetizes much of the deficit, budgetary shortfalls have a direct impact on the money supply and on price levels, which had risen rapidly for several years but have since slowed. In 1996 the government also began releasing money from an extra-budgetary account called the Petroleum Trust Fund (PTF) for infrastructure and other projects.

In 1997 Nigeria has continued the policy of "guided deregulation" instituted in the 1995 budget. In conjunction with his 1994 budget announcement, head of state General Sani Abacha announced the abandonment of most 1986 structural adjustment

program reforms and instituted tight government control over key economic variables. In response to the economic downturn caused by those measures, Abacha's 1995 budget abandoned the tightly regulated economic policies enacted in 1994. Under the new policy, the Nigerian government reopened the Autonomous Foreign Exchange Market (AFEM), loosened controls on foreign investment and reduced tariffs and bans on some imports. The 1997 budget continued the trend of fiscal austerity and the slow deregulation of the economy. Although Minister of Finance Anthony Ani had announced that privatization of the telecommunications and electrical generating parastatals would commence in 1997, virtually no progress was made.

2. Exchange Rate Policy

In 1997 Nigeria continued the liberalizing of the foreign exchange mechanism instituted in 1995. Under the foreign exchange decree of 1995, the AFEM was reestablished, allowing private companies to source foreign exchange at the parallel market rate (about 85 naira to the dollar in November 1997). The exchange rate of 22 naira to the dollar has been retained for some official government transactions. Companies can now hold domiciliary accounts in private banks, with account holders having "unfettered" use of the funds. Foreign investors may bring capital into the country without prior Finance Ministry approval, and may service foreign loans and remit dividends. Currency exchange offices are functioning, albeit with a limitation of $2,500 per transaction. The Central Bank has continued to intervene in the AFEM at regular intervals, going from monthly interventions in 1995 to weekly interventions in 1996. The Nigerian Finance Minister pledged to end the dual rates in the future.

3. Structural Policies

As stated in the December 1986 circular, "Industrial Policy of Nigeria," the Nigerian government maintains a system of incentives to foster the development of particular industries, to encourage firms to locate in economically disadvantaged areas, to promote research and development in Nigeria, and to favor the use of domestic labor and raw materials. The Industrial Development (Income Tax Relief) Act of 1971 provides incentives to "pioneer" industries deemed beneficial to Nigeria's economic development. Companies given "pioneer" status may enjoy a non-renewable tax holiday of five years, or seven years if the pioneer industry is located in an economically disadvantaged area.

In 1995 Nigeria promulgated the Nigerian Investment Promotion Commission Decree to replace the Enterprises Promotion Act. This decree liberalized the foreign investment regime, allowing 100 percent foreign ownership of firms outside the petroleum sector. Investment in the petroleum sector is still limited to the existing joint-venture agreement or production-sharing contracts with the Nigerian government, though there has been discussion of the Nigerian government selling off some or all of its part of the joint ventures. A foreign enterprise may now buy shares of any Nigerian firm except those on the "negative list": production of firearms, ammunition, narcotics, military and paramilitary apparel. The Investment Promotion Decree provides for the creation of an Investment Promotion Commission that will register companies for foreigners after incorporation under the Companies and Allied Matters Decree of 1990. The decree also abolishes the expatriate quota system (except in the oil sector) and prohibits any nationalization or expropriation of a foreign enterprise by the Nigerian government except for such cases determined to be in the national interest.

Nigeria has begun to implement the 1995 money laundering decree, which introduced procedures designed to inhibit this practice, as well as a decree against advance-fee fraud, called 419 fraud after the section of the Nigerian criminal code that deals with it. However, as of 1997, this implementation has exhibited only marginal success in reducing financial fraud. The scope of 419 business fraud has brought international notoriety to Nigeria and constitutes a serious disincentive to exporters, since any international transaction must be thoroughly vetted and confirmed.

4. Debt Management Policies

Debt service due, including payment of arrearages, is projected to be over $8 billion annually for the next several years; the result of a ballooning debt incurred during the latter half of the 1980s. The 1997 budget allowed only $2 billion for foreign debt payments, thus ensuring continued build-up of arrears.

During the period 1986 to early 1992, on the basis of a comprehensive structural adjustment program, Nigeria reached three standby agreements with the IMF. The most recent of these was approved in January 1991 and lapsed in April 1992. Discussions with the IMF since then have shown some progress, as evidenced by the

1996 decapping of interest rates and removal of the mandatory sectoral credit allocations for banks, but have failed to result in a new agreement. No new rescheduling agreement will be reached until an IMF program is re-implemented and a successful track record has been established. In the interim, Nigeria has initiated discussions with the multilateral institutions regarding a medium- term economic program and has made some progress at meeting their criteria.

In January 1992 in an effort to reduce its external stock of debt, the Nigerian government concluded an agreement with the London Club that gave commercial banks a menu of options from which to choose in reducing Nigeria's commercial debt. The menu included debt buy backs (currently at 56 cents to the dollar), new money bonds, and collateralized par bonds. As a result of the agreement, Nigeria was able to reduce its external debt by $3.9 billion, but the accumulation of arrears and late interest on other debt, particularly Paris Club debt, has essentially negated the gains. Including arrears, official foreign obligations exceeded $34 billion as of November 1997.

Nigeria's Paris Club debt repayment obligations have continued to grow while its record on debt repayment has deteriorated Nigeria's record on debt repayment, meanwhile, has also deteriorated. In 1992 Nigeria made debt service payments of $2.7 billion against interest and principal payment obligations of $5 billion. Faced with similar obligations in the following years, external debt service payments were only $1.6 billion for 1993, $1.8 billion for 1994, $2 billion for 1995, and $2 billion for 1996, and $2 billion for 1997 as well.

5. Significant Barriers to U.S. Exports

As of November 1997, the importation of approximately 20 different items, principally agricultural, is still banned. These bans were initially implemented to restore Nigeria's agricultural sector and to conserve foreign exchange. Although the bans are compromised by widespread smuggling, the reduced availability of grains has raised prices for both banned commodities and locally produced substitutes. The government also discontinued subsidizing fertilizer for farmers in 1997.

In 1995 Nigeria announced a new tariff structure to be operated for the next five years. The revision was aimed at narrowing the ranges of many custom duties, increasing rate coverage in line with WTO provisions, with fewer import prohibitions. The following previously banned commodities are now subject to the indicated duty rates: rice, 50 percent; day old chicks and parent stock, 5 percent; sparkling wines and champagne, 100 percent plus 40 percent excise; fruits and fruit juices, 75 percent; jute bags, 45 percent; cigarettes, 200 percent; cotton, 60 percent; wheat, 10 percent; and passenger vehicles, from 30 to 100 percent. However, a 25 percent across the board reduction in import tariffs became effective in January 1997, and is now being implemented, thus temporarily reducing the above listed duty rates. This action followed complaints of importers that customs duty was calculated on the basis of 80 naira to the dollar, rather than the official rate of 22 naira to the dollar used in 1994. Also, in October 1995 the Nigerian ports authority reduced port charges by 60 percent in Lagos and 70 percent at the other delta ports.

Other import restrictions apply to aircraft and ocean-going vessels. Guidelines mandate that all imported aircraft and ocean-going vessels be inspected by a government authorized inspection agent. In addition, performance bonds and off-shore guarantees must be arranged before either down payments or subsequent payments are authorized by the Ministry of Finance.

In April 1996, in an effort to reduce congestion and corruption in Nigerian ports and following a reported shortfall in customs duties, the Nigerian government changed the procedures by which goods enter or leave the country. The new regulations require a preshipment inspection for all unaccompanied imports and exports regardless of value, certifying the price, quantity, and quality before shipment; and imports must be accompanied by an import duty report (IDR). Goods arriving without an IDR will be confiscated by the Nigerian government. In addition, all goods will be assessed a one percent surcharge to cover the cost of inspection by the port authorities.

Nigeria generally uses an open tender system for awarding government contracts, and foreign companies incorporated in Nigeria receive national treatment. Approximately five percent of all government procurement contracts are awarded to U.S. companies.

6. Export Subsidy Policies

In 1976, the government established the Nigerian Export Promotion Council (NEPC) to encourage development of non-oil exports from Nigeria. The Council ad-

ministers various incentive programs including a duty drawback program, the export development fund, tax relief and capital assets depreciation allowances, and a foreign currency retention program. The duty drawback or manufacturing in-bond program is designed to allow the duty free importation of raw materials to produce goods for export, contingent on the issuance of a bank guaranteed bond. The performance bond is discharged upon evidence of exportation and repatriation of foreign exchange. Though meant to promote industry and exportation, these schemes have been burdened by inefficient administration, confusion, and corruption, causing great difficulty and in some cases losses to those manufacturers and exporters who opted to use them.

The NEPC also administers the export expansion grant program, a fund which provides grants to exporters of manufactured and semi-manufactured products. Grants are awarded on the basis of the value of goods exported, and the only requirement for participation is that the export proceeds be repatriated to Nigeria. Though the grant amounts are small, ranging from two to five percent of total export value, they may constitute subsidies as defined by the WTO and raise questions about compliance with WTO obligations.

7. Protection of U.S. Intellectual Property

Nigeria is a signatory to the Universal Copyright Convention and the Berne Convention. In early 1993, Nigeria became a member of the World Intellectual Property Organization (WIPO). Cases involving infringement of non-Nigerian copyrights have been successfully prosecuted in Nigeria, but enforcement of existing laws remains weak, particularly in the patent and trademark areas. Despite active participation in international conventions and the apparent interest of the government in intellectual property rights issues, little has been done to stop the widespread production and sale of pirated tapes, videos, computer software, and books in Nigeria.

The Patents and Design Decree of 1970 governs the registration of patents, and the Nigerian Standard Organization is responsible for issuing patents, trademarks, and copyrights. Once conferred, a patent gives the patentee the exclusive right to make, import, sell, or use the products or apply the process. The Trademarks Act of 1965 governs the registration of trademarks. Registering a trademark gives its holder the exclusive right to use the registered mark for a particular good or class of goods.

The Copyright Decree of 1988, based on WIPO standards and U.S. copyright law, currently makes counterfeiting, exporting, importing, reproducing, exhibiting, performing, or selling any work without the permission of the copyright owner a criminal offense. Progress on enforcing the 1988 law has been slow. The expense and length of time necessary to pursue a copyright infringement case to its conclusion are detrimental to the prosecution of such cases.

In the past, few companies have bothered to secure trademark or patent protection in Nigeria because it is generally considered ineffective. Losses from poor intellectual property rights protection are substantial, although the exact cost is difficult to estimate. The majority of the sound recordings sold in Nigeria are pirated copies and the entire video industry is based on the sale and rental of pirated tapes. Satellite signal piracy is common. Violation of patents on pharmaceuticals is also a problem. The International Intellectual Property Alliance estimated that U.S. companies lost $39 million in 1997 due to copyright piracy, excluding losses from computer software.

8. Worker Rights

a. *The Right of Association.*—Nigerian workers, except members of the armed forces and employees designated essential by the government, may join trade unions and may strike. Essential employees include firefighters, police, employees of the Central Bank, the security printers (printers of currency, passports, and government forms), and customs and excise staff. Nigeria has signed and ratified the International Labor Organization's (ILO) convention on freedom of association. However, the government has decreed a single central labor body, the Nigerian Labour Congress (NLC), and deregistered other unions. In 1994, the government dissolved the NLC executive council and imposed a sole administrator. Under Nigerian labor laws, any non-agricultural enterprise that employs more than 50 employees is obliged to recognize trade unions and must pay or deduct a dues checkoff for employees who are members. However, in the past, the government has threatened to withdraw the dues checkoff provision and make payment of union dues completely voluntary if unions pursue strikes. Furthermore, the government continues to hold labor leaders in detention without charge. As a result of the government's failure to abide by ILO conventions to which it has subscribed concerning worker rights

and freedom of association, it was the subject of an ILO "special paragraph" censuring the Nigerian government. The Nigerian government has yet to accept an ILO fact finding mission or take other steps to mitigate the adverse findings that led to the ILO censure.

b. *The Right to Organize and Bargain Collectively.*—The labor laws of Nigeria permit the right to organize and the right to bargain collectively between management and trade unions. Collective bargaining is common in many sectors of the economy. Nigerian labor law further protects workers against retaliation by employers for labor activity through an independent arm of the judiciary, the Nigerian Industrial Court, which handles complaints of anti-union discrimination. Trade unionists have complained, however, that the Nigerian judicial system's slow handling of labor cases constitutes a denial of redress to those with legitimate complaints. The government retains broad authority over labor matters, and can intervene forcefully in labor disputes which it feels contravene its essential political or economic programs. It has taken such action in the case of the 1996 banning of the University Lecturers' Union to force an end to their strike, and in August 1994 when it dismissed the executive councils of the NLC and the two leading petroleum sector unions and replaced them with "sole administrators." The administrators remain in control pending national executive council elections that have yet to be held.

c. *Prohibition of Forced or Compulsory Labor.*—The 1974 Labor Decree and the 1989 Constitution prohibit forced or compulsory labor. While this prohibition is generally observed in practice, forced labor has been "employed" in some community clean-up projects. The ILO has noted that, with the 1989 Constitution suspended, Nigeria may not be able to enforce the ILO convention against forced labor in the absence of constitutional guarantees.

d. *Minimum Age for Employment of Children.*—Nigeria's 1974 labor decree prohibits employment of children under 15 years of age in commerce and industry and restricts other child labor to home-based agricultural or domestic work. The law further stipulates that no person under the age of 16 may be employed for more than eight hours per day. The decree allows the apprenticeship of youths aged 13 to 15 under specific conditions. The government does not specifically regulate service of apprentices over the age of 15. Primary education is compulsory in Nigeria, though rarely enforced, and studies have reported declining enrollment due mainly to the continuing deterioration of public schools. The lack of sufficient public school infrastructure has forced more children into the employment market.

e. *Acceptable Conditions of Work.*—Nigeria's 1974 labor decree established a 40 hour work week, prescribed 2 to 4 weeks of annual leave, set a minimum wage and stipulated that workers are to be paid extra for hours worked over the legal limit. The decree also states that workers who work on Sundays and legal public holidays must be paid a full day's pay in addition to their normal wages. There is no law prohibiting excessive compulsory overtime. The last government review of the minimum wage, undertaken in 1991, raised the monthly minimum wage from 250 naira to 450 naira ($20.45 in 1991 but only $5.60 in 1996). The 1974 decree contains general health and safety provisions. Employers must compensate injured workers and dependent survivors of those killed in industrial accidents. Enforcement of these laws by the Ministry of Labor has been largely ineffective.

f. *Rights in Sectors with U.S. Investment.*—Worker rights in petroleum, chemicals and related products, primary and fabricated metals, machinery, electric and electronic equipment, transportation equipment, and other manufacturing sectors are not significantly different from those in other major sectors of the economy.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[millions of U.S. dollars]

Category		Amount
Petroleum		[1]
Total Manufacturing		61
Food & Kindred Products	[1]	
Chemicals & Allied Products	19	
Metals, Primary & Fabricated	[1]	
Machinery, except Electrical	0	
Electric & Electronic Equipment	2	
Transportation Equipment	[1]	

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996—Continued

[millions of U.S. dollars]

Category	Amount
Other Manufacturing	-4
Wholesale Trade	[2]
Banking	[1]
Finance/Insurance/Real Estate	0
Services	0
Other Industries	0
TOTAL ALL INDUSTRIES	978

[1] Suppressed to avoid disclosing data of individual companies.
[2] Indicates a value between $-500,000 and $500,000.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

---

SOUTH AFRICA

Key Economic Indicators

[Billions of U.S. dollars unless otherwise indicated]

	1995	1996	1997 [1]
Income, Production and Employment:			
Nominal GDP (at factor cost)	118.8	112.6	115.5
Real GDP Growth (pct) [2]	3.5	3.0	2.0
GDP by Sector:			
Agriculture	5.18	5.46	5.22
Mining	9.30	9.11	9.03
Manufacturing	28.84	26.75	27.43
Wholesale/Retail Trade	19.35	18.10	18.53
Financial Service	20.19	19.54	20.65
Government	18.05	17.10	17.72
Per Capita GDP (US$) [3]	2880	2659	3041
Labor Force (millions) [3]	14.37	14.49	N/A
Unemployment Rate (percent) [3]	31.2	29.3	N/A
Money and Prices (annual percentage growth):			
Money Supply (M2)	13.9	15.8	16.0
Consumer Price Index	8.7	7.4	8.6
Exchange Rate (Rand/US$ - annual average):[4]			
Official	N/A	N/A	N/A
Balance of Payments and Trade:			
Total Exports FOB [5]	28.6	29.1	22.9
Exports to U.S [5]	2.2	2.3	0.5
Total Imports CIF [5]	27.0	27.0	21.4
Imports from U.S.	2.8	3.1	1.2
Trade Balance [5]	1.6	2.1	1.5
Trade Balance with U.S.	-0.6	-0.8	-0.7
Current Account Deficit/GDP	2.1	1.6	1.1
External Public Debt [6]	33.0	32.9	N/A
Debt Service Payments/GDP (pct)	6.7	7.0	N/A
Fiscal Deficit/GDP (pct)	5.1	5.1	N/A
Gold and Foreign Exchange Reserves	4.2	2.3	4.9
Aid from U.S. (US$ millions)	187	176	110
Aid from other Countries	N/A	N/A	N/A

[1] Estimates for 1997 are based on third quarter estimates, seasonally adjusted at annual rates, unless otherwise noted. The source of the data is the Reserve Bank Quarterly Bulletin for December 1997. The rate used to convert Rand figures into dollars is the weighted average of the South African banks' daily rates based on their foreign exchange transactions. The decline in the 1996 GDP estimate from the 1995 figure is due to the almost 23 percent drop in the value of the South African rand against the U.S. dollar during 1996.
[2] Figure provided is a second quarter estimate.

[3] Estimates of population and employment are speculative due to incomplete censuses during the apartheid era. The increase in the per capita GDP figure for the third quarter of 1997 is largely accounted for by revised South African government numbers on total population based on census statistics gathered in 1996.

[4] Prior to 1995, South Africa maintained an exchange rate for non-resident investment and another for other transactions. The dual exchange rate was eliminated and a unified rand established in mid-March 1995.

[5] All South African trade statistics include export and import data for the five member countries of the Southern African Customs Union (SACU), i.e., Botswana, Lesotho, Namibia, South Africa, and Swaziland. Trade within the SACU is not included.

[6] During the apartheid era, debt estimates were deflated by the South African Government as a matter of policy. Since late 1994, the accuracy of South African debt estimates released by the South African Reserve Bank has dramatically improved.

1. General Policy Framework

South Africa is a middle-income developing country with an abundant supply of natural resources, relatively well-developed financial, legal, communications, energy, and transport sectors, a stock exchange which ranks among the twenty largest in the world, and a modern infrastructure supporting an efficient distribution of goods to major urban centers throughout the region. With over three years having passed since the historic election of President Nelson Mandela in the country's first multiracial elections, South Africa remains the most advanced, broadly-based, and productive economy in Africa.

After more than four years of negative real GDP growth from 1988-1992, the South African economy responded in 1993 with 1.1 percent real growth. Since the election in early 1994 the economic has posted real growth rates of 2.5 percent in 1994, 2.8 percent in 1995 and 3.1 percent in 1996. In 1997 the economic is estimated to have grown by 1.5-1.8%. With the exception of the gold mining industry, most sectors of the economy have shared in the economic recovery, with manufacturing showing the strongest rate of growth.

The new South African government demonstrated its commitment to open markets, privatization, and a favorable investment climate with the release of its macroeconomic strategy in June 1996. Called "Growth, Employment and Redistribution," this policy framework includes the introduction of tax incentives to stimulate new investment in labor-intensive projects, expansion of basic infrastructure services, the restructuring and partial privatization of state assets, and continued reduction of tariffs and subsidies to promote economy revitalization, improved services to the disadvantaged, and integration into the global economic. Together with its demonstrated commitment to its World Trade Organization (WTO) commitments, South Africa has moved slowly but steadily towards free market principles. Implicit in these policies is recognition of South Africa's daunting developmental problems resulting from decades of apartheid-era policies. Black economic empowerment, promotion of small, medium, and micro-enterprises (SMMES), the extension of telecommunications, transportation, and other infrastructure links to unserved rural areas, and extensive job creation to offset population growth estimated at 1.8 percent remain South Africa's highest governmental objectives.

Recent economic news, however, has not all been rosy. In 1997, the South African Rand depreciated 4.0 percent against the U.S. dollar, with the exchange rate going from 4.68 to beyond 4.87. Economists have attributed the Rand's decline to turmoil in the Asian markets. The balance of payments has remained positive due largely to privatization receipts and international borrowing.

The South African government has made steady progress in redressing many structural problems in the South African market. Over the last decade, quantitative credit controls and administrative control of deposit and lending rates have largely disappeared. In 1998, the South African Reserve Bank (SARB) plans to induce a repurchase agreement system to allocate Bank credit. Liquidity will be controlled through reverse purchase agreements and government paper. In the past four years, a restrictive monetary policy through the maintenance of relatively high central bank lending rates, has curbed domestic spending and reduced inflation to its lowest rate in over twenty years. The South African government primarily finances its domestic debt through the issuance of government bonds.

2. Exchange Control/Rate Policy

Under South African exchange regulations, exchange controls are administered by the SARB's Exchange Control Department through commercial banks that are authorized to deal in foreign exchange. All international commercial transactions must be accounted for through these "authorized foreign exchange dealers." This provides the SARB wide latitudes for determining short-term exchange rates. However, the SARB is no longer the sole marketing agent for gold, having begun to allow some private sales in 1997 and further liberalizing in early 1998. Except for a period in 1987 when it followed an implicit policy of fixing the rand against the dollar, the

SARB normally allows the Rand to float but intervenes as deemed necessary to smooth market adjustments and to ensure there is always a buyer in the market for Rand.

The previous dual exchange rate in which a more favorable exchange rate applied to foreign investment flows and outflows (the financial rand) and a less favorable one to all other transactions (the commercial rand) was not acceptable in the new dispensation. On July 1, 1997, after more than three decades of strict controls, South Africa relaxed its exchange control regime on residents. Private citizens are now allowed a one-time investment of up to R200,000 in offshore accounts, and are free to hold foreign currency accounts in South African banks. Corporations can now transfer up to R30 million for new foreign ventures outside the Southern African Development Community (SADC) and R50 million for SADC investments. Institutional investors can now invest abroad 3% of net inflows, and unit trusts are now allowed to conclude asset swaps up to 10%. Dollar/Rand futures contracts have been introduced, but under Reserve Bank supervision. The ceiling on local borrowing by foreign-controlled resident entities has been raised to 50% of foreign capital invested, up from a previous 25%. However, foreign investments and assets swaps still require Reserve Bank approval, except as noted above. A cautious and gradual approach to further liberalization is the most likely scenario as current South African gold plus foreign exchange reserves provide for about only ten months coverage of imports.

3. Structural Policies

Prices are generally market-determined with the exception of petroleum products and certain agricultural goods. Purchases by government agencies are by competitive tender for project or supply contracts. Bidders must pre-qualify, with some preferences allowed for local content. Parastatals and major private buyers, such as mining houses, follow similar practices, usually inviting only approved suppliers to bid.

The main sources of government revenue in South Africa are income taxes (30%) and the Value-Added Tax (VAT- 30%). Both personal and corporate income tax rates are among the highest in the world. Although the government had wished to phase down both individual and corporate tax rates through year-end 1999, fiscal constraints have slowed plans to do so. While maintaining the maximum personal income tax rate at 45 percent on incomes in excess of R100,000 (about $20,500), the government also imposed in 1994 a "one-time" levy of 5 percent on all income over R50,000 (about $10,250)—both corporate and individual—to finance overruns associated with the governmental transition.

On a more positive note, the South African government has undertaken some measures in the past two years to ease the tax burden on foreign investors. It reduced the corporate primary income tax rate to 35 percent from its previous rate 40 percent in 1994. The Non-resident Shareholders Tax on foreign investors was scrapped effective October 1, 1995. In addition, the Secondary Tax on Corporate Dividends was halved to 12.5 percent in March 1996. The effective rate for corporations is 42.2%.

4. Debt Management Policies

During the apartheid era, actual debt estimates were considered state secrets of the South African government. Those debt estimates released by the government and reported by international financial authorities during the apartheid years must, therefore, be viewed with skepticism. With the election of the new government, the SARB has worked to redress this problem and issues revised estimates of foreign and domestic debt. Although these revisions reflect a significant upward adjustment of previous estimates, they, nonetheless, indicate relative debt stability in recent years. At the end of 1996, the SARB reported that total foreign debt, including Erobond borrowing, amounted to approximately $33 billion. The ratio of total foreign debt to GDP has remained steady at around 25-27 percent over the past four years, while interest payments as a percentage of total export earnings increase steadily declining slightly from 6.6 percent in 1993 to 6.8 percent in 1996.

South Africa is a member of the World Bank and International Monetary Fund (IMF) and continues Article IV consultations with the latter on a regular basis. In December 1993, after 27 years of economic isolation, South Africa became an IMF borrowing nation with an $850 million drought relief loan, which South Africa subsequently repaid. South Africa receives some technical assistance and has a project loan with the World Bank.

5. Significant Barriers to U.S. Exports

Under the terms of the Import and Export Control Act of 1963, South Africa's Minister of Trade and Industry may act in the national interest to prohibit, ration, or otherwise regulate imports. In recent years, the list of restricted goods requiring import permits has been reduced, but still includes such goods as foodstuffs, clothing, fabrics, wood and paper products, refined petroleum products and chemicals. Nonetheless, the South African Government remains committed to the simplification and eventual reduction of tariffs within the WTO framework, and maintains active discussions with that body and its major trading partners.

6. Export Subsidies Program

The primary subsidy regime of the South African Government was the General Export Incentive Scheme (GEIS) through which South African exporting companies received direct non-discriminatory cash subsidies based on the value of exports, the degree of beneficiation or processing, and the local content of the exported product. The South African government has completely eliminated the GEIS program despite considerable opposition from local manufacturers. The Department of Trade and Industry "revised" the GEIS in early 1995, "downsized" it again in early 1996, and have now completely phased it out as of July 11 1997. The stated reason for phasing out the scheme was that it was not WTO-consistent. Instead, the government has focused on other, more WTO-friendly means of promoting South African exports. The Export Marketing Assistance scheme (EMA) offers financial assistance for the development of new export markets, through financing for trade missions and market research. The Export Finance Guarantee Scheme for small exporters is the government's newest means of promoting small and medium exporters through credit guarantees by participating financial organizations. It commenced in November 1996, and to date 77 master guarantees to the value of R45 million have been issued. It has not been as successful as anticipated and concerted efforts to promote the scheme are required. Provisions of the Income Tax Act also permit accelerated write-offs of certain buildings and machinery associated with benefication processes carried on for export and deductions for the use of an export agent outside South Africa.

7. Protection of U.S. Intellectual Property Rights

In May 1995, the new Trademarks Act of 1993 replaced the Trademarks Act of 1963, improving protection of internationally-known trademarks. Parliament also passed the Designs Act of 1993, which introduced a registration system providing protection for design proprietors for 10 years from the date of registration or issue, whichever is earlier. In addition, the Patent Act of 1978 was most recently amended in 1988 to provide patent protection of inventions and innovations for a period of 20 years from the date of filing, without extension. Other South African IPR laws include the Plant Breeder's Rights Act of 1976 and the Copyright Act of 1978 (amended in 1992).

In 1996, the South African parliament passed the "Intellectual Property Laws Rationalization Act, 1996," which integrated intellectual property rights in the former homelands into the South African system and extended South African intellectual property law to the former homelands.

In 1997, two other intellectual property-related bills were passed by the parliament and became effective in November. The "Intellectual Property Laws Amendment Bill" amended the Patents Act of 1978, the Trademarks Act of 1993, the Copyright Act of 1978, the Designs Act of 1993, the Merchandise Marks Act of 1941, and the Performers' Protection Act of 1967. It is intended to ensure, inter alia, complete compliance with the provisions of the WTO agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) and Article 6 of the Paris Convention. The "Counterfeit Goods Bill" created for the first time in South Africa the offense of "dealing in counterfeit goods." It conveys new powers to the police, Customs and Excise, and DTI inspectors to exercise powers of search and seizure of counterfeit goods and store them pending outcome of a trial.

In recognition of progress made on the IPR front, United States Trade Representative Charlene Barshefsky announced on October 2, 1996, that South Africa would remain off the Special 301 Watch List, from which it was provisionally removed in April of the same year.

South Africa is a member of international intellectual property treaties such as the Paris Convention for the Protection of Industrial Property, the Berne Convention for the Protection of Artistic and Literary Works, and the World Intellectual Property Rights Organization (WIPO).

8. Worker Rights

a. *The Right of Association.*—Freedom of association is guaranteed by the constitution and given statutory effect by the recently-approved Labor Relations Act. All workers in the private sector and most in the public sector—with the exception of members of the National Defense Force, the National Intelligence Agency, and the South African Secret Service—are entitled to join a union. Moreover, no employee can be fired or prejudiced because of membership in or advocacy of a trade union. There are 201 registered trade unions and 47 unregistered trade unions, with a total approximate membership of 3.4 million or 44 percent of the employed economically active population.

South Africa's largest trade union federation, the Congress of South African Trade Unions (COSATU) is formally aligned with the African National Congress (ANC) and the South African Communist Party (SACP). Over 60 former COSATU members serve in national and provincial legislatures and administrations. The second largest trade union federation, the National Council of Trade Unions (NACTU), while officially independent of any political grouping, has close ties to the Pan Africanist Congress (PAC) and the Azanian Peoples Organization (AZAPO).

The right to strike is also guaranteed in the constitution, and is given statutory effect by the new Labor Relations Act (LRA). The LRA has established a simple procedure for a protected strike, with the requirement that the dispute first be referred for conciliation. If conciliation fails to resolve the dispute, then a trade union is entitled to engage in a legal strike. Such a strike is not liable to criminal or civil action. The LRA does, however, permit employers to hire replacement labor for striking employees after giving seven days notice to the striking trade union.

The International Labor Organization (ILO) readmitted South Africa in 1994. Originally an ILO member since its 1919 inception, South Africa withdrew from the ILO in 1964.

b. *The Right to Organize and Bargain Collectively.*—South African law defines and protects the right to organize and bargain collectively. The government does not interfere with union organizing and generally has not interfered in the collective bargaining process. The new LRA statutorily entrenches "organizational rights", such as trade union access to work sites, deductions for trade union subscriptions, and leave for trade union officials, which will strengthen trade union ability to organize workers.

The creation of the National Economic Development and Labor Council (NEDLAC), a tripartite negotiating forum, has served to solidify the role of trade unions as social partners with government and business in the in the formation of economic and labor policy. In addition, the new LRA creates workplace fora that will allow for better shop-floor communication between management and labor over issues of work organization and production. To receive statutory protection, these fora currently can only be initiated by trade unions is businesses with more than 100 employees.

c. *Prohibition of Forced or Compulsory Labor.*—Forced labor is illegal under the constitution, and is not practiced.

d. *Minimum Age of Employment of Children.*—Employment of minors under age 15 is prohibited by South Africa law. The LRA, however, grants the Minister of Welfare discretionary powers to permit employment of children under carefully described conditions in certain types of work, such as in the agricultural sector. Enforcement of child labor laws by the Ministries of Labor and Justice, however, are weak and reactive, depending largely upon complaints made against specific employers. As a result, use of child labor in the informal economy is quite common.

e. *Acceptable Conditions of Work.*—There is no legally mandated national minimum wage in South Africa. Instead, the Labor Relations Act provides a mechanism for negotiations between labor and management to set minimum wage standards industry by industry. To date, over 100 industries, including a majority of workers in the manufacturing sector, are protected by the provisions of the Act. In those sectors of the economy not sufficiently organized to engage in the collective bargaining processes which establish minimum wages, the Wage Act grants the Minister of Labor the authority to set minimum wages and conditions. The Wage Act, however, does not apply to farm or domestic workers.

Occupational health and safety issues remain a top priority of trade unions, especially in the mining and heavy manufacturing industries. Although government focus on these issues has increased substantially (highlighted by the passage in 1993 of the Occupational Health and Safety Act), South African industrial and mining processes are still considered hazardous by international standards. Parliament

is currently studying a mines commission of inquiry on health and safety issues in the mining sector, to determine ways to improve existing mine health and safety legislation.

f. *Worker Rights in Sectors with U.S. Investment.*—The workers rights conditions described above do not differ from those conditions found in sectors with U.S. capital investment.

g. *South Africa does not as yet have any export processing zones.*—Labor practices in these zones usually present problems with the trade unions.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		[1]
Total Manufacturing		778
Food & Kindred Products	66	
Chemicals & Allied Products	204	
Metals, Primary & Fabricated	59	
Machinery, except Electrical	33	
Electric & Electronic Equipment	[1]	
Transportation Equipment	[1]	
Other Manufacturing	236	
Wholesale Trade		119
Banking		[1]
Finance/Insurance/Real Estate		[1]
Services		19
Other Industries		1
TOTAL ALL INDUSTRIES		1437

[1] Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

EAST ASIA AND THE PACIFIC

AUSTRALIA

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated] [1] [2]

	1995	1996	1997
Income, Production and Employment:			
Nominal GDP [3]	314.2	346.4	343.5
Real GDP Growth (pct)	3.2	2.5	3.5
GDP by Sector: [4]			
Agriculture	10.5	13.3	13.5
Manufacturing	99.9	109.3	106.8
Services	176.7	193.4	192.3
Government	11.1	12.0	11.9
Per Capita GDP ($000s)	17.5	19.2	19.1
Labor Force (000s)	9,001	9,127	9,217
Unemployment Rate (pct)	8.5	8.6	8.7
Money and Prices (anual percentage growth):			
Money Supply (M3)	9.2	9.5	10.0
Consumer Price Inflation	5.1	1.5	1.0
Exchange Rate (Aust Dols=US$ annual average)			
Official	N/A	N/A	N/A
Balance Of Payments And Trade:			
Total Exports FOB	53.0	60.4	61.7
Exports to U.S.	3.4	3.9	4.3
Total Imports CIF	57.3	61.5	60.5
Imports from U.S.	12.4	14.1	13.7
Trade Balance	-4.3	-1.1	-1.2
Balance with U.S	-9.0	-10.2	-9.4
External Public Debt	74.4	79.0	72.1
Fiscal Deficit/Gdp (pct)	2.9	2.1	1.3
Current Account Deficit/GDP (pct)	5.2	4.1	3.9
Debt Service			
Payments/GDP	2.5	2.5	2.4
Gold and Foreign Exchange Reserves	14.7	15.8	16.6
Aid from U.S.	0	0	0
Aid from other countries	0	0	0

[1] Exchange rate fluctuations must be considered when analyzing data. Percentage changes are calculated in Australian dollars.
[2] All figures based on data available in October 1997. 1997 figures are estimates.
[3] Income measure of GDP.
[4] Production measure of GDP. "Manufacturing" includes mining, utilities and construction.

1. General Policy Framework

Australia's developed market economy is dominated by its services sector (65 percent of GDP), yet it is the agricultural and mining sectors (8 percent of GDP combined) that account for the bulk (57 pct) of Australia's goods and services exports. Australia's comparative advantage in primary products is a reflection of the natural wealth of the Australian continent and its small domestic market: just over 18 million people occupy a continent the size of the contiguous United States. The relative size of the manufacturing sector has been declining for several decades, and now accounts for just under 14 percent of GDP.

The Australian economy has been experiencing a cyclical downturn over 1996-97, and has only just started responding to the cuts in official interest rates made by the Reserve Bank of Australia (RBA) between July 1996 and July 1997 (five cuts totaling 2.5 percent have left the official cash rate at 5 percent). With inflation well under control (Australia recorded annual price deflation for the first time in 35 years during 1997), the task for economic policy makers is to lower the unemployment rate, which remains stubbornly mired above 8.5 percent.

The Liberal/National coalition government continued its program of fiscal consolidation in its budget for the 1997-98 fiscal year, announcing an underlying budget deficit (which removes debt repayments and assets from the headline balance) of $2.9 billion and a substantial headline budget surplus. The government has stated its intention to return the federal budget to balance by the 1999-2000 fiscal year.

2. Exchange Rate Policy

Australian Dollar exchange rates are determined by international currency markets. There is no official policy to defend any particular exchange rate level, although the RBA does operate in currency markets. The RBA is active in what it describes as "smoothing and testing" foreign exchange rates, in order to provide a generally stable environment for fundamental economic adjustment policies.

Australia does not have any major foreign exchange controls beyond requiring RBA approval if more than A$5,000 in cash is to be taken out of Australia at any one time, or A$50,000 in any form in one year. The purpose of this regulation is to prevent tax evasion and money laundering; authorization is usually automatic.

3. Structural Policies

The Government of Australia (GOA) is continuing a program of economic reform, begun in the mid-1980s, that includes the reduction of import protection and micro economic reform. Initially broad in scope, the GOA's program now focuses on industry-by-industry changes. The GOA is also continuing with the privatization of government assets, with the national air carrier Qantas and the Commonwealth Bank fully privatized, and one-third of the government telecommunications carrier Telstra floated in November 1997.

The General Tariff Reduction Program, begun in March 1991, has reached its conclusion, with most existing tariffs now at 5 percent. However, the Passenger Motor Vehicles (PMV) and Textiles, Clothing and Footwear (TCF) industries are still protected by high tariffs (22.5 and 34 percent respectively). These tariffs are scheduled to decline to 15 and 25 percent respectively by 2000 (where they will remain, pending further review, until 2005).

There have been no major changes to the Australian taxation system in recent years, with the only change of any note being a rise in the tax on corporate profits from 33 to 36 percent (announced in 1996).

4. Debt Management Policies

Australia's net foreign debt has averaged between 30 and 40 pct of GDP for several decades, and at the end of 1996 totaled around $150 billion (39.7 percent of GDP). Australia's gross external public debt at the end of 1996 was $78 billion, or 21 percent of GDP. The public sector accounts for 40 percent of Australia's gross external debt; theremainder is the responsibility of the private sector. The net debt-service ratio (the ratio of net income payable to export earnings) has remained steady between 11 and 12 percent since 1994, down from 21 percent in 1990. Australia's credit ratings, as determined by Standard and Poor's and Moody's, remained unchanged at AA and Aa2, respectively in 1997.

5. Aid

Australia receives no foreign aid.

6. Significant Barriers to U.S. Exports

Australia is a signatory to the WTO, but is not a member of the WTO Agreement on Government Procurement.

Import Licenses: Import licenses are now required only for certain vehicles, textiles, clothing and footwear. Licensing had little impact on U.S. products except for a small market among importers of used automobiles.

Services Barriers: The Australian services market is generally open, and many U.S. financial services, legal and travel firms are established there. The banking sector was liberalized in 1992, allowing foreign banks to be licensed as either branches or subsidiaries. Broadcast licensing rules were also liberalized in 1992, al-

lowing up to 20 percent of the time used for paid advertisements to be filled with foreign-sourced material (far greater than the percentage of non-Australian messages actually broadcast). As of January 1988, local content regulations require that 55 percent of a commercial television station's weekly broadcasts between the hours of 6:00 a.m. and midnight must be dedicated to Australian-produced programs (The U.S. regrets that this requirement was recently increased from 50 percent.) Regulations governing Australia's pay-TV industry require that channels carrying drama programs devote at least 10 percent of their programming budget to new, locally-produced programs. State governments restrict the development of private hospitals as a means of limiting public health expenditures (medical expenses for private hospital care are paid through government health programs).

Standards: Australia became a signatory to the GATT Standards Code in 1992. However, Australia still maintains restrictive standards requirements and design rules for automobile parts, electronic and medical equipment, and some machine parts andequipment. Currently, all Australian standards are being rewritten to harmonize them where possible to international standards, with the objective of fulfilling all obligations of the GATT Standards Code.

Labeling: Australian federal law requires that the country of origin be clearly indicated on the front label of some types of products sold in Australia. Various other federal and state labeling requirements are being reconsidered in light of compliance with GATT obligations, utility and effect on trade.

Commodity Boards: Several national and state commodity boards control the marketing and export of certain Australian agricultural products. Activities for these marketing authorities are financed by the producers, but some boards enjoy export monopoly powers conferred by the federal or state government. While some of the boards' domestic activities have been deregulated, the export of wheat and rice remains under the exclusive control of commodity boards. The Government of Australia has indicated that the Australian Wheat Board (which strictly regulates wheat marketing abroad) will retain its export monopoly until at least 1999. The export of barely from certain states likewise remains strictly regulated.

Investment: The government requires notification of (but normally raises no objections to) investment proposals by foreign interests above certain notification thresholds, including: acquisitions of substantial interests in existing Australian businesses with assets of A$5 million or more (A$3 million for rural properties); new businesses involving an investment of A$10 million or more; portfolio investments in the media sector of 5 percent or more; all non-portfolio investments irrespective of size; takeovers of Australian companies valued of either A$ 20 million or more, or for more than 50 percent of the target company's total assets; and direct investments of foreign governments irrespective of size. Investment proposals for entities involving more than A$50 million in total assets are approved unless found contrary to the national interest. Special regulations apply to investments in the banking sector, the media sector, urban real estate and civil aviation.

Divestment cannot be forced without due process of law. There is no record of forced divestment outside that stemming from investments or mergers that tend to create market dominance, contravene laws on equity participation, or result from unfulfilled contractual obligations.

Government Procurement: Since 1991, foreign information technology companies with annual sales to the GOA of A$10-40 million (US$8-32 million) have been required to enter into Fixed Term Arrangements (FTAs), and those with sales greater than A$40 million into Partnerships for Development (PFDs). Under an FTA, a foreign company commits to undertake to local industrial development activities worth 15 percent of its projected amount of government sales over a four-year period. Under a PFD, a foreign firm agree to invest 5 percent of its annual local turnover on R&D in Australia; export goods and services worth 50 percent of imports (for hardware companies) or 20 percent of turnover (for software companies); and achieve 70 percent local content across all exports within the seven year life of the PFD.

The Information Technology Services Common Use Contract Panel (ITSCUCP), established in 1995, is used by GOA agencies in planning and implementing Information Technology (IT) purchases. The ITSCUCP comprises a broad range of private companies (unlike its predecessor). Any company may join upon demonstrating acceptable levels of Australian product development, investment in capital equipment, skills development and/or services support, local sourcing, and Australian R&D activities.

The GOA's 1994 Employment and Industry Policy Statement requires Industry Impact Statements to be drafted for government procurements of A$10 million

(US$8 million) or more, and establishes a two-envelope system for such tenders. Bidders are required to submit detailed information regarding Australian industrial development separately (in the second envelope), and bids are judged both on price/product specifications and industrial development grounds.

Sanitary and Phytosanitary Restrictions: Australia's geographic isolation has allowed it to remain relatively free of exotic diseases. Australia imposes extremely stringent animal and plant health restrictions. The GOA is still examining measures that would allow the lifting of phytosanitary barriers to the importation of U.S. cooked chicken, but after more than seven years, no decision has been reached. Other areas of concern include restrictions on the import of salmon, pork, grapes, citrus, stone fruit and apples.

Motor Vehicles: The import of used vehicles manufactured after 1973 for personal use is banned, except where the car was purchased and used overseas by the buyer for a minimum of three months. Commercial importers must apply for a "compliance plate" costing A$ 20,000 for each make of car imported. Left-hand drive cars must be converted to right-hand drive (only by licensed garages) before they may be driven in Australia.

7. Export Subsidies Policies

Australia has signed the GATT Subsidies Code and joined with the U.S. in GATT negotiations to limit export subsidy use.

The coalition government severely curtailed assistance schemes to Australian industry in its federal budget for the 1996-97 fiscal year. Under the Export Market Development Grants Scheme, the Australian government gives grants to qualifying firms of up to A$ 200,000, to assist in offsetting marketing costs incurred when establishing new export markets. There are also schemes available for drawbacks of tariffs, and sales and excise taxes paid on the imported components of exported products. Such schemes are available in the passenger motor vehicle and the textiles, clothing and footwear industries. Grants schemes and tariff concessions were subject to expenditure reductions in the 1996-97 federal budget. The Research and Development Tax Concession (available to firms undertaking eligible R&D) was also reduced from 150 percent to 125 percent. "Bounties" (i.e., production subsidies) were also cut heavily in the 1996-1997 budget. The only remaining bounties are those for computer components producers (due to expire on July 1, 1999) The bounty on shipbuilders expired on December 31, 1997.

The "Factor (f)" Scheme is designed to compensate manufacturers of pharmaceutical products for the effects of the federal government's intervention (through the National Health System) in the market for consumer pharmaceuticals. Under the scheme, approved producers receive payments (to raise returns received for selected pharmaceuticals) to assist domestic drug research and development.

8. Protection of U.S. Intellectual Property

Australia provides comprehensive protection for intellectual property, patents, trademarks, designs and integrated circuits. Australia is a member of the World Intellectual Property Organization (WIPO), and most multilateral IPR agreements, including, the Paris Convention for the protection of industrial property, the Berne Convention for the protection of literary and artistic works, the Universal Copyright Convention, the Geneva Phonogram Convention, the Rome Convention for the protection of Performers, Producers of Phonograms, and Broadcasting Organizations, and the Patent Cooperation Treaty.

Patents: Patents are available for inventions in all fields of technology (except for human beings and biological processes relating to artificial human reproduction). They are protected by the Patents Act of 1990, which offers coverage for 20 years, subject to renewal. Trade secrets are protected by common law, such as by contract. Design features can be protected from imitation by registration under the Designs Act for up to 16 years (upon application). In 1995, a disagreement surfaced between the United States and Australia regarding the application of the TRIPS Agreement's requirement to protect test data. USTR has placed Australia on the Special 301 Watch List because legislation introduced by the Australian government does not provide adequate protection for test data submitted to regulatory authorities for marketing approval of pharmaceutical and agricultural chemicals. Discussions on this issue continue.

Trademarks and Copyrights: Australia provides TRIPs compatible protection for both registered and unregistered well known trademarks under the Trademark Act of 1995. The term of registration is ten years. Copyrights are protected under the Copyright Act of 1968 for a term of the life of the author plus 50 years. Computer

programs can receive copyright protection. The Australian government continues to consider broadening the copyright fair use exemption to include the decompilation of computer software. The Australian Copyright Act provides protection regarding public performances in hotels and clubs. Australia has effective protection against copyright piracy.

The government has introduced a bill into Parliament that would permit parallel importation of sound recordings. If this bill passes, parallel importation may be expanded to include toys, computer software, and other goods. The Australian government is considering recognizing moral rights for screenwriters, directors, and producers of cinematographic works. Australia is listed as a "Watch List" country under Special 301 in part for its failure to provide adequate protection for pharmaceutical and agricultural chemicals test data in addition to the copyright concerns listed above.

New Technologies: Infringement of technology does not appear to be a significant problem. Australia has its own software industry and accords protection to foreign and domestic production. Australia manufactures only basic integrated circuits and semiconductor chips. Australian television networks, which pay for the rights to U.S. television programs, jealously guard against infringement. The fledgling Australian cable TV networks appear to be doing the same.

9. Worker Rights

a. *Right of Association.*—Workers in Australia enjoy and practice the rights to associate, to organize and to bargain collectively. In general, industrial disputes are resolved either through direct employer-union negotiations or under the auspices of the various state and federal industrial relations commissions. Australia has ratified the major international labor organization conventions regarding worker rights.

b. *Right to Organize and Bargain Collectively.*—Approximately 30 percent of the Australian workforce belongs to a union. The industrial relations system operates through independent federal and state tribunals; unions are currently fully integrated into that process. Legislation designed to reduce the powers of unions to represent employees has been passed by federal parliament but remains to be tested in the courts and through industrial dispute mechanisms.

c. *Prohibition of Forced or Compulsory Labor.*—Compulsory and forced labor are prohibited by ILO conventions which Australia has ratified, and are not practiced in Australia.

d. *Minimum Age for Employment of Children.*—The minimum age for the employment of children varies in Australia according to industry apprenticeship programs, but the enforced requirement in every state that children attend school until age 15 maintains an effective floor on the age at which children may be employed full time.

e. *Acceptable Conditions of Work.*—There is no legislatively determined minimum wage. An administratively determined minimum wage exists through minimum wage clauses contained in several federal awards and some state awards (these effect workers mainly in the hospitality, hotels and tourism sectors). For the most part however, minimum wages in individual industries are specified in industry "awards" approved by state or federal tribunals. Workers in Australian industries generally enjoy hours, conditions, wages and health and safety standards that are among the best and highest in the world.

f. *Rights in Sectors with U.S. Investment.*—Most of Australia's industrial sectors benefit from some U.S. investment. Worker rights in all sectors are essentially identical in law and practice and do not differ between domestic and foreign ownership.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		1609
Total Manufacturing		9360
Food & Kindred Products	2031	
Chemicals & Allied Products	2524	
Metals, Primary & Fabricated	517	
Machinery, except Electrical	875	

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996—Continued

[Millions of U.S. dollars]

Category		Amount
Electric & Electronic Equipment	282	
Transportation Equipment	916	
Other Manufacturing	2215	
Wholesale Trade		2511
Banking		3742
Finance/Insurance/Real Estate		3395
Services		1437
Other Industries		6715
TOTAL ALL INDUSTRIES		28,769

Source: U.S. Department of Commerce, Bureau of Economic Analysis

PEOPLE'S REPUBLIC OF CHINA

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated][1 2]

	1995	1996	1997 [1]
Income, Production and Employment:			
Nominal GDP	701.9	816.9	892.5
Real GDPGrowth (pct) [2]	10.5	9.6	9.0
GDP by Sector:[3]			
Agriculture	144.5	167.3	170.1
Manufacturing	297.8	350.4	442.3
Services	259.6	299.2	228.5
Government	N/A	N/A	N/A
Per Capita GDP	584.8	678.8	721.7
Labor Force (millions)	687	697	707
Unemployment Rate (pct) [4]	2.9	3.0	3.1
Money And Prices (annual percentage growth):			
Money Supply (M2)	29	25	19
Consumer Price Inflation	10.1	7.0	3.4
Exchange Rate (Rmb/US$ annual average)			
Official	8.3	8.3	8.3
Balance of Payments and Trade:			
Total Exports (FOB) [5]	148.8	151.1	181.0
Exports to US	45.6	51.5	60.0
Total Imports (CIF) [5]	132.1	138.8	142.0
Imports from U.S. (FAS)	11.8	12.0	13.0
Trade Balance	16.7	12.2	39.0
Balance with U.S.	29.5	35.8	47.0
External Public Debt	106.9	116.3	N/A
Fiscal Deficit/Gdp (pct)	2.2	0.8	0.3
Current Account Surplus/GDP (pct)	0.2	0.9	1.6
Debt Service			
Payments/Exports (pct)	7.3	6.7	N/A
Payments/GDP (pct)	1.5	1.2	N/A
Gold and Foreign Exchange Reserves	73.6	105.0	142.0
Aid from United States	0	0	0
Aid from All Other Sources	0.4	0.3	N/A

[1] Estimated from third quarter and end August 1997 data.
[2] Growth rate based on constant renminbi (RMB) prices using 1978 weights. All other income and production figures are converted into dollars at the exchange rate.
[3] Production and net exports are calculated using different accounting methods and do not tally to total GDP. Agriculture includes forestry and fishing; manufacturing includes mining.
[4] "Official" urban unemployment rate; agricultural laborers are assumed to be totally employed in China's official labor data.

[5] Source: U.S. Department of Commerce (United States-China bilateral trade data) for U.S. trade; PRC Customs (Chinese global trade data and 1997 estimates).

Sources: State Statistical Bureau Yearbook, People's Bank of China Quarterly Statistical Bulletin, and U.S. Department of Commerce Trade Data.

1. General Policy Framework

The Chinese economy has grown at an average rate of nine percent per year since the 1979 economic reforms, with growth rates of 13 percent in 1992-1993, according to official data. The 1997 growth rate may exceed 9 percent, according to official projections. (Though China's official GDP figures tend to overstate growth, official data, in general, reflect significant economic trends.) China appears to have achieved a "soft landing" of single-digit inflation and stable growth in 1996 and 1997. Retail price inflation, which exceeded 20 percent in 1994, stood at only 3.4 percent in September 1997 compared to the year-earlier period. Price increases for services have been running somewhat higher, however. China continues to attract large inflows of foreign direct investment based on tax incentives, policies generally focused on the use of market forces to sustain growth, and the economic dynamism of the rapidly growing private sector. China's direct investment inflows are expected to be about $42 billion in 1997, about the same as in 1996.

The Five-Year Plan for 1996-2000 reaffirmed the importance of China's economic expansion and, by implication, its private sector, by calling for 8 percent annual GDP growth through 2000 and a further doubling of GDP during 2000-2010. Economic reform and China's opening to the outside world are central to China's development formula. However, the Five-Year Plan also reconfirmed the role of state-owned enterprises, which still directly account for 40 percent of total industrial output. About one-half of China's state-owned enterprises were reporting losses in 1997. The central government loudly endorsed further reform of the state-owned sector at the 15th Congress of the Chinese Communist Party (held in September 1997) but remains cautious about the effects of reform on social stability and unemployment. Underemployment (estimated at some 23 million persons in the state sector workforce) is not reflected in the official estimate of an urban unemployment rate of 3.1 percent. "Triangular debt" incurred by state-owned enterprises, their banks, and their suppliers remains large and inhibits economic and banking reform; many of these debts are unlikely to be paid with cash or goods.

As China deepens its reforms, new challenges will include the establishment of legal and political structures to sustain high levels of foreign as well as private domestic investment. China must also develop capital markets and financial institutions to allocate more efficiently the large amounts of savings in the economy.

A key national priority of the 1996-2000 Five-Year Plan is to deal with growing regional income disparities. This requires strengthening the government's fiscal capacity and its ability to redistribute wealth equitably. Tax reform has led to a more simplified code and has reduced the gap in tax rates between state-owned and other enterprises. Tax reforms and the new tax system began to reverse the declining share of revenues as a percent of GDP in mid-1996. (This does not take into account "policy lending" through the banking system, which ideally should be included in any analysis of the government's fiscal position.)

China made significant and numerous adjustments to its import tariff schedule on April 1, 1996 and again on October 1, 1997. China's simple average import tariff had decreased from greater than 40 percent in 1995 to 17 percent in late 1997. However, nominal tariff rates on items which are frequently smuggled into China, with attendant revenue losses and rule of law problems, remain very high; such goods include but are not limited to automobiles, wine and spirits. Import tariffs on some items of great export interest to the United States and others of China's trading partners remain high; these include the aforementioned goods, capital equipment, and some vegetable oils and fresh fruits, for example. As of late 1997, China was preparing to reinstitute capital equipment tariff waivers for some types of equipment, in part to help attract new inflows of foreign direct investment. China's import tariff revenues climbed following the 1996 tariff reductions but import growth remained anemic through late 1997.

China's undeveloped financial system remains small in comparison to China's economic ambitions and inhibits the efficient allocation of capital. However, China is moving forward with the legal framework needed to improve the banking sector. In 1995, new banking laws were adopted to facilitate the entry of foreign banks to China, although the operation of these laws are still not fully tested. China now has 135 foreign bank branches, including 11 U.S. bank branches, concentrated in coastal areas and large inland cities, including Beijing and Chengdu. The entry of these banks reinforces China's efforts to carry out financial sector liberalization. Their

presence in the market is an important channel for technology and know-how to drive further reform. Despite attempts to commercialize the banking sector, the overhang of previous debt in the form of policy loans to the state sector complicates attempts to segregate and to manage policy loans still on the books. China's large state banks are grappling with this problem, but liquidating state enterprise assets would further raise unemployment in the near term.

2. Exchange Rate Policies

Foreign-invested enterprises and authorized Chinese firms generally have liberal access to foreign exchange in China for authorized trade-related transactions. China maintains favorable rules for foreign invested enterprises (FIEs), which can have foreign currency deposits and keep their foreign exchange earnings. In 1997, the central bank (Peoples Bank of China) began implementing a new policy to allow Chinese enterprises earning more than more than 10 million dollars a year in foreign exchange receipts to keep up to 15 percent of such receipts. Previously, all Chinese firms were required to sell their foreign exchange earnings to Chinese banks. One effect of this continuing policy that mandates surrender of foreign exchange is an artificially high level of foreign exchange reserves held at the People's Bank of China, China's central bank.

The People's Bank of China introduced full convertibility of the currency for current account (trade) transactions on December 1, 1996. The move marked an important step forward on currency convertibility, though China still restricts convertibility on its capital account. Current account liberalization clearly removes foreign exchange balancing from the agenda of China's financial authorities and places it squarely on its trade agencies and the State Planning Commission. In the past, balancing requirements placed on most foreign investors in China have been "justified" by China's perceived need to accumulate greater amounts of foreign exchange reserves. The new policy should obviate any need to impose new or audit old foreign exchange balancing requirements. Whether Chinese authorities will invalidate existing foreign exchange balancing requirements required in earlier approvals (and which remain as specific provisions in individual approval documents) is still uncertain.

Chinese authorities describe the current exchange rate as a "managed float." Since January 1996, the RMB exchange rate has appreciated slightly against the U.S. dollar to just under 8.3:1. The exchange rate is permitted to fluctuate in a narrow band around central rates announced by the People's Bank of China. China uses the RMB/dollar exchange rate as the basic rate, and RMB rates against other currencies are calculated by referring to international market rates of the previous day. This system is not particularly suited to exchange rate fluctuations; the gap, when present, between cross rates and international market rates provides arbitrage opportunities to dealers while rendering the central bank cross rates inoperative because no transactions occur at the central bank rate. China still lacks a foreign exchange market where foreign exchange dealers interact directly with international markets. China lacks market interest rates.

3. Structural Policies

Chinese officials claim that prices have been freed for about 95 percent of consumer goods and 85 percent of industrial inputs. As part of its effort to control inflation, however, the Chinese government has intervened in pricing for daily necessities, basic urban services, and key commodities. China continues to maintain discriminatory pricing practices with respect to some services and inputs offered to foreign investors in China. At the same time, foreign-invested enterprises often may use incentives, tax holidays, and grace periods to pay less than the 33 percent corporate income tax rate to which they would otherwise be subject. Chinese firms pay a corporate income tax of 30 percent.

In 1994, China issued a "Framework Industrial Policy for the 1990s" which announced plans to issue policies for the automotive, telecommunications and transportation, machinery and electronics, and construction sectors. The automotive industrial policy, issued in July 1994, contains import controls, local content and other performance requirements for foreign investors, and temporary price controls for sedans. Sectoral industrial policies for the chemicals and petrochemicals and machinery industries were reportedly issued by the State Planning Commission in 1997 but have not been published.

In 1996 and 1997, the State Tax Administration implemented further reductions in the value-added tax rebate on exports begun in 1995 (currently 9 percent of the total 17-percent tax). Progress in paying off past-due value-added rebates to many exporters may have contributed to the surge in exports in 1997.

4. Debt Management Policies

At the end of 1996, China's external debt stood at about $116 billion, or 77 percent of exports, according to official Chinese data. In the context of China's strong export performance and high foreign exchange reserve levels, its current external debt burden is medium-term and long-term and remains within acceptable limits. China's 1996 debt service ratio was 6.7 percent (ratio of repayment of principal and interest on foreign debt to foreign exchange receipts of exports plus services), down from 7.3 percent in 1995, according to Chinese data. China's ratio of foreign debt to GDP declined from 15 percent in 1995 to 14 percent in 1996. The Asian Development Bank, the World Bank, and Japan are China's major creditors, providing approximately 60 percent of all China's governmental and commercial loans.

In 1995, China began drafting a law to govern management of government debt to replace the 1992 "Treasury Bond Regulations," which are deemed narrow-gauged and not sufficiently international in scope. Though there is no clear timetable, the enactment of the new law would formalize the legislative process of approving debt ceilings and more clearly regulate the activities of intermediaries and investors in the government bond market. The Fifth Party Plenum called for the Finance Ministry to unify the management of the government's internal and external debt. These objectives reflect official recognition of the need to upgrade further China's capital markets and improve debt management.

China's government bond market is still in its infancy. China established a system of primary dealers in 1994 and there are officially about 50 dealers. The Ministry of Finance authorizes them to underwrite bonds on a contract basis for domestic customers. In July 1995, China "auctioned" bonds on a very small scale, but financial experts do not regard these transactions as standard competitive bidding because priority was assigned not according to interest rates but to dealers who most quickly turned in their funds. Domestic interest rates on government bonds are fixed at about one percentage point above bank savings rates, which are "policy," not market, rates. In the last several years, China has introduced a wider variety of maturities and instruments to manage its renminbi debt, but the trend is generally towards more short- and medium-term maturities (six months and 1-5 years). Some experts have observed that the continued sharp rise in government borrowing in 1995 and 1996 (about RMB 150 billion and RMB 213 billion, respectively) reflects the decision of the Third Plenum of the 14th Communist Party Congress that fiscal deficits should be covered by bonds and not indiscriminate "policy loans."

5. Aid

The United States has provided occasional disaster-relief assistance to the People's Republic of China to help flood-relief and other humanitarian efforts in recent years. These have taken the forms of occasional grants of no more than dollars 25,000 or donations of goods. In addition, the United States operates a Peace Corps-affiliated English-language training program in southwestern China's Sichuan Province. China is a major recipient of other nations' assistance programs and of multilateral assistance. Multilateral assistance includes but is not limited to programs operated by the World Bank; the World Food Program, United Nations Development Program, and other United Nations-affiliated agencies and programs; the Asian Development Bank; and other international financial institutions.

6. Significant Barriers to U.S. Exports

China continues to impose barriers to U.S. exports, although reforms are liberalizing China's trade regime. Liberalization of China's import regime has not kept pace with liberalization of its export regime. In addition to prohibitively high tariffs which discourage many imports, China maintains several hundred formal nontariff measures (NTMs) to restrict imports, such as import licensing requirements; import quotas, restrictions, and controls; tendering requirements; and standards and certification requirements. China's restrictive system of trading rights, which severely limit domestic and foreign-invested enterprises' ability to directly import and export, raises the cost of imported goods in China by funneling imports through fee-collecting Chinese foreign trade companies. In most transactions, U.S. suppliers are unable to sell directly to their ultimate customer. Lack of regulatory transparency remains a problem, although China has made progress in publishing trade-related rules. Use of unscientific sanitary and phytosanitary measures is a barrier to exports of some U.S. agricultural goods, including meat, citrus and Pacific Northwest wheat. Nevertheless, industry has not noted significant improvement.

On October 10, 1992, the United States and China signed a Memorandum of Understanding (MOU) on Market Access that commits China to dismantle most of these barriers and gradually open its markets to U.S. exports. The actions China

has committed to take are consistent with World Trade Organization (WTO) Agreements, including the General Agreement on Tariffs and Trade (GATT).

In implementing the 1992 Market Access MOU, China has published numerous previously "confidential" trade laws and regulations, both at the central and subnational levels. Publication of trade-related laws and regulations does not always precede implementation.

Information on China's import quotas, crucial for foreign and domestic traders, has yet to be published on an itemized basis.

As a direct result of the Market Access MOU, China has removed over 1,000 quotas and licenses on a wide range of key U.S. exports such as telecommunications digital switching equipment, computers, many agricultural products, and medical equipment. As of late 1997, China currently retains NTMs on 385 tariff-line items, according to Chinese trade officials. The final NTM eliminations required under the MOU are scheduled to occur no later than January 1, 1998.

Despite the removal of these quotas and licenses, there have been indications that China is erecting new barriers to restrict imports. Examples include new procedures regarding purchases of large-size medical equipment, registration requirements for imported (but not domestically manufactured) chemicals, and new industrial policies in such areas as automobiles and electronics. In addition, continuing restrictions on trading rights can act as a barrier for imports after quotas have been removed, as in the case of crude oil imports. In the context of China's World Trade Organization accession negotiations, China has committed to significantly expand trading rights within three years of its accession. U.S. and other foreign businesses have continuing concerns about their abilities in China to amend business licenses to broaden their scopes of permitted businesses and their abilities to engage in distribution and after-sales service activities, activities necessary to make China's promised trading rights liberalization commercially meaningful.

High and unpredictable tariffs make importing into the Chinese market difficult. Tariffs on imports can run as high as 100 percent on goods such as automobiles. China announced plans in early 1996 to begin phasing out import tariff waivers on capital equipment previously available to foreign investors in China. Elimination of those waivers could mean multimillion-dollar investment project cost increases for foreign investors, and not surprisingly, contracted foreign investment in China in the first three quarters of 1997 had decreased 35 percent from the year-earlier period. China is preparing to reinstitute some form of import tariff reduction or waiver for foreign investors in 1998, with high-technology equipment (yet to be defined by China) a likely beneficiary of those tariff changes. Under commitments in the 1992 Market Access MOU, China lowered tariffs on several thousand items of interest to U.S. exporters. As part of China's effort to accede to the World Trade Organization Agreement, the United States is negotiating with China on the further reduction of tariffs of concern to U.S. companies. China had reduced its simple average import tariff rate from more than 40 percent in 1995 to 17 percent in October 1997.

China announced in early 1996 that effective April 1, 1996, tariff-rate quotas would apply to imports of wheat, corn, rice, soybeans, and vegetable oils. As of late 1997, China had not announced tariff-rate quota administration rules nor quota volumes. Out-of-quota tariff rates range as high as 121.6 percent. This unfortunate lack of clarity and information complicates trade in these goods.

Under the Market Access MOU, China agreed to base standards for the import of agricultural products and livestock genetics on sound science. Since 1992, the United States has signed a number of protocols with China that have opened the door to U.S. exports of such products as apples (from Washington, Oregon, and Idaho), cherries (from Washington), grapes, live cattle, bovine embryos, bull semen, ostriches, poultry and birds, swine, rabbits, and horses. On some key agricultural products, however, China continues to use unscientific sanitary and phytosanitary measures to block U.S. exports, especially of meat, citrus fruit and Pacific Northwest wheat.

For manufactured goods, China has required quality licenses before granting import approval, with testing based on standards and specifications often unknown or unavailable to foreigners and not applied equally to domestic products. In the Market Access MOU, China committed to applying the same standards and testing requirements to both foreign and domestic nonagricultural products.

In the Market Access MOU, China agreed to eliminate the use of import substitution policies and measures, and promised that it would not subject any imported products to such measures in the future, nor deny approval for imports because an equivalent product is produced in China. Nonetheless, the Chinese Government has

continued to place local content requirements on foreign investment in China, such as in the automotive industrial policy announced in 1994.

China has made important reforms to its trade regime in recent years. In addition to the above-mentioned actions to improve transparency, lower tariffs, and remove nontariff measures, China has adopted legislation or issued regulations on unfair competition, foreign trade, labor, protection of intellectual property rights, import quotas, commodities subject to inspection, and other trade-related issues. Implementing regulations often have not been published.

China has only recently begun to reform and open its services sector, and in most areas severely restricts or prohibits access to the market. China has initiated limited experiments in such areas as insurance, retailing, legal services, and tourist resorts. In insurance, Guangzhou was added to Shanghai in 1995 as a second city with limited (one company) foreign participation. In retailing, joint venture department stores approved at the central level (with full trading rights) remain limited to 22 stores in 11 cities and special economic zones. China offered to increase that number to a total of 26 stores in WTO accession negotiations in late 1997, but the offer fails to encompass an estimated more than 200 joint-venture department stores approved at the provincial or municipal level. Access in two key areas of interest to U.S. companies, telecommunications and financial services, remains severely restricted. Concerns about decreasing foreign investment in China is expected to prompt revision of foreign investment guidelines in early 1998, which may result in greater allowed foreign participation in some of China's services sectors.

Many joint ventures are highly dependent on China's state-owned enterprises for downstream services. Some investors have been permitted to set up their own marketing and service organizations, but many have no choice but to rely on Chinese channels for support. Imports of audio and video recordings continue to be hampered by unofficial quotas and lax enforcement of intellectual property laws. China does not permit foreign membership on its stock exchanges, although foreigners may hold certain stock with restricted privileges. Representative offices of foreign companies must hire their local employees through a labor services company.

Significant barriers to investment in China warrant further reform. Multiple, time-consuming approval procedures adversely affect establishment of investments. Depending on the locality, investments above dollars 30 million require national as well as local approval. Export requirements, local content requirements, and foreign exchange balancing requirements detract from China's investment climate. The foreign exchange balancing requirements have become less of a doing-business issue as China's foreign exchange reserves have rapidly grown in the 1995-97 period, but such restrictions on existing investors have not been eliminated. China also encourages the development of favored domestic industries through tax incentives and tariff exemptions. China permits repatriation of profits when a joint venture has earned sufficient foreign exchange to cover the remitted amount. China published investment guidelines in June 1995 cataloguing those sectors in which foreign investment is encouraged, allowed, restricted, or prohibited. China does not provide national treatment to foreign investors on establishment or operation of investments. In some key areas, such as input costs, foreign investors are often treated less favorably than Chinese firms. Foreign investors may not own land in China, though long-term land use deals may be approved. In at least one case, a U.S. company has thus far been unable to have an international arbitration award enforced in China.

Although open competitive bidding procedures are increasingly used for both domestic and foreign-invested projects, the great majority of government procurement contracts in China are handled through domestic tenders or direct negotiations with selected suppliers. Projects in certain fields require government approvals, usually from several different organizations and levels. Procedures can be opaque and foreign suppliers are routinely discriminated against in areas where domestic suppliers exist.

Customs procedures are not applied uniformly throughout China. The same product may be dutied at different rates in different Chinese ports of entry. Some products are subject to different inspection or registration procedures than domestic products. For instance, China's chemical registration regulations are applied only to foreign-made chemicals.

7. Export Subsidies Policies

China abolished direct subsidies for exports on January 1, 1991. Nonetheless, many of China's manufactured exports receive indirect subsidies through guaranteed provision of energy, raw materials or labor supplies. Other indirect subsidies

are also available such as bank loans that need not be repaid or enjoy lengthy or preferential terms. Tax rebates are available for exporters as are duty exemptions on imported inputs for export production. China reduced the level of its value-added tax rebates to exporters in 1995 and 1996 and fell billions of dollars behind in making payments on the rebates. China appears to have made progress in 1997 in reducing its value-added tax rebate arrears.

In its on-going negotiations to accede to the World Trade Organization (WTO), China announced in 1997 that it would not re-introduce export subsidies for agricultural goods following its accession. The Chinese National People's Congress at its March 1997 meeting released little public information about the central government's budget revenue and expenditures, making it difficult to verify that export subsidies are not still in place.

8. Protection of U.S. Intellectual Property

Since the signing of the U.S.-bilateral agreement on the protection of intellectual property rights (IPR) in February 1995 and the agreement in June 1996 on procedures for ensuring its effective implementation, China has made significant progress in implementing IPR regulations, education, and enforcement. China was taken off the "Special 301 Watch List" in 1996. However, its practices continue to be monitored under Section "306".

Since 1995, China claims to have closed a total of 58 unauthorized compact disc (CD) production lines, primarily in the southern provinces of Guangdong and Fujian, and to have largely eliminated unauthorized CD production in China. China claims that unauthorized CDs still sold in China are imported from elsewhere, primarily Hong Kong and Macau. China has instituted verification procedures, including foils and other markings to identify authorized products and CD production equipment now requires an official import license to be brought into the PRC. China has offered cash rewards of up to some $35,000 for information leading to closure of unauthorized CD production lines and has revised its laws to provide criminal penalties for IPR violations.

The U.S. remains concerned that penalties imposed by PRC courts are insufficient to act as a deterrent. Industry sources point out that unauthorized CDs are still being sold in China. The U.S. has reiterated requests for more detailed information, as per the terms of the 1996 Agreement, regarding closed CD factories and specific penalties imposed on IPR violators.

End-user piracy of computer software remains a serious problem in China, especially the sensitive issue of piracy within PRC government ministries. The lack of agents in China authorized to accept trademark applications from foreign companies makes it difficult for foreigners to get trademarks registered. The lack of clarity on procedures to protect well-known trademarks makes it overly difficult to oppose or seek cancellation of marks registered by someone else. The Ministry of Public Health has granted Chinese companies the right to manufacture a pharmaceutical product while an American company was awaiting action on its application for administrative protection on that product. Regulations on the use of copyright agents by foreign companies have not yet been finalized, effectively preventing the use of copyright agents in obtaining copyrights for transactions by foreign companies. The manufacture of counterfeit goods remains a serious, possibly growing problem.

U.S. industry estimates of intellectual property losses in China due to counterfeiting, piracy, and exports to third countries have exceeded dollars 2 billion.

9. Worker Rights

a. *The Right of Association.*—China's 1982 Constitution provides for "freedom of association," but this right is subject to the interest of the state and the leadership of the Chinese Communist Party. China's sole officially recognized workers' organization, the All-China Federation of Trade Unions (ACFTU), is controlled by the Communist Party. Independent trade unions are illegal. The 1993 revised Trade Union Law required that the establishment of unions at any level be submitted to a higher level trade level organization. The ACFTU, the highest level trade organization, has not approved the establishment of independent unions. Workers in companies with foreign investors are guaranteed the right to form unions, which then must affiliate with the ACFTU.

b. *The Right to Organize and Bargain Collectively.*—China's National Labor Law, which entered into force on January 1, 1995, permits workers in all types of enterprises in China to bargain collectively. The law supersedes a 1988 law that allowed collective bargaining only by workers in private enterprises. The National Labor Law provides for workers and employers at all types of enterprises to sign individ-

ual as well as collective contracts. Collective contracts should be worked out between ACFTU or worker representatives and management and specify such matters as working conditions, wage distribution, and hours of work. Individual contracts should then be drawn up in line with the terms of the collective contract. Collective contracts must be submitted to local government authorities for approval within 15 days. Through the early autumn of 1997, Chinese union and labor officials reported an increasing number of experiments in collective bargaining particularly at foreign-invested enterprises where capital interests are clearly delineated.

c. *Prohibition of Forced or Compulsory Labor.*—In addition to prisons and reform through labor facilities, which contain inmates sentenced through judicial procedures, China also maintains a network of "reeducation through labor" camps, to which inmates are sentenced through nonjudicial procedures. Inmates of reeducation through labor facilities are generally required to work. Reports from international human rights organizations and foreign press indicate that at least some persons in pretrial detention are also required to work. Chinese justice officials have stated that in reeducation through labor facilities there is a much heavier emphasis on education than on labor. Most reports conclude that work conditions in the penal system's light manufacturing factories are similar to those in ordinary factories, but conditions on farms and in mines can be harsh.

d. *Minimum Age for Employment of Children.*—China's National Labor Law forbids employers to hire workers under 16 years of age and specifies administrative review, fines and revocation of business licenses of those businesses that hire minors. The Chinese Constitution establishes the basic right of children to receive nine years of compulsory education and to receive their subsistence from parents and guardians. Laborers between the ages 16 and 18 are referred to as "juvenile workers" and are prohibited from engaging in certain forms of physical work including labor in mines. In poorer isolated areas, child labor in agriculture is widespread. China's vast reserve of surplus adult labor minimizes incentives to employ children, and China's urban child labor problem is relatively minor. No specific Chinese industry is identifiable as a significant violator of child labor regulations.

e. *Acceptable Conditions of Work.*—The National Labor Law codified many of the general principles of China's labor reform, setting out provisions on employment, labor contracts, working hours, wages, skill development and training, social insurance, dispute resolution, legal responsibility, supervision and inspection. The law does not set a national minimum wage, but allows local governments to determine their own standards on minimum wages. On May 1, 1995, China reduced the national standard work week from 44 hours to 40 hours excluding overtime. The National Labor Law mandates a 24-hour rest period per week and does not allow overtime work in excess of three hours a day or 36 hours a month. The law also sets forth a required scale of overtime compensation. While unemployment insurance schemes cover a majority of urban workers (primarily state sector workers), it is impossible to determine how many laid-off workers in fact receive any compensation.

Every work unit must designate a health and safety officer, and the International Labor Organization has established a training program for these officers. Moreover, while the right to strike is not provided for in the 1982 Constitution, the Trade Union Law explicitly recognizes the right of unions to "suggest that staff and workers withdraw from sites of danger" and to participate in accident investigations. According to Ministry of Labor statistics, released in November 1997, during the first eight months of 1997 there were 10,251 work-related accidents which claimed 10,434 lives. This represents a drop of approximately 10 percent when compared with the same 1996 time frame. The Ministry of Labor cites failure to enforce and implement government safety regulations as the primary cause for the high rate of accidents.

f. *Rights in Sectors with U.S. Investment.*—Worker rights practices do not appear to vary substantially among sectors, but safety standards are higher in U.S.-invested companies in general.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category	Amount
Petroleum	904
Total Manufacturing	1504

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996—Continued

[Millions of U.S. dollars]

Category		Amount
Food & Kindred Products	133	
Chemicals & Allied Products	249	
Metals, Primary & Fabricated	26	
Machinery, except Electrical	[1]	
Electric & Electronic Equipment	736	
Transportation Equipment	[1]	
Other Manufacturing	189	
Wholesale Trade		108
Banking		74
Finance/Insurance/Real Estate		[1]
Services		[1]
Other Industries		187
TOTAL ALL INDUSTRIES		2,883

[1] Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis

HONG KONG

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Income, Production and Employment:			
Nominal GDP [2]	140.1	155.0	174.1
Real GDP Growth (pct)	4.5	4.9	5.5
GDP by Sector:			
Agriculture	0.2	N/A	N/A
Manufacturing	11.0	N/A	N/A
Services	110.0	N/A	N/A
Government	12.3	13.7	15.4
Per Capita GDP (US$)	21,617	23,086	25,432
Labor Force (000s)	3,001	3,094	3,159
Unemployment Rate (pct)	3.2	2.8	2.5
Money and Prices (annual percentage growth):			
Money Supply (M2) [3]	14.6	10.9	14.4
Consumer Price Inflation (pct)	8.7	6.0	7.0
Exchange Rate(HK$/US$):			
Official	7.73	7.73	7.75
Balance of Payments and Trade:			
Total Exports (FOB) [4]	173.8	180.8	189.1
Exports to U.S. [5]	10.3	9.9	9.6
Total Imports (CIF)	192.8	198.9	210.9
Imports from U.S. [5]	14.2	14.0	15.4
Trade Balance	-19.0	17.8	-21.8
Balance with U.S. [5]	3.9	4.1	5.8
External Public Debt	0	0	0
Fiscal Deficit/GDP (pct) [6]	2.3	0.3	-1.0
Current Account Deficit/GDP (pct)	-2.5	-1.0	-1.5
Debt Service Payments/GDP (pct)	0	0	0
Gold and Foreign Exchange Reserves (end of period) [7]	55.4	62.1	89.4
Aid from U.S.	0	0	0
Aid from All Other Sources	0	0	0

[1] Estimates based on available monthly data in September 1996

[2] Expenditure-based GDP estimates
[3] Money supply of Hong Kong dollars and foreign currencies
[4] Of which domestic exports (as opposed to re-exports) constituted 17.2 percent (1995), 15.2 percent (1996) and 14.5 percent (1997 estimate based on data through August).
[5] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1997 figures are estimates based on data available through August 1997. Hong Kong merchandise trade includes substantial re-exports (mainly from China) to the United States, which are not included in these figures.
[6] As of Q2 1997
[7] As of Q2 1997; the Land Fund was included in the foreign exchange reserves effective July 1, 1997
Sources: Census and Statistics Department

1. General Policy Framework

The Hong Kong Government pursues economic policies of noninterference in commercial decisions, low and predictable taxation, government spending increases within the bounds of real economic growth, competition subject to transparent laws (albeit without antitrust legislation) and consistent application of the rule of law. With few exceptions, the government allows market forces to set wages and prices, and does not restrict foreign capital or investment. It does not impose export performance or local content requirements, and allows free repatriation of profits. Hong Kong is a duty-free port, with few barriers to trade in goods and services.

The Government regularly runs budget surpluses, and has amassed large fiscal reserves. The corporate profits tax is 16.5 percent, and personal income is taxed at a maximum rate of 15 percent. Property is taxed. Interest, royalties, dividends, capital gains and sales are not. Government spending has grown from approximately 14 percent of GDP in the mid 1980s to about 19 percent by the early 1990s.

Because monetary policy is tied to maintaining the nominal exchange rate linked to the U.S. dollar, Hong Kong's monetary aggregates have effectively been demand determined. The Hong Kong Monetary Authority, responding to market pressures, occasionally adjusts liquidity through interest rate changes and intervention in the foreign exchange and money markets.

On July 1, 1997, Hong Kong became a Special Administrative Region of the PRC. China assumed responsibilities for Hong Kong's foreign affairs and defense, but Hong Kong remains a separate customs territory with a high degree of economic autonomy. It continues to manage its financial and economic affairs, to use its own currency, and to participate independently in international economic organizations and agreements.

2. Exchange Rate Policies

The Hong Kong dollar is linked to the U.S. dollar at an exchange rate of HK$7.8 = US$1.00. The link was established in 1983 to encourage stability and investor confidence in the run-up to Hong Kong's reversion to Chinese sovereignty in 1997. PRC officials have said they support Hong Kong's policy of maintaining the link after 1997.

There are no multiple exchange rates and no foreign exchange controls of any sort. Under the linked exchange rate, the overall exchange value of the Hong Kong dollar is influenced predominantly by the movement of the U.S. dollar against other major currencies. The price competitiveness of U.S. exports is affected in part by the value of the U.S. dollar in relation to third country currencies.

3. Structural Policies

There has been no major change in Hong Kong's free market approach to economics. The government does not have pricing policies, except for in a few still-regulated sectors such as telecommunications. Its personal and corporate tax rates remain low, and it does not impose import or export taxes. Over the past three years, Hong Kong has completed its deregulation of interest rates covering almost 99 percent of deposits, removing interest rate caps for deposits of seven days or less. Consumption taxes on tobacco, alcoholic beverages, and some fuels probably restrict demand for some U.S. exports. Hong Kong generally adheres to international product standards.

Hong Kong's lack of antitrust laws has allowed monopolies or cartels—some of which are government-regulated—to dominate certain sectors of the economy. These monopolies/cartels do not necessarily discriminate against U.S. goods or services, but they can use their market position to block effective competition.

4. Debt Management Policies

The Hong Kong government has minuscule public debt. Repeated budget surpluses have meant the government has not had to borrow. To promote the development of Hong Kong's debt market, the government in March 1990 launched an exchange fund bills program with the issuance of 91-day bills. Maturities have gradu-

ally been extended. Five-year notes were issued in October 1993, extending maturities beyond Hong Kong's reversion to Chinese sovereignty, followed by 7-year notes in late 1995 and 10-year notes in 1996. Under the Sino-British agreed minute on financing the new airport and related railway, total borrowing for these projects cannot exceed US$2.95 billion, and such borrowing "will not need to be guaranteed or repaid by the government." Liability for repayment will rest with the two statutory bodies: the Mass Transit Railway Corporation and the future Airport Authority.

5. Significant Barriers to U.S. Exports

Hong Kong is a member of the World Trade Organization, but is not a party to the WTO's plurilateral agreement on civil aircraft. As noted above, Hong Kong is a duty-free port with no quotas or dumping laws, and few barriers to the import of U.S. goods.

Import licenses: Hong Kong requires import licenses for textiles, rice, meats, plants, and livestock. The stated rationale for most license requirements is to ensure health standards are met. The requirements do not have a major impact on U.S. exports.

Services barriers: There are some barriers to entry in the services sector:

Hong Kong has liberalized its telecommunications policy, but still maintains a government-regulated monopoly on international voice services.

Foreign ownership of local broadcasting stations or cable operators cannot exceed 49 percent. Moreover, the government stipulates that broadcasters use the Hong Kong Telecom International satellite uplink rather than their own uplink.

A new bilateral civil aviation agreement gives U.S. air carriers important new rights. However, the agreement does not permit code sharing or allow U.S. carriers new fifth freedom passenger rights to carry passengers beyond Hong Kong. These factors will limit expansion of U.S. passenger carriers in the Hong Kong market.

Foreign law firms are barred from hiring local lawyers to advise clients on Hong Kong law, even though Hong Kong firms can hire foreign lawyers to advise clients on foreign law. Foreign law firms can become "local law firms" and hire Hong Kong attorneys, but they must do so on a 1:1 ratio with foreign lawyers.

Foreign banks established after 1978 are permitted to maintain only one branch (automated teller machines meet the definition of a branch). Since 1994, these banks have been allowed to open a regional and a back office at separate sites. Foreign banks can acquire local banks that have unlimited branching rights.

6. Export Subsidies Policies

The Hong Kong government neither protects nor directly subsidizes manufacturers. It does not offer exporters preferential financing, special tax or duty exemptions on imported inputs, resource discounts, or discounted exchange rates.

The Trade Development Council, a quasi-governmental statutory organization, engages in export promotion activities and promotes Hong Kong as a hub for trade services. The Hong Kong Export Credit and Insurance Corporation provides insurance protection to exporters.

7. Protection of U.S. Intellectual Property

With respect to the legislative arena and international conventions, Hong Kong's framework is world class. Hong Kong has acceded to the Paris Convention on industrial property, the Berne copyright convention, and the Geneva and Paris Universal Copyright Conventions. For those conventions that only allow sovereign state participation, China is applying all of them to Hong Kong post-1997 (a continuation of the United Kingdom's practice). Hong Kong passed a solid new copyright law in June 1997. Enforcement of copyright and trademarks, however, remains a problem.

Copyrights: Sale of pirated products at retail shopping arcades is widespread and blatant. The United States has urged the government at senior levels to crack down on this retail trade, and on the distributors/wholesalers behind them. Hong Kong has responded by beefing up enforcement manpower in the customs agency and by conducting more aggressive retail-level raids. Recent raids, using confiscatory powers in the new copyright bill, have had some impact on the operations of the largest and most notorious retail arcade, but pirated goods remain easily available at more than a dozen other arcades. The judiciary has slowly begun to increase sentences and fines on infringers. Still, there is no effective deterrent to piracy. In 1997, the number of compact disc production plants in Hong Kong rose dramatically. While many of the plants appear to be legitimate producers, a number are producing pirated discs, including for export to China. The United States has urged the government to take measures to detect and prevent production of pirated goods. The government

has decided to develop a new anti-piracy legislative package which, if approved, should enable it to monitor and control production.

Trademarks: Sale of counterfeit items, particularly handbags and apparel, is widespread in Hong Kong's outdoor markets. Customs officials have conducted numerous raids, but these actions have had little impact on the overall availability of counterfeit goods.

New Technologies: Computer chip manufacturers say Hong Kong remains a major center for illicit chip "re-marking," despite a number of successful raids by Hong Kong Customs on re-marking centers.

There are no reliable figures on the total losses to U.S. firms from piracy in and through Hong Kong. The Business Software Alliance estimated in early 1997 that 62 percent of the business software sold in Hong Kong was pirated; it estimates the level of piracy is higher for non-business software. The U.S. music industry estimates that twenty percent of the recorded music sold in Hong Kong is pirated.

8. Workers Rights

a. *The Right of Association.*—Local law provides for right of association and the right of workers to establish and join organizations of their own choosing. Trade unions must be registered with the government. The government does not discourage or impede union formation or discriminate against union members. Workers who allege anti-union discrimination have the right to have their cases heard by a government labor relations body. Work stoppage and strikes are permitted; however, in practice, most workers must sign employment contracts that state that walking off the job is a breach of contract and can lead to summary dismissal. A bill passed just before Hong Kong's July 1 reversion removed the longstanding requirement that unions obtain government approval prior to affiliating with foreign organizations. However, the Provisional Legislature subsequently amended the new law to require notification to the Labor Department and approval from a majority of union members prior to establishing links to foreign labor organizations.

b. *The Right to Organize and Bargain Collectively.*—The International Convention on the Right to Organize and Bargain Collectively has been applied to Hong Kong without modification since 1975. However, collective bargaining has not been widely practiced. A law passed by the pre-reversion legislature made collective bargaining and related practices mandatory for unions representing 15 percent or more of a company's total workforce in companies with over 50 employees. The Provisional Legislature subsequently repealed the law.

c. *Prohibition of Forced or Compulsory Labor.*—Compulsory labor is prohibited under existing legislation.

d. *Minimum Age for Employment of Children.*—The "Employment of Children" regulations prohibit employment of children under age 15 in any industrial establishment. Children ages 13 and 14 may be employed in certain non-industrial establishments, subject to conditions aimed at ensuring a minimum of 9 years of education and protecting their safety, health, and welfare. The government continues inspections to safeguard against the employment of children. Few violations have been found in recent years.

e. *Acceptable Conditions of Work.*—There is no minimum wage except for foreign domestic workers. Aside from a small number of trades and industries in which a uniform wage structure exists, wage levels are customarily fixed by individual agreement between employer and employee and are determined by supply and demand. Hours and conditions of work for women and young persons aged 15 to 17 in industry are regulated. There are no legal restrictions on hours of work for men. Overtime is restricted in the case of women and prohibited for all persons under age 18 in industrial establishments. In extending basic protection to its work force, the government has enacted industrial safety and compensation legislation. The Labor Department carries out inspections to enforce legislated standards and also carries out environmental testing and conducts medical examinations for complaints related to occupational hazards.

f. *Rights in Sectors with U.S. Investment.*—U.S. direct investment in manufacturing is concentrated in the electronics and electrical products industries. Aside from hazards common to such operations, working conditions do not differ materially from those in other sectors of the economy. Relative labor market tightness and high job turnover have spurred continuing improvements in working conditions as employers compete for available workers.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		599
Total Manufacturing		260
Food & Kindred Products	15	
Chemicals & Allied Products	68	
Metals, Primary & Fabricated	[1]	
Machinery, except Electrical	490	
Electric & Electronic Equipment	1085	
Transportation Equipment	[1]	
Other Manufacturing	767	
Wholesale Trade		5022
Banking		1506
Finance/Insurance/Real Estate		4656
Services		815
Other Industries		823
TOTAL ALL INDUSTRIES		16,022

[1] Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis

INDONESIA

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Income, Production and Employment:			
Nominal GDP	198.1	221.1	211.2
Real GDP Growth (pct)	8.1	7.6	5.0
GDP by Sector: [2]			
Agriculture	33.5	36.8	N/A
Manufacturing	50.	60.3	N/A
Services	71.0	80.5	N/A
Government	10.4	10.5	N/A
Per Capita GDP (US$)	1014	1116	1049
Labor Force (millions)	82	85	88
Unemployment Rate (pct)	4.4	4.6	N/A
Money and Prices (annual percentage growth):			
Money Supply (M2) [5]	27.6	30.8	13.1
Consumer Price Inflation (pct) [4]	9.0	8.0	10.0
Exchange Rate (rupiah/US$):			
(avg. for yr.)	2249	2335	2900
Balance of Payments and Trade:			
Total Exports (FOB) [3]	45.5	50.4	25.6
Exports to US [3]	7.4	8.2	3.3
Total Imports (CIF) [3]	39.8	44.9	21.4
Imports from US [3]	3.4	3.7	2.8
Trade Balance [3]	5.7	5.5	4.2
Balance with US [3]	4.0	4.5	0.5
External Public Debt	108.5	116.5	117.3
Debt Service Payments/GDP (pct)	7.9	7.4	N/A
Current Account Deficit/GDP(pct)	3.6	3.9	3.0
Fiscal Deficit/GDP (pct) [4]	-1.0	0.1	0.8
Gold and Foreign Exchange Reserves (end of period)	14.7	17.1	19.2
Aid from U.S. (millions of US$)	96.0	71.0	72.5

Key Economic Indicators—Continued

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Aid from All Other Sources	5.3	5.2	N/A

[1] Estimates based on preliminary data in November 1997.
[2] GDP at market prices. GDP figures for 1997 are preliminary estimates.
[3] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1997 figures are estimates for January—June 1997 from Indonesian Central Bureau of Statistics.
[4] Estimate for fiscal year 1997/98 (4/1/97-3/31/98)
[5] 1997 figure is for January—September 1997

Sources: Government of Indonesia, U.S. Department of Commerce, IMF

1. General Policy Framework

Indonesia has made remarkable economic progress over the last 30 years. In 1967, it was one of the world's poorest countries, with per capita GDP of $70 per person. Indonesia's estimated per capita GDP passed $1000 in 1995, life expectancy has risen to 63 years from 41 years in 1965, and infant mortality and illiteracy rates have fallen dramatically. Real GDP growth averaged over 7 percent per year from 1991-1996 with inflation confined to the 5-10 percent range. Slower growth and higher inflation are expected in 1997 as a result of the economic downturn sparked by sharp depreciations in mid-1997 of the currencies of Indonesia and other Southeast Asian countries and drought.

The government maintains a balanced budget in the sense that on-budget expenditures do not exceed domestic revenue plus foreign assistance receipts. The central bank controls the money supply through the purchase and sale of its own open market instruments, known as "Sertifikat Bank Indonesia" (SBI's) and "Surat Berharga Pasar Uang" (SBPU's).

The Indonesian government has made steady progress in trade and investment deregulation, usually by periodically implementing "deregulation packages" of liberalization measures. Through these packages, the government has lowered investment barriers and instituted a program of comprehensive tariff reduction by staged cuts. Its goal is to reduce all tariffs in the 1-20 percent range to 5 percent or less by 2000, and to reduce all tariffs in the 20 percent and higher range to 10 percent or less by 2003. Although the deregulation packages have made comparatively less progress in reducing non-tariff barriers, the government's November 1997 package, prepared in collaboration with the International Monetary Fund (IMF), ended some monopolies on food items and pledged gradual opening of Indonesia's closed distribution system.

Indonesia's economic development offers promise for U.S. business. U.S. exports to Indonesia have quadrupled since 1987. U.S. merchandise exports to Indonesia grew by nearly 16 percent in 1996 to $8.2 billion. The best prospects for U.S. exporters include equipment used in the construction of infrastructure, machinery, agricultural products for consumption and as manufacturing inputs, aviation equipment, and household consumer goods. However, the rupiah depreciation and economic downturn that characterized the second half of 1997 had an adverse impact on exports from the United States and other countries.

2. Exchange Rate Policies

From late 1986 until August 1997, the rupiah was on a managed float, depreciating slowly against a basket of trading partners' currencies. Over the past several years, Bank Indonesia (the central bank) had steadily widened the band between its buying and selling rate on the rupiah in an effort to encourage the development of an interbank foreign exchange market and discourage speculative short-term capital flows. However, with pressure on the rupiah and the currencies of neighboring countries, Bank Indonesia decided on August 14 to eliminate its intervention band. Since then, the rupiah has essentially floated, although Bank Indonesia continues to intervene on occasion in an effort to stabilize the exchange rate; that support is an important element of the IMF package mentioned above. As of late November 1997, the exchange rate was 3,500 rupiah per U.S. dollar, amounting to an almost 50 percent nominal devaluation since the beginning of the year.

3. Structural Policies

In general, the government allows the market to determine price levels. The government enforces a system of floor and ceiling prices for certain "strategic" food products such as rice. The number of such products was reduced by the government

as part of its November 1997 economic reforms. In some cases, business associations, with government support, establish prices for their products. Direct government subsidies are confined to a few goods such as fertilizer and electricity.

Individuals and businesses are subject to income taxes. In 1995, the government reduced the highest marginal income tax rate on firms as well as individuals to 30 percent for annual earnings in excess of Rupiah 50 million (US$ 14,300 at the November 1997 exchange rate). A value-added tax and import duties are other important sources of government revenue. Companies can apply for an exemption from or a rebate of import duties and VAT paid on inputs used to produce exports. A number of agricultural and resource based products remain subject to export taxes. They include sawn lumber, rattan, mineral ores, and palm oil.

4. Debt Management Policies

Indonesia's foreign debt totals about $117 billion, with about $52 billion owed by the state sector and $65 billion by the private sector. In 1997 Indonesia will devote the equivalent of approximately 34 percent of total export earnings to principal and interest payments on its foreign debt. The government is fully committed to meeting official debt service obligations and has no plans to seek debt rescheduling.

A Cabinet-level team was set up by the government in September 1991 to oversee foreign borrowing. The team is charged with reviewing applications for foreign commercial credits to finance projects in which the government or a state owned enterprise is involved. Financing for purely private projects is not affected.

5. Significant Barriers to U.S. Exports

Import licenses: The government has been reducing the number of items subject to import licenses and other non-tariff import barriers such as special licensing requirements. Such barriers are concentrated on agricultural commodities and selected strategic industries.

Services barriers: Despite some loosening of restrictions, services trade entry barriers continue to exist in many sectors, particularly in the financial sector. Foreign banks, securities firms, and life and property insurance companies are permitted to form joint ventures with local companies, but in most cases the capitalization requirements are higher than for domestic firms, and there are legal requirements, albeit not yet enforced in practice, that require foreign-owned financial services firms to divest to a minority-level of ownership. Removal of those sorts of barriers was under intensive discussion in late 1997 within the framework of the World Trade Organization Financial Services negotiations in Geneva.

Foreign accounting firms must operate through technical assistance arrangements with local firms, but Indonesian citizenship is no longer a requirement for licensing as an accountant. Foreign agents and auditors may act only as consultants and may not sign audit reports. Foreign law firms are not allowed to establish practices in Indonesia. Attorneys are admitted to the bar only if they have graduated from an Indonesian legal faculty or an institution recognized as the equivalent. Foreign companies incorporated in Indonesia may issue stocks and bonds through the capital market.

Distribution in the domestic market has been quite restricted. The November 1997 deregulation package included a provision allowing foreign firms that produce in Indonesia to directly distribute their products domestically. Beginning in 2003, such firms may sell their products at the retail level. Indonesia imposes a quota on the number of foreign films which may be imported in a given year. Films may be imported and distributed only by fully Indonesian-owned companies.

Standards, testing, labeling and certification: Despite a policy which states that the Department of Health must decide within one year of receipt of an application whether to grant registration for new foreign pharmaceutical products, registration can take longer in practice. Foreign pharmaceutical firms have seen copied products available on the local market before their products were registered. Through changes in its patent law, the government is addressing such problems.

Investment barriers: The government is committed to increasing foreign investment and to reducing burdensome bureaucratic procedures and substantive requirements for foreign investors. The most substantial measure was taken in June 1994, when the government dropped initial foreign equity requirements and sharply reduced divestiture requirements. Indonesian law now provides for both 100 percent direct foreign investment projects and joint ventures with a minimum Indonesia equity of 5 percent. In addition, the government opened several previously restricted sectors to foreign investment, including harbors, electricity generation, telecommunications, shipping, airlines, railways, roads, and water supply. Some sectors

remain restricted or closed to foreign investment and are carried on the so-called negative list. They include retail trade, some types of wood processing, television and radio broadcasting, local shipping and transportation, and logging.

Most foreign investment proposals must be approved by the Capital Investment Coordinating Board (BKPM). Investments in the oil and gas, mining, banking, securities and insurance industries are covered by specific laws and regulations and handled by the relevant technical ministries.

In a significant move, the government of Indonesia in September 1997 removed all foreign ownership limitations on firms publicly traded on Indonesian stock markets (the Jakarta and Surabaya stock exchanges), with the exception of banks, where a 49 percent foreign-ownership limit remains.

In March 1996, Indonesia announced a "pioneer" auto industry policy intended to promote the establishment of an indigenous Indonesian auto industry. The program grants import tariff and tax preferences to only one company which meets certain requirements, including that it be fully Indonesian owned and that it meet specified domestic content levels within three years. In addition, the company could import up to 45,000 completely built-up units duty free while it established production capacity. The United States, the European Union, and Japan are engaged in dispute settlement procedures with Indonesia on this matter under the World Trade Organization; Indonesia has pledged to abide by the ruling.

Government procurement practices: In 1994, the government enacted a procurement law to regulate government procurement practices and strengthen the procurement oversight process. Most large government contracts are financed by bilateral or multilateral donors who specify procurement procedures. For large projects funded by the government, international competitive bidding practices are to be followed. The government seeks concessional financing which includes a 3.5-percent interest rate and a 25-year repayment period with 7 years' grace. Some projects do proceed on less concessional terms. Foreign firms bidding on certain government-sponsored construction or procurement projects may be asked to purchase and export the equivalent in selected Indonesia products. Government departments and institutes and state and regional government corporations are expected to utilize domestic goods and services to the maximum extent feasible, but this is not mandatory for foreign-aid-financed-goods and services procurement. State-owned enterprises which have offered shares to the public through the stock exchange are exempted from government procurement regulations.

Customs procedures: On April 1, 1997, the Indonesian Customs Service resumed authority over inspections after a 12-year hiatus during which Indonesia operated a post-shipment inspection system by contract with Swiss firm Societe Generale de Surveillance (SGS). Despite some initial uncertainty over the new post-audit system and backlogs at the ports in the months following the switch, the transition to the new system appears to be complete. The government is now working to implement an electronic data interchange (EDI) system to link Customs with importers and banks to smooth the flow of trade.

6. Export Subsidies Policies

Indonesia joined the GATT Subsides Code and eliminated export loan-interest subsidies as of April 1, 1990. As part of its drive to increase non-oil and gas exports, the government permits restitution of VAT paid by a producing exporter on purchases of materials for use in manufacturing export products. Exemption from or drawbacks of import duties are available for goods incorporated into exports.

7. Protection of U.S. Intellectual Property

Indonesia is a member of the World Intellectual Property Organization (WIPO) and in 1997 became full party to the Paris Convention for the Protection of Intellectual Property, the Bern Convention for the Protection of Literary and Artistic Works, the Patent Cooperation Treaty, the Trademark Law Treaty, and the WIPO Copyright Treaty.

Indonesia is making progress in improving intellectual property protection. New patent, trademark, and copyright laws were enacted in May 1997 in order to bring Indonesia's laws into compliance with the WTO Agreement on Trade-Related Aspects of Intellectual Property. The laws addressed many of the remaining inadequate penalties but lax enforcement and a judicial system unfamiliar with intellectual property law still pose problems for U.S. companies. The government has turned its attention to improving enforcement of its IPR regime and public awareness of the issues. In April 1997, the U.S. Trade Representative cited Indonesia on its Special 301 Priority Watch List for IPR protection. The government often re-

sponds to U.S. companies which put forward specific complaints about pirated goods and trademark abuse, but the court system can be capricious, and punishment of pirates of intellectual property has been rare.

—Patents: Indonesia's 1997 patent law addressed several areas of concern to U.S. companies, including compulsory licensing provisions, a relatively short term of protection, and a provision which allowed importation of 50 pharmaceutical products by non-patent holders.

—Trademarks: The April 1993 trademark law provided for determination of trademark rights by registration rather than first use. The law provides protection for well-known marks but because the judicial process is time-consuming and unreliable, companies continue to find it difficult to protect well-known marks in Indonesia. After registration, marks must actually be used in commerce and cancellation actions must be lodged within five years of the trademark registration date.

—Copyrights: The government has demonstrated that it wants to stop copyright piracy and that it is willing to work with copyright holders to this end. In late 1997, the government reinvigorated its efforts to combat pirated audio and video compact disks and software by demonstrating a commitment to more strenuous enforcement.

—New technologies: Biotechnology and integrated circuits are not protected under Indonesia intellectual property laws. The government is in the process of preparing laws on trade secrets, industrial design, and integrated circuits.

—Impact: U.S. industry has placed considerable emphasis on improvement of Indonesia's intellectual property regime, but it is difficult to estimate prospective losses incurred by current inadequacies in protection.

8. Worker Rights

a. *The Right of Association.*—Private sector workers, including those in export processing zones, are by law free to form worker organizations without prior authorization. However, government policies and current numerical requirements for union recognition constitute a significant barrier to freedom of association and the right to engage in collective bargaining. The federation of all-Indonesia trade unions (FSPSI), the only trade union federation recognized by the government, and single company "plant-level unions" can legally bargain on behalf of employees or represent workers in the department of manpower's labor courts. The government may dissolve a union if it believes the union is acting against the national ideology, Pancasila, although it has never actually done so, and there are no laws or regulations specifying procedures for union dissolution.

Two labor groups other than FSPSI are active but not recognized by the government: the Serikat Buruh Sejahtera Indonesia (SBSI, Indonesia Prosperity Trade Union), and the Alliance of Independent Journalists (AJI). The government considers the SBSI and AJI to be illegal and has harassed them by arrests, interrogations, and disbanding meetings, but has not formally banned them. As of November 1997, the leader of the SBSI, Muchtar Pakpahan, was being tried on subversion charges.

Civil servants are not permitted to join unions and must belong to KORPRI, a nonunion association whose central development council is chaired by the Minister of Home Affairs. State enterprise employees, defined to include those working in enterprises in which the state has a 5-percent holding or greater, usually are required to join KORPRI, but a small number of state enterprises have FSPSI units. Teachers must belong to the teachers' association (PGRI). All organized workers except civil servants have the legal right to strike. While state enterprise employees and teachers rarely exercise this right, private sector strikes are frequent.

b. *The Right to Organize and Bargain Collectively.*—Recognized trade unions and plant level unions can legally engage in collective bargaining and can collect dues from members through a checkoff system. In companies without unions, the government discourages workers from utilizing outside assistance, preferring that workers seek its assistance. By regulation, negotiations must be concluded within 30 days or be submitted to the Department of Manpower for mediation and conciliation or arbitration. Agreements are for two years and can be extended for one year. According to NGOs involved in labor issues, the provisions of these agreements rarely go beyond the legal minimum standards established by the government, and the agreements are often merely presented to worker representatives for signing rather than being negotiated.

Although government regulations prohibit employers from discriminating or harassing employees because of union membership, there are credible reports from union officials of employer retribution against union organizers, including firing, which is not effectively prevented or remedied in practice. Charges of antiunion dis-

crimination are adjudicated by administrative tribunals. However, because many union members believe the tribunals generally side with employers, many workers reject or avoid the procedure and present their grievances directly to the national human rights commission, parliament and other agencies. Administrative decisions in favor of dismissed workers tend to be monetary awards; workers are rarely reinstated. The provisions of the law make it difficult to fire workers, but the law is often ignored in practice.

The armed forces, which include the police, continue to involve themselves in labor issues, despite the Minister of Manpower's revocation in 1994 of a 1986 regulation allowing the military to intervene in strikes and other labor actions. A 1990 decree gives the agency for coordination of national stability (BAKORSTANAS) authority to intervene in strikes in the interest of political and social stability remains in effect.

c. *Prohibition of Forced or Compulsory Labor.*—The law forbids forced labor, and the government generally enforces it. However, according to credible sources, there are several thousand children working on fishing platforms off the East coast of North Sumatra in conditions of bonded labor. Most are recruited from farming communities, and once they arrive at the work site, are not permitted to leave for at least three months and until a replacement worker can be found. Children receive average monthly wages of $17 to $32. They live in isolation on the sea, working 12 to 20 hours per day in often dangerous conditions, sleeping in the workspace with no access to sanitary facilities. There are reports of physical, verbal and sexual abuse of the children.

d. *Minimum Age for Employment of Children.*—Child labor exists in both industrial and rural areas, and in both the formal and informal sectors. According to a 1995 report of the Indonesian Central Bureau of Statistics, four percent of Indonesian children between the ages of 10 and 14 work full-time, and another four percent work in addition to going to school. Many observers believe that number to be significantly understated, because documents verifying age are easily falsified, and because children under 10 were not included. Indonesia was one of the first countries to be selected for participation in the ILO's international program on the elimination of child labor (IPEC). Although the ILO has sponsored training of labor inspectors on child labor matters under the IPEC program, enforcement remains lax.

e. *Acceptable Conditions of Work.*—Indonesia does not have a national minimum wage. Rather, area wage councils working under the supervision of the national wage council establish minimum wages for regions and basic needs figures for each province—a monetary amount considered sufficient to enable a single worker to meet the basic needs of nutrition, clothing, and shelter. While Indonesia has succeeded in dramatically lowering the level of poverty throughout the country, the minimum wage rates until recently have usually lagged behind inflation and even the basic needs figures. The government raised minimum wage rates the last three years, and in 1996 required employers to pay workers for 30 days during a month. In Jakarta the minimum wage is about $57 (rp 172,500) per month. There are no reliable statistics on the number of employers paying at least the minimum wage. Independent observers' estimates range between 30 and 60 percent.

Labor-law and ministerial regulations provide workers with a variety of other benefits, such as social security, and workers in more modern facilities often receive health benefits, free meals, and transportation. The law establishes 7-hour workdays and 40-hour work weeks, with one 30-minute rest period for each 4 hours of work. The law also requires 1 day of rest weekly. The daily overtime rate is 1½ times the normal hourly rate for the first hour, and twice the hourly rate for additional overtime. Observance of laws regulating benefits and labor standards varies from sector to sector and by region. Employer violations of legal requirements are fairly common and often result in strikes and employee protests. The Ministry of Manpower continues publicly to urge employers to comply with the law. However, in general, government enforcement and supervision of labor standards are weak.

Both law and regulations provide for minimum standards of industrial health and safety. In the largely western-operated oil sector, safety and health programs function reasonably well. However, in the country's 100,000 larger registered companies in the nonoil sector, the quality of occupational health and safety programs varies greatly. The enforcement of health and safety standards is severely hampered by the limited number of qualified department of manpower inspectors as well as by the low level of employee appreciation for sound health and safety practices. Allegations of corruption on the part of inspectors are common. Workers are obligated to report hazardous working conditions. Employers are forbidden by law from retaliating against those who do, but the law is not effectively enforced.

f. *Rights in Sectors with U.S. Investment.*—Working conditions in firms with U.S. ownership are widely recognized as better than the norm for Indonesia. Application of legislation and practice governing worker rights is largely dependent upon whether a particular business or investment is characterized as private or public. U.S. investment in Indonesia is concentrated in the petroleum and related industries, primary and fabricated metals (mining), and pharmaceutical sectors.

Foreign participation in the petroleum sector is largely in the form of production sharing contracts between the foreign companies and the state oil and gas company, Pertamina, which retains controls over all activity. All employees of foreign companies under this arrangement are considered state employees and thus all legislation and practice regarding state employees generally applies to them. Employees of foreign companies operating in the petroleum sector are organized in KORPRI. Employees of these state enterprises enjoy most of the protection of Indonesia labor laws but, with some exceptions, they do not have the right to strike, join labor organizations, or negotiate collective agreements. Some companies operating under other contractual arrangements, such as contract or work and, in the case of the mining sector, cooperative coal contracts, do have unions and collective bargaining agreements.

Regulations pertaining to child labor and child welfare are applicable to employers in all sectors. Employment of children and concerns regarding child welfare are not considered major problem areas in the petroleum and fabricated metals sectors. Legislation regarding minimum wages, hours of work, overtime, fringe benefits, health and safety applies to all sectors. The best industrial and safety record in Indonesia is found in the oil and gas sector.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		4742
Total Manufacturing		353
Food & Kindred Products	32	
Chemicals & Allied Products	199	
Metals, Primary & Fabricated	10	
Machinery, except Electrical	2	
Electric & Electronic Equipment	[1]	
Transportation Equipment	[1]	
Other Manufacturing	[1]	
Wholesale Trade		93
Banking		[1]
Finance/Insurance/Real Estate		431
Services		[1]
Other Industries		1687
TOTAL ALL INDUSTRIES		7571

[1] Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis

JAPAN

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997
Income, Production and Employment:			
Nominal GDP	5,143.0	4,623.1	[1] 4,214.5
Real GDP Growth (pct)	1.4	3.5	[2] 1.2
GDP by Sector:			
Agriculture	99.3	N/A	

Key Economic Indicators—Continued

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997
Manufacturing	1,270.4	N/A	
Services	874.3	N/A	
Government	415.0	N/A	
Per Capita Income (USD)	31,546	N/A	
Labor Force (millions)	66.5	67.1	[3] 67.9
Unemployment Rate (pct)	3.2	3.4	[4] 3.4
Money and Prices (annual percentage growth):			
Money Supply (M2 + CD)	3.2	3.3	[3] 3.0
Consumer Price Inflation	0.1	0.1	[3] 1.6
Exchange Rate: (yen/USD)	93.90	108.81	120.40
Balance of Payments and Trade:			
Total Exports (FOB)	N/A	N/A	N/A
Exports to United States (FOB)	N/A	N/A	N/A
Total Imports (CIF)	N/A	N/A	N/A
Imports from United States (CIF)	N/A	N/A	N/A
Trade Balance	N/A	N/A	N/A
Trade Balance with United States	N/A	N/A	N/A
Current Account Surplus/GDP (pct)	N/A	N/A	N/A
External Public Debt	N/A	N/A	N/A
Debt Service Payments/GDP (pct)	N/A	N/A	N/A
Fiscal Deficit/GDP (pct)	3.7	N/A	N/A
Gold and Foreign Exchange Reserves	182.8	217.9	[5] 223.9
Aid from United States	0	0	0
Aid from All Other Sources	0	0	0

[1] January-June, seasonally adjusted, annualized.
[2] January-June, year-over-year, non-seasonably adjusted
[3] January-September, non-seasonally adjusted average.
[4] January-September, seasonally adjusted average.
[5] As of end-August 1997.

Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.

1. General Policy Framework

The growth of Japan's economy, the world's second largest at roughly $4.7 trillion, has stalled in 1997 due to a number of factors (e.g., consumption tax increase, income tax breaks ended), after posting relatively strong real GDP growth of 3.6 percent in 1996. Most private sector forecasts now see growth in 1997 at below 1.0 percent.

The current economic slowdown, which began in mid-1991, is the longest in Japan's postwar history. (Until 1992-3, Japan had never experienced two consecutive years of less than 3 percent real growth in the postwar period.) The surge in asset prices to unsustainable levels and high rates of capital investment and hiring in the late 1980's gave way by 1991 to sharply slower growth, corporate restructuring, and balance sheet adjustment by businesses. Consumer sentiment has also been noticeably weak.

In recent years, the Japanese Government has used public spending to offset weak or negative private demand growth. Seven fiscal stimulus packages between August 1992 and January 1997 have boosted public investment spending substantially, while temporary tax cuts have supported private demand.

Japan's 1996 external accounts posted global trade and current account surpluses of $83 billion (BOP basis) and $66 billion, respectively. Through the first 9 months of 1997, import volume remained nearly flat due to sluggish domestic demand growth, while exports rose by a robust 11.5 percent. The current account surplus through the first 8 months of 1997 grew to an annualized level of approximately $90 billion.

In order to ease credit conditions to support the economy, the Bank of Japan lowered the official discount rate nine times between mid-1991 and September 1995, from 6.0 percent per year to 0.5 percent. Nominal interest rates have set new record lows during 1997; still, bank lending has remained sluggish.

2. Exchange Rate Policy

The yen has depreciated against the dollar in 1997. The average exchange rate through the first 9 months of 1997 was 120 yen per dollar, versus 109 yen per dollar in 1996. The United States-Japan Financial Services Agreement of February 1995 resulted in significant relaxation of foreign exchange controls, and Japanese authorities are considering adopting additional decontrols in the near future in line with Big Bang Financial Reform.

3. Structural Policies

Pricing Policy: Japan is a market economy, with prices generally set in accordance with supply and demand. However, with very high gross retail margins (needed to cover high fixed and personnel costs) and a complex distribution system, Japan's retail prices exhibit greater downward stickiness than in other large market economies. Moreover, some sectors such as construction are susceptible to cartel-like pricing arrangements, and in many key sectors heavily regulated by the government (i.e., transport, warehousing) the government can still exert some limited temporary authority over pricing.

Tax policy: Japanese corporate taxes are generally high by OECD standards. While there is some discussion of a cut in the corporate income tax rate in FY 98 from 37.5 percent to 34.5 percent. Income tax levels vary by income bracket; the scale is highly progressive. Temporary income tax cuts totaling 2 trillion yen per year expired at the end of 1996, while the consumption tax was increased from 3 to 5 percent in April 1997. A one time two year tax cut has been proposed by Prime Minister Hashimoto for 1998.

Regulatory and Deregulation Policy: Japan's economy remains highly regulated, and the Japanese Government and business community recognize that deregulation is a high priority issue. Still, opposition to change remains strong among vested-interest groups, and the economy remains burdened by numerous national and local government regulations, which have the effect of impeding market access by foreign firms. Official regulations also reinforce traditional Japanese business practices that restrict competition, help block new entrants (domestic or foreign) and raise costs. Examples of regulations that act as impediments include: the Large Scale Retail Store Law, designed to protect local merchants from large retail competition; severe restrictions on foreign lawyers; and the Japanese Government's tight regulation of all nongovernmental employment services, including job placement, executive search, recruitment, personnel counseling and training, and temporary worker services.

In April 1995 the Japanese Government issued a 3-year deregulation action plan. The plan was revised in March 1996, and the final revision was instituted in March 1997. The government has not yet announced its plans to follow up this 3-year program. In June, 1996 the President and Prime Minister agreed on an Enhanced Initiative on Deregulation and Competition Policy under the United States-Japan Framework Agreement. This Initiative focuses bilateral efforts on achieving concrete deregulation in key sectoral and structural areas in Japan, such as telecommunications, housing, financial services, medical devices and pharmaceuticals, distribution and competition policy.

4. Debt Management Policies

Japan is the world's largest net creditor. The Bank of Japan's foreign exchange reserves exceed $200 billion. It is an active participant together with the United States in international discussions of developing-country indebtedness issues in a variety of fora.

5. Significant Barriers to U.S. Exports

Japan is the United State's third-largest export market. The U.S. is the largest market for Japanese exports. However, in many sectors U.S. exporters continue to enjoy incomplete access to the Japanese market. While Japan has reduced its formal tariff rates on most imports to relatively low levels, it has maintained non-tariff barriers—such as non-transparency, discriminatory standards, and exclusionary business practices—and tolerates a business environment that protects established companies and restricts the free flow of competitive foreign goods into the Japanese market. In October 1997 the Administration cited autos, flat glass, paper products, and variety-by-variety testing of fruit (including apples) as sectors where Japanese trade practices give rise to particular concern, and noted bilateral civil aviation relations and Japanese port practices as areas warranting continued attention.

Agricultural and Wood Products: Some progress has been achieved through continued U.S. pressure on Japan to liberalize its markets for imported agricultural and wood products. However, tariffs on some processed food products remain relatively high, and other barriers to a liberalized market remain. For example, Japan continues to restrict, for phyto-sanitary reasons, the entry of numerous fruits and vegetables, such as pears and potatoes. In some cases, such as cherries, nectarines and apples, phyto-sanitary protocols may include only specific limited product varieties, excluding other, almost identical varieties. Tariffs for wood products will be reduced under Japan's Uruguay Round commitments, but remaining high tariffs will continue to pose significant barriers to market access. Among structural barriers, non-transparent bidding procedures for procurement of building materials, including value-added wood products, disadvantage foreign wood suppliers.

Telecom and Broadcast: Access to the telecommunications and broadcasting services market remains constrained by both regulatory and monopolistic practices. In recent years, Japan has adopted a series of significant measures to foster a more pro-competitive regime in the telecommunications sector. However, barriers remain. There are foreign investment limits on cable TV and direct-to-home (DTH) satellite broadcasting companies. A rigid and unnecessarily burdensome regulatory system exists for DTH. Gaining access to utility poles and other facilities needed to build competing infrastructure and in Nippon Telegraph and Telephone (NTT) is extremely difficult. Equipment testing and certification procedures are expensive and time-consuming. Even in areas like interconnection and international simple resale, where the Japanese government has proposed liberalizing measures, there is strong concern that they will not be sufficient to foster real competition. The planned restructuring of NTT is unlikely to go far enough in deterring possible anti-competitive cross-subsidization. NTT's continued use of proprietary standards makes it difficult for foreign companies to sell to Japan's major purchaser of telecommunications equipment.

Standards, Testing, Labeling, and Certification: Standards, testing, labeling and certification problems hamper market access in Japan. In some cases, advances in technology, products or processing make Japanese standards outdated and restrictive. Domestic industry often supports standards that are unique and restrict competition, although in some areas external pressure has brought about the simplification or harmonization of standards to comply with international practices. Fresh agricultural products continue to be subject to extensive restrictions including phytosanitary restraints, required overseas production-site inspections, fumigation requirements and tariff rate or import quotas.

Foreign direct investment (FDI): FDI into Japan has remained extremely small in scale relative to the size of the economy. In 1996, FDI totaled $6 billion, or 0.08 percent of GDP, as compared to $84 billion, or 1.4 percent, in the United States. The low level of FDI reflects the high costs of doing business, the legacy of former investment restrictions, and a continuing environment of structural impediments to greater foreign investment. The challenges facing foreign investors seeking to establish or enhance a presence in Japan include laws and regulations that directly or indirectly restrict the establishment of business facilities, close ties between government and industry, informal exclusive buyer-supplier networks and alliances, taxation and accounting practices, and a difficult regulatory and opinion environment for foreign or domestic acquisitions of existing Japanese firms.

Recently, the Japanese Government has implemented some potentially useful measures from the perspective of increasing foreign direct investment, including easing restrictions on foreign capital entry. Still, most Japanese Government investment promotion measures to date have been dictated by domestic priorities, and do not address the most important concerns of potential foreign investors. In addition, the acquisition of Japanese companies is difficult, due in part to cross holding of shares between allied companies and a resulting small publicly traded percentage of shares. This practice hinders the efforts of foreign firms wishing to acquire distribution or service networks through mergers or acquisitions.

Government Procurement Practices: Japan is a WTO member and became a party to the WTO Government Procurement Agreement (GPA) which took effect in January 1996. While government procurement in Japan at the central, regional and local levels generally conforms to the letter of the WTO agreement, there are reports that at some procuring entities, established domestic competitors continue to enjoy informally preferential access to tender information. In some sectors, unfair low pricing remains a problem, preventing companies from winning based on fairly priced bids. Moreover, some entities continue to draw up tender specifications in a way that favors a preferred vendor, using design-based specifications rather than more neutral performance-based specifications.

Customs Procedures: Japanese customs has made progress in automating its own clearing procedures, and efforts are underway to integrate the procedures of other Japanese Government agencies over the next several years; however, U.S. exporters still face relatively slow and burdensome processing.

6. Export Subsidies Policies

Of the $9.439 billion that Japan allotted for official development assistance in 1996, approximately 29.3 percent was earmarked for loan aid.Japan has eliminated tied aid credits and now extends about 98 percent of its loan aid under officially untied terms. However, there is also a suspicion that tied feasibility studies (funded by grant aid) for untied loan aid projects may unfairly target specifications to Japanese bidders.

7. Protection of U.S. Intellectual Property Rights

Japan is a party to the Berne and Universal Copyright Conventions, the Paris Convention on Industrial Property, the Patent Cooperation Treaty, and the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Japan's intellectual property rights (IPR) regime affords national treatment to U.S. entities. Although Japan has reduced average patent dependency in recent years, average patent pendency in Japan is one of the longest among developed countries. This long period, coupled with a practice of opening all patent applications to public inspection 18 months after filing, exposes applications to lengthy public scrutiny with the potential of limited legal protection.

Many Japanese companies use the patent filing system as a tool of corporate strategy, making many applications to cover slight variations in technology. Japanese courts have moved to accepting the doctrine of equivalence which may reduce this practice. The rights of U.S. subscribers in Japan can be circumscribed by filings of applications for similar inventions or processes.

A United States-Japan IPR agreement, signed in August 1994, has provided some relief from problems posed by the lengthy pendency period and the practice of multiple opposition filing. In December 1994, the Japanese Diet passed legislation introduced by the Japanese Patent Office to revise the system effective January 1, 1996. The revised system allows opposition filings only after a patent is granted. Multiple opposition filings are consolidated and addressed in a single proceeding, minimizing time and costs. In addition, revised guidelines for patent examiners were introduced. These new guidelines directed them to grant patents based on prophetic as well as working examples (similar to U.S. and most other countries' practice) and importantly, applied these guidelines to the substantial backlog of outstanding applications.

Trademark applications are also processed slowly, averaging 2 years and 3 months but sometime stretching to three or four years. Amendments to the Trademark Law became effective in April 1, 1997 which aim to provide better protection to well-known trademarks, reduce trademark processing time, and eliminate unused trademarks from the registry. End-user software primacy remains a major concern of U.S. software producers. A campaign has been undertaken by these companies to help ensure compliance in licensing arrangements. The process has met with limited success in the Japanese courts.

In the area of copyright protection for sound recordings, the Japanese Government amended its copyright law in December, 1996, to extend retroactive protection of sound recordings to 50 years. This complied with its WTO TRIPs obligations.

8. Worker Rights

a. *The Right of Association.*—The Constitution and Labor Laws of Japan provide for the right of workers to freely associate in unions. Approximately 23 percent of the labor force belongs to a union. The Japanese Trade Union Confederation, Rengo, which represents 7.8 million workers, is the largest labor organization. Both public and private sector workers may join a union, although members of the armed forces, police and firefighters may neither form unions nor strike. The right to strike, although implicit in the Constitution, is seldom exercised. The law prohibits retribution against strikers and is effectively enforced.

b. *The Right to Organize and Bargain Collectively.*—The Constitution provides unions with the right to organize, bargain and act collectively. These rights are exercised freely, and collective bargaining is practiced widely, particularly during the annual "Spring Wage Offensive" of nationwide negotiations.

c. *Prohibition of Forced or Compulsory Labor.*—Article 18 of the Constitution states that "No person shall be held in bondage or any kind. Involuntary servitude,

except as punishment for crime, is prohibited." This provision applies equally to adults and children, and there are presently no known cases of forced or bonded labor.

d. *Minimum Age for Employment and Status of Child Labor Practices.*—By law, children under the age of 15 may not be employed and those under age 18 may not be employed in dangerous or harmful jobs. Child labor is virtually non-existent in Japan, as both societal values and the rigorous enforcement of the Labor Standards Law protect children from exploitation in the workplace.

e. *Acceptable Conditions of Work.*—Minimum wages are set on both an industrial and regional (prefectural) level. Minimum wage rates in fiscal year 1997 ranged from $45 (5,368yen) per day in Tokyo to $38 (4,625 yen) in Okinawa. The Labor Standards Law provides for a 40-hour work-week in most industries, and mandates premium pay for hours worked beyond 40 in a week or 8 in a day. However, labor unions criticize the Government for failing to enforce working hour regulations in smaller firms. The Government effectively administers various laws and regulations affecting workplace safety and health.

f. *Worker Rights in Sectors with U.S. Investment.*—Labor regulations, working conditions and worker rights in sectors where U.S. capital is invested do not vary from those in other sectors of the economy.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		4816
Total Manufacturing		16,534
Food & Kindred Products	620	
Chemicals & Allied Products	2486	
Metals, Primary & Fabricated	327	
Machinery, except Electrical	4918	
Electric & Electronic Equipment	2173	
Transportation Equipment	2710	
Other Manufacturing	3301	
Wholesale Trade		7344
Banking		379
Finance/Insurance/Real Estate		9150
Services		816
Other Industries		555
TOTAL ALL INDUSTRIES		39,593

Source: U.S. Department of Commerce, Bureau of Economic Analysis

---

REPUBLIC OF KOREA

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Income, Production and Employment:			
Nominal GDP [2]	457.1	483.3	476.0
Real GDP Growth (percent) [3]	8.9	7.1	6.2
GDP by Sector:			
Agriculture	29.9	30.0	30.2
Manufacturing	122.7	124.8	123.0
Services	256.8	275.6	275.0
Government	35.9	39.01	38.0
Per Capita GDP (US$)	10,037	10,548	10,530
Size of Labor force (000's)	20,797	21,188	21,500
Unemployment rate (pct)	2.0	2.0	2.2

Key Economic Indicators—Continued

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Money and Prices (annual percentage growth):			
Money Supply (m2)	15.5	16.2	18.0
Consumer Price Inflation (pct)	4.5	4.9	4.5
Exchange Rate (won/usd) official	770	807	896
Balance of Payments and Trade:			
Total Exports FOB [4]	125.0	129.7	140.0
Exports to U.S.[4]	24.1	21.7	21.0
Total Imports CIF.[4]	135.1	150.3	147.0
Imports from U.S.[4]	30.4	33.3	33.2
Trade Balance [4]	-10.1	-20.6	-7.0
Balance with U.S.[4]	-6.3	-11.6	-12.2
External Public Debt	3.0	2.6	3.0
Fiscal Deficit/GDP (pct)	[5] 0.4	-0.2	-0.5
Current Account Deficit/GDP (pct)	2.0	4.9	2.8
Debt Service Payments/GDP (pct) [6]	1.9	2.0	2.3
Gold and Foreign Exchange Reserves	32.7	33.2	32.0
Aid from U.S.	N/A	N/A	N/A
Aid from all other sources	N/A	N/A	N/A

[1] 1997 annualized figures calculated based on available monthly data as of October 1997.
[2] GDP at market prices
[3] Percentage changes calculated in local currency.
[4] Merchandise trade, Korean government statistics
[5] Surplus
[6] Gross debt; includes non-guaranteed private debt

Sources: Bank of Korea, Korea Customs Service, U.S. Embassy

1. General Policy Framework

The Korean economy has enjoyed a remarkable, sustained expansion over the last 30 years, averaging roughly nine percent real GDP growth per year. The GDP growth rate in 1997, however, is projected to decline to about 6.2 percent. Much of this downturn has been ascribed to a cyclic worsening in Korea's terms of trade, especially lower prices for some key exports (i.e., semiconductors, chemicals and steel) and the weakening of the Japanese yen. A string of bankruptcies of large business conglomerates in 1997 and the strains this has placed on the banking system have contributed to the slower economic growth rate. In the first 10 months of 1997, the Korean won and the Korean stock market have declined by roughly 12 percent and 24 percent, respectively.

Exports accelerated in the third quarter posting 4.7 percent growth for the first eight months of 1997. Although total imports showed virtually no growth during the same eight-month period, capital goods imports jumped 14 percent, and non-durable consumer goods imports grew four percent, but grain imports dropped 21 percent compared to the first eight months of 1996.

Price stability has generally been achieved through the government's stringent monetary policies, with adjustments in the reserve requirements and open market operations as its favored tools. The public sector's role in the economy is relatively small, with taxes and expenditures amounting to only 31 percent of GDP in 1997. Korea's public expenditure places greater emphasis on public education and investment than on transfer payments. The current administration, since its inception in 1992, has pursued a policy of liberalization, deregulation, and "globalization," and today's Korea is significantly more open and less stifled by regulation than it was five years ago.

2. Exchange Rate Policy

In 1997, the Bank of Korea regularly intervened in the market to defend the declining value of the won. Stringent foreign exchange and capital controls, which are only now being relaxed, continue to distort trade and investment flows, and exchange rate adjustments. Since 1990, the Bank of Korea (BOK) has used a weighted average of the prior day's transactions at local banks to set the exchange rate. The BOK allows the exchange rate to fluctuate on a daily basis within a band of plus/

minus 2.25 percent. However, the BOK did not maintain this band in October 1997 in the face of heavy selling of the won. In the twelve months ending October 31, 1997, the won depreciated by roughly 15 percent against the U.S. dollar.

3. Structural Policies

Korea's economy is based on private ownership of the means of production and distribution, with basic pricing decisions left to the private sector. The Government's past heavy-handed role in the economy is being gradually replaced by more subtle efforts to steer the direction of economic development such as through tax incentives and discretionary enforcement of regulations. Since the mid-1980s, the Government has eliminated most explicit import prohibitions, though a variety of non-tariff barriers continue to hinder imports.

The Korean economy is notable for the high degree of concentration of capital and industrial output in a small number of conglomerates known locally as "chaebols." The 30 largest chaebols account for about one-third of the total capital of the domestic financial sector, and about 35 percent of all manufacturing. Most chaebol are highly leveraged which, in this period of slower economic growth, has resulted in a number of bankruptcies.

Today, Korea is the United States' seventh largest trading partner (fifth largest export market) and fourth largest recipient of U.S. agricultural products. Korea has made significant investments in the United States. In 1996, the United States replaced Japan as Korea's single largest source of imports for the first time since 1993. Also, in 1997, the United States, for the first time in three decades, will likely replace Japan as Korea's single largest source of direct investment.

4. Debt Management Policies

Korea's total foreign debt exceeds $130 billion (net foreign debt of $45 billion) and interest rates on Korean debt in international markets rose in 1997. However, with the rise of Korea's exports beginning in the second half of 1997, its current account deficit has declined in comparison to the same period in 1996.

5. Aid

The ROK does not receive bilateral or multilateral assistance.

6. Significant Barriers to U.S. Exports

The typical trade barriers U.S. exporters experience today are mostly nontariff-related (Korea lowered its average tariff rate to 7.9 percent) and are rooted in non-transparent regulations which give too much discretion to officials, but offer little recourse or compensation. These affect licensing, inspections, type approval, marking/labeling requirements and other standards. The United States has challenged some Korean government agricultural policies in the World Trade Organization (WTO). Trade restrictions effect a variety of U.S. exports, including automobiles, a sector which was designated in October 1997 as a Priority Foreign Country Practice (PFCP) under Section 301 of the U.S. Trade Act, owing to tariff and non-tariff market access barriers.

Import licensing requirements were dropped on all goods effective January 1, 1997, except for roughly 80 items, mostly agricultural products, which appear on a "negative list." Products with health and safety implications (such as pharmaceuticals, medical devices, cosmetics), typically require additional testing or certification from the relevant ministries before they can be sold in Korea, which can result in considerable delays and costs. Registration requirements for such products as chemicals, pharmaceuticals, processed food, medical devices and cosmetics hamper entry into the market as well. The registration process, in some cases, has resulted in the release of proprietary information to Korean trade associations and local competitors. Korea agreed to phase out its GATT Balance-of-Payments restrictions, and is committed to eliminate most of the remaining restrictions by 1997; some will not be liberalized, however, until the year 2000.

Under the Uruguay Round, Korea will gradually expand its minimum import quota for beef to 225,000 metric tons by the year 2000, while at the same time expanding the proportion of the quota imported through the "simultaneous buy/sell system." In January 2001, Korea will remove all non-tariff barriers to beef imports, including state trading.

Effective January 1, 1993, a government decree outlined improved procedures for setting standards and rules-making, including a requirement for public notice, minimum comment periods and an adjustment period prior to implementation. A full-fledged Administrative Procedures Act was enacted in 1996. Effective implementa-

tion of these initiatives, however, has been slow, and government policy consultations with affected industries have often omitted foreign firms.

The Korean government has implemented a number of financial sector reform measures since 1993, including: lifting most controls on interest rates, removing some documentation requirements on forward foreign exchange contracts and a slight easing of foreign banks' access to won currency funding. Additional financial reform, such as full won convertibility and freedom of capital movement, will likely not occur before 1998. Liberalization of foreign ownership of domestic shares and bonds will be phased in through 2000. Other controls affecting, inter alia, securities, credits and deposit accounts will be phased out through 2001.

A significant barrier to growth in U.S. exports to Korea is the government's restriction on the use of credit to finance imports, which will be fully liberalized only for capital goods by 1998. Use of limited deferred payment terms (extended as of December 1, 1995, to a maximum of 180 days) is restricted to items with a tariff of ten percent or less, which are generally raw materials; these controls will be reduced (but not fully phased out) through 2001. Use of deferred payment terms for other goods requires a license from foreign exchange banks or permission from the Bank of Korea, which is rarely granted.

Government restrictions continue to deny national treatment to foreign banks and securities firms in a number of areas. For example, foreign banks face significant impediments in the form of restricted access to local currency funding, difficulties in obtaining approval for new financial products and capitalization rules. Subsidiaries of foreign banks will not be allowed until the end of 1998. Foreign securities firms face restrictions on their ability to lead-manage security placements in overseas markets and they may not place orders for foreign securities on behalf of Korean clients.

Recent regulatory changes have streamlined foreign investment application procedures and eased a number of barriers to foreign direct investment. As part of the Organization for Economic Cooperation and Development (OECD) accession process, which was completed at the end of 1996, the government announced further liberalization of foreign investment in restricted sectors. Earlier changes to laws and regulations governing foreign purchases of land made it easier for foreign investors to purchase land for staff housing and business purposes, though there are still restrictions in place.

Continuing restrictions on access to offshore funding (including offshore borrowing, intracompany transfers and intercompany loans), however, continue to be burdensome. Foreign equity participation limits remain in some sectors, and licensing requirements and other regulatory restrictions can limit foreign direct investment in sectors nominally open to foreigners. Foreign firms also face additional investment restrictions in most professional services.

The Korean government has endorsed and supported periodic "frugality campaigns" led by civic groups against "over-consumption" and "luxury" goods, most recently in the spring of 1997. Specific government targeting of imports has ceased for the most part—and the Korean government issued public instructions to all officials to this effect in the spring of 1997—but a residual anti-import bias remains.

The streamlining of Korea's complex import clearance procedures is a prime U.S. policy objective. Progress on this issue has been slow, however, as the Korean government, in a number of cases, has cited the need for legislation to make the necessary corrections. U.S. exporters of food and agricultural products experienced an upsurge in safety and sanitary inspections in October 1997 after Korean inspectors found e-coli and lysteria bacteria in U.S. beef shipments.

Korea acceded to the WTO Government Procurement Agreement on January 1, 1997. It has begun the process of bringing its laws and regulations into line with the new multilateral requirements. However, implementation will take time. In telecommunications, the Korean government provided assurances to the United States in July 1997 that it would not interfere in the equipment purchasing decisions of private Korean telecommunications service providers. In accordance with its obligations under the Information Technology Agreement, the Korean government will eliminate tariffs on 203 categories of telecommunication and information-related equipment by 1999; tariffs on remaining categories will be phased out by 2004.

7. Export Subsidies Policies

Since the mid-1980's, Korea has been dismantling the once-prevalent system of subsidies used to promote industrialization. The real benefit of the few remaining subsidized lines of credit is insignificant in a macroeconomic sense. The relative size of direct grants is small and declining with regard to both the government budget

and growing private investment. The use of tax exemptions, the main vehicle for export promotion, appears to be declining as well. However, the government does expend large amounts of money in research and development in key industrial sectors targeted for development, such as telecommunications.

Other government programs directly support Korea's export industries, including: customs duty rebates for raw material imports used in the production of exports; short-term export loans for small-and-medium sized enterprises (SMEs); rebates on the value-added tax; a special consumption tax for export products; corporate income tax benefits for costs related to the promotion of overseas markets; unit export financial loans; and, special depreciation allowances for SMEs which export. Korea also maintains a special loan program for SMEs to facilitate exports to Japan.

8. Protection of U.S. Intellectual Property

Korean laws protecting intellectual property rights (IPR) are adequate in most areas and enforcement has improved in recent years. Under the U.S. Special 301, Korea's status was downgraded from "Priority Watch List" to "Watch List" in April 1997 in recognition of the commitments made by the Korean government to improve its intellectual property protection regime in a number of sectors of concern to the United States. However, problem areas remain. The Korean Supreme Court recently overturned a decision by the Korean Industrial Property Office (KIPO) appellate trial board in favor of a U.S. claimant in a trademark dispute.

Korea is a party to the World Intellectual Property Organization Agreements, the Universal Copyright Convention, the Budapest Treaty on the International Recognition of the Deposit of Microorganisms (1988), the Geneva Convention regarding sound recordings (1987), the Paris Convention for the Protection of Industrial Property (1980), and the Patent Cooperation Treaty (1984). Korea joined the Berne Convention in August 1996, and is a signatory to the "New Treaties" governing digital copyrights recently concluded under the auspices of the World Intellectual Property Organization.

Korean patent law is fairly comprehensive, offering protection to most products and technologies. Yet the Korean Patent Office's recognition of international ownership of patents is inconsistent. The March 1998 start-up of an appellate court specializing in patent cases may provide greater consistency in patent dispute rulings. In addition, approved patents of foreign patent holders are vulnerable to infringement. In its procurement process, the Korean government lacks adequate controls effectively to prevent patent infringement, especially in the high technology sector. Korean law provides for compulsory licensing of patents when the invention is deemed necessary for the national defense, for the public interest, or for the protection of a dependent patent.

The Korean government's protection of trademarks has improved since 1991. A revised trademark law will come into effect on March 1, 1998. Earlier in 1997, the trademark law was amended to afford protection to 3-dimensional trademarks. However, the law extends protection only to domestically registered trademarks. Although the Unfair Competition Prevention Act theoretically protects foreign trademarks and those not otherwise protected, narrowly-based court decisions have made the Act largely ineffective. The granting of a trademark under Korean law is based on a "first-to-file" basis, and preemptive filings are a problem. However, the new trademark law will contain provisions for invalidating preemptive registrations. While Korea has made progress in stemming the counterfeiting of goods in the domestic market, Korean producers are still able to export counterfeits.

Korea's copyright law protects author's rights, but local prosecutors take no action unless the rights holder files a formal complaint. Korea is not in compliance with provisions of the WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), which stipulate that retroactive copyright protection should extend back to 1947. Korea now only provides protection back to 1957. Laws governing the protection of software copyright are expected to be revised in 1998. Enforcement against copyright piracy is improving, but such piracy is still prevalent, especially in educational and other public institutions.

9. Worker Rights

a. *The Right of Association.*—With the exception of public sector employees and teachers, Korean workers enjoy the right to free association. White collar workers in the government sector cannot join unions, but blue collar employees in the postal service, railways, and telecommunications sectors, and the national medical center have formed labor organizations. Unions may be formed with as few as two members and without a vote of the full prospective membership. Until recently the Trade Union Law specified that only one union was permitted at a workplace, but labor

law changes in 1997 authorize the formation of competing labor organizations beginning in the year 2002. Workers in government agencies and defense industries do not have the right to strike. Unions in enterprises determined to be of "essential public interest," including utilities, public health, and telecommunications, may be ordered to submit to government-ordered arbitration in lieu of striking. In fact, work stoppages occur even in these sensitive sectors. The Labor Dispute Adjustment Act requires unions to notify the Labor Ministry of their intention to strike, and normally mandates a 10-day "cooling-off period" before a work stoppage may legally begin.

b. *The Right to Organize and Bargain Collectively.*—The Constitution and the Trade Union Law provide for the right of workers to bargain collectively and undertake collective action, but does not grant government employees, schoolteachers or workers in defense industries the right to strike. Collective bargaining is practiced extensively in virtually all sectors of the Korean economy. The central and local labor commissions form a semi-autonomous agency that adjudicates disputes in accordance with the Labor Dispute Adjustment Law. This law empowers workers to file complaints of unfair labor practices against employers who interfere with union organizing or practice discrimination against unionists. Labor-management antagonism remains a serious problem, and some major employers remain strongly anti-union.

c. *Prohibition of Forced or Compulsory Labor.*—The Constitution provides that no person shall be punished, placed under preventive restrictions, or subjected to involuntary labor, except as provided by law and through lawful procedures. Forced or compulsory labor is not condoned by the Government and rarely occurs.

d. *Child Labor and Minimum Age for Employment of Children.*—The Government prohibits forced and bonded child labor and enforces this prohibition effectively. The Labor Standards Law prohibits the employment of persons under the age of 15 without a special employment certificate from the Labor Ministry. Because education is compulsory through middle school (about age 14), few special employment certificates are issued for full-time employment. Some children are allowed to do part-time jobs such as selling newspapers. In order to obtain employment, children under 18 must have written approval from their parents or guardians. Employers may require minors to work only a limited number of overtime hours and are prohibited from employing them at night without special permission from the Labor Ministry.

e. *Acceptable Conditions of Work.*—The government implemented a minimum wage in 1988 that is adjusted annually. In October 1997 the minimum wage was set at roughly $1.65 per hour. Companies with fewer than 10 employees are exempt from this law. In practice, most firms pay wages well above the minimum levels due to Korea's tight labor markets. The maximum regular work week is 44 hours, with provision for overtime to be compensated at a higher wage, but such rules are sometimes ignored, especially by small companies. The law also provides for a maximum 56-hour work week and a 24-hour rest period each week. Labor laws were revised in 1997 to establish a flexible hours system that allows employers to ask laborers to work up to 48 hours during certain weeks without paying overtime so long as average weekly hours do not exceed 44. The government's health and safety standards are not always effectively enforced, but the accident rate continues to decline. The number of work-related deaths remains high by international standards.

f. *Rights in Sectors with U.S. Investment.*—U.S. investment in Korea is concentrated in petroleum, chemicals and related products, transportation equipment, processed food and manufacturing. Workers in these industrial sectors enjoy the same legal rights of association and collective bargaining as workers in other industries. Manpower shortages are forcing labor-intensive industries either to improve wages and working conditions or to move offshore. Alternatively, some firms are resorting to using "illegal" foreign workers in order to contain costs.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		[1]
Total Manufacturing		2107
Food & Kindred Products	306	

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996—Continued

[Millions of U.S. dollars]

Category		Amount
Chemicals & Allied Products	379	
Metals, Primary & Fabricated	[1]	
Machinery, except Electrical	[1]	
Electric & Electronic Equipment	554	
Transportation Equipment	100	
Other Manufacturing	673	
Wholesale Trade		452
Banking		1671
Finance/Insurance/Real Estate		228
Services		96
Other Industries		[1]
TOTAL ALL INDUSTRIES		5510

[1] Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis

MALAYSIA

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Income, Production and Employment:			
Nominal GDP [2]	85.5	99.5	[2] 97.9
RealGDP Growth (pct) [3]	9.5	8.2	8.0
By Sector: (1978 Prices)			
Agriculture	6.5	6.6	6.1
Manufacturing	15.9	17.8	17.9
Mining And Petroleum	3.6	3.7	3.4
Construction	2.2	2.4	2.4
Services	15.4	16.7	16.1
Government Services	4.6	4.7	4.4
Per Capita GDP	4.2	4.7	4.2
Labor Force (000s)	8,140	8,370	8,610
Unemployment Rate (pct)	2.8	2.5	2.5
Money and Prices (annual pct growth):			
Money Supply Growth (M2) (pct)	19.7	20.9	[4] 21.3
Consumer Inflation (pct)	3.4	3.5	[4] 2.6
Exchange Rate (Rm/US$ annual average)	2.5	2.51	2.8
Balance of Payments and Trade:			
Total Exports FOB	71.8	76.7	73.1
Exports to U.S.[5]	17.5	17.8	18.5
Total Imports FOB	71.7	73.3	69.6
Imports from U.S.[5]	8.8	8.5	9.5
Trade Balance	0.9	3.4	3.5
Balance with U.S.	8.7	9.3	9.0
External Public Debt	16.0	15.8	15.2
Fiscal Surplus/GDP (pct)	2.9	3.7	2.0
Current Account Def/GDP(pct)	10	4.9	4.8
Debt Srvc Payments/GDP (pct)	7.0	5.3	4.6
Gold & Foreign Exchange Reserves	25.5	27.9	22.1
Aid from U.S.	0.5	0.5	0.6
Aid from All Other Countries	N/A	N/A	N/A

[1] Malaysian government estimates.
[2] Converted at annual avg. exchange rates.

[3] Calculated in ringgit to avoid exchange rate changes.
[4] 1996 data to August only.
[5] U.S. Department of Commerce Data.
[6] Embassy estimates.

1. General Policy Framework

Malaysia has a relatively open, market-oriented economy which since the country's independence in 1957 has exhibited sustained growth and increasing diversification. over thepast decade, the economy, led by strong performance in both foreign and domestic investment and manufactured exports, boomed with average annual real GDP growth rates of about 8 percent. Beginning in July 1997, however, Malaysian equity markets experienced sharp declines, and the Malaysian currency (the ringgit) depreciated sharply against the U.S.and other major currencies. The GOM has attributed these declines to regional financial turmoil. Between July 1 and December 12, for example, Malaysian equity markets fell by 53.6 percent and the ringgit depreciated 49.5 percent against the U.S. dollar. During his annual budget speech, the Deputy Prime Minister (who is also Finance Minister) cautioned that the economy is at a crossroads and fraught with uncertainties. The Malaysian Government has projected that 1997 real GDP growth will slow to 7 percent and that 1998 growth will be yet lower at 4-5 percent. While the government since 1986 has scaled back its role as a producer of goods and services, it continues to hold equity stakes and exerts considerable influence in a wide range of privatized domestic companies including in telecommunications, aviation, petroleum, shipping and seaports. Many of these privatized companies hold monopoly or near-monopoly positions in their sectors.

The construction of infrastructure projects has been increasingly delegated to the private sector. Major infrastructure projects currently under development include a multimedia super corridor and new international airport in Kuala Lumpur. However, in an austerity drive, the GOM recently deferred approximately $20 billion In other projects including the Bakun hydro-electric project, northern regional international airport, phase II of the Putrajaya administrative capital, Kuala Lumpur linear city, highlands road, Straits of Melaka bridge, and light rail projects for Penang and Johor.

The government has consistently moved to reduce the overall tariff level over time for industries, such as motor vehicles. Malaysia has been an active participant in multilateral and regional trade fora such as the World Trade Organization and Asia-Pacific Economic Cooperation (APEC) and will be the APEC chairman in 1998.

Fiscal policy: The government follows a conservative fiscal policy and has generated a surplus in its accounts, excluding public enterprises, for the last five years. The GOM indicated that it will pursue more stringent belt-tightening in 1998 in order to stabilize the economy, further reduce the current account deficit, and restore confidence in Malaysia's currency and stock markets. Among other measures, the GOM has announced it will cut government spending 18 percent. As a result, the public sector surplus for 1998 is projected to triple to 6.2 billion ringgit (7.5 percent of GNP), up from 1.9 billion ringgit (1.9 percent of GNP) in 1997.

Monetary policy: Monetary aggregates are controlled by Bank Negara (the central bank) through open market operations, changes in reserve requirements, and influence over banking sector interest rates. The beginning of 1997 found high levels of monetary growth driven by rapid growth in credit. Fearful of inflationary pressures and channeling of credit to non-productive activities, the government acted in March to curb credit escalation, particularly for real estate development, and has progressively strengthened financial sector prudential requirements. The 1998 budget targets a reduction in credit expansion from 29 percent to 20 percent.

2. Exchange Rate Policy

Malaysia maintains a flexible, substantially open foreign exchange regime. Most foreign transactions including repatriation of capital and remittance of profits are permitted, but some restrictions apply. Foreign currency accounts are not generally allowed except for exporters (who must hold their foreign currency accounts with "tier-1" banks and maintain overnight balances of between usd 1 million and usd 5 million) and resident individuals who need foreign currency for educational or employment purposes (whose foreign currency accounts are limited to USD 100,000).

The value of the ringgit has fallen consistently (from 2.5 rm/1 usd on 7/1 to 3.78 rm/1 USD on 12/12) throughout the last half of the year as markets perceived the Malaysian currency (as well as other currencies in the region) as overvalued and eroding export competitiveness and developed doubts about the country's economic management. Until early July, Bank Negara (the central bank) maintained its policy of managing the value of the ringgit against a basket of currencies of Malaysia's

major trading partners. It used an estimated $4 billion in reserves (15% of the total) to defend the ringgit at 2.525 ringgit/US$1. On July 10 when the Thai baht was floated, the Malaysian authorities opted to let the nominal rate fluctuate more widely in favor of keeping interest rates low. Since then Bank Negara has reportedly intervened to defend the ringgit in a limited number of circumstances. Between May 1 and December 31 the ringgit depreciated 54.5%. At end of 1997 the three-month interbank interest rate was 9%.

Malaysia maintains relatively low trade barriers in most sectors but uses tariffs and import licensing to protect some to maintain a stable exchange rate and is now largely allowing the ringgit to float.

3. Structural Policies

Investment policies: The government encourages direct foreign investment particularly in export-oriented manufacturing and high-tech industries, but retains considerable discretionary authority over individual investments. Especially in the case of investments aimed at the domestic market, it has used this authority to restrict foreign equity (normally to 30 percent) and to require foreign firms to enter into joint ventures with local partners. Facing a tight labor supply situation, foreign companies have sometimes found it difficult to gain permission from the Malaysian Government to bring in sufficient workers from abroad to run their plants efficiently. Most foreign firms also face restrictions in the number of expatriate workers they are allowed to employ. In October 1996, the government announced that high-technology and information-technology companies which establish in the multimedia super corridor will be allowed attractive tax incentives.

Pricing policies: Most prices are market-determined but controls are maintained on some key goods, such as fuel, public utilities, cement, motor vehicles, rice, flour, cooking oil, sugar and chicken. The government has signaled that companies are not to pass to consumers the increased costs resulting from the ringgit's depreciation.

Tax policies: tax policy is geared toward raising government revenue and discouraging consumption of "luxury" items. Income taxes, both corporate and individual, comprise 44 percent of government revenue with indirect taxes, export and import duties, excise taxes, sales taxes, service taxes and other taxes accounting for another 37.6 percent. The remainder comes largely from dividends generated by state-owned enterprises and petroleum taxes. To spur exports, the 1998 budget provides significant income tax exemptions, accelerated depreciation schedules, and special allowances for export-oriented companies. In the 1998 budget, the overall corporate income tax rate for petroleum and other companies was cut by 2 percentage points.

Regulatory policies: Malaysia maintains several regulatory agencies including the department of civil aviation and department of telecommunications. Most of these agencies fall under the jurisdiction of government ministries and have the dual mandate of both regulating and promoting the industries under their purview.

Standards: Malaysia has extensive standards and labeling requirements, but these appear to be implemented in an objective, nondiscriminatory fashion. In many cases, the government is moving to adopt international standards. Food product labels must provide ingredients, expire dates and, if imported, the name of the importer. Electrical equipment must be approved by the Ministry of International Trade and Industry, telecommunications equipment must be "type approved" by the Department of Telecommunications and aviation equipment must be approved by the Department of Civil Aviation. Pharmaceuticals must be registered with the Ministry of Health. In addition, the Standards and Industrial Research Institute of Malaysia (SIRIM) provides quality and other standards approvals.

4. Debt Management Policies

Malaysia has generally strong credit ratings in international financial markets. Malaysia's medium and long-term foreign debt (both public and private sector) is expected to stand at usd 28.4 billion at the end of 1997, about 29 percent of GDP. Malaysia's debt service ratio declined from a peak of 18.9 percent of gross export earnings in 1986 to an estimated 6 percent in 1997.

5. Significant Barriers to U.S. Exports

Introduction: Tariffs are the main instrument used to regulate goods imports, but import licenses are also used. Although duties on a trade-weighted basis average less than 10 percent, the rates for tariff lines where there is significant local production are often higher. Licenses are required for the import of goods in 51 product categories. In some cases, the licensing system is used to administer health and safety standards, in other cases to protect domestic industries. In order to reduce the current account deficit, Malaysian government recently increased tariff in-

creases on certain items (below), said that non-essential construction projects would be eliminated, announced that "lumpy" imports such as passenger aircraft and ships would be delayed, and called on Malaysian companies to exercise austerity.

Import restrictions on motor vehicles: Malaysia maintains high tariffs, an import licensing system, and local content restrictions on imported motor vehicles and motor vehicle parts. These restrictions have severely hampered the ability of U.S. firms to penetrate the Malaysian market. The government has announced that local content restrictions will be phased out by the year 2000 to comply with WTO commitments. However, it recently increased tariffs dramatically on both completely built-up (cbu) and completely knocked-down (ckd) units.

product	OldTariff	New Tariff
automobiles (cbu)	140-200 pct	140-300 pct
automobiles (ckd)	42 pct	80 pct
vans (cbu)	35 pct	42-140 pct
vans (ckd)	5 pct	40 pct 4wd/
multipurpose(cbu)	50 pct	60-200 pct 4wd/
multipurpose (ckd)	5 pct	40 pct
motorcycle (cbu)	60 pct	80-120 pct
motorcycle (ckd)	5 pct	30 pct

In addition, excise duties on motorcycles, will increase from a maximum of 20 percent to a maximum of 50 percent. A 10 percent sales tax will be imposed on motorcycles with engines over 200 cc.

Import restrictions on construction equipment: In October 1997, Malaysia imposed a restrictive licensing regime on imports of heavy construction equipment and raised import duties (detailed below) for the second year in a row; in October 1996, it had raised duties on construction equipment from 5 to 20 percent. In addition, depreciation rates for imported heavy equipment will be reduced from 20 to 10 percent in the first year and annual allowances will be reduced from between 12 percent and 20 percent to 10 percent.

Product	Old Tariff	New Tariff
heavy mach/equip	0 pct	5 pct
multi-purpose vehicles	0-30 pct	50 pct
special purpose vehicles	35 pct	50 pct
construction materials	5-25 pct	10-30 pct

Import restrictions on tobacco and cigarettes: To encourage greater use of local tobacco in cigarettes and to maintain high domestic leaf prices, the government levies import duties of rm 50 (USD 13.5) per kilogram, plus five percent ad valorem on unprocessed tobacco. The quantities of flue-cured tobacco which may be imported are subject to government approval.

Telecommunications: In the recently concluded WTO negotiations on basic telecommunications services, Malaysia made commitments on most basic telecommunications services and adopted the reference paper on regulatory commitments. Malaysia guaranteed market access and national treatment for these services only through acquisition of up to 30 percent of the shares of existing licensed public telecommunications operators. It did not guarantee the ability to provide resale service.

Duties on high value food products: Duties for processed and high value products, such as canned fruit, snack foods, and many other processed foods, range between 20 and 30 percent.

Plastic resins: In December 1993, tariffs were increased for a five year period from 2 to 30 percent (for non-ASEAN countries) and from 1 to 15 percent (for ASEAN countries) on plastic resins. In 1994, the government also instituted a five-year restrictive import licensing system.

Tariff quota for chicken parts: Although the GOM applies a zero import duty on chicken parts, imports are regulated through licensing and sanitary controls and import levels well below the those called for in the tariff-rate quota agreed during the Uruguay Round but never implemented.

Rice import policy: The sole authorized importer is a government corporation (BERNAS) with the responsibility of ensuring purchase of the domestic crop and wide power to regulate imports.

Film and paper product tariffs: Malaysia applies a 25 percent tariff on imported instant print film that is estimated to cause an annual trade loss to U.S. industry of 10-25 million U.S. dollars. In August 1994, the Malaysian Government raised tariffs on several categories of imported kraft linerboard (used in making corrugated cardboard boxes) to between 20 and 30 percent, depending on the category. These tariff increases are to be phased out after five years and are subject to review every two years.

Professional services: Foreign professional services providers are generally not allowed to practice in Malaysia. Foreign law firms may not operate in Malaysia except as minority partners with local law firms, and their stake in any partnership is limited to 30 percent. Foreign lawyers may not practice Malaysian law or operate as foreign legal consultants. They cannot affiliate with local firms or use their international firm's name. Foreign architecture firms may only operate as affiliates of Malaysian companies. Foreign architectural credentials are not always accepted. Foreign engineering companies must establish joint ventures with Malaysian firms and receive "temporary licensing;" this license is granted on a project-by-project basis and is subject to an economic needs test and other criteria imposed by the licensing board.

Banking: No new licenses are being granted to either local or foreign banks; foreign banks must operate as locally-controlled subsidiaries. Foreign-controlled companies are required to obtain 60 percent of their local credit from Malaysian banks.

Insurance: Branches of foreign insurance companies are required to be locally incorporated by June 30, 1997, and foreign share holding not exceeding 51 percent is permitted. Foreign share holding not exceeding 51 percent is also permitted for the existing foreign shareholders of locally incorporated insurance companies which were the original shareholders of the companies. New entry by foreign insurance companies is limited to equity participation in locally incorporated insurance companies and aggregate foreign share holding in such companies shall not exceed 30 percent.

Securities: Foreigners may hold up to 49 percent of the equity in a stockbroking firm. currently there are 11 stockbroking firms which have foreign ownership and 20 representative offices of foreign brokerage firms. Fund management companies may be 100 percent foreign-owned if they provide services only to foreign investors, but are limited to 70 percent foreign-ownership if they provide services to both foreign and local investors.

Advertising: Foreign film footage is restricted to 20 percent per commercial, and only Malaysian actors may be used. The government of Malaysia has an informal and vague guideline that commercials cannot "promote a foreign lifestyle." Advertising of alcohol and tobacco products is severely restricted.

Television and radio broadcasting: The Malaysian Government maintains broadcast quotas on both radio and television programming. Sixty percent of television programming is required to originate from local production companies owned by ethnic Malays. This share is scheduled to increase to 80 percent by the year 2000. Sixty percent of radio programming must be of local origin.

Government procurement: Malaysian government policy calls for procurement to be used as leverage to support national objectives such as encouraging greater participation of ethnic Malays in trade and industry, transfer of technology to local industries, reducing the outflow of foreign exchange, creating opportunities for local companies in the services sector, and generating concessions that enhance Malaysia's export capabilities. As a result, foreign companies do not face a level playing field in competing for contracts and in most cases are required to take on a local partner before their bid will be considered. Some U.S. companies have voiced concerns about the transparency of decisions and decisionmaking processes.

6. Export Subsidy Policies

Malaysia offers several export allowances. Under the export credit refinancing (ECR) scheme operated by the central bank, commercial banks and other lenders provide financing to exporters at an interest rate of 6 percent for both post-shipment and pre-shipment credit. Malaysia also provides tax incentives to exporters, including double deduction of expenses for overseas advertising and travel, supply of free samples abroad, promotion of exports, maintaining sales offices overseas, and research on export markets.

7. Protection of U.S. Intellectual Property

Malaysia is a member of the World Intellectual Property Organization (WIPO), and most multilateral IPR agreements, including the Berne Convention for the Protection of Literary and Artistic Works, and the Paris Convention. Police and legal authorities are responsive to requests from U.S. firms for investigation and prosecution of copyright infringement cases, though pirated videotapes and computer software continue to be widely available. Concerns have been raised that fines levied on convicted infringers may not have sufficient deterrent effect. A new problem is the establishment of a number of manufacturing plants reportedly producing pirated copyrighted material. The Malaysian Government is aware of the problem and has expressed its determination to move against illegal operations. Trademark infringement and patent protection have not been serious problem areas in Malaysia for U.S. companies.

8. Worker Rights

a. *The Right of Association.*—By law most workers have the right to engage in trade union activity, and approximately 10 percent of the work force are members of trade unions. Exceptions are certain categories of workers labeled "confidential" and "managerial and executives," as well as police and defense officials. Government policy places a de facto ban on the formation of national unions in the electronics sector, but allows in-house unions.

b. *The Right to Organize and Bargain Collectively.*—Collective bargaining is the norm in Malaysian industries where workers are organized. However, collective bargaining rights are effectively restricted by compulsory arbitration requirements.

c. *Prohibition of Forced or Compulsory Labor.*—There is no evidence that forced or compulsory labor occurs in Malaysia for either Malaysian or foreign workers.

d. *Minimum Age for Employment or Compulsory Labor.*—No child under the age of 14 may be engaged in any employment except light work in a family enterprise or in public entertainment, work performed for the government in a school or training institution, or employment as an approved apprentice. In addition regulations prohibit children from working more than 6 hours per day, more than 6 days per week, or at night. However, there have been reports of widespread employment of children below the age of 14 working full-time on plantations.

e. *Acceptable Conditions of Work.*—Working conditions are generally on a par with industrialized country standards. The Occupational Safety and Health Act covers all economic sectors except the maritime sector and the military. Other laws provide for retirement programs, disability and workman's compensation benefits. No comprehensive national minimum wage legislation exists, but certain classes of workers are covered by minimum wage laws. Plantation and construction work is increasingly being done by contract foreign workers whose working conditions are often inferior to those of direct hire workers.

f. *Rights in Sectors with U.S. Investment.*—The largest concentration of U.S. investment in Malaysia is in the petroleum sector. Pay and benefits are considered excellent. The second largest concentration of U.S. investment is in the electronics sector, especially the manufacture of components, such as semiconductor chips. Many U.S. electronic component manufacturers operate plants in Malaysia, employing more than 50,000 Malaysian workers.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		733
Total Manufacturing		3711
Food & Kindred Products	[1]	
Chemicals & Allied Products	[1]	
Metals, Primary & Fabricated	[2]	
Machinery, except Electrical	223	
Electric & Electronic Equipment	2971	
Transportation Equipment	0	
Other Manufacturing	336	
Wholesale Trade		172

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996—Continued

[Millions of U.S. dollars]

Category	Amount
Banking	[1]
Finance/Insurance/Real Estate	233
Services	7
Other Industries	[1]
TOTAL ALL INDUSTRIES	5277

[1] Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis

PHILIPPINES

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Income, Production and Employment:			
Nominal GDP	74.1	83.8	83.6
Real GDP Growth (pct) [2]	4.8	5.7	4.8
Nominal GDP By Sector:			
Agriculture	16.0	17.9	17.3
Manufacturing	17.0	18.9	17.9
Services	34.3	39.3	40.2
Government [3]	7.7	8.9	9.4
Per Capita GDP (US$)	1,081	1,193	1,165
Labor Force (000s)	28,380	29,733	30,500
Unemployment Rate (pct)	9.5	8.6	8.7
Money and Prices (annual percentage growth):			
Money Supply Growth (M2) [4]	25.2	15.8	20.0
Consumer Price Inflation	8.1	8.4	6.0
Exchange Rate (pesos/US$—annual average) Interbank Rate	25.71	26.22	29.20
Balance of Payments and Trade:			
Merchandise Exports, FOB	17.4	20.5	25.5
Exports to U.S. [5]	7.0	8.2	10.0
Merchandise Imports, FOB	26.4	31.9	37.3
Imports from U.S. [5]	5.3	6.1	7.5
Trade Balance	-8.9	-11.3	-11.8
Balance with U.S. [5]	1.7	2.1	2.5
Current Account Deficit/GDP (pct)	4.4	4.5	5.0
External Public Sector Debt	30.1	27.4	N/A
Debt Service Payments/GDP (pct)	6.8	5.9	6.5
Fiscal Surplus/GDP (pct)	20.6	0.3	0.4
Gold and Foreign Exchange Reserves	7.8	11.7	10.5
Aid from U.S. (US$ millions) [6]	89.0	164.0	N/A
Aid from Other Bilateral Sources (US$ Millions) [6]	1,499.0	1,556.0	N/A

[1] 1997 figures are all estimates based on available monthly data in October 1997.
[2] Percentage changes based on local currency.
[3] Government construction and services gross value added.
[4] Growth rate of year-end M2 levels.
[5] Source: U.S. Department of Commerce; exports FAS, imports customs basis; 1997 figures are estimates based on data available through November 1997.
[6] Inflows per balance of payments, net of inflows from the U.S. Veterans Administration (USVA).

Sources: National Economic and Development Authority, Bangko Sentral ng Pilipinas, Department of Finance.

1. General Policy Framework

The Philippines, a founding member of the Association of Southeast Asian Nations (ASEAN) and the World Trade Organization (WTO), has a population of 70 million, growing at 2.3 percent yearly. Agriculture absorbs nearly half of the em-

ployed but contributes less than one-fourth of GDP. Electronics and garments are the leading exports. Overseas workers remittances are a major source of capital inflows. The domestic savings rate, although improving, remains at a low 23 percent of GNP (1996 estimate).

The administration of President Fidel Ramos (now serving a six-year term that ends in 1998) has pursued a wide-ranging program of economic liberalization. Significant progress have been made in liberalizing the trade, foreign exchange and investment regimes; privatizing state-owned enterprises; lowering entry barriers in such sectors as banking, insurance, aviation, telecommunications, and oil; and addressing infrastructure needs under a Build-Operate-Transfer (BOT) program. These reforms have underpinned sustained economic growth since 1993, have attracted investments and have led to strong export growth. GNP per capita first surpassed the equivalent of $1,000 in 1995. At the same time, poverty and a skewed income distribution remain serious concerns.

The Philippines has posted fiscal surpluses since 1994 through a combination of revenue measures and expenditure cuts, but maintaining fiscal balance remains a challenge. Over half of the budget is earmarked for non-discretionary disbursements (such as personnel and debt service payments). Direct taxes constitute less than 40 percent of total tax collections. As privatization receipts taper and tariffs decline, weak tax collection/administration represents a threat to longer-term fiscal and macroeconomic stability. A package of tax reforms passed in late 1997 may begin to remedy this situation.

The 1993 financial restructuring of the Central Bank (Bangko Sentral ng Pilipinas—BSP) restored the monetary authority's ability to conduct effective open market operations. As a result, reserve requirements have been reduced from their high pre-1993 levels. Since 1993, foreign exchange flows (spurred by the acceleration of foreign exchange and investment liberalization) have played an increasingly major role in money supply growth, posing an additional challenge for the monetary authorities.

2. Exchange Rate Policy

Reflecting major reforms phased in since 1992, current account transactions are fully convertible. Except for some restrictions on foreign debt and investments, the Philippines no longer maintains restrictions on capital account transactions. There are no barriers to full and immediate capital repatriation and profit remittances. In September 1995, the Philippines joined the ranks of "Article VIII" International Monetary Fund (IMF) member countries, underscoring its commitment to an open foreign exchange and payments regime. The Government phased out a forward foreign exchange cover scheme for oil imports between December 1994 and March 1997.

Foreign exchange rates generally evolve freely in the interbank market, although the BSP imposes limits on banks' overbought and oversold foreign exchange positions. In mid-July 1997, as a regional currency turmoil escalated, the Bankers Association of the Philippines (BAP) abandoned a foreign "volatility band" (first adopted in late 1994) in order to allow the Philippine peso to seek new, lower levels more freely. Responding to intermittent volatile episodes, the BAP re-introduced a wider band on October 7, 1997, which limits interbank forex fluctuations to 4 percent above or below the previous trading afternoon's weighted average.

3. Structural Policies

Prices are generally determined by free market forces, with the exception of basic public utilities. March 1996 legislation phased in the full deregulation of the downstream oil industry by February 1997, lifting controls over imports and new industry entrants. The last phase also abolished government-set ceilings on petroleum prices and oil firms' profit margins. A November 5 Supreme Court decision, however, ruled that the legislation violated the constitution's anti-monopoly provisions.

March 1996 legislation lowered foreign investment barriers further by abolishing one of three negative lists (i.e., "List C", which protected "adequately served" sectors such as insurance, travel agencies, tourist lodging firms, and conference organizers) under the l991 Foreign Investment Act. The legislation also lowered the minimum capitalization requirement (from $500,000 to $200,000) at which majority foreign ownership would be allowed. Effective January 1997, the Government lifted limits on domestic borrowings by foreign firms. On October 21, 1997, President Ramos signed legislation increasing the maximum foreign ownership of securities underwriting firms from 49 percent to 60 percent.

The Philippines' Tariff Reform Program is gradually lowering applied duty rates on nearly all items, although the government is currently (November 1997) considering freezing or slowing down the staging of tariff reductions on some items. The major exception to the tariff reduction program is in agriculture. Quantitative restrictions (QRs) on "sensitive" agricultural products (except rice) were replaced with tariffs. Aside from zero-duty commitments under the WTO Information Technology Agreement, the Philippines is moving towards two rates by the year 2003 for raw materials, manufactured goods, and non-sensitive agricultural products by the year 2003—three percent for raw materials and intermediate goods, and 10 percent for finished products by 2003—and a final uniform five percent applied tariff rate by 2004.

The Philippines began implementing an "expanded" value added tax (EVAT) law in January 1996, extending coverage of the earlier 1988 law to additional goods and services. Reflecting concerns over sustainable revenue flows, the government launched in 1995 a "Comprehensive Tax Reform Program" (CTRP) to simplify the tax system and widen the tax base. The final phase of CTRP legislation, focusing on personal and corporate income taxes, was signed into law December 1997.

4. Debt Management Policies

The Bangko Sentral ng Pilipinas (BSP) requires prior approval of certain types of foreign debt agreements: private sector loans to be serviced by foreign exchange purchases from the banking system; and loans either incurred or guaranteed by the public sector. The foreign debt level (estimated at $42.6 billion) has been growing, but debt servicing is no longer a major problem. The ratio of debt servicing to exports has fallen from 40 percent in the early 1980s to under 13 percent. The Philippines reentered the voluntary international capital markets in 1993 after a decade's absence, and has succeeded in retiring or exchanging some of its earlier debt for instruments carrying longer maturities and more favorable terms. The Philippines has had four debt rescheduling rounds with official bilateral (Paris Club) creditors; the Government did not exercise a fifth Paris Club debt rescheduling agreement. The IMF approved a three-year extended arrangement in mid-1994, which the Philippines intends to use as an exit program on or before the end of 1997, upon completion of the CTRP (see Section 3). The Philippines' exit is likely to be delayed because of the region's economic turmoil and a Supreme Court decision on oil price deregulation.

5. Significant Barriers to U.S. Exports

Tariffs: In July 1995, the Philippines adopted a minimum access volume (MAV) system that licenses imports of some 85 "sensitive" agricultural products. Among those were products, such as pork and poultry, on which the government had undertaken minimum access commitments in the Uruguay Round (UR). The United States has sought consultations with the Philippines under the WTO regarding implementation of MAV's on these products. In some cases, products that had previously been imported without restriction, are now subject to the MAV system. This has resulted in the application of prohibitive tariff levels in cases where no MAV's (subject to in-quota rates) were established. Administrative requirements for import certificates under the MAV system for all products are burdensome. Imported automotive vehicles are subject to a 40 percent applied tariff rate (scheduled to fall to 30 percent in 2000), the highest applied duty rate currently in the Philippine tariff schedule, as part of an effort to encourage local assembly. The Philippines provides participants in its "Motor Vehicle Development Program" with a number of other incentives to encourage local assembly, such as a 3% duty rate on completely-knocked down (CKD) vehicle kits. The government has stated its intention to terminate certain provisions of these programs by the year 2000, in compliance with its WTO obligations. High excise taxes on larger engines significantly limit sales of vehicles imported from the United States.

Import Licenses: Trade reforms have greatly reduced import restrictions. Certain items, including firearms, ammunition, and dangerous drugs, are still subject to import regulation for reasons of health, morals, and/or national security.

State Trading: The National Food Authority remains the sole importer of rice and continues to be involved in imports of corn.

Excise taxes: Excise taxes on distilled spirits have the effect of discriminating against imports by imposing a lower tax (eight pesos, or about $0.24 per proof liter) on products which use indigenously available materials (such as coconut, palm, cane, and certain root crops). Specific taxes on distilled spirits produced from other raw materials, which would apply to most imports, range from 75 pesos (about $2.20) to 300 pesos (about $8.80) per proof liter, depending on the retail price.

Services Barriers: Banking—May 1994 banking legislation permitted 10 foreign banks to open branches in the Philippines. Presently, foreign entry is limited to 60 percent ownership of either a new local subsidiary or an existing domestic bank. Foreign branch banks are limited to putting up six branches each. Four foreign banks that had been operating in the Philippines since before 1948 are allowed to add six branches each to their respective networks. Current regulations provide that majority Filipino-owned domestic banks should, at all times, control at least 70 percent of total banking system assets.

Securities—Membership in the Philippine stock exchange is open to foreign-controlled stock brokerage firms, provided they are incorporated under Philippine laws. Foreign ownership in securities underwriting companies is limited to 60 percent. Companies not established under Philippine law are not allowed to underwrite securities for the Philippine market, but may underwrite Philippine issues for foreign markets. Financing companies must be at least 60 percent Filipino-owned.

Insurance—Although foreign entry has been liberalized, capitalization requirements vary according to the extent of foreign equity. As a general rule, only the Philippines' Government Service Insurance System may provide coverage for government-funded projects. A 1994 administrative order extended this policy to BOT-funded projects. Current regulations require all insurance/professional reinsurance companies operating in the country to cede to the industry-owned National Reinsurance Corporation of the Philippines (NRCP) at least 10 percent of outward reinsurance placements.

Professional services—The Philippine Constitution (Section 14 of Article XII) reserves the practice of licensed professions to Philippine citizens. This includes, inter alia, law, engineering, medicine, accountancy, architecture, and customs brokerage. Philippine law (R.A. 8182) also requires that preference be given to Philippine citizens in the hiring of consultants and other professionals necessary for the implementation of projects funded by foreign assistance.

Telecommunications—The Philippine Constitution (Section 10 of Article XII) limits foreign ownership in telecommunication firms to 40 percent.

Shipping—The Maritime Industry Authority prohibits foreign-flagged vessels from the carriage of domestic trade.

Standards, Testing, Labeling, and Certification: Of the total 1,625 Philippine National Standards, 15 percent are aligned with international norms. The government, for reasons of public health, safety and national security, implements regulations that affect U.S. exports of drugs, food, textiles and certain industrial goods. U.S. pharmaceutical firms believe that the "Generic Act" of 1988, which promotes the use of generic drugs and which requires that a drug's generic name must appear above its brand name on all packaging, represents a trade barrier. The Department of Agriculture has not established conditions of import in relation to plant health for a range of fresh fruits and vegetables; therefore, phytosanitary permits necessary for importing these products are not issued.

Local inspection for standards compliance is required for imports of a range of industrial products including lighting fixtures, electrical wires and cables, sanitary wares and household appliances, medical equipment, cosmetics, portland cement and pneumatic tires. For other goods, however, the Philippines accepts U.S. manufacturers' self-certification of conformance.

Investment Barriers: The Foreign Investment Act of 1991 contains two categories of foreign investment "negative lists". "List A" covers activities in which foreign equity is excluded or limited by the Constitution and other laws. These include investments in mass media, practice of licensed professions (see above), retail trade, processing of corn and rice, small-scale mining and private security agencies, which are reserved for Filipinos. In addition to land ownership (where a 40 percent foreign-equity ceiling applies), varying foreign ownership limitations are imposed, among others, on companies engaged in advertising (30%), employee recruitment (25%), private construction (40%), financing (40%), public utilities (40%), education (40%), and the exploration and development of natural resources (40%). "List B" limits foreign ownership (generally to 40 percent) for reasons of public health, safety and morals, or to protect local small and medium-sized firms. To protect smaller firms, a company must be capitalized at a minimum of $200,000 to be more than 40 percent foreign-owned.

The Philippines generally imposes a foreign ownership ceiling of 40 percent on firms seeking incentives with the Board of Investment (BOI) under the annual Investment Priorities Plan. While there are exceptions to the ceiling, divestment to reach the 40 percent level is required within 30 years. The BOI imposes industry-wide local-content requirements under its motor-vehicle development programs and

requires participants to generate, via exports, a certain ratio of the foreign exchange needed for import requirements. The government intends to phase out these trade-related investment measures by the year 2000.

Government Procurement Practices: Contracts for government procurement are awarded by competitive bidding and, in general, government procurement policies do not discriminate against foreign bidders. However, preferential treatment of local suppliers is practiced in government purchases of medicines, rice, corn, and iron/steel materials for use in government projects. Contractors for infrastructure projects which require a public utility franchise (i.e., water and power distribution, public telephone and transportation systems) must be at least 60 percent Filipino-owned. For other major contracts (such as BOT projects) not involving a public utility franchise, a foreign constructor must be duly accredited by its government to undertake construction work. The Philippines is not a signatory of the WTO plurilateral Government Procurement Agreement.

Customs Procedures: All imports valued at over $500 are permitted entry only when accompanied by a preshipment inspection report—"Clean Report of Findings"—issued by Societe Generale de Surveillance (SGS), the authorized, contracted, inspection firm. Refrigerated products are exempt. The preshipment inspection requirement extends to exports to certain operations in free-trade zones, such as those at Clark and Subic Bay, even though such zones are technically outside the customs territory of the Philippines. The SGS contract to perform preshipment inspection services expires in mid-1998, and is currently up for renewal.

To assess import duty, the Bureau of Customs has shifted from "home consumption value" to "export value" as an interim step towards a shift to "transaction value" before the year 2000. Many U.S. exporters assert that the use by the Bureau of Customs of the "export value" method of valuation has resulted in unwarranted "uplifts" in valuation (and in the assessed dutiable value).

6. Export Subsidies Policies

Firms (including exporters) engaged in activities under the Investment Priorities Plan may register with the Board of Investment (BOI) for fiscal incentives under the 1987 Omnibus Investment Code. These incentives include income-tax holidays, preferential tax/duty treatment of imported capital equipment, tax credits for domestically purchased equipment, and income-tax deductions for incremental labor expenses. In addition to these general incentives, some benefits apply specifically to BOI-registered export firms (such as tax credits for raw-material imports, and tax/duty exemptions on imported spare parts). Export companies in government-designated export zones and industrial estates registered with the Philippine Economic Zone Authority enjoy basically the same incentives as BOI-registered firms.

Enterprises accredited under the Export Development Act may also take advantage of time-bound incentives which include: duty-free importation of capital equipment and accompanying spare parts through 1997; partial tax credit through 1997 for locally purchased raw materials, equipment and spare parts for exporters of non-traditional products; tax credit until 1999 for imported inputs and raw materials not readily available locally; and tax credit for increases in the current year's export revenues, contingent on performance and local content.

7. Protection of U.S. Intellectual Property

On June 6, 1997, President Ramos signed into law a new Intellectual Property Code which, when it takes effect January 1, 1998, should significantly improve the legal framework for IPR protection. Implementing regulations, however, have yet to be promulgated. The new Code creates an Intellectual Property Office, with original jurisdiction to resolve certain disputes concerning licensing, and significantly increases penalties for infringement and counterfeiting. The Philippines is a party to the Paris Convention for the Protection of Industrial Property and the Patent Cooperation Treaty. It is also a member of the World Intellectual Property Organization (WIPO).

Despite the creation in February 1993 of the Inter-agency Committee on Intellectual Property Rights as the body charged with recommending and coordinating enforcement oversight and program implementation, serious problems remain with IPR enforcement. Insufficient funding is a major problem. Joint government-private sector efforts have improved administrative enforcement; but when IPR owners must use the courts, enforcement is slower and less certain. The designation in 1995 of 48 courts to handle IPR violations has done little to speed up the process, since these courts also continue to handle non-IPR cases, without the provision of additional resources. Because of the lengthy nature of court action, many cases are settled out of court.

Patents: The new Code moves the Philippines to a "first-to-file" system, and increases the term of patent from 17 to 20 years. The holder of a patent is guaranteed an additional right of exclusive importation of his invention.

Trademarks: The new IP Code no longer requires prior use of trademarks in the Philippines as a requirement for filing a trademark application. Also eliminated was the requirement that well-known marks be in actual use in Philippine commerce or registered with the Bureau of Patents, Trademarks, and Technology Transfer. Trademark counterfeiting is widespread, with many well-known international trademarks copied, including denim jeans, designer shirts, playing cards, sporting equipment and personal beauty and health care products. Some U.S. firms have had success in curbing piracy in cooperation with Philippine enforcement agencies, particularly the National Bureau of Investigation.

Copyrights: The new Code expands IP protection by clarifying protection of computer software as literary works (although it includes a fair use provision on decompilation), repealing a long-standing compulsory reprint license for books, and establishing exclusive rental rights in several categories of works and sound recordings. It also provides terms of protection for sound recordings, audiovisual works, and newspapers and periodicals that are compatible with the WTO Agreement on Trade-related Intellectual Property Rights (TRIPs). However, a number of gaps and ambiguities remain; for example, the new Code fails to provide clearly an exclusive right for copyright owners over broadcast, rebroadcast, cable retransmission or satellite retransmission of their works.

New Technologies: The new Code protects layout designs (topographies) of integrated circuits. The new Code provides for the patentability of micro-organisms and non-biological and microbiological processes.

Software and video piracy remains widespread; according to the Business Software Alliance, the piracy rate for software is estimated at between 90-95%, while that for motion pictures is around 70%. Enforcement actions have not effectively reduced these figures. The illegal retransmission of copyrighted works by cable television stations, i.e. without authorization from or payment to the copyright owners, is also a significant problem, especially outside Manila. The U.S. IP industry estimates potential trade losses in 1996 due to piracy of software at $82 million; for motion pictures, $22 million; and for sound recordings, $3 million.

8. Worker Rights

a. *The Right of Association.*—All workers (including public employees) have a right to form and join trade unions, a right which is exercised without government interference. Trade unions are independent of the government and generally free of political party control. Unions have the right to form or join federations or other labor groupings. Subject to certain procedural restrictions, strikes in the private sector are legal. Unions are required to provide strike notice, respect mandatory cooling-off periods, and obtain majority member approval before calling a strike.

b. *The Right To Organize and Bargain Collectively.*—The Philippine Constitution guarantees the right to organize and bargain collectively. The Labor Code protects and promotes this right for employees in the private sector and in government-owned or controlled corporations. A similar but more limited right is afforded to employees in most areas of government service. Dismissal of a union official or worker trying to organize a union is considered an unfair labor practice. Labor law and practice are uniform throughout the country, although there have been complaints about some local attempts to maintain "union free/strike free" policies in several of the export processing zones. In the garment industry, the widespread use of short-term, contract workers is an obstacle to workers forming unions or obtaining medical and retirement benefits.

c. *Prohibition of Forced or Compulsory Labor.*—The Philippines prohibits forced labor.

d. *Minimum Age for Employment of Children.*—Philippine law prohibits the employment of children below age 15, with some exceptions involving situations under the direct and sole responsibility of parents or guardians, or in the cinema, theater, radio and television in cases where a child's employment is essential. The Labor Code allows employment for those between the ages of 15 and 18 for such hours and periods of the day as are determined by the Secretary of Labor, but forbids employment of persons under 18 years in hazardous work. A significant number of children are employed in the informal sector of the urban economy or as unpaid family workers in rural areas.

Acceptable Conditions of Work.—A comprehensive set of occupational safety and health standards exists in law. Statistics on actual work-related accidents and ill-

nesses are incomplete, as incidents (especially in regard to agriculture) are underreported. Workers do not have a legally protected right to remove themselves from dangerous work situations without jeopardy to continued employment.

f. *Rights in Sectors with U.S. Investment.*—U.S. investors in the Philippines generally apply U.S. standards of worker safety and health, in order to meet the requirements of their home-based insurance carriers. Some U.S. firms have resisted efforts by their employees to form unions, with local government support.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		[1]
Total Manufacturing		1530
Food & Kindred Products	470	
Chemicals & Allied Products	462	
Metals, Primary & Fabricated	35	
Machinery, except Electrical	0	
Electric & Electronic Equipment	353	
Transportation Equipment	0	
Other Manufacturing	209	
Wholesale Trade		259
Banking		371
Finance/Insurance/Real Estate		[1]
Services		[1]
Other Industries		395
TOTAL ALL INDUSTRIES		3349

[1] Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis

---

SINGAPORE

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Income, Production and Employment:			
Nominal GDP	85.3	94.0	98.7
Real GDP (1990 prices)	72.3	77.7	80.1
Real GDP Growth (pct) [2]	8.8	7.0	6.5
GDP By Sector:			
Agriculture	0.1	0.16	0.17
Manufacturing	22.4	24.5	25.7
Services	44.3	49.2	52.8
Government	7.0	8.4	8.9
Per Capita GDP	24,456	26,539	27,395
Labor Force (000s)	1749	1802	1856
Unemployment Rate (pct)	2.7	3.0	3.0
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	8.5	9.8	9.7
Consumer Price Inflation (pct)	1.7	1.4	1.8
Exchange Rate (Sd/US$) annual average	1.42	1.41	1.46
Balance of Payments and Trade:			
Total Exports FOB [3]	11.8	12.5	12.6
Exports To U.S. CIF [3]	1.9	2.0	2.1
Total Imports CIF [3]	12.4	13.1	13.4
Imports From U.S. FAS [3]	1.5	1.7	1.8

Key Economic Indicators—Continued

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Trade Balance [3]	-6.2	-6.3	-8.4
Trade Balance With U.S. [3]	3.2	3.6	2.8
Fiscal Surplus/GDP (pct)	6.3	3.6	3.2
Current Account Surplus/GDP (pct)	16.9	15.0	17.4
Debt Service Payments/GDP (pct)	0	0	0
Reserves	68.5	76.4	81.2
Aid from U.S.	0	0	0
Aid from Other Sources	0	0	0

[1] 1997 Figures Are Projections Based On Most Recent Data Available.
[2] Percentage Changes Calculated In Local Currency.
[3] Merchandise Trade. United States-Singapore Trade Data Was Taken From Usdoc Instead Of Gos sources, As The Latter Includes Transshipments To And From Regional Countries.

1. General Policy Framework

A city-state with a population of 3.5 million astride one of the major shipping lanes of the world, Singapore has long adopted economic policies that encourage open trade and investment. Singapore's annual trade is about three times the size of its GDP, and transshipments make up 40 percent of its merchandise exports. Foreign funds comprised 70 percent of its total investment in manufacturing in 1996. These policies have allowed this small country to develop one of the world's most successful open trading and investment regimes. Singapore actively promotes trade liberalization in the region through APEC and ASEAN. It is a founding member of the World Trade Organization (WTO), and hosted the first WTO Ministerial in December of 1996.

Internally, Singapore's free-market economic policies have created a climate conducive to economic growth, including a competitive business environment, and a transparent and corruption-free regulatory framework. At the same time, it has a sizable public sector in the form of government-linked companies (which have private shares as well) that account for nearly 60 percent of GDP. Over the past decade, Singapore's real GDP grew at an average annual rate of 9.0 percent; 1996's economic growth rate dropped to 7 percent. The financial and business services sector, in particular, has grown to eclipse manufacturing, with the former now contributing about 31 percent (to the latter's 26 percent) of GDP.

The government pursues conservative fiscal policies designed to encourage high levels of savings and investment. For most of the years since the 1970's—and the past nine consecutive years—the Government has had a budget surplus. In 1996, its fiscal surplus amounted to 3.6 percent of the country's GDP. The Central Provident Fund (CPF) compulsory savings program, which requires that 20 percent of an individual's income be placed in a tax-exempt account (with employer matching funds), is the basis for the national savings rate of nearly 50 percent of GDP. Individual CPF accounts may be used only, in part, to finance public housing purchases and investment in government-designated trustee stocks. The government invests heavily in the country's social and physical infrastructure, including education, transportation, public housing subsidies and CPF contributions.

The Monetary Authority of Singapore (MAS), the country's central bank, engages in limited money-market operations to influence interest rates and ensure adequate liquidity in the banking system. Its key objective is to maintain stability and rarely to stimulate or reduce economic growth. Interest rates are low (currently 3.41 percent for three-month money and a 6.26 percent prime lending rate which has remained steady since 1995). There are no controls on capital movements, thus limiting the scope for an independent monetary policy. The exchange rate is the MAS's most important tool for controlling inflation. Although inflation is low by international standards (1.4 percent based on C.P.I. numbers in 1996), an acute labor shortage and land scarcity have intensified inflationary pressures.

Singapore has become a major center for electronics, chemicals, oil refining and financial services, acting as a hub for the growing Southeast Asian market. Singapore's sound economic policies which promote private investment have attracted about 1300 U.S. companies to Singapore, with cumulative investments of USD 15 billion in 1996. The U.S. moved up to become Singapore's largest trading partner, accounting for 17.3 percent of Singapore's total trade in 1996. U.S. exports to Singa-

pore in 1996 were USD 16.7 billion and Singapore's exports to the U.S. were USD 20.3 billion.

2. Exchange Rate Policy

Singapore has no exchange rate controls. Exchange rates are determined freely by daily cross rates in the international foreign exchange markets. At the same time, the MAS uses currency swaps and direct open market operations to keep the Singapore dollar within a desired trading range. It does impose restrictions on Singapore dollar lending (SGD 5 million) to non-residents, or to local residents for use abroad, as a check against the internationalization of the Singapore dollar. The MAS maintains a strong currency to check inflation, given Singapore's extreme exposure to international trade.

The Singapore dollar appreciated about 54 percent against the U.S. dollar from 1986 to 1996, with its rise slowed somewhat in 1996 due to more moderate economic growth and less than two percent inflation. Since the beginning of 1997, it has depreciated by over ten percent against the U.S. dollar largely in connection with the region's currency crisis. This could have an impact on U.S. imports as prices of American products rise in the local market. On the other hand, the Singapore dollar has appreciated significantly against the other currencies in the region, thus minimizing the inflationary impact on its economy.

3. Structural Policies

Singapore's prudent economic policies have allowed for steady economic growth and the development of a reliable market, to the benefit of U.S. exporters. Singapore was the eighth largest customer for U.S. products in 1996. Prices for virtually all products are determined by the market. The Government conducts its bids by open tender and encourages price competitionthroughout the economy.

The Singapore government has gradually reduced corporate income tax levels from 40 percent in 1986 to the current 26 percent. It aims to bring the corporate tax rate down further to 25 percent in the next few years. Foreign firms are taxed on the same basis as local firms. There is no tax on capital gains. The Government implemented a three percent value-added Goods and Services Tax (GST) in 1994 but reduced corporate (by one percent)and personal (by three percent) taxes. It also began providing tax rebates of up to SGD 700 on individual income tax in 1994. With these changes, it is estimated that three out of four Singaporeans will end up not having to pay personal income taxes, thus increasing the disposable incomes available to the average Singaporean consumer. In 1996, given continued budget surpluses, the Government also decided to make additional contributions to public housing and retirement schemes. At the same time, it raised stamp duties and imposed credit restrictions and a capital gains tax on short-term property sales to curb speculation in the real estate market.

Many of Singapore's public policy measures are tailored to attract foreign investments and ensure an environment conducive to their efficient business operations and profitability. Investment policies are open and transparent. Although the Government seeks to develop more high-tech industries, it does not impose production standards, require purchases from local sources, or specify a percentage of output for export.

4. Debt Management Policies

Singapore's external public debt was a negligible USD 3.1 million at the end of 1994 and was retired completely in 1995. This was one of the factors that enabled the country to weather the currency crisis which engulfed the region in the second half of 1997. Singapore's budget surpluses and mandatory savings have allowed the government wide latitude in supporting infrastructure, education, and other programs contributing significantly to national development.

5. Aid

Singapore does not receive financial assistance from foreign governments.

6. Significant Barriers to U.S. Exports

Singapore has one of the world's most liberal and open trade regimes. Approximately 98 percent of imports enter duty-free, with tariffs primarily levied on cigarettes and alcohol for social reasons. Excise taxes are levied on petroleum products and motor vehicles primarily to restrict motor vehicle use. There are no non-tariff barriers to foreign goods. Import licenses are not required, customs procedures are minimal and highly efficient, the standards code is reasonable and the government actively encourages foreign investment. All major government procurements are by

international tender. The Government formally acceded to the WTO Government Procurement Agreement in September 1997.

Singapore maintains some market access restrictions in the services sector. No new banking licenses for local retail banking have been issued for more than two decades (to either foreign or domestic institutions) because the Monetary Authority considers Singapore over-banked. Foreign banks currently hold 22 of the 34 full (local retail) banking licenses. Full licensed foreign banks, however, are not allowed additional branches or ATM machines although local banks are allowed to expand. At the same time, the MAS continues to encourage the growth of the offshore banking industry in Singapore. It recently raised the Singapore dollar lending limit for offshore banks (to Singapore-based firms) from SGD 100 to SGD 200 million. No new licenses for direct (general) insurers are being issued, although reinsurance and captive insurance licenses are freely available. Foreign companies hold about three-quarters of the 59 direct insurance licenses.

The telecommunications sector has been steadily liberalized since 1989. Restrictions on the sale of telecommunication consumer goods and the provision of value-added network services (VANS) have been lifted. Singapore Telecom (Singtel) has been privatized and its regulatory functions assumed by the Telecommunications Authority of Singapore (TAS). Private investors now own up to 19 percent of shares in Singtel. In April 1996, MobileOne (a Singapore-foreign joint venture) became the second cellular phone service provider in Singapore, thus ending Singtel's monopoly in the telephone services market. Three new paging service providers also entered the market at the same time. TAS has also announced that it will issue new licenses for up to two new basic telephone service providers to begin operation in 2000, and additional ones in 2002. Worldcom, the fourth largest U.S. long-distance operator, has formed a joint venture to bid for a basic services license.

7. Export Subsidies Policies

Singapore does not subsidize exports although it does actively promote them. The Government offers significant incentives to attract foreign investment, almost all of which is in export-oriented industries. It also offers tax incentives to exporters and reimburses firms for certain costs incurred in trade promotion, but it does not employ multiple exchange rates, preferential financing schemes, import-cost-reduction measures or other trade-distorting policy tools.

8. Protection of U.S. Intellectual Property

The Singapore government recognizes the importance of intellectual property rights (IPR), especially in connection with further investments—both foreign and domestic—in the technologically-advanced sectors of the economy. It has taken concrete measures to improve the protection of IPR over the years and, as a result, Singapore has one of the lowest rates of IPR piracy in Asia. Singapore is a member of the World Intellectual Property Organization (WIPO), and has ratified the Uruguay Round Accord including the TRIPS provisions. Singapore is not a party to the Berne Convention or the Universal Copyright Convention.

In 1987, following close consultation with the U.S. Government, Singapore enacted strict, comprehensive copyright legislation which relaxed the burden of proof for copyright owners pressing charges, strengthened civil and criminal penalties and made unauthorized possession of copyrighted material an offense in certain cases. In January 1991 Singapore similarly strengthened its Trademark Law. In 1994, Singapore enacted a new Patents Act. Although Singapore did not commit to implementing the TRIPS agreement by 1 January 1996, as required for developed countries, amendments making the Patent Law fully TRIPS consistent came into effect in January 1996. Singapore is now also drafting amendments to its Copyright Law, expecting to make it TRIPS consistent by the end of 1997.

Singapore was placed on the Special 301 Watch List in 1997 partly because its Copyright Law was not TRIPS consistent. (Note: Singapore claimed "developing country" status under TRIPS, thus not binding itself to meet the 1 January 1996 deadline for a "developed country.") Other outstanding issues included the lack of rental rights for sound recordings and software, inadequate protection against making bootleg copies of musical performances, the limited scope of copyright protection for cinematographic works and overly broad exceptions from copyright protection.

Copyrights: Despite government efforts, IP owners associations have reported an upsurge in pirated music CDs and CD ROMs available in the country since 1995, part of which were thought to have been smuggled in and others manufactured in Singapore. A successful series of raids conducted by the police, assisted by the International Federation of Phonographic Industries (IFPI), in July 1997 resulted in the confiscation of 78,000 pirated music CD's. In another case, however, the Chief Jus-

tice quashed a warrant used by BSA and the police in a raid on a local CD manufacturer. More generally, IP associations have cited the inadequacy of the current "self-policing" system, and are pressing the government to assume a more active and direct role in the investigation and prosecution of IPR cases. They have called for the enactment of even stronger laws and regulations to protect IPR. In response, government agencies have met with local CD manufacturers and IP owners associations to consider new measures to deal with the problem.

Recent estimates by Business Software Alliance (BSA) show software piracy losses rising to USD 56.5 mil in 1996 from USD 40.4 mil in 1995 and USD 37.3 mil in 1994. Singapore's piracy rate was estimated to have risen back up to 59 percent in 1996 from 53 percent (the lowest in Asia) in 1995 and 61 percent in 1994. In the area of music CDs, IFPI estimated Singapore's CD piracy level to have risen gradually from 12 percent in 1994 to nearly 17 percent in 1996.

9. Worker Rights

a. *The Right of Association.*—Article 14 of the Singapore's constitution gives all citizens the right to form associations, including trade unions. Parliament may, however, based on security, public order, or morality grounds impose restrictions. The right of association is delimited by the Societies Act and labor and education laws and regulations. In practice, communist labor unions are not permitted. Singapore's labor force numbered 1.8 million in 1996, with some 255,020 workers organized into 83 trade unions.

b. *The Right to Organize and Bargain Collectively.*—Over ninety percent of these workers in unions are affiliated with an umbrella organization, the National Trades Union Congress (NTUC), which has a symbiotic relationship with the Government. The NTUC's leadership is made up mainly of Members of Parliament belonging to the ruling People's Action Party (PAP). The Secretary-General of the NTUC is also an elected Minister without portfolio in the Prime Minister's office.

The Trades Union Act authorizes the formation of unions with broad rights. Collective bargaining is a normal part of labor-management relations in Singapore, particularly in the manufacturing sector. Collective bargaining agreements are renewed every two to three years, although wage increases are negotiated annually.

c. *Prohibition of Forced or Compulsory Labor.*—Under sections of Singapore's Destitute Persons Act, any indigent person may be required to reside in a welfare home and engage in suitable work.

d. *Minimum Age for Employment of Children.*—The Government enforces the Employment Act, which prohibits the employment of children under 12 years and restricts children under 16 from certain categories of work.

e. *The Singapore labor market offers relatively high wage rates and working conditions consistent with international standards.*—However, Singapore has no minimum wage or unemployment compensation. Because of labor shortages, wages have generally stayed high. The government enforces comprehensive occupational safety and health laws. Enforcement procedures, coupled with the promotion of educational and training programs, reduced the frequency of job-related accidents by one-third over the past decade. The average severity of occupational accidents has also been reduced.

f. *Rights in Sectors with U.S. Investment.*—U.S. firms have substantial investments in several sectors of the economy, including petroleum, chemicals and related products, electric and electronic equipment, transportation equipment, and other manufacturing areas. Labor conditions in these sectors are the same as in other sectors. The growing labor shortage has forced employers, especially in the construction and electronics industries, to hire many unskilled foreign workers. Over 400,000 foreign workers are employed legally in Singapore, 22 percent of the total work force. The government controls the number of foreign workers through immigration regulation and through levies on firms hiring them. Foreign workers face no legal discrimination, but, because they are mostly unskilled workers, they are generally paid less than Singaporeans.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category	Amount
Petroleum	2799

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996—Continued

[Millions of U.S. dollars]

Category		Amount
Total Manufacturing		5870
Food & Kindred Products	[1]	
Chemicals & Allied Products	360	
Metals, Primary & Fabricated	214	
Machinery, except Electrical	1590	
Electric & Electronic Equipment	3226	
Transportation Equipment	[1]	
Other Manufacturing	254	
Wholesale Trade		1777
Banking		507
Finance/Insurance/Real Estate		2521
Services		487
Other Industries		189
TOTAL ALL INDUSTRIES		14150

[1] Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

---

TAIWAN

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Income, Production and Employment:			
GDP (at current prices)	260.2	272.3	288.2
Real GDP Growth (percent)	6.0	5.7	6.6
GDP by Sector:			
Agriculture	9.2	8.9	8.2
Manufacturing	73.2	76.0	79.5
Services	129.3	138.0	149.7
Government	27.4	28.7	30.2
Per Capita GDP (US$)	12,164	12,732	13,373
Labor Force (000s)	9,210	9,310	9,400
Unemployment Rate (percent)	1.8	2.6	2.6
Money and Prices (annual percentage growth):			
Money Supply (M2)	9.4	9.1	9.0
Consumer Price Inflation	3.7	3.1	2.6
Exchange Rate (NT$/US$) [2]			
Official	27.27	27.46	28.50
Balance of Payments and Trade:			
Total Exports (FOB) [3]	111.7	115.9	123.7
Exports to U.S. (CV) [4]	29.0	29.9	32.4
Total Imports (CIF) [3]	103.6	102.4	113.5
Imports from U.S. (FAS) [4]	19.3	18.4	20.3
Trade Balance [3]	8.1	13.5	10.2
Trade Balance with U.S. [4]	9.7	11.5	12.1
External Public Debt	0.3	0.1	0.05
Fiscal Deficit/GDP (pct)	7.4	7.4	6.3
Current Account Deficit/GDP (pct)	1.8	3.8	2.1
Debt Service Payments/GDP (pct)	2.4	1.8	2.0
Gold and Foreign Exchange Reserves	95.9	93.6	92.1
Aid from U.S. [5]	0	0	0

Key Economic Indicators—Continued

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Aid from Other Countries	0	0	0

[1] 1997 figures are estimated based on data from the Directorate General of Budget, Accounting and Statistics, or extrapolated from data available as of September 1997.
[2] Average of figures at the end of each month.
[3] Taiwan Ministry of Finance (MOF) figures for merchandise trade.
[4] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1997 figures are estimates based on data available through August 1997. Taiwan MOF figures for merchandise exports (FOB) to and imports (CIF) from U.S. respectively were (US$ billions): (1995) 26.4/20.8, (1996) 26.9/20.0, (1997) 29.2/22.5.
[5] Aid disbursements stopped in 1965.

1. General Policy Framework

For four and a half decades, Taiwan has maintained rapid economic growth and macroeconomic stability. Annual economic growth during this period averaged 8.5 percent. In 1996, real gross domestic product (GDP) increased 5.7 percent; it is expected to grow by 6.6 percent in 1997. Per capita GDP was US$12,732 in 1996. As of August 1997, Taiwan held US$88 billion in foreign exchange reserves, the third largest in the world (after Japan and the PRC). Prices rose 3.1 percent in 1996 and are expected to rise 2.6 percent in 1997.

Rising labor and land costs have led many manufacturers in labor intensive industries to move offshore, mainly to Southeast Asia and mainland China. The pace of relocation has now slowed, however, in large part because those intending to move have already done so. Industrial growth is now concentrated in capital and technology intensive industries such as petrochemicals, computers, and electronic components, as well as consumer goods industries. Services account for over sixty percent of GDP. Exports of goods and services account for nearly half of GDP.

Falling official savings and growing public expenditures have caused domestic public debt to increase steadily. The Taiwan authorities now rely largely on domestic bonds and bank loans to finance major expenditures. In 1997, Taiwan adopted austerity measures to control the government budget deficit. As a result, outstanding public debt will decline from 21 percent of GNP in fiscal year 1997 (July 1-June 30) to 20 percent in fiscal year 1998. During the same period, the central government's deficit will fall by half, from four percent of GNP to two percent. Defense spending still accounts for the largest share of public expenditures (about one quarter) but is falling in relative terms. The greatest pressure on the budget now comes from growing demands for improved infrastructure and social welfare spending, including a national health insurance plan initiated in early 1995.

Taiwan wishes to accede to the World Trade Organization (WTO) Agreement in the near future. It also aims to develop into an Asia Pacific regional operations center, and is an active member of the Asia Pacific Economic Cooperation (APEC) forum. Taiwan has in recent years accelerated liberalization of its trade and investment regime.

2. Exchange Rate Policies

Taiwan has a floating exchange rate system in which banks set rates independently. The Taiwan authorities, however, control the largest banks authorized to deal in foreign exchange. The Central Bank of China (CBC) intervenes in the foreign exchange market when it feels that speculation or "drastic fluctuations" in the exchange rate may impair normal market adjustments. The CBC uses direct foreign exchange trading by its surrogate banks and public policy statements as its main tools to influence exchange rates. Beginning in July 1996, the CBC ceased to set banks' overbought and oversold positions; banks are now authorized to set these positions. In May 1997, the CBC lifted limits on banks' foreign liabilities. The CBC, however, still limits the use of derivative products denominated in New Taiwan Dollars.

Trade-related funds flow freely into and out of Taiwan. Most restrictions on capital account flows have been removed since late 1995. Laws restricting repatriation of principal and earnings from direct investment have been lifted in principle, but some necessary amendments are still pending in the Legislative Yuan. Despite significant easing of previous restrictions on foreign portfolio investment, some limits remain in place.

3. Structural Policies

Six state-owned enterprises have been either totally or partially privatized in the past three years. Two more are targeted for privatization in 1998. State-owned enterprises account for ten percent of GDP, a proportion which shrinks annually. Taiwan's Fair Trade Commission (FTC) acts to thwart noncompetitive pricing by state-run monopolies. FTC exemptions granted five years ago to several state-run monopolies were not renewed in 1997, making such firms subject to anti-monopoly laws.

In July 1997, Taiwan began implementing tariff reductions on 289 high-tech goods as part of its commitment to the multilateral Information Technology Agreement. It is expected that tariffs will be lowered on an additional 1,130 items in early 1998 (legislation is pending). Taiwan's current average nominal tariff rate is 8.6 percent; the trade-weighted rate is 3.6 percent. High tariffs and pricing structures on some goods—in particular on some agricultural products—nevertheless hamper U.S. exports. Taiwan continues to ban imports of products such as peanuts, poultry products, and bellies and offal of hogs. The Taiwan Tobacco and Wine Monopoly Bureau (TTWMB) has a monopoly on domestic production of cigarettes and alcoholic beverages. The United States is seeking to improve market access for these and other products as part of Taiwan's WTO accession process.

4. Debt Management Policies

Unofficial estimates put Taiwan's outstanding long- and short-term external debt at US$17.5 billion as of December 1996, equivalent to 6.4 percent of GDP. Official figures show that Taiwan's long term outstanding external public debt totaled US$89 million, compared to gold and foreign exchange reserves of about US$93.6 billion. Taiwan's debt service payments in 1996 totaled US$3.0 billion, only two percent of exports of goods and services.

Foreign loans committed by Taiwan authorities exceed US$1 billion. Taiwan offered low-interest loans to the Philippines, Eastern Europe, Vietnam, South Africa, and Latin America, mostly to build industrial zones and to foster development of small and medium enterprises (SME). Taiwan also contributes to the Asian Development Bank (ADB), one of the two multilateral development banks in which it has membership. Taiwan is also a member of the Central American Bank for Economic Integration (CABEI). The ADB, CABEI, and the European Bank for Reconstruction and Development (EBRD) have all floated bonds in Taiwan.

5. Significant Barriers to U.S. Exports

Accession to the WTO Agreement by Taiwan will open markets for some U.S. goods and services. Currently more than 86 percent of all import categories are exempt from controls. Some 878 categories require approval from relevant authorities. Another 287 require import permits from the Board of Foreign Trade or pro forma notarization by banks. Imports of 264 categories are banned, including ammunition and some agricultural products. In June, 1997, Taiwan began implementing the HS system to bring its tariff schedule into line with international standards.

Financial: Taiwan continues to liberalize steadily its financial sector. Taiwan enacted a Futures Exchange law in March 1997; a futures market will be established in late 1997 or early 1998. The Securities and Exchange Law was amended in May 1997 to remove restrictions on employment of foreigners by securities firms, effective upon Taiwan's accession to the WTO Agreement. Limits remain on foreign ownership in listed companies. Foreign investors, both individual and qualified foreign institutional investors, are subject to some limits on their portfolio investment and restrictions on their capital flows.

Banking: In May 1997, banks' foreign liabilities limits were removed. In June 1997, the restriction that commercial paper guaranteed by a foreign bank could not exceed ten times the bank's local net worth was dropped. Also in June 1997, the annual limit on a company's trade-related outward (or inward) remittances was raised from US$20 million to US$50 million. Inward/outward remittances unrelated to trade by individuals or companies are still subject to annual limits. NT-dollar-related derivative contracts may not exceed one-third of a bank's foreign exchange position.

Legal: Foreign lawyers may not operate legal practices in Taiwan but may set up consulting firms or work with local law firms. Qualified foreign attorneys may, as consultants to Taiwan law firms, provide legal advice to their employers only. Draft legislation is pending which would clarify the status and scope of work for foreign-licensed attorneys.

Insurance: In May 1997, the financial authorities announced that in principle insurance companies would be allowed to set some premium rates and policy clauses

without prior approval from regulators. Insurance companies are still required to report such rates and clauses. In July 1995, Taiwan removed a prohibition against mutual insurance companies; as of October 1997, however, authorities had not issued implementing regulations. In 1996, a U.S. mutual insurance firm was denied authorization to establish a branch in Taiwan.

Transportation: The United States and Taiwan concluded an Open Skies Agreement in February 1997. An amendment to the Highway Law allowing branches of U.S. ocean and air freight carriers to truck containers and cargo in Taiwan went into effect on November 1, 1997.

Telecommunications: As part of a long-term liberalization plan, authorities in early 1997 awarded 8 mobile telephone licenses, 8 paging licenses, 20 trunking radio licenses, and 8 mobile data licenses to private service providers. Maximum allowable direct and indirect foreign investment in these private service providers is limited to 20%, although Taiwan has proposed increasing the limits to just below 50%. Private service providers currently face excessively high interconnection fees imposed by monopoly wireline provider Chunghwa Telecom. Taiwan's Directorate General of Telecommunications has been unwilling to mediate the interconnection fee problem, putting U.S.-invested mobile providers at a significant cost disadvantage to Chunghwa, with whom they also compete.

Pharmaceuticals and Medical Devices: Under pricing principles adopted in late 1996, Taiwan's Bureau of National Health Insurance discriminates against imported drugs by setting prices for leading brand-name products at artificially low levels, while providing artificially high reimbursement prices for locally-made generics. Foreign drug makers also face long delays in seeking regulatory approval and pricing from relevant authorities for new drugs. In a similar way, imported medical devices are put at a competitive disadvantage by a reimbursement system which fails to account for significant quality differences between different brands of medical devices.

Motion Pictures: Taiwan restricts the import of foreign film prints to 38 per title (up from 31 as of June 1997). No more than 11 theaters in any municipality may show the same foreign film simultaneously. Effective August 1997, multi-screen theaters are allowed to show a film on up to three screens simultaneously, up from the previous limit of one. Taiwan has pledged to abolish these restrictions upon accession to the WTO Agreement.

Standards, Testing, Labeling, and Certification: Taiwan will bring its laws and practices into conformity with the WTO Agreement on Technical Barriers to Trade as part of its WTO accession. U.S. agricultural exports in particular suffer under existing requirements. These include a lack of an internationally-accepted set of pesticide tolerance levels for imported fruits and vegetables, stringent microbiological and chemical testing of imported food products, and standards on preservatives for soft drinks. Imported agricultural goods are routinely tested while local agricultural products usually are not. Industrial products such as air conditioning and refrigeration equipment, electric hand tools, and synthetic rubber gloves must undergo redundant and unnecessary testing requirements, which include destructive testing of samples. Imported autos face stringent noise, emissions, and fuel efficiency testing requirements. In 1997, Taiwan authorities promulgated new electromagnetic emissions standards for computer and other electronic goods. Discussions are underway on arrangements to avoid disrupting U.S. computer exports to Taiwan.

Investment Barriers: Since 1996, Taiwan has relaxed investment restrictions in a host of areas, including petroleum refining, coal coking, office digital electronic switching systems, and a number of other value-added network services. Foreign investment remains prohibited in key industries such as agriculture, basic wire line telecommunications, broadcasting, and liquor and cigarette production. In October 1997, Taiwan streamlined foreign investment review procedures.

Limits on foreign equity participation in a number of industries have been relaxed in the past year; for example, permissible participation in shipping companies was raised from 50 to 100 percent. Foreign ownership limits for securities investment trust companies were removed in 1996. Other limits—such as a 33-percent limit on holdings in airlines, air cargo forwarders and air cargo ground-handling—remain unchanged. However, an amendment to the Civil Aviation Law that would raise the holding limit to 50 percent is now pending legislative approval. In August 1997, Taiwan raised the cap on foreign investment in independent power projects from 30 percent to 49 percent. Local content requirements in the automobile and motorcycle industries will be lifted as part of Taiwan's WTO accession. Restrictions on employment of foreign administrative personnel in foreign-invested firms remain in place.

Procurement Practices: Taiwan has committed to adhere to the WTO Agreement on Government Procurement (AGP) as part of its WTO accession process. The draft Government Procurement Law includes giving the Dispute Settlement Committee increased authority to arbitrate contract disputes, not just bid challenges. The law is expected to be passed in 1997. The U.S. concluded its bilateral discussion on Government Procurement with Taiwan in December 1997.

6. Export Subsidies Policies

There are few subsidy and tax policies to subsidize exports. Taiwan's small rice and sugar exports enjoy indirect subsidies through guaranteed purchase prices higher than world prices. Producers of some fruit, poultry, and livestock receive financial assistance with packaging, storage, and shipping via marketing cooperatives and farmers' associations. Taiwan's Tobacco and Wine Monopoly Bureau guarantees prices for products used in production of its products. Taiwan authorities also offer guaranty prices for a portion of rice and other cereal crops produced by farmers. Taiwan subsidizes the manufacture of fertilizer by offering lower fuel prices to domestic manufacturers.

7. Protection of U.S. Intellectual Property

The United States removed Taiwan from the Special 301 list in November 1996 based on its implementation of a comprehensive, 18-point IPR action plan. Taiwan authorities implemented new regulations requiring Taiwan CD manufacturers to use source identification (SID) codes on their products. They plan to begin requiring SID's on video CD's as well. They stepped up enforcement actions and continued education efforts. Taiwan also opened an IPR service window to assist foreign firms facing IPR infringement.

Taiwan is not a party to any major multilateral IPR conventions. In line with WTO Agreement accession efforts, Taiwan has passed laws to protect integrated circuit layouts, personal data, and trade secrets. Likewise, the Legislative Yuan in April 1997 passed an amended Patent and Trademark Law. As a result, Taiwan's IPR legal structure, with the exception of its Copyright Law, is consistent with the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs).

Copyrights: Export of counterfeit copyrighted goods has dropped markedly over the past few years, but unauthorized copying of computer software and manufacture of counterfeit video games remain problems. Taiwan currently protects copyrights dating from 1965. The revised Copyright Law now under review in the Legislative Yuan will bring Taiwan into TRIPs conformity by extending retroactive protection to 50 years upon Taiwan's accession to the WTO.

8. Worker Rights

a. *The Right of Association.*—The Labor Union Law (LUL) restricts the right of association of workers on Taiwan. It forbids civil servants, teachers, and defense industry workers to organize trade unions and forbids workers to form competing trade unions and confederations. However, as democratization has continued, workers have gradually established independent labor organizations, either legally or illegally. During 1997, the number of unions and their members declined slightly due to relatively slow economic growth and to jobs taken by foreign labor. As of June 1997, three million workers, or 32 percent of Taiwan's labor force, belonged to 3,706 labor unions.

b. *The Right to Organize and Bargain Collectively.*—With the exception of civil servants, teachers, and defense industry workers, the LUL, the Law Governing the Handling of Labor Disputes, and the Collective Agreement Law give workers the right to organize and bargain collectively. However, the laws also restrict workers' exercise of these rights. The LUL, for example, stipulates that workers shall not strike to demand an increase in wages exceeding standard wages. Collective bargaining agreements exist mainly in large-scale enterprises. As of June, 1997, there were 295 such collective agreements.

c. *Prohibition of Forced or Compulsory Labor.*—The Labor Standards Law prohibits forced or compulsory labor. The maximum jail sentence for violation of the law is five years. Except for cases involving prostitution, there were no reports of such practices in 1997.

d. *Minimum Age for Employment of Children.*—The Labor Standards Law stipulates age 15, after completion of the 9-year compulsory education required by law, as the minimum age for employment. County and city labor bureaus enforce minimum age laws. Child labor is rare in Taiwan.

e. *Acceptable Conditions of Work.*—The Labor Standards Law (LSL) mandates basic labor standards. At present, the law covers 3.6 million of Taiwan's 6.4 million salaried workers. In October 1997, the minimum wage was raised by 3 percent from NT$15,360 to NT$15,840 (or about US$520) per month. During this period, the average wage in the manufacturing sector was over NT$37,000(or about US$1,320), more than twice the legal minimum wage. The LSL limits the work week to 48 hours (8 hours per day, 6 days per week) and requires one day off every 7 days. In December 1996, the LSL was adjusted to give employers more flexibility in adhering to work hour limits. In addition to wages, employers typically provide workers with additional payments and benefits, including a portion of national health insurance and labor insurance premiums, the distribution of labor welfare funds, meals, and transportation allowances.

f. *Rights in Sectors with U.S. Investments.*—U.S. firms and joint ventures generally abide by Taiwan's labor law regulations. In terms of wages and other benefits, workers rights do not vary significantly by industrial sector.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		[1]
Total Manufacturing		2778
Food & Kindred Products	124	
Chemicals & Allied Products	1222	
Metals, Primary & Fabricated	[1]	
Maachinery, except Electrical	185	
Electric & Electronic Equipment	1180	
Transportation Equipment	[1]	
Otther Manufacturing	87	
Wholesale Trade		540
Banking		575
Finance/Insurance/Real Estate		243
Services		158
Other Industries		[1]
TOTAL ALL INDUSTRIES		4509

[1] Suppressed to avoid disclosing data of individual companies.
ASource: U.S. Department of Commerce, Bureau of Economic Analysis

THAILAND

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997(est)
Income, Production and Employment:			
Nominal GDP	167.3	185.9	[2 4] 188.7
Real GDP growth (pct)	8.6	6.5	[2] 1.5
GDP by sector:			
Agriculture	18.2	19. 6	N/A
Manufacturing	48.3	55.0	N/A
Services	20.6	22.4	N/A
Government	6.2	6.6	N/A
Per capita GDP	2,770	3,034	[2 4] 3,100
Labor force	33.6	34.0	34.4
Unemployment rate	2.6	2.6	[2] 5.0
Money and prices (annual percent of growth):			
Money supply growth	17.0	12.0	14.3
Consumer price inflation	5.8	6.0	[5] 9.5
Exchange rate (baht/US$, annual average)			
Official	24.92	25.3	[2 4] 40.0

Key Economic Indicators—Continued

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997(est)
Balance of payments and trade:			
Total exports FOB	55.4	57.3	56.2
Exports to U.S.	11.3	11.1	11.4
Total imports CIF	70.4	72.4	66.5
Imports from U.S.	6.4	6.9	7.2
Trade balance	-15.0	-15.1	-10.0
Balance with U.S.	4.9	4.1	4.2
External public debt	16.4	16.5	[1] 16.2
Fiscal surplus/(pct)	2.7	2.2	[5] 1.0
Current account Deficit /GDP (pct)	-8.1	-8.0	[5] 5.0
Debt service Payments /GDP (pct)	2.8	N/A	N/A
Gold and Foreign Exchange Reserves	37.0	39.5	[5] 23.0
Aid from U.S. (US$ millions)	31.2	N/A	N/A
Aid from all other sources	N/A	N/A	N/A

[1] Bank of Thailand
[2] Various U.S. official sources, including U.S. Embassy estimates
[3] Thai Development Research Institute
[4] NOTE: The exchange rate on October 31, 1997 was 40 baht to $1.00. However, GDP in 1997 is calculated at the 1996 exchange rate in order to provide a better measure of real growth and per capita income in the Thai economy for 1997. If the 1997 GDP were calculated at 40 baht to the U.S. dollar, the Thai GDP would be approximately $119 billion, and the per capita income approximately $1,960 (assuming a 1997 population of 60.8 million).
[5] IMF estimates.

1. General Policy Framework

The government of Prime Minister Chavalit Yongchaiyut has generally continued the economic policies of previous governments, giving some additional attention to the redress of economic disparities and dislocations caused by rapid development in the Central regions of the country. The Northeast, particularly, has not shared in the country's rapid growth. However, the government is currently very unstable because it has failed to cope with a serious economic decline that has afflicted the country throughout 1997.

Thailand's economy is export-oriented, bolstered by a free market philosophy. Within the last generation Thailand's economy has changed from one primarily based upon agriculture, with some light industries, to one dominated by manufacturing and services. While about 52 percent of the Thai labor force is still engaged in agriculture, at least on a part time basis, the growing service, manufacturing, and wholesale and retail trades now account for about two thirds of Thailand's GDP.

After years of an overheated economy with rapid growth, in late 1996 and into 1997 the Thai economy led a regional downturn. There are both long and short term causes for the current serious decline. Thai competitiveness in labor intensive industries (such as textiles) has been falling as its ASEAN neighbors take a greater share of those markets. There is a shortage of well educated management and workers capable of shifting smoothly into higher-tech industries, where Thailand's economic future lies. An inadequate infrastructure, especially in the overcrowded Bangkok area, is an ongoing problem.

If those long term problems are worrying for future prospects, the short term problems are more critical. The Thai stock market, which had been declining for years, reached eight year lows in the last quarter of 1997. Over-building in the property sector, financed by a large number of questionable loans, resulted in the rapid collapse of booming property construction during 1997. Though sales have stagnated, prices do not yet reflect the debacle. The finance sector was severely shaken by the suspension of 58 troubled finance companies. In August 1997, the Thai Government agreed to accept the terms of an International Monetary Fund loan containing conditions that forbid a bail out of suspended finance firms.

After months of speculation and denials by the government that any such move was being considered, the Baht began a "managed float" in July, 1997. The Baht immediately fell in value, and has continued to spiral downward since that time. Offshore debt quickly became onerous. Yet exports (except in textiles and agro-industries) have not reaped the usual gains of a cheaper currency because many of Thailand's products are assembled with components bought abroad which come at higher prices. Credit has been extremely tight, thereby denying the business sector

the liquidity a recovery would require. Growth of Thailand's gross domestic product fell from 6.5 percent in 1996 to an estimated 1–2 percent in 1997.

Thailand's current account deficit was a much-publicized factor in Thailand's economic slowdown during 1996, and a key reason for Moody's adjustment of Thailand's short term debt risk rating in September 1996. The current account deficit rose during 1995 to 13.5 billion dollars, equivalent to 8 percent of GDP, and 14.7 billion (7.9 percent of GDP) in 1997. However, the current account deficit problem has been alleviated by the falling demand for imports, and should fall to five percent of GDP this year.

Although exports are down in many sectors, textiles are suddenly doing well again, as are agro-industries, primarily because they depend less upon imported inputs. By the end of the first quarter of 1997, exports were valued at 56.2 billion dollars. The government depends upon exports to bring the country through the current economic crisis, but with other ASEAN currencies also devaluing it is not likely that Thailand will long retain a dominant share of the region's textile exports.

During 1996 Thailand continued to enjoy a budget surplus. However, in fiscal 1997 Thailand registered the first deficit in a decade. In fiscal 1998, the Thai Government's target is a budget surplus equal to one percent of G.D.P., which it will reach through a series of heavy spending cut-backs and tax increases.

2. Exchange Rate Policy

From 1984 to 1997 the Baht was pegged to a basket of currencies of Thailand's principle trading partners, with the U.S. dollar representing the largest share. The exchange rate averaged about 25 Baht to the dollar during most of that period. On July 2, 1997 the Baht was allowed to float, and began to lose value immediately. At the beginning of the last quarter an exchange rate of 35 Baht to the dollar was average, and is predicted to fall further by the end of the year. This has made American exports very expensive for the Thais.

In May 1990 the Thai Government announced a series of measures to liberalize the exchange control regime. Thailand accepted the obligations of the IMF Article VIII which covers reduction of restrictions on international transactions. Commercial banks were given permission to process foreign exchange transactions, and substantial increases were allowed in the ceilings for money transfers to escape the requirement for Bank of Thailand pre-approval. Since 1992 banks in Thailand have offered foreign currency accounts. The Central Bank has also raised limits on Thai capital transfers abroad and allows free repatriation (net of taxes) of investment funds, profits, loan repayments, and dividends. Companies may transfer foreign exchange among subsidiaries without switching the funds into Baht.

3. Structural Policies

In 1992 then Prime Minister Anand launched a series of economic reforms, and Thailand's obligations within the WTO and ASEAN have also prompted reforms in tariff rates, trade regulations, regulation of financial institutions, and currency policies.

The Thai taxation code has undergone revision since 1992, when a 7 percent value added tax (VAT) system was introduced. The previous tax regime was clumsy and complicated, with a multi-tiered structure for assessing business taxes. In September of 1997 the Thai Government announced an increase in the VAT, from seven to ten percent (most basic foodstuffs are excepted). This was necessary to raise revenues, and to meet IMF rescue package requirements. An exemption for businesses making less than $24,000 per annum remains in place. Firms grossing between $24,000 and $48,000 per annum pay a rate of 1.5 percent, up .5 percent. Exporters are "zero rated" but must file VAT returns and apply for a rebate. The corporate tax rate is currently 30 percent of net profits for all firms. A proposal pending in Parliament would substitute a tax credit for the VAT rebate.

A new tax treaty between the United States and Thailand was signed in November 1996, and ratified by the U.S. Senate in October, 1997. The treaty will enter into force after the exchange of the instruments of ratification. Smaller American firms, in particular, have been disadvantaged by the lack of a reciprocal tax agreement. The new treaty will provide for the elimination of double taxation and give American firms tax treatment equivalent to that enjoyed by Thailand's other tax treaty partners.

4. Debt Management Policies

During 1997, as a result of lowered demand for imports, Thailand's current account deficit is projected to decline to about five percent of GDP, which is the IMF

target. The prime rate has ranged between 10.5 and 14 percent for over five years. It currently stands at 14.25 percent.

5. Significant barriers to U.S. exports

Moving to meet its WTO and ASEAN tariff reduction commitments, Thailand instituted tariff reductions beginning in January 1995. There were further reductions on 4,000 items at the beginning of 1997. However, the critical need for revenue has led to the imposition of higher duties, surcharges, and excise taxes on "sin" items and a range of luxury imports. These will affect American wine and beer exports, particularly. Items already slated for tariff reduction under AFTA and WTO agreements are not affected by the new exactions.

At the beginning of 1997 the total number of tariff rate categories was reduced from 39 to six, with the following spread: zero percent on such goods as medical equipment and fertilizer, one percent for raw materials, electronics components, and vehicles for international transport, five percent for primary and capital goods, ten percent for intermediate goods; 20 percent for finished products, and 30 percent for goods needing "special protection." This last category includes agricultural products, autos and auto parts, alcoholic beverages, and a few other "sensitive" items. Import tariff quotas are applied to a total of 23 categories of agricultural products.

Thailand is in the aligning its import license procedures with its WTO obligations. Import licenses are still required for 26 categories of items, down from 42 categories in 1995-1996. Licenses are required for many raw materials, petroleum, industrial, textile, and agricultural items. Import licenses can sometimes be used to protect unproductive local industries and to encourage greater domestic production. Some items which do not require licenses must nevertheless comply with the regulations of concerned agencies, offer extra fees, or provide certificates of origin.

The Thai Food and Drug Administration issues licenses for food and pharmaceutical imports. This process can be a barrier due to the cost, the length of the process, and occasional demands for proprietary information. Licenses cost about $600 and must be renewed every three years. Pharmaceutical import licenses cost about $480 and must be renewed every year. This is not exorbitant, but the costs mount in the requirements for laboratory analysis. Costs of between $40 to $120 per item are usual for sample food products imported in bulk. Sealed, packaged foods can cost about $200 per item. Pharmaceuticals must be registered for a fee of about $80, and pharmaceuticals must be inspected and analyzed for another fee of about $40 per item. The process can take more than three months to complete.

The Thai Government is easing barriers to imports of farm products. Typically import-duty reductions are in line with WTO commitments, and this may be expected to improve market access for some American products. In some cases, the Thai measures go beyond their WTO commitments. For example, the lifting of quotas and the reduction of import duties on soybeans and soybean meal in October, 1996 boosted U.S. exports of both commodities. The Thai Government is currently considering whether these liberalization measures should be maintained in 1998, and whether access for corn should be further improved.

Nevertheless, duties on many high-value fresh and processed foods remain high, even though rates are slated to decline between 35 and 50 percent under WTO rules. Entry into Thailand is still expensive for most U.S. high-value fresh and value-added processed foods. There are no longer specific duties on most imported agricultural and food products, except wine and spirits, which will continue to have very high rates. In addition, the recently increased excise tax on wine will significantly constrain what had been a growing market for American wines. Rice will continue to be protected, but within WTO schedules.

Arbitrary customs valuation procedures sometimes constitute a serious barrier to U.S. goods. The Department of Customs has used the highest previously declared invoice value as a benchmark for assessing subsequent shipments from the same country. That allowed Customs to disregard the invoice value of a shipment in favor of the benchmark amount. This practice has had a particularly damaging effect upon trade in agricultural products, which often have seasonally fluctuating values. However, the Thai Government is instituting a program of customs reform that, if adopted successfully, will remedy some of the problems at the ports of entry. These reforms include adoption of the World Customs Organization Harmonized Code and the use of an Electronic Data Interchange system. The pilot program for these reforms is slated to be operational by the first of January 1998.

Customs duties are sometimes arbitrary in other ways. For example, import duties on unfinished materials are higher than those upon finished goods in some cat-

egories, which is a burden to American firms that manufacture or assemble in Thailand.

In the past Thailand restricted the activities of foreign banks. The total of foreign banking assets in Thailand recently exceeded 7.5 percent of the national total. Although there have been moves toward liberalization, foreign banks are still disadvantaged in a number of ways. They are limited in the number of branches they may open. The numbers of expatriate management personnel is limited to six in branches and two in Bangkok International Banking Facilities (BIBFs). Until recently, foreigners were limited to an aggregate maximum of 25 percent share in any Thai Bank. However, in October 1997, the Thai Government ruled that foreigners may hold a majority share in Thai financial institutions for ten years, after which they must dilute ownership to 49 percent in the event that they increase capitalization.

In order to be consistent with WTO requirements, Thailand is undertaking a liberalization of banking regulations. In late 1996 and early 1997 the Thai Government issued 7 more foreign bank and 7 more BIBF licenses.

Thai law and regulations formerly limited foreign equity in new local insurance firms to 25 percent or less. In June of 1996 the cabinet approved raising this limit to 49 percent. This has yet to be written into law, and awaits the approval of the Council of State and the new Parliament.

Under a 1979 Thai law aliens are forbidden to engage in the stock brokerage business. However, foreigners may own up to 49 percent of service companies. Foreign ownership of Thai finance and credit firms is limited to 25 percent for companies formed after the law was passed, and 40 percent for those formed before.

Telecommunications services are a government monopoly in Thailand. The Thai Government expects to have the telecommunications master plan for privatization in place by the end of 1997. Implementation of this plan, which will involve the reorganization of the existing state enterprises into stock companies, is expected to take up to two years.

6. Export Subsidies

Thailand ratified the Uruguay Round Agreements in December 1994. Thailand maintains several programs which benefit manufactured products or processed agricultural products and which may constitute export subsidies. These include subsidized credit on some government-to-government sales of Thai rice (agreed on a case-by-case basis), preferential financing for exporters in the form of packing credits, tax certificates for rebates of packing credits, and rebates of taxes and import duties for products intended for re-export. In September 1993 Thailand established an Export-Import Bank which has taken over administration of some of these programs, particularly that of packing credits, and in October 1997 the Ex-Im bank was authorized to offer an additional $500 million worth of packing credits through commercial banks. This was done to help liquidity levels for exporters during the current economic crisis, and the program will run for one year. The Thai Ex-Im Bank offers a 10 percent rate, about four points below the prime rate offered by other banks.

7. Protection of Intellectual Property

Improved protection for U.S. copyright, patent, and trademark holders has been an important bilateral trade issue for several years. After passage of a revised copyright law in 1994, the U.S. moved Thailand from Special 301 "priority watch list" to "watch list" status. The Thai Government also agreed to provide "pipeline protection" through administrative means for certain pharmaceutical products not entitled to full patent protection under the 1992 patent law. In recognition of this progress the U.S. restored a number of GSP benefits that had been denied to Thailand under Special 301. Several other bills designed to bring Thailand into compliance with its TRIPS requirements, including an amendment to the Patent Act that would abolish the pharmaceutical review board, are currently under consideration. Thailand is a member of most international IPR treaties, including TRIPS.

The Thai Government has also made some effort to improve enforcement, making about 7600 arrests and seizing three million pirated items under its intellectual property laws since 1993. A specialized Intellectual Property Department in the Ministry of Commerce has cooperated with U.S. industry associations to coordinate both legal reforms and enforcement efforts, including raids. In 1997, the Parliament passed legislation establishing a separate intellectual property court that should result in a more efficient judicial system and tougher sentencing. The court began operation in December 1997.

Piracy remains a serious problem, however. The U.S. pharmaceutical, film, and software industries estimate lost sales at over $200 million annually. Despite new and improved laws, judicial proceedings remain slow and the fines actually imposed are light. To date, no one has served time in jail for copyright infringement. The police have not always been cooperative, let alone proactive, in combating piracy. Partly as a result, arrests and seizures of illicit goods have fallen sharply since 1994. In an October 1997 off-cycle review under Special 301, the USTR determined that Thailand should remain on the Watch List.

8. Worker rights

a. *The Right of Association.*—The Labor Relations Act of 1975 gives workers in the private sector most internationally recognized labor rights, including the freedom to associate. They may form and join unions and make policy without hindrance from the government and without reprisal or discrimination for union activity. Unions in Thailand may have relationships with unions in other countries, and with international labor organizations. In 1991 the Thai parliament enacted the state enterprise labor relations act (SELRA), denying state enterprise workers the rights other workers enjoyed under the 1975 law. The Thai Government has promised to amend the SELRA, and to restore those rights. The new legislation was approved by the cabinet, and separate versions of the bill were passed by the House and the Senate in September 1997. A joint scrutinizing committee is meeting to find compromise language for the bill.

b. *The Right to Organize and Bargain Collectively.*—The 1995 act grants Thai workers the right to bargain collectively over wages, working conditions, and benefits. About 900 private sector unions are registered in Thailand. State enterprise employees and civil servants still may not form unions, but this will be addressed in the pending SELRA legislation. State enterprise employees, essential workers (transportation, education, and health care personnel), and civil servants may not strike. They may be members of employee associations, however. Collective bargaining is unusual in Thailand, and industry-wide collective bargaining is all but unknown. However, representatives of public sector associations and private sector unions do sit on various government committees dealing with labor matters, and are influential in setting national labor policies, such as the minimum wage.

c. *Prohibition of forced or compulsory labor.*—The Thai constitution prohibits forced or compulsory labor except in cases of national emergency, war, or martial law. However, Thailand remains the target of ILO actions under Convention 29 (forced labor) because child prostitution persists despite recent government moves to step up enforcement of the laws which prohibit it, and to cooperate with ILO programs.

d. *Minimum age for employment of children.*—The minimum age for employment in Thailand is thirteen. Children between the ages of 13 and 15 are restricted to light work in non-hazardous jobs, and must have department of labor permission to work. Night-time employment of children is prohibited. A bill to raise the minimum working age to 15 has been passed by the house, but a competing bill passed by the senate does not raise it. A joint committee is now approaching a compromise on raising the age limit. The government has backtracked on its commitment to raise the years of compulsory education from six to nine years and has instead adopted a policy of improving the opportunities of students for study beyond the sixth grade. Recently the government has doubled the size of the corps of labor inspectors, but enforcement is not rigorous.

e. *Acceptable Conditions of Work.*—Working conditions vary widely in Thailand. Large factories generally meet international health and safety standards, though there have been serious lapses involving loss of life. The Government has increased the number of inspectors and raised fines for violators. The usual work day in industry is eight hours. Wages in profitable export industries often exceed the legal minimum. However, in the large informal industrial sector wage, health, and safety standards are low and regulations are often ignored. Most industries have a legally mandated 48 hour maximum work week. The major exceptions are commercial establishments, where the maximum is 54 hours. Transportation workers are restricted to 48 hours per week.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		1830
Total Manufacturing		1782
Food & Kindred Products	67	
Chemicals & Allied Products	380	
Metals, Primary & Fabricated	[1]	
Machinery, except Electrical	[1]	
Electric & Electronic Equipment	505	
Transportation Equipment	1	
Other Manufacturing	176	
Wholesale Trade		449
Banking		549
Finance/Insurance/Real Estate		222
Services		40
Other Industries		382
TOTAL ALL INDUSTRIES		5254

[1] Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

EUROPE

EUROPEAN UNION

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Income, Production and Employment:			
Nominal GDP	7201.4	7318.9	7509.2
Real GDP growth (pct)	2.4	1.8	2.6
GDP by sector:			
Agriculture	N/A	N/A	N/A
Manufacturing	N/A	N/A	N/A
Services	N/A	N/A	N/A
Government	N/A	N/A	N/A
Per Capita GDP (US$ Thous)	21.1	20.0	20.6
Labor force (0000)	155.4	155.0	N/A
Unemployment rate (pct)	10.9	10.9	10.8
Money and Prices (annual percentage growth):			
Money supply growth (M2/M3)	4.5	5.2	N/A
Consumer price inflation	3.0	2.6	2.1
Exchange rate:			
(ECU/US$ annual average)	0.76	0.78	0.87
Balance of payments and trade:			
Total exports FOB	743.7	764.2	N/A
Exports to U.S.	132.4	150.4	N/A
Total imports CIF	717.7	740.1	N/A
Imports from U.S.	136.5	159.3	N/A
Trade balance	26.0	24.1	N/A
Balance with U.S.	-4.1	-8.9	N/A
External public debt (pct of GDP)	71.0	73.0	72.4
Fiscal deficit/GDP (pct)	5.1	4.3	2.7
Current balance/GDP (pct)	0.5	0.8	1.1
Debt Service Payments/GDP (pct)	N/A	N/A	N/A
Gold and Foreign Exchange Reserves	N/A	N/A	N/A
Aid from U.S.	N/A	N/A	N/A
Aid from Other Sources	N/A	N/A	N/A

[1] Estimates

1. General Policy Framework

The European Union (EU), our largest trade and investment partner, is a supranational organization comprised of fifteen European countries: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom. It is unique in that the Member States have ceded to it increasing authority over their domestic and external policies, especially with the 1986 "Single Market" and the 1993 "Maastricht" amendments to the 1958 Treaty of Rome (the Treaty). Individual Member State policies, however, may still present problems for U.S. trade, in addition to the occasional EU-wide problems.

The EU's authority is clearest in the economic realm. A longstanding customs union, the EU—with the ratification by the Union and its fifteen Member States of the Uruguay Round Agreements—now represents the collective interest of the Member States in the WTO Committee on Trade in Goods. (The Member States retain

some authority over intellectual property and services issues, and both the EU and the Member States are represented in the TRIPS and GATS Committees.) Internally, the Treaty guarantees the free movement of goods, services, capital and people among the Member States, and many of the "Single Market" program measures were intended to harmonize Member States' domestic laws in order to eliminate non-tariff barriers to these flows. In addition, the European Commission enforces Treaty provisions against anti-competitive practices throughout the EU. More recently, the Maastricht Treaty mandated an "Economic and Monetary Union" among the Member States no later than January 1, 1999 and gave the EU competence over investment from third countries, although Member State barriers to such investment existing on December 31, 1993 continue in force until superseded by EU law.

The EU itself currently has only very limited fiscal and no monetary policy powers. The Union's budget is limited to 1.27 percent of EU GDP; by law, expenditures must be balanced by revenues from the Member States. (The EU has no independent taxing authority.) Expenditures, at less than $100 billion, are divided generally among agricultural support (50 percent), "structural" policies to promote growth in poorer regions (35 percent), other internal policies (five percent), external assistance (five percent) and administrative and miscellaneous (five percent).

The EU's indirect influence over Member State fiscal and monetary policy, however, is considerable, and growing in the run-up to Economic and Monetary Union. The EU now adopts annual "guidelines" on Member State economic policy, and the Member States are striving to achieve the "convergence criteria" for monetary union: maximum deficits of three percent of GDP; gross national debt of 60 percent of GDP; inflation and interest rate levels no more than one and a half percentage points above the average of the three lowest rates among the Member States, and two years of relative exchange rate stability. These efforts to restrain fiscal policy may have dampened aggregate demand in the EU. Imports rose by 8% in 1996.

2. Exchange Rate Policy

As noted, the EU intends to establish an Economic and Monetary Union (EMU) with a common monetary and exchange rate policy no later than 1999. During the second stage of EMU, which began on January 1, 1994, the Member States continue to coordinate their exchange rate policies through the European Monetary System (EMS) and, specifically, its Exchange Rate Mechanism (ERM). The European Monetary Institute facilitates and monitors implementation of these arrangements. Member states retain full authority to set monetary policies during the second stage of EMU.

The EMS and ERM aims are to promote monetary, price, and exchange rate stability in Europe by limiting the fluctuations of participating currencies within a certain range around bilateral central parity rates. Pressures in foreign exchange markets in September 1992 led the United Kingdom and Italy to suspend their participation in the ERM, and compelled adjustment of the parities for other currencies in subsequent months. In part to relieve these pressures, on August 2, 1993, the ERM fluctuation band was widened from 2.25 to 15 percent.

The EMS and ERM are not aimed at influencing trade flows with the United States or other third countries and are consistent with the articles of agreement of the International Monetary Fund.

3. Structural Policies

Single Market: The European Union's "1992" Single Market was officially inaugurated on January 1, 1993 with the disappearance of most intra-EU border controls on movement of goods, services, capital and people. The legislative program is largely complete, although there are delays in Member State implementation of Community rules in national law and national differences in interpretation of those rules. The net effect of the Single Market exercise has been freer movement, fewer Member State regulations for products and service providers to meet, and real consolidation of markets. Some aspects of the program, however, have created problems for U.S. exporters, such as Directives on procurement for utilities and on television broadcasting, and conditions for negotiation of mutual recognition agreements on testing and certification of regulated products (all discussed below). Disparate enforcement of single market measures within the EU and lack of sufficient monitoring resources to ensure consistent application of these measures are increasingly placing U.S. exporters at a disadvantage in some markets because enforcement and monitoring at the border are more vigorous. EU efforts to increase monitoring and enforcement efforts are notable in some areas, but resources remain severely limited.

Tax Policy: Tax policy remains the prerogative of the Member States, who must approve by unanimity any EU legislation in this domain. EU legislation to date in this area has been aimed at eliminating tax-induced distortions of competition within the Union. As such, it has focused on harmonizing value-added and excise taxes; eliminating double taxation of corporate profits, interest, and dividends; and facilitating cross-border mergers and asset transfers.

4. Debt Management Policies

The EU raises funds in international capital markets, but does so largely for cash management purposes and so does not have any significant international debt. The European Investment Bank, reportedly the world's largest multilateral development bank, also raises funds in international markets (with the implicit guarantee of the EU and its Member States), but it has an extremely favorable balance sheet and retains the highest credit rating. Finally, the EU has used its borrowing power to on-lend to key developing countries, especially in Central Europe and the newly independent states of the former Soviet Union; it traditionally refuses to reschedule such loans.

5. Significant Barriers to U.S. Exports

A. Import Policies

Import, Sale and Distribution of Bananas: On July 1, 1993, the EU implemented a new banana import regime to replace individual Member State rules for banana imports. Elements of the new regime have caused a significant erosion of U.S. companies' share of the EU banana market. A "framework agreement," which the EU negotiated with four of the five countries that had challenged the regime in the GATT, did not commit the EU to reform those aspects of the regime which are most harmful to U.S. banana marketing firms and in fact led to further discrimination against U.S. banana companies in favor of EU firms. After a year of investigation and informal consultations with the EU failed to achieve a resolution of the issue, in October 1995 the United States, joined by Guatemala, Honduras and Mexico, held formal WTO consultations with the European Union in an effort to resolve the bananas dispute. Ecuador joined the United States and its other Latin American partners in another request for formal WTO consultations on the bananas issue in February 1996, followed by a panel request by the same complainants.

On May 22, 1997, the panel ruled that the EU banana import regime violates both the General Agreement on Trade in Services and the General Agreement on Tariffs and Trade in Goods by depriving U.S. banana distribution services companies and Latin American banana producers of a fair share of the EU market. The panel's findings were confirmed by the WTO Appellate Body on September 9, 1997. The panel report and Appellate Body report were adopted at the Dispute Settlement Body meeting of September 25, 1997. WTO rules require that the findings of these reports be fully and promptly implemented within a "reasonable period of time." The maximum period of time for implementation that has been agreed thus far under the WTO's dispute settlement mechanism is 15 months. The EU and complacent countries are currently discussing the nature and timing of EU implementation of the WTO findings.

Ban on Fur from Animals Caught in Leg-hold Traps: A 1991 community Regulation calls on the Member States to prohibit the importation of furs of certain species of animals from countries that either have not endorsed an internationally agreed standard on humane trapping or that have not prohibited the use of certain steel jaw leg hold restraining traps. During 1996, the United States participated in discussions with the EU Commission, Canada, and the Russian Federation to develop such a standard. As the trapping industry in the United States is regulated at the sub-dederal level, the United States did not take steps to become a party to an international agreement on this issue among the EU, Canada, and the Russian Federation. With the participation of the U.S. states, however, the United States Government in 1997 was able to negotiate with the EU Commission a non-legally binding "Agreed Minute", which included standards that were acceptable to U.S. competent authorities. In December, 1997, the U.S. and EU signed the Agreed Minute and the United States also communicated to the EU about a program by the U.S. states under which they were planning to phase out, subject to certain specified derogations and safeguards, certain jawed leg hold restraining traps. With the approval of the agreed minute by the EU Council, the EU did not impose its proposed ban on certain U.S. fur imports.

Rice: As part of the concessions made to the United States as compensation for the accession of Austria, Finland, and Sweden to the EU, the EU agreed to implement tariff rate quotas for imports of 38,000 metric tons of milled rice and 8,000

metric tons of brown rice from the United States. While progress has been made on implementation of these tariff rate quotas, they have yet to be made operational.

EU Implementation of Uruguay Round Grain Tariff Commitments: On July 1, 1995, the EU implemented its Uruguay Round commitment for grains and rice using a reference price system. In adopting the reference price system, it appeared that the EU would exceed its binding for products valued above the applicable reference price. Through WTO Article XXIII consultations, the U.S. gained an agreement that helps improve access to the EU. In the agreement, the EU committed to implement, on a one-year trial basis, a system allowing importers of brown rice the possibility to cumulatively recover duty overages that might occur, which was implemented on July 1, 1997. The EU also agreed to future consultations if the reference price system results in duties greater than those committed to in the Uruguay Round.

Service Barriers

EU Broadcast Directive.—In 1989, the EU issued the Broadcast Directive which included a provision requiring that a majority of entertainment broadcast transmission time be reserved for European origin programs "where practicable" and "by appropriate means." By the end of 1993, all EU Member States had enacted legislation implementing the Broadcast Directive. The United States has held consultations under GATT Article XXII with the EU concerning the Directive because the broadcast quotas appear to violate the Member States' obligations under the GATT. The United States has reserved its right to take further action under WTO dispute settlement procedures and is closely monitoring implementation of these measures. While the EU did not make specific commitments to liberalize trade in the sector, the United States succeeded in preventing the exclusion of the audio-visual sector from coverage under the General Agreement on Trade in Services (GATS). The EU remains on the Special 301 "Priority Watch List" in part because of the Broadcast Directive.

The process begun by the Commission in 1993 to revise the Broadcast Directive in an effort to strengthen quotas was finally concluded in April 1997 through a conciliation committee that resolved differences between the European Parliament and the Council. The final agreement on the revised Directive left the original quota language in place.

Computer Reservation Services.—U.S. Computer Reservation Services (CRS) companies have had difficulty cracking the EU market, as each Member State market tends to be dominated by the CRS owned by that Member State's carrier. The EU's 1993 CRS "Code of Conduct" compelled one U.S. CRS firm to establish subsidiaries in virtually every Member State, at a cost of more than $10 million, and there are questions whether the Code may be used to establish "charging principles" which could further erode the ability of U.S. firms to gain market share. In addition, German Rail, which owns one-third of the largest European CRS firm in Germany, has thus far refused to deal on an equal basis with U.S. CRS firms, severely affecting their ability to expand in the German market. In 1995, the German Competition Office issued an injunction against German Rail over this, which has not yet fully resolved the problem. U.S. CRS firms face similar problems in Spain and France. In 1996, a U.S. CRS firm filed a complaint with the EU competition authority through the U.S. Department of Justice (DOJ) against possible anticompetitive practices by a European firm. This is the first case of its kind arising under the Positive Comity provision of the U.S-EC agreement regarding the application of their computer laws. The EU investigation is on track and, while the Commission cannot say when it will be complete, the final ruling may address some of the above concerns.

Airport Ground-handling.—In December 1995, the Council agreed on a common position liberalizing the market to provide ground-handling services at EU airports above a certain size by January 1, 1998. While generally welcoming this, U.S. airline companies and ground-handling service providers remain concerned that airports can continue to have a monopoly service provider through January 1, 2002 and can also limit the number of firms which can provide certain services on the airport tarmac (ramp, fuel, baggage and mail/freight handling) either for themselves or for other carriers. To some extent, these potential barriers are offset by more liberal provisions in the bilateral air services agreements which the U.S. concluded with seven EU Member States (Germany, Belgium, the Netherlands, Luxembourg, Denmark, Sweden and Finland).

Postal Services.—U.S. express package services like UPS and Federal Express remain concerned that state owned postal monopolies in many EU countries restrict their market access and subject them to unequal competitive conditions. Proposals to liberalize many postal services and to otherwise constrain the advantages enjoyed

by the monopolies have been put on hold, and in any case may not be sufficient to fully redress these problems.

C. Standards, Testing, Labeling and Certification

Standardization.—EU Member States still have widely differing standards, testing and certification procedures in place for some products. Despite internal mutual recognition, these differences can serve as barriers to the free movement of these products within the EU and can cause lengthy delays in sales due to the need to have products tested and certified to account for differing national requirements. Nonetheless, the advent of the "New Approach" Directive, which streamlines technical harmonization and the development of standards for certain product groups, based on minimum health and safety requirements, generally points toward the harmonization of laws, regulations, standards, testing, quality and certification procedures in the EU. However, the European standardization process is still closed to U.S. firms' direct participation and in several instances discriminatory design based standards have been adopted.

Standardization, testing, and certification continue to play an increasingly significant role in U.S.-EU trade relations, as evidenced by the Transatlantic Business Dialogue (TABD) having adopted the goal of "approved once accepted everywhere in the Transatlantic marketplace." The U.S. Department of Commerce anticipates that EU legislation covering regulated products will eventually be applicable to 50 percent of U.S. exports to Europe. Given the enormity of U.S./EU trade, EU legislation and standardization work in the regulated areas is of considerable importance. Although there has been some progress in implementation, a number of problems related to this evolving EU-wide legislative environment have caused concerns to U.S. exporters. These include lags in the development of EU standards, lags in the drafting of harmonized legislation for regulated areas, inconsistent application and interpretation by Member States of the legislation that is in place, overlap among Directives dealing with specific product areas, gray areas between the scope of various Directives, and unclear marking and labeling requirements for these regulated products before they can be placed on the market. While many such problems are not deliberate trade barriers, their existence can impede U.S. exports to the European Union.

Mutual Recognition Agreements.—The EU is implementing an internal harmonized approach to testing and certification, as well as providing for the mutual recognition of national laboratories designated by Member States to test and certify "regulated" products. The EU encourages mutual recognition agreements between private sector parties for the testing and certification of non-regulated products.

One difficulty for U.S. exporters is that only "notified bodies" located in Europe are empowered to grant final product approvals of regulated products. While there are some laboratories in the U.S. which can test regulated products under subcontract to a notified body, the limited number of such labs means that such subcontracting procedures are unlikely to provide sufficient access for U.S. exporters. Moreover, these labs cannot issue the final product approval but must send test reports to their European affiliate for final review and approval, delaying the process and adding costs for U.S. exporters.

The U.S. and the EU have negotiated a resolution to this hindrance to trans-Atlantic trade in several sectors through what are known as mutual recognition agreements (MRAs). MRAs will permit a U.S. exporter to test and certify his products to the requirements of the EU in the United States. They will similarly facilitate EU exports to the United States. Both sides have targeted early 1998 as the date for entering into the transition periods provided for in the MRAs.

Approval of Biotechnology and Novel Food Products Uncertain in EU.—Both U.S. and European companies have encountered difficulties in EU approval of agricultural products developed with biotechnology. Existing EU Regulations and Directives for the approval of these products have not been applied in a predictable and transparent manner. A number of recent U.S. product approval requests have been subject to delays because of political opposition to biotechnology rather than legitimate health or safety concerns. This uncertain regulatory environment continues to generate problems for not only the companies developing products but also agricultural producers who might benefit from the products' release. In addition, the EU's novel foods Regulation contains provisions for mandatory labeling of biotech foods that—depending on how they are implemented—may serve to heighten consumer concerns rather than educating consumers.

Ban on Growth Promoting Hormones in Meat Production.—The EU banned, effective January 1, 1988, the use of all growth promoting hormones, including natural

and synthetic hormones, in livestock production. The ban also applies to meats and meat products imported by the EU on or after January 1, 1989. As a consequence, the United States launched a formal WTO dispute settlement procedure in May 1996 challenging the EU's import ban. The initial WTO finding, released in August 1997, found in favor of the United States. However, this has been appealed by the EU. A ruling on the appeal is due in early 1998.

Veterinary Equivalency.—The United States and the European Commission concluded negotiations on a veterinary equivalency agreement in April 1997 after over three years of often contentious negotiations. When implemented, the Agreement will establish the terms of trade for nearly all animal products between the U.S. and the EU, over $3.5 billion annually. The agreement incorporates the principles on the recognition of equivalent systems set out in the Uruguay Round Agreement on sanitary and phytosanitary measures. It would allow for the recognition of U.S. sanitary measures as equivalent to, or providing an equal level of protection for human and animal health as EU measures, rather than require strict compliance with EU requirements.

During the course of the negotiations the U.S. lost access to the EU market for several products because of new EU import requirements, most notably $50 million in poultry meat, but also some pet food and dairy products. Implementation of the agreement would reopen access for most of these products, except poultry, and would improve import conditions for many other products. In addition, the EU committed to study anti-contamination techniques used by U.S. poultry processors with the goal of resolving the outstanding poultry issue.

The EU had not formally approved the agreement by October 1, 1997, the date to begin implementation envisioned at the conclusion of negotiations. If not approved by the EU by early 1998, significant U.S. trade could be disrupted by further changes to EU import requirements.

Specified Risk Materials Ban: A ban published by the EU in July 1997 was to have prohibited, as of January 1, 1998 the use of certain "specified risk materials" (SRMs) in all products due to concerns over the transmission of BSE (Bovine Spongiform Encephalopathy, or "Mad Cow Disease"). SRMs are broadly defined as the head and spinal cord of bovine animals. At risk are billions of dollars in trade of pharmaceuticals, cosmetics, pet food, industrial products ranging from tires to film, tallow and tallow derivatives. The U.S. does not consider coverage of U.S. products under the EU ban as scientifically based because the U.S. is BSE-free. In December, the EU Commission decided to postpone implementation of the ban until April 1, 1998. The U.S. is continuing talks with the EU to help avoid unnecessary disruption in international trade as a result of the ban. The UK unilaterally implemented a more limited SRM ban as of January 1, 1998, which was expected to have minimal negative effect on U.S. exports.

Beef Labeling.—Beginning January 1, 1998, any labeling on beef packaged for consumer sales must be approved by EU and Member State authorities. This Regulation is an attempt to provide consumers with information regarding the beef marketing chain due to the concerns about the transmission of BSE. While the upcoming system is voluntary, any claims on labels, such as country of origin or production method, must be verified. These requirements currently do not apply to sales of beef for use in hotels, restaurants or institutions in the EU. Member States may implement compulsory labeling of beef beginning January 1, 1998 only for beef from animals born, raised and slaughtered on their national territory. An EU-wide compulsory beef labeling system is currently legislated to become operational on January 1, 2000. Additional details about exact application procedures are currently being proposed by he European Commission and should be released shortly. In the short run, this Regulation will affect over 20 percent of current U.S. beef shipments to the EU. In the long run, i.e., after January 1, 2000, all beef sold in the EU will be required to carry compulsory labels. While this EU system will not be identified until July 1999, all U.S. beef would likely be shut out of the EU market if labeling requirements are not met by that time.

Voluntary Eco-Labeling Scheme.—On March 23, 1992, the European Council approved an EU-wide eco-labeling scheme. The scheme is a voluntary program which permits a manufacturer to obtain an eco-label for a product when its production and life-cycle meets general and specific criteria established for that particular product. U.S. and EU technical and policy officials met in three rounds of consultations in 1995 and 1996 to discuss the EU process for developing criteria and to address specific U.S. industry concerns related to the fine paper and textile sectors.

In early and mid-1996 Member State representatives voted to adopt eco-label criteria for bed linens and t-shirts and for the fine paper product sector. The U.S. Gov-

ernment is concerned that the process for developing criteria has been insufficiently transparent and failed to provide for adequate participation by non-EU interest groups, leading potentially to discriminatory criteria. The U.S. and EU have agreed to continue bilateral consultations. The U.S. has urged the Commission to participate in a regular dialogue on this issue as a way to mitigate potential misunderstandings and adverse trade consequences.

Packaging Labeling Requirements.—In 1996, the Commission put forward a proposed Directive that would establish marking requirements for packaging to indicate recyclability and/or reusability. The United States has expressed two potential concerns with this Directive. First, to the extent that the EU's new marking requirements differ from other marks widely used in the United States and being developed in the International Standards Organization (ISO), the U.S. is concerned that packaging, marketing and distribution operations will become more complicated and costly for both U.S. and European firms wishing to sell their products abroad, without achieving any concomitant environmental benefit. The second concern is related to Article 4 of the proposed Directive, which would prohibit the application of other marks to indicate recyclable or reusable packaging. Based on U.S. experience, this requirement is likely to pose a particular problem for glass and plastic containers, as it would require companies to create new molds solely for use in the European market. Discussions underway in the ISO may go a long way to resolving the potential problems, especially as the Commission has indicated its willingness to review the proposed EU marks in light of an eventual ISO agreement.

Metric Labeling.—In accordance with a 1980 Directive adopted to harmonize systems of measurement throughout the EU, metric-only labeling will be required on most products entering the European Union after December 31, 1999. Exporters, both European and American, have begun to focus on this deadline and are now openly voicing their objections, citing the costs of complying with conflicting EU metric-only and U.S. mandatory dual-labeling requirements. There is some indication of European Commission willingness to study the trade implications of the 1980 Directive more thoroughly and to re-open the issue for industry input.

D. Investment Barriers

The European Union has a growing role in defining the way in which U.S. investments in the Member States are treated. Although Member State governments traditionally were responsible for policies governing non-EU investment, in 1993 the Maastricht Treaty shifted competence over third country investment from the Member States to the Union. In many cases,Member State practices remain of more direct relevance to U.S. investors. Member States negotiate their own bilateral investment protection and tax treaties, and retain general responsibility for their investment regimes. However, although Member State barriers existing on December 31, 1993 remain in effect, but these may now be superseded by EU law. In addition, branches of non-EU financial service institutions remain subject to individual member country authorization and regulation.

In general, the EU supports the notion of national treatment for foreign investors, and the European Commission has traditionally argued that any company established under the laws of one Member State must as a "Community company" receive national treatment in all Member States, regardless of its ultimate ownership. However, some restrictions on U.S. investment do exist under EU law and others have been proposed:

Ownership Restrictions.—The benefits of EU law in the aviation and maritime areas are reserved to firms majority-owned and controlled by EU nationals.

Reciprocity Provisions.—EU banking, insurance and investment services Directives include "reciprocal" national treatment clauses, under which financial services firms from a third country may be denied the right to establish a new business in the EU if the EU determines that the investor's home country denies national treatment to EU service providers. In the recently adopted Hydrocarbons Directive, this notion may have been taken further to require "mirror-image" reciprocal treatment, under which an investor may be denied a license if its home country does not permit EU investors to engage in activities under circumstances "comparable" to those in the Union. It should be noted, however, that thus far no U.S.-owned firms have been affected by these reciprocity provisions.

Access to Government Grant Programs.—The European Union does not preclude U.S. firms established in Europe from having non-discriminatory access to EU funded research and development grant programs, although in practical terms association with a known "European" firm helps win grant awards. In another area, the Commission in November 1995 proposed the establishment of a guarantee fund to

promote European cinema and television production. Only firms majority-owned and effectively controlled by EU nationals would be eligible to receive loan guarantees from the fund. This proposal has not yet been adopted and we are not aware that any U.S. firm has complained about it.

MAI Negotiation.—The EU and its Member States are participating actively in the OECD negotiations toward a Multilateral Agreement on Investment (MAI), which should help reduce existing and preclude any further discriminatory measures. The EU approach to the negotiations has been generally constructive, although in recent international negotiations the Union has argued for a "regional economic integration" provision that would allow it, and its Member States, to deny U.S. firms most favored nation treatment and potentially other rights and benefits under EU law.

Anti-Corruption Conventions.—The EU has elaborated a common position for its Member States in the Council of Europe and OECD negotiations on anti-corruption conventions. The position would restrict the ability of Member States to agree to any convention that goes beyond the two relatively weak EU conventions agreed among the Member States, even though no Member State has yet ratified the EU conventions.

E. Government Procurement

In 1990, in an effort to open government procurement markets in the EU, the EU adopted a Utilities Directive covering purchases in the water, transportation, energy and telecommunications sectors. This Directive, which went into effect in January 1993, requires open, objective bidding procedures (a benefit for U.S. firms) but discriminates against non-EU bids absent an international or bilateral agreement. The Directive's discriminatory provisions were waived for the heavy electrical sector in a Memorandum of Understanding (MOU) between the U.S. and the EU, signed in May 1993.

On April 15, 1994, the U.S. and the EU concluded a procurement agreement that expanded upon the 1993 MOU. The 1994 agreement extended non-discriminatory treatment to over $100 billion of procurement on each side, including all goods procurement by all EU subcentral governments, as well as to selected procurement by 37 U.S. states and 7 U.S. cities. Much of the agreement is implemented through the WTO Government Procurement Agreement which took effect January 1, 1996. The 1994 agreement, however, did not end the discrimination with respect to telecommunications procurement. Consequently the U.S. retained the sanctions it imposed against the EU in 1993.

On April 30, 1996 USTR Barshefsky cited Germany under Title VII for its failure to implement its procurement obligations. On October 1, 1996 she announced that agreement had been reached with Germany to reform its procurement system. The German Government's draft procurement reform legislation is under consideration in Parliament.

F. Telecommunications Market Access

U.S. telecommunications equipment industry access to EU member nations varies widely from relatively open to nearly closed. As described in the section on government procurement, most EU Member States discriminate against non-EU bids in the telecommunications sector. In addition, market access is impeded through standards and standard-setting procedures, testing, certification and attachment policies. However, those state-owned telecommunications firms that are losing monopoly are displaying a more open approach to procurement in an effort to lower costs.

The situation in basic telecommunications services is evolving as the EU works to meet its obligation to permit competition in this area by January 1, 1998 as required by the GATS Basic Telecoms (GBT) agreement. Implementation of the GBT is proceeding unevenly among the 15 EU Member States. 1998 will be a year of challenges as new firms test previously closed markets in Europe, and former telecoms monopolies react to the new competition. Close monitoring of this process will be necessary to ensure full implementation of the GBT by EU Member States and the introduction of free and fair competition to this formerly-closed market.

G. Customs

Reclassification of Information Technology Products: In June 1995, the EU adopted a Regulation reclassifying certain local area network (LAN) adapter cards from the tariff category for automatic data processing (ADP) equipment to the telecommunications apparatus category, resulting in increases in the tariffs on these products to a level above the rate provided for in the EU's schedules under the

GATT 1994. In addition, since the Uruguay Round, customs authorities in certain EU Member States have taken action to reclassify LAN adapter cards and multimedia-equipped personal computers from ADP equipment to other tariff categories. The reclassification has the effect or raising duty rates to levels above the bound rate for ADP equipment, thereby possibly impairing EU tariff concessions in contravention of Article II of the GATT 1994. After a number of rounds of technical talks in 1996 failed to achieve progress on the issue, the U.S. in November 1996 requested formal consultations with the EU in the WTO. A WTO dispute settlement panel was established on February 25, 1997. The panel report, released in October 1997, found the EU's reclassification actions inconsistent with its obligations under Article II of the GATT 1994.

6. Export Subsidy Policies

Agricultural Product Subsidies.—The EU grants direct export subsidies (restitutions) on a wide range of agricultural products including wheat, wheat flour, beef, dairy products, poultry, and certain fruits, as well as some manufactured products such as pasta. Payments are nominally based upon the difference between the EU price and the world price, usually calculated as the difference between the EU internal price and the lowest offered price by competing exporters. However, due to the complexities of EU law and the availability of non-agricultural subsidies, such as preferential loans and structural funds, it is suspected that other subsidies exist that support EU export activities for agricultural products.

The Uruguay Round agreement requires the EU to reduce direct export subsidies over six years by 21 percent in volume and 36 percent in value from a 1986-90 base period. Under the agreement, the EU is required to cut export subsidies by about $5-7 billion from recent levels.

Processed Cheese Exports.—On October 1, 1997, Ambassador Barshefsky announced that USTR was invoking WTO dispute settlement procedures in the context of a Section 301 investigation to challenge practices by the EU that circumvent the EU's commitments under the WTO to limit subsidized exports of processed cheese. Under its inward processing system for dairy products, the EU produces cheese for export from dairy components such as nonfat dry milk and butter. The processor receives a subsidy upon the cheese being exported, but the EU counts these subsidies against its export subsidy-ceiling for the components,rather that that for cheese. The U.S. contends this is a breach of the EU's export subsidy obligations. WTO Article XXII consultations with the EU on these practices were held in November 1997.

Canned Fruit.—The United States and five other producing countries (Argentina, Australia, Brazil, Chile and South Africa) are continuing to exchange letters with the European Commission regarding the EU's internal support regime for canned fruit. These governments believe that the operation of the EU support regime for fresh peaches and pears has allowed EU fruit processors to unfairly undercut the domestic and export prices for canned fruit of the EU's trading partners. Despite the EU's claims of adherence to the letter of the 1985 U.S.-EC Canned Fruit Agreement, oversupply of the fresh fruit under the support regime may allow processors in certain Member States to ignore the minimum price requirements of the agreement. The industries in all five countries have been hurt by EU exports of cheap canned fruit. Modifications in the overall fruit and vegetable production scheme may improve the situation, but it is too early to tell. Consultations are scheduled for mid-November 1997.

Shipbuilding Subsidies.—EU Member States provide subsidies and other forms of aid to their shipbuilding industries. The European Commission sets annual ceilings for subsidies for shipbuilding and ship conversions (but not ship repair) under its Seventh Directive. Until December 31, 1997, the ceiling is nine percent of gross investment for new ships and 4.5 percent for conversions and small vessels (under 10 million ECU). In June 1989, the Shipbuilders Council of America (SCA) filed a Section 301 petition, seeking elimination of subsidies and trade distorting measures for the commercial shipbuilding and repair industry. In response, USTR undertook to negotiate a multilateral agreement in the OECD to eliminate all subsidies for shipbuilding by OECD member countries. An Agreement was reached in July 1994 and signed in December to take effect on January 1, 1996. The EU ratified it and adopted implementing legislation in December 1995. However, the Senate has not given its advice and consent to ratification of the Agreement. In October 1997, the Commission proposed that pending U.S. ratification, the Seventh Directive be extended through 1998. In 1999 and 2000, contract-related aid would continue at current ceilings. From 2001, the only contract-related aid allowed would be home and export credits under OECD rules on export credits for ships, operating aid would no longer

be allowed, and permissible aid (e.g. for closures, R&D, the environment) would be subject to new rules. The Commission also suggested that Member States consider a "home built" requirement for tax benefits or state guarantees for the purchase of new ships. Discussions on the Agreement continue in the U.S. Congress.

7. Protection of U.S. Intellectual Property

The EU and its Member States support strong protection for intellectual property rights. The Member States are members of all the relevant WIPO conventions, and they and the EU regularly join with the U.S. in encouraging other countries to sign up to and fully enforce high IPR standards, including those in the TRIPS agreement. The EU, like the United States, is now considering additional legislation in new areas of IPR protection, as shown in the Commission's recent Communication, Copyright and Related Rights in the Information Society. The Commission has designated four priorities for legislative action: reproduction right, communication to the public right, legal protection of anti-copying systems and distribution right. The Commission takes the position that digital technology and divergent Member State IPR laws require harmonization at the Community level.

Trademarks: The U.S. Government has declined to join the Madrid Protocol, which concerns the international registration of trademarks, because the Protocol allows intergovernmental organizations to have a vote separate and independent from their member states. The U.S. Government continues to press the Commission to cooperate in finding a resolution to this impasse since the Protocol's system of trademark registration cannot be truly international without U.S. Government membership.

8. Worker Rights

Labor legislation remains largely the purview of the individual Member States, although the EU has adopted a number of regulations related to occupational safety and health and with respect to employee participation in company decision making. In addition, the EU has decided that GSP beneficiaries may receive an extra margin of preference if they meet certain worker rights standards. This GSP incentive regime is expected to enter into force in 1998.

Extent of U.S. Investment.—Composit figures for U.S. investment in the European Union are not available. See data for member countries.

AUSTRIA

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Income, Production and Employment:			
Nominal GDP [2]	230,783.7	226,600.3	201,175.5
Real GDP growth (pct.)	1.5	1.3	1.6
GDP by sector:			
Agriculture	3,521.8	N/A	N/A
Manufacturing	53,531.7	N/A	N/A
Services	107,936.5	N/A	N/A
Government	31,002.0	N/A	N/A
Per capita GDP	28,998	28,281	24,100
Labor force (000s)	3,655	3,646	3,646
Unemployment rate (pct) [3]	3.9	4.4	4.4
Money and Prices (annual percentage growth):			
Money supply (M2)	9.4	2.8	0.0
Consumer price index	2.2	1.9	1.5
Exchange rate (AS/US$ annual average [4])	10.08	10.59	12.25
Balance of Payments and Trade:			
Total exports (FOB)	57,541.1	57,808.3	53,991.8
Exports to U.S.	1,707.7	1,840.2	1,755.1
Total imports (CIF)	66,272.9	67,305.0	62,604.1
Imports from U.S.	2,780.7	3,000.9	2,775.5
Trade balance	-8,731.8	-9,496.7	-8,612.3

Key Economic Indicators—Continued

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Balance with U.S.	-1,073.0	-1,160.7	-1,020.4
External public debt	30,912.0	29,405.0	26,122.4
Fiscal deficit	5.0	3.7	2.7
Current account deficit/GDP (pct)	2.0	1.8	2.2
Debt service payments/GDP (pct) [5]	1.7	1.5	1.5
Gold and foreign exchange reserves (year-end)	23,627.5	24,473.6	N/A
Aid from U.S.	0	0	0
Aid from all other sources	0	0	0

[1] 1997 figures are all estimates based on available data in October 1997 and latest available economic forecasts of September 1997.
[2] GDP at market prices.
[3] unemployment rate according to EU method.
[4] there is only an official rate, no parallel rates.
[5] debt service payments on external public debt.

1. General Policy Framework

Austria, a member of the European Union (EU) since January 1, 1995, has a well developed market economy with a high standard of living. With exports of goods and services reaching over 40 percent of GDP, Austria's economy is closely integrated with other EU member countries, especially with Germany. Austria's entry into the EU has drawn an influx of foreign investors attracted by Austria's access to the single European market and by more liberal policies promoting competition and dismantling protectionism. Like many European countries, Austria has undergone a period of slow economic growth: in 1995, Austria's GDP grew by 1.5 percent, in 1996 by 1.3 percent and in 1997 by a projected 1.6 percent. Economic prospects are expected to brighten in 1998 with expected growth of around 2.5 percent.

Austria is well on its way to meeting all Maastricht convergence criteria for monetary union. While total public debt still stands at 70 percent of GDP, its upward trend is expected to reverse in 1997 as a result of privatization efforts, the 1996 budget consolidation program and austerity measures. The total public sector deficit is expected to decline to 3 percent of GDP in 1997. The 1997/98 budget proposals presented to Parliament contain further measures to stabilize the deficit at a low level. Cuts mainly affect the civil service and Austria's generous social system, the two major causes of the government deficit. The deficit is mainly financed through issuance of government bonds.

The European Union's single market, the economic transformation occurring in Central Europe and envisaged EU enlargement pose significant challenges to the Austrian economy. To meet increased competition from both the EU and Central European countries, less competitive, low-tech production will have to shift towards more specialized value-added manufacturing. To improve efficiency and resource allocation, the service sector, particularly telecommunications and the energy sector, will have to be further deregulated and liberalized. While wage-price rigidities, barriers to market entry and a complex regulatory environment remain, the government has taken decisive measures to foster more liberal policies to adapt to EU standards.

2. Exchange Rate Policies

Over the last 15 years, the Austrian National Bank (ANB) has pursued a "hard schilling" policy, adjusting interest rates to peg the Austrian schilling (AS) to the German mark (DM), at an exchange rate of AS7 to DM1, instead of setting money supply and other monetary targets. Since Austria joined the EU, the ANB has reaffirmed publicly its determination to continue this policy, as well as its intention to participate in the "hard core" of the EMU, those countries expected to be included among the initial entrants to the EMU on January 1, 1999.

For the Austrian Government, EMU participation is the most important future project—a view agreed to by most political parties, bankers, economic chambers, associations of industrialists, business managers and economists. There is also wide agreement that non-participation would be a disaster and mean failure of Austria's hard currency policy. The government is making a major effort to meet all EMU convergence criteria and has implemented austerity measures in 1996/97, an approach it will continue in 1998.

In 1996, the Austrian schilling (and the German mark) lost ground against the U.S. dollar and many other European currencies. This trend continued in the first half of 1997 as the dollar rose strongly against the schilling and the mark.

3. Structural Policies

Austria's accession to the EU has required the government to accelerate structural reforms and to liberalize its economy. Most non-tariff barriers to merchandise trade have been removed. Cross-border capital movements and market access for foreign bonds have been fully liberalized.

In 1996, as part of its austerity program, the Austrian government implemented a number of changes to the tax code to raise revenues. Measures included the introduction of an energy tax on electricity and natural gas, cuts in personal income tax allowances and tax credits, as well as increases in the interest income tax rate from 22 to 25 percent and in the minimum corporate tax to about $4,700 annually (the 34 percent corporate tax rate remains unchanged). Rules for the deductibility of losses have also been tightened. The economy was fully impacted by these measures in 1997.

The Austrian government continues to be a major player in the national economy. However, the scope of government interventionist policies, a traditional feature of the Austrian economy, has been significantly reduced in recent years. The government continues to sell off state-owned enterprises in an effort to cut back its dominant economic role and to fulfill the Maastricht criteria for EMU. It no longer has majority ownership in formerly state-controlled companies such as OMV, VOEST or Elin. Subsidy programs have also been scaled back to conform to EU regulations.

1997 saw the passage of a more liberal business code, which eases access to licensed professions and broadens the scope of their activity. Additionally, Austria's 1993 procurement law was amended to comply with EU regulations. A 1994 Environmental Impact Assessment Act regulates the environmental impact of large industrial and infrastructure projects. Licensing procedures under this and other environmental legislation are viewed by industry as costly and cumbersome.

4. Debt Management Policies

Austria's external debt management has had no significant impact on U.S. trade. At the end of 1996, the Austrian federal government's external debt amounted to $28.0 billion (21 percent of the government's overall debt) and consisted of 92 percent bonds and 8 percent credits and loans. Debt service on the federal government's external debt amounted to $3.5 billion in 1996, or 1.5 percent of GDP and 3.7 percent of total exports of goods and services. In 1996, total public sector external debt amounted to $30.2 billion or 13 percent of GDP. Total gross public debt was 70 percent of GDP at the end of 1996. Republic of Austria bonds are rated AAA by recognized international credit rating agencies.

5. Significant Barriers to U.S. Exports

On Austria's accession to the EU, approximately two thirds of existing tariffs were lowered or eliminated, while about one third was increased. Over half of all products from non-EU countries enter without any tariff. U.S. exports of chemicals, plastics, computers, photographic equipment, semiconductors and integrated circuits were affected adversely by Austria's EU entry.

The EU's Common Agricultural Policy (CAP) also has had a negative impact on imports of U.S. agricultural goods into the Austrian market. Import duties for some key U.S. agricultural products such as tobacco, rice and raisins rose considerably. In 1995, The United States and the EU negotiated an agreement to compensate the United States for these tariff increases. The EU ban on imports of hormone-treated beef severely restricts U.S. exports of beef to Austria. This issue is currently before the WTO, which has ruled against the EU, and is not expected to be resolved before 1998.

Austria's 1993 Banking Act presents a number of obstacles for market entry of U.S. banks. Branches of non-EU banks must be licensed, while EU banks may operate branches on the basis of their home country licenses. For bank branches or subsidiaries from a non-EU member country, the limits for single large loan exposures and open foreign exchange positions will shrink considerably on December 31, 1998, when the endowment capital from their parent companies may no longer be included in the capital base used for calculating these limits.

Providers of financial services, such as accountants, tax consultants, and property consultants, must submit specific proof of their qualifications, such as university education or number of years of practice. Other service activities also require a busi-

ness license, for which one of the preconditions is legal residence. Under the WTO General Agreement on Trade in Services, Austrian officials insist that Austria's commitments on trade in professional services extend only to intra-corporate transfers. U.S. service companies often form joint ventures with an Austrian firm to get around these restrictions.

Austrian labeling and marking requirements are not as strict as those in the United States. Safety warnings are not mandated on electrical devices, nor is labeling in the German language required. A federal law requires that packaged food be marked with an expiration date. With regard to labeling of food and additives containing genetically modified organisms (GMO's), Austria is in full compliance with EU regulations, but the government may proceed with labeling requirements that may not conform to EU regulations.

Harmonization of national legislation with EU labeling and marking requirements is well under way, along with quality and safety standards. Ultimately, as this process is completed, a "CE" mark will be required for most manufactured imports. Relevant EU directives are being implemented, with varying transition periods for different product categories. For instance, the EU directive for toys has already been implemented, while the transition period for explosives for civil use ends Dec. 31, 2002.

The government welcomes foreign investment, particularly in the high technology and automotive sectors, with no formal sectoral or geographic restrictions. In most business activities, 100 percent ownership is permitted. Investment incentives are abundant, including EU structural subsidies in some locations. U.S. companies receive national treatment with the exception of property acquisition. However, while any company, including U.S. firms, must obtain approval from the land commission of the province in which it wishes to purchase land, very rarely do U.S. firms encounter problems, especially when they wish to locate in commercial zones or industrial parks.

A 1997 U.S. Investor Confidence Survey compiled by the American Chamber of Commerce cites issues such as high labor, telecommunications and energy costs, the complex Austrian legal situation, and difficulties in obtaining work permits for key personnel as major obstacles. In a recent public statement, the Austrian economics minister committed to a maximum of 90 days turnaround time for property acquisition applications. Moreover, the reform of the Residence Law and the Foreign Workers Employment Law enacted in mid-1997 exempts skilled U.S. labor (e.g. managers and their dependents) from an increasingly restrictive quota system for residence permits.

Austria is a party to the WTO Government Procurement Agreement. Austria does not have restrictive "buy-national" laws, and the principle of the best bidder is usually maintained. However, offset requirements are common in defense contracts. Austria's first federal procurement law was enacted in 1993. 1997 saw the passage of new procurement legislation in line with EU guidelines, particularly regarding the services sector.

6. Export Subsidies Policies

The government provides export promotion loans and guarantees within the framework of the OECD export credit arrangement and the WTO Agreement on Subsidies and Countervailing Measures. The Austrian Kontrollbank (AKB), Austria's export financing agency, offers export financing programs for small and medium-sized companies with annual export sales of up to $9.5 million. Following Austria's accession to the EU, the AKB stopped providing economic risk guarantees for short term financing of exports to OECD countries. A 1995 amendment to Austria's Export Guarantees Act (AFG) enables the AKB to guarantee untied credits. In 1996, the AKB made its export guarantee system more transparent by publishing conditions and eligible country lists.

7. Protection of U.S. Intellectual Property

Austria is a member of all principal multilateral intellectual property agreements and organizations, including the World Intellectual Property Organization (WIPO). Austrian laws are largely consistent with international standards. To implement EU directives on satellite broadcasting and copyright duration, Austria amended its copyright law in 1996. This amendment, which became effective April 1, 1996, states that "tourist establishments" (such as hotels, inns, etc.) may publicly perform cinematographic works (or other audiovisual works, including videos) for their guests in exchange for a compulsory license fee to the copyright holders, but without their authorization. The United States has urged the Austrian government to rescind this provision of the law, which is inconsistent with its international obligations.

A levy on imports of home video cassettes and a compulsory license for cable transmission are required under Austrian copyright law. Of total revenues, 51 percent currently go to a special fund for social and cultural projects, not to the copyright owners. It is expected that as of 1998, cable transmission rights will be exclusive to the legal owner. Austrian copyright law requires that the owner of intellectual property prove the entire chain of rights up to the producer. In the case of films, this requirement has made prosecution of cases of video piracy difficult. The United States government continues to consult with Austria on this issue.

8. Worker Rights

a. *The Right of Association.*—Workers in Austria have the constitutional right to associate freely and the de facto right to strike. Guarantees in the Austrian Constitution governing freedom of association cover the rights of workers to join unions and engage in union activities. Labor participates in the "social partnership," in which the leaders of Austria's labor, business, and agricultural institutions give their concurrence to new economic legislation and influence overall economic policy.

b. *The Right to Organize and Bargain Collectively.*—Austrian unions enjoy the right to organize and bargain collectively. The Austrian Trade Union Federation (ÖGB) is exclusively responsible for collective bargaining. All workers except civil servants are required to be members of the Austrian Chamber of Labor. Leaders of the OGB and labor chamber are democratically elected. Workers are legally entitled to elect one-third of the board of major companies.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is prohibited by law.

d. *Minimum Age of Employment of Children.*—The minimum legal working age is 15. The law is effectively enforced by the labor inspectorate of the Ministry for Social Affairs.

e. *Acceptable Conditions of Work.*—There is no legally-mandated minimum wage in Austria. Instead, minimum wage scales are set in annual collective bargaining agreements between employers and employee organizations. Workers whose incomes fall below the poverty line are eligible for social welfare benefits. Over half of the workforce works a maximum of either 38 or 38.5 hours per week, a result of collective bargaining agreements. The Labor Inspectorate ensures the effective protection of workers by requiring companies to meet Austria's extensive occupational health and safety standards.

f. *Rights in Sectors with U.S. Investment.*—Labor laws tend to be consistently enforced in all sector, including the automotive sector, in which the majority of U.S. capital is invested.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		[1]
Total Manufacturing		1021
Food & Kindred Products	5	
Chemicals & Allied Products	[1]	
Metals, Primary & Fabricated	1	
Machinery, except Electrical	79	
Electric & Electronic Equipment	399	
Transportation Equipment	[1]	
Other Manufacturing	79	
Wholesale Trade		384
Banking		[1]
Finance/Insurance/Real Estate		1007
Services		300
Other Industries		-23
TOTAL ALL INDUSTRIES		2902

[1] Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

BELGIUM

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Income, Production and Employment:			
GDP (at current prices) [2]	268.9	263.5	245.7
Real GDP Growth (pct) [3]	1.9	1.4	2.3
GDP by Sector (pct):			
Agriculture	1.7	N/A	N/A
Construction	5.4	N/A	N/A
Energy	4.3	N/A	N/A
Industry	19.6	N/A	N/A
Services	55.0	N/A	N/A
Nontradable Services	13.9	N/A	N/A
Real Per Capita GDP (US$) [4]	27,684	25,651	24,512
Labor Force (000s)	4,293	4,284	4,283
Unemployment Rate (pct)	9.9	9.7	9.5
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	6.1	-6.2	7.6
Consumer Price Inflation	1.5	2.1	2.0
Exchange Rate (BF/US$)	29.5	30.95	34.52
Balance of Payments and Trade:			
Total Exports FOB [5]	145	153	172
Exports to U.S. [6]	12.5	12.5	14.0
Total Imports CIF [5]	154.9	151.8	158.5
Imports from U.S. [6]	12.8	12.4	12.0
Trade Balance [5]	-9.9	1.2	13.5
Balance with U.S. [6]	-0.3	-0.1	-2.0
Current Account/GDP (pct)	5.1	5.0	5.5
External Public Debt	36.8	32.7	32.7
Debt Service Payments/GDP	N/A	N/A	N/A
Fiscal Deficit/GDP (pct)	-5.1	-4.1	-3.2
Gold and Foreign Exchange Reserves	17.3	18.8	18.1
Aid from U.S.	0	0	0
Aid for All Other Sources	0	0	0

[1] 1997 figures are all estimates based on monthly data available in October 1997.
[2] GDP at factor cost
[3] Percentage changes calculated in local currency
[4] At 1985 prices
[5] Merchandise trade
[6] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis. 1995 and 1995 figures include trade with Luxembourg under the customs union. 1997 figures are estimates for Belgium only based on data available through October 1997.

1. General Policy Framework

Belgium possesses a highly developed market economy, the tenth largest among the OECD industrialized democracies. The service sector generates more than 70 percent of GDP, industry 25 percent and agriculture two percent. Belgium ranked as the ninth-largest trading country in the world in 1996, with exports and imports each equivalent to about 70 percent of GDP. Three-quarters of Belgium's trade is with other European Union (EU) members. Only five percent is with the United States. Belgium imports many basic or intermediate goods, adds value, and then exports final products. The country derives trade advantages from its central geographic location, and a highly skilled, multilingual and industrious workforce. Over the past 30 years, Belgium has enjoyed the second-highest average annual growth in productivity among OECD countries (after Japan).

Throughout the late 1970s and the 1980s, Belgium ran chronic budget deficits, leading to a rapid accumulation of public sector debt. By 1996, debt was equal to 127 percent of GDP. Because of the high Belgian savings rate, Belgium has largely financed its budget deficits from domestic savings. Foreign debt represents less than 10 percent of the total and Belgium is a net creditor on its external account.

Belgium's macroeconomic policy since 1992 has aimed at reducing the deficit to 3.0 percent of GDP and reversing the growth of the debt/GDP ratio in order to meet the criteria for participation in Economic and Monetary Union (EMU) set out in the

EU's Maastricht Treaty. Since 1992, the Belgian government has implemented budget austerity measures of more than $30 billion, or about 10 percent of GDP. Even though 75 percent of these measures were revenue increases rather than expenditure cuts, they had the advantage of being mostly structural in nature, as opposed to one-time measures. The deficit declined to 3.2 percent of GDP in 1996 and is estimated at 2.6 percent of GDP in 1997. The government's 1998 budget, presented in October 1997, projects a 2.3 percent deficit and a reduction in the debt/GDP ratio to 122 percent. Belgium has no chance of reaching the Maastricht Treaty debt/GDP target of 60 percent, but expects to demonstrate sustained progress towards the target in order to qualify for early EMU membership.

Economic growth, which on a quarter by quarter basis dropped in the second half of 1996, picked up in 1997 as net exports joined business investment as a source of growth. At 2.5 percent, average GDP growth remained relatively modest in 1997. For 1998, growth is expected to be near 3 percent. Business investment, driven by the improvement in profitability over the past few years, is also supported by low interest rates and a relatively high degree of capacity utilization in the manufacturing industry. Higher demand in the Netherlands, Germany and France is likely to pull Belgian exports up. Moreover, the appreciation of the dollar and some European currencies vis a vis the BF in 1996 and 1997 should also contribute to the growth of exports.

Belgium's unemployment situation improved slightly over the past two years. Standardized EU data put Belgium's unemployment rate at 9 percent in November 1997, one percent below the EU's average. A further reduction in unemployment will probably be very modest: efforts by business to neutralize high labor costs have increased productivity, but have also aggravated unemployment by reducing the labor component of economic growth.

In 1993, Belgium completed its process of regionalization and became a federal state consisting of three regions: Brussels, Flanders and Wallonia. Each region was given substantial economic powers, including trade promotion, industrial development, research and environmental regulation.

2. Exchange Rate Policy

Belgian monetary policy basically shadows German interest rates closely in order to keep the Belgian franc (BF) close to its central parity with the German mark (DM) within the European Monetary System's Exchange Rate Mechanism (ERM). The near collapse of the ERM in July 1993 placed enormous pressures on this "strong franc" policy as currency traders focussed on Belgium's high debt and budget imbalance. The National Bank of Belgium and government used high short-term interest rates, jawboning and currency market interventions to support the BF. Although the BF briefly slipped by about seven percent against the central parity rate with the DM, it regained its parity by late 1993. Since then, the BF has remained within two percent of its DM parity. The result has been low inflation (even below Germany's level) and a much-reduced interest rate premium over German bonds. It has also meant an appreciation of the BF against the weaker European currencies. Belgian manufacturers have complained about the impact of the BF's appreciation on their competitiveness, particularly compared to weak-currency Europeans such as Spain and Italy.

3. Structural Policies

Belgium is a very open economy, as witnessed by its high levels of exports and imports relative to GDP. Belgium generally discourages protectionism. The federal and regional governments actively encourage foreign investment on a national treatment basis.

Tax policies: Belgium's tax structure was substantially revised in 1989. The top marginal rate on wage and salary income is 55 percent. Corporations (including foreign-owned corporations) pay a standard income tax rate of 39 percent. Small companies pay a rate ranging from 29 to 37 percent. Branches and foreign offices pay income tax at a rate of 43 percent, or at a lower rate in accordance with the provisions contained in a double taxation treaty. Under the present bilateral treaty between Belgium and the United States, that rate is 39 percent.

Despite the reforms of the past five years, the Belgian tax system is still characterized by relatively high rates and a fairly narrow base resulting from numerous exemptions. While indirect taxes are lower than the EU average as a share of total government revenues, personal income taxation and social security contributions are particularly heavy. Total taxes as a percent of GDP are the fourth highest among OECD countries. Taxes on income from capital are by comparison quite low; since

October 1995, the tax rate on interest income is 15 percent, and the tax rate on dividends is 25 percent for residents. There is no tax on capital gains.

Belgium has instituted special corporate tax regimes for coordination centers, distribution centers and business service centers (including call centers) in recent years in order to attract foreign investment. These tax regimes provide for a "cost-plus" definition of income for intragroup activities and have proven very attractive to U.S. firms.

Regulatory policies: The only areas where price controls are effectively in place concern energy, household leases and pharmaceuticals. With the exception of the latter, none of these has any serious impact on U.S. business in Belgium.

4. Debt Management Policies

Belgium is a member of the G-10 group of leading financial nations, and participates actively in the IMF, the World Bank, the EBRD and the Paris Club. Belgium is also a significant foreign assistance donor nation. It closely follows development and debt issues, particularly with respect to the Congo and some other African nations.

Belgium is a net external creditor, thanks to the household sector's foreign assets which exceed the external debts of the public and corporate sectors. Only about 10 percent of the Belgian government's overall debt is owed to foreign creditors. Moody's top Aa1 rating for the country's bond issues in foreign currency reflects Belgium's integrated position in the EU, its significant improvements in fiscal and external balances over the past few years, its economic union with the financial powerhouse Luxembourg, and the reduction of its foreign currency debt. The Belgian government has no problems obtaining new loans on the local credit market. Because of the reform of monetary policy in 1991, as well as greater independence granted in 1993 to the National Bank of Belgium, direct financing in Belgian francs by the central bank has become impossible.

5. Significant Barriers to U.S. Exports

From the inception of the EU's single market, Belgium has implemented most, but not all, trade and investment rules necessary to harmonize with the rules of the other EU member countries. Thus, the potential for U.S. exporters to take advantage of the vastly expanded EU market through investments or sales in Belgium has grown significantly. Some barriers to services and commodity trade still exist, however, including:

Telecommunications: The federal government is gradually opening up the previously monopolistic telecommunications sector. In 1996, the government sold 49 percent of Belgacom, the public telephone operator, to a consortium of Ameritech, Tele Danmark and Singapore Telecom. In September 1996, a second cellular operator started operations. On January 1, 1998, a second telephone operator, Telenet, will enter the telecoms market, using Belgium's extensive cabling network. Telenet is a joint-venture with 20 percent participation by U.S. West. To further open mobile telecommunication in Belgium, a third cellular license will be issued in 1998. The United States has taken issue with the regulation of the directory services market, but a solution appears likely. Begium has yet to sign the protocol that embodies the commitments made as part of the WTO Basic Telecommunications Agreement. The deadline for signing the protocol was December 1, 1997.

Ecotaxes: The Belgian government has adopted a series of ecotaxes, in order to redirect consumer buying patterns towards materials seen as environmentally less damaging. These taxes will raise costs for some U.S. exporters, since U.S. companies selling into the Belgian market must adapt worldwide products to varying EU member state environmental standards.

Retail service sector: Some U.S. retailers, including Toys'R' Us and McDonalds, have experienced considerable difficulties in obtaining permits for outlets in Belgium. Current legislation is designed to protect small shopkeepers, and its application is not transparent. Belgian retailers also suffer from the same restrictions, but their existing sites give them strong market share and power in local markets.

Public procurement: In January 1996, the Belgian government implemented a new law on government procurement to bring Belgian legislation into conformity with European Union directives. The revision has incorporated some of the onerous provisions of EU legislation, while improving certain aspects of government procurement at the various governmental levels in Belgium. We will continue to monitor the implementation of the new law. Belgian public procurement still manifests instances of poor public notification and procedural enforcement, requirements for offsets in military procurement and nontransparency in the procurement process.

Broadcasting and motion pictures: Belgium voted against the EU broadcasting directive (which requires a high percentage of European programs "where practical") because its provisions were not, in the country's view, strong enough to protect the fledgling film industry in Flanders. The Flemish (Dutch-speaking) region and the Francophone community of Belgium have local content broadcasting requirements for private television stations operating in those areas. The EU has taken the Walloon and Flemish communities to the European Court of Justice concerning these requirements. TNT has experienced considerable problems in arranging distribution of its signal on Belgian cable, while NBC and Viacom, via their majority interest in the TV 4 channel, face similar problems with broadcasting authorities in Flanders.

6. Export Subsidies Policies

There are no direct export subsidies offered by the Belgian government to industrial and commercial entities in the country, but the government (both at the federal and the regional level) does conduct an active program of trade promotion, including subsidies for participation in foreign trade fairs and the compilation of market research reports. In addition, exporters are eligible for a reduction in social security contributions by employers and benefit from generous rules for cyclical layoffs. The latter programs come close to the definition of a subsidy in the case of a company engaged in exporting. All of these programs are offered to both domestic and foreign-owned exporters. The United States has raised with the Belgian government and the EU Commission concerns over subsidies via an exchange rate program to Belgian firms producing components for Airbus.

7. Protection of U.S. Intellectual Property.

Belgium is party to the major intellectual property agreements, including the Paris, Berne and Universal Copyright Conventions, and the Patent Cooperation Treaty. Nevertheless, an estimated 20 percent of Belgium's video cassette and compact disc markets are composed of pirated products. For software, the share of pirated copies has dropped from 58 to 48 percent in one year, still representing a loss of $700 million to the industry. (1995 figures, no estimates available yet for 1996.)

Copyright: On June 30, 1994, the Belgian Senate gave its final approval to the revised Belgian copyright law. National treatment standards were introduced in the blank tape levy provisions of the new law. Problems regarding first fixation and non-assignability were also solved. The final law states that authors will receive national treatment, and allows for sufficient manoeuvrability in neighbouring rights. However, if Belgian right holders benefit from less generous protection in a foreign country, the principle of reciprocity applies to the citizens of that country. This is the case for the U.S., which does not grant protection of neighboring rights to Belgian artists and performers, nor to Belgian producers of records and movies. As a consequence, U.S. citizens in Belgium are subject to the same restrictions.

Patents: A Belgian patent can be obtained for a maximum period of twenty years and is issued only after the performance of a novelty examination.

Trademarks: The Benelux Convention on Trademarks established a joint process for the registration of trademarks for Belgium, Luxembourg and the Netherlands. Product trademarks are available from the Benelux Trademark Office in The Hague. This trademark protection is valid for ten years, renewable for successive ten-year periods. The Benelux Office of Designs and Models will grant registration of industrial designs for 50 years of protection. International deposit of industrial designs under the auspices of the World Intellectual Property Organization (WIPO) is also available.

8. Worker Rights

a. *The Right of Association.*—Under the Belgian constitution, workers have the right to associate freely. This includes freedom to organize and join unions of their own choosing. The government does not hamper such activities, and Belgian workers in fact fully and freely exercise their right of association. About 60 percent of Belgian workers are members of labor unions. This number includes employed, unemployed and workers on early pension. Unions are independent of the government, but have important links with major political parties. Unions have the right to strike and strikes by civil servants and workers in "essential" services are tolerated. Teachers, nurses, railway workers, air controllers and Sabena personnel have conducted strikes in recent years without government intimidation. Despite government protests over wildcat strikes by air traffic controllers, no strikers were prosecuted. Also, Belgian unions are free to form or join federations or confederations and are free to affiliate with international labor bodies. However, the International Confed-

eration of Free Trade Unions (ICFTU) in 1996 noted with concern the increasingly common practice of using civil court rulings to end strikes. The IFCTU report states that the rulings include a threat of fines against strikers, and that such rulings call into question the free exercise of the right to strike. There was a sharp decrease in this kind of court rulings throughout 1996 and 1997.

b. *The Right to Organize and Bargain Collectively.*—The right to organize and bargain collectively is recognized, protected and exercised freely. Every other year, the Belgian business federation and unions negotiate a nationwide collective bargaining agreement covering 2.4 million private-sector workers, which establishes the framework for negotiations at plants and branches. Public sector workers also negotiate collective bargaining agreements. Collective bargaining agreements apply equally to union and non-union members, and over 90 percent of Belgian workers are covered by collective bargaining agreements. Under legislation in force, wage increases are limited to a nominal 6.1 percent for the 1997-98 period. The law prohibits discrimination against organizers and members of unions, and protects against termination of contracts of members of workers' councils, members of health and safety committees, and shop stewards. Effective mechanisms such as the labor courts exist for adjudicating disputes between labor and management. There are no export processing zones.

c. *Prohibition of Forced and Compulsory Labor.*—Forced or compulsory labor is illegal and does not occur. Domestic workers and all other workers have the same rights as non-domestic workers. The government enforces laws against those who seek to employ undocumented foreign workers.

d. *Minimum Age for Employment of Children.*—The minimum age for employment of children is 15, but schooling is compulsory until the age of 18. Youth between the ages of 15 and 18 may participate in part-time work/part-time study programs and may work full-time during school vacations. The labor courts effectively monitor compliance with national laws and standards. There are no industries where any significant child labor exists.

e. *Acceptable Conditions of Work.*—In May 1996, the monthly national minimum wage rate for workers over 21 was set at BF43,665 ($1,260); 18-year-olds can be paid 82 percent of the minimum, 19-year-olds 88 percent and 20-year-olds 94 percent. The Ministry of Labor effectively enforces laws regarding minimum wages, overtime and worker safety. By law, the standard work week cannot exceed 40 hours and must have at least one 24-hour rest period. Comprehensive provisions for worker safety are mandated by law. Collective bargaining agreements can supplement these laws.

f. *Rights in Sectors with U.S. Investment.*—U.S. capital is invested in many sectors in Belgium. Worker rights in these sectors do not differ from those in other areas.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		370
Total Manufacturing		8425
Food & Kindred Products	507	
Chemicals & Allied Products	5757	
Metals, Primary & Fabricated	138	
Machinery, except Electrical	1	
Electric & Electronic Equipment	492	
Transportation Equipment	1	
Other Manufacturing	1027	
Wholesale Trade		2225
Banking		282
Finance/Insurance/Real Estate		4130
Services		2274
Other Industries		897
TOTAL ALL INDUSTRIES		18604

Source: U.S. Department of Commerce, Bureau of Economic Analysis

BULGARIA

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Income, Production and Employment:			
Nominal GDP	13.0	9.5	9.5
Real GDP Growth (pct)	2.1	-10.9	-7.4
GDP by Sector:			
Agriculture	1.7	1.1	1.2
Manufacturing	4.1	3.0	2.9
Services	6.0	5.1	5.1
Per Capita GDP	1,543	1,129	1,130
Labor Force (000s)	3,575	3,570	3,535
Unemployment Rate (pct) [2]	11.4	10.8	14.3
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	39.6	124.5	245.4
Consumer Price Inflation	32.9	311	584
Exchange Rate (Leva/US$ - annual average) [3]			
Official	67.2	175	1675
Balance of Payments and Trade:			
Total Exports FOB	5.1	4.2	4.8
Exports to U.S. (US$ mlns) [4]	188	116	164
Total Imports CIF	4.7	4.0	4.3
Imports from U.S. (US$ mlns) [4]	132	138	110
Trade Balance	0.4	0.2	0.5
Balance with U.S. (US$ mlns) [4]	56	-22	54
Currrent Account Balance/GDP (pct)	-0.5	0.9	1.8
External Public Debt	9.4	9.6	9.7
Debt Service Payments/GDP (pct)	8.1	13.1	9.9
Fiscal Deficit/GDP (pct)	-6.4	-13.4	-6.3
Gross Foreign Exchange Reserves and Gold	1.6	0.8	2.4
Aid from U.S. (US$ mlns) [5]	42.0	27.8	26.1
Aid from All Other Sources	N/A	N/A	N/A

[1] 1997 figures are estimates based on available 6-10 month data
[2] Annual average
[3] Rate depreciated from 32.1:1 to 66:0 from January to December 1994, and from 70.7:1 to 487:1 from January to December 1996. The rate subsequently declined to 2920:1 in mid-February 1997, and then was fixed to the DM at 1000:1 on July 1, 1997.
[4] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1997 figures are estimates based on data available through October 1997.
[5] USAID and DOD humanitarian assistance. DOD was $512,236 in FY95, $314,692 in FY96 and $635,086 in FY97.

1. General Policy Framework

Bulgaria is a parliamentary republic ruled by a democratically elected government. It has successfully conducted several rounds of democratic elections since 1989. A reform-minded coalition led by the center-right Union of Democratic Forces (UDF) won an outright majority in April 1997 pre-term parliamentary elections, called after a discredited socialist government elected in December 1994 voluntarily relinquished power. The current president, elected in November 1996, also came from the ranks of the UDF.

The new government which took office in 1997 has made a firm commitment to undertaking the long-delayed reforms needed to transform Bulgaria into a market economy, and has won the support of international financial institutions for its efforts. The task is made more difficult by the legacy of delays and half-hearted reforms under previous governments with an uncertain underlying commitment to market principles. For years, quasi-fiscal deficits were allowed to accumulate, and the debts of loss-making state-owned enterprises led to systematic decapitalization of the banks. In 1996, Bulgaria entered into a deep economic crisis, triggered by recurring runs on bank deposits, which began in late 1995 and eventually affected most of the banking sector. The crisis of 1996 and early 1997 unified the country around the need to make changes. The situation stabilized when the new government made a credible commitment to reform, embodied in an agreement with the IMF to institute a currency board form of exchange regime, with the lev fixed to

the German mark. The government has also made progress in implementing long-delayed reforms in the banking sector, privatizing state-owned assets, and liberalizing the economy. A World Bank Financial and Enterprise Sector Adjustment Loan was approved in October 1997.

Bulgaria's association agreement with the European Union (EU) took effect January 1, 1994, and Bulgaria is actively pursuing its goal of EU membership. Bulgaria acceded to the World Trade Organization (WTO) at the end of 1996. The bilateral investment treaty with the United States took effect in June 1994. A bilateral treaty for avoidance of double taxation is under negotiation.

2. Exchange Rate Policy

Under the new currency board arrangement, the Bulgarian lev (BGL) is fixed by law at BGL 1000/DM. The Bulgarian National Bank (BNB) sets an indicative daily U.S. dollar rate (based on the dollar/DM exchange rate in Frankfurt) for statistical and customs purposes, but commercial banks and others licensed to trade on the interbank market are free to set their own rates.

Only some of the commercial banks are licensed to conduct currency operations abroad. Companies may freely buy foreign exchange for imports from the interbank market. Companies are required to repatriate, but no longer to surrender, earned foreign exchange to the central bank. Bulgarian citizens and foreign persons may also open foreign currency accounts with commercial banks. Foreign investors may repatriate 100 percent of profits and other earnings, except that profits and dividends derived from privatization transactions in which Brady bonds were used for half the purchase price may not be repatriated for four years, and initial capital for ten years. Capital gains transfers appear to be protected under the revised Foreign Investment Law; free and prompt transfers of capital gains are guaranteed in the bilateral investment treaty. A permit is required for hard currency payments to foreign persons for direct and indirect investments and free transfers unconnected with import of goods or services.

3. Structural Policies

Bulgaria's legal structure does not inhibit U.S. exports, which are more affected by the domestic economic situation and Bulgaria's isolation from trade financing. In the past, implementation of reforms has been hindered by slow decision-making, parliamentary delays, and bureaucratic red tape. However, the new government has shown an ability to deliver needed legislative reforms and a willingness to listen to the views of those outside government, including international financial institutions, donors and the private sector. The new Foreign Investment Law adopted in October 1997 was drafted with input from foreign investors. One of the government's key priorities is accelerated privatization. A mass privatization program developed by the socialist government and patterned on the Czech voucher system was carried out in 1996-97, with somewhat disappointing results. The new government is preparing revisions to the program to make it more flexible and more effective. Market privatization, which stagnated under the socialists until the need for cash inflows forced them to close some large deals, is now increasingly being put in the hands of international intermediaries. This "privatization of privatization" is expected to increase transparency of the process and reduce the controversy which has tended to accompany major deals. In October 1996 Bulgaria enacted a new Collateral Loan Law (with implementation in 1997), setting out procedures for secured lending, and revised the Commercial Code.

Bulgaria revised both its Income Tax and Profits Tax laws in 1996, and the current government is considering further changes to make the overall tax burden hopefully less onerous for business, provided that the government can improve overall tax collections. The VAT was raised from 18 to 22 percent in July 1996 as part of the IMF program. Poor tax collection is a problem for the budget, and there is a significant informal economy which goes largely unreported and untaxed.

4. Debt Management Policies

Bulgaria's former Communist regime more than doubled the country's external debt from 1985 to 1990. With more than $10 billion outstanding, the government declared a debt service moratorium in March 1990, then resumed partial servicing of the debt in late 1992. In April 1994, Bulgaria rescheduled its official ("Paris Club") debt for 1993 and 1994. In June of that year, it concluded a Brady plan-type agreement to reschedule $8.1 billion of its debt to commercial creditors ("London Club"), reducing its commercial debt by 47 percent. While debt servicing requirements will rise in absolute terms over the next 5-7 years, if reforms and foreign investment continue to take hold, debt servicing in relation to GDP should decline.

In addition to its external debt (over $9 billion at the end of 1997), Bulgaria has a considerable domestic debt burden, of which approximately $950 million is dollar-denominated. Falling interest rates associated with the currency board have considerably eased the debt burden, and Bulgaria has plans to issue up to $300 million in Euro-obligations.

In July 1996, the IMF approved a 20-month standby arrangement of approximately $580 million. However, because of failure to implement conditions, only one tranche was disbursed. A 14-month standby arrangement worth approximately $500 million was approved in April 1997, together with a $150 million Compensatory and Contingency Financing Facility, and tranches have so far been disbursed on schedule. A long-delayed $100 million World Bank Financial and Enterprise Sector Adjustment Loan was approved in October 1997; a further $70 million loan is anticipated once further reforms in the banking sector have been implemented.

5. Significant Barriers to U.S. Exports

Bulgaria acceded to the World Trade Organization in December 1996. Bulgaria also acceded to the WTO plurilateral Agreement on Civil Aircraft and committed to sign the Agreement on Government Procurement within a year. Bulgaria "graduated" from Jackson-Vanik requirements and was accorded unconditional MFN treatment by the United States in October 1996.

Average Bulgarian import tariffs are relatively high, on top of which Bulgaria implemented a 5 percent import surcharge in July 1996 (which declined to 4 percent in July 1997, and is scheduled to decline further over the next four years) as part of the 1996 IMF program. In previous years, some U.S. investors have reported that high import tariffs on products needed for the operation of their establishments in Bulgaria served as a significant barrier to investment. However, the new Foreign Investment Law exempts capital contributions in kind valued at over $100,000 from VAT and customs.

Import licenses are required for a specific, limited list of goods which includes radioactive elements, rare and precious metals and stones, ready pharmaceutical products, and pesticides. The Bulgarian government has declared that it grants licenses within three days of application in a nondiscriminatory manner. The U.S. Embassy has no complaints on record from U.S. exporters that the import-license regime has negatively affected U.S. exports. Armaments and military-production technology and components also require import licenses and can only be imported by companies licensed by the government of Bulgaria to trade in arms (see below). Dual-use items are also controlled.

The Bulgarian government states that its system of standardization is in line with internationally accepted principles and practices, but there were two cases in 1997 involving U.S. commodities held at Bulgarian ports for supposedly not meeting Bulgarian standards. Imported goods must meet Bulgarian standards, and in testing and procedures imported goods are accorded treatment no less favorable than that for domestic products. The testing and certification process generally requires at least two months. All imports of goods of plant or animal origin are subject to phytosanitary and veterinary control, and relevant certificates should accompany such goods.

Foreign persons cannot own land in Bulgaria because of a constitutional prohibition, but foreign-owned companies with Bulgarian registration are considered to be Bulgarian persons. Foreign persons may acquire ownership of buildings and limited property rights, and may lease land. Local companies where foreign partners have controlling interests must obtain prior approval (licenses) to engage in certain activities: production and export of arms/ammunition (note that only firms with over 50 percent Bulgarian participation can be licensed for international trade in arms); banking and insurance; exploration, development and exploitation of natural resources; and acquisition of property in certain designated geographic areas/zones.

There are no specific local content or export-performance requirements nor specific restrictions on hiring of expatriate personnel, but residence permits are often difficult to obtain. Bulgaria committed itself in the United States-Bulgarian Bilateral Investment Treaty to international arbitration in the event of expropriation, disinvestment, or compensation disputes.

Foreign investors complain that massive tax evasion by private domestic firms combined with the failure of the authorities to enforce collection from large, often financially-precarious, state-owned enterprises places the foreign investor at a real disadvantage.

The 1997 Law on Assignment of Government and Municipal Contracts is the first clear-cut procedure for government procurement to be introduced in Bulgaria. It is

equally applicable to local and foreign potential providers, and, with few exceptions treats them both equally. Government procurement works mostly by competitively bid international tenders. Under the new law, participants in pre-contract procedures (tender, two-phase tender, silent auction, or negotiations with three or more potential contractors) may appeal against violations of the applicable procedures. General government supervision for compliance is exercised by the National Audit Chamber. Each ministry has a government procurement office which is responsible for overseeing the process. There have been problems of lack of clarity in many tendering procedures. U.S. investors are also finding that in general neither remaining state enterprises nor private firms are accustomed to competitive bidding procedures to supply goods and services to these investors within Bulgaria. However, tenders organized under projects financed by international donors have tended to be open and transparent.

Bulgaria uses the single customs administrative document used by European Community members. A one percent customs clearance fee is assessed on all imports and exports.

6. Export Subsidies Policies

The Bulgarian government applies no export subsidies at the present. However, the 1995 Law for the Protection of Agricultural Producers established a State Fund for Agriculture whose regulations give it the authority to stimulate the export of agricultural and food products through export subsidies or export guarantees.

7. Protection of U.S. Intellectual Property

Bulgarian intellectual property legislation is generally adequate, with modern patent and copyright laws and criminal penalties for copyright infringement, but enforcement is seriously deficient, resulting in widespread piracy, particularly in music CDs and CD-ROMs. As a result, Bulgaria was placed on the U.S. Trade Representative's Special 301 Watch List in October 1996.

In 1995, Bulgaria signed a government-to-government agreement with the United States to improve intellectual copyright protection. As a result, Bulgaria became a signatory to the Rome and Geneva Phonograms Conventions, added criminal penalties for copyright infringement, and, in April 1996, introduced a system of title verification for music and video recordings. The system was amended in April 1997 to include software on CD-ROM. Nevertheless, video, compact disk and computer program piracy remains a serious concern. Bulgaria is one of the world's top exporters of illegal CDs and CD-ROMs.

Bulgaria's Trademark and Industrial Design Law is in need of updating; a revised law has been drafted. U.S. industries cite the illegal use of trademarks as a barrier to the Bulgarian market. A Law for the Protection of New Types of Plants and Animal Breeds was adopted in September 1996; a law on the topography of integrated circuits is in preparation.

Bulgaria is a member of the World Intellectual Property Organization (WIPO) and a signatory to the following agreements: the Paris Convention for the Protection of Intellectual Property; the Rome Convention for the Protection of Performers, Producers of Phonograms and Broadcast Organizations; the Geneva Phonograms Convention; the Madrid Agreement for the Repression of False or Deceptive Indications of Source of Goods; the Madrid Agreement on the International Classification and Registration of Trademarks; the Patent Cooperation Treaty; the Universal Copyright Convention; the Berne Convention for the Protection of Literary and Artistic Works; the Lisbon Agreement for the Protection for Appellations of Origin and their International Registration; the Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purpose of Patent Protection; and the Nairobi Treaty on the Protection of the Olympic Symbol. On acceding to the WTO, Bulgaria agreed to implement the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs) without a transitional period.

In early 1997, the International Intellectual Property Association estimated trade losses in Bulgaria for U.S. companies due to piracy at $178.9 million. The chief damages were reportedly in sound recordings and musical compositions ($95 million), computer programs ($62 million for entertainment software alone, and $8.4 million for business software, an increasingly growing problem), and motion pictures ($13 million from videocassettes and an unquantified amount from cable TV piracy).

8. Worker Rights

a. *The Right of Association.*—The 1991 Constitution provides for the right of all workers to form or join trade unions of their own choice. This right appears to have been freely exercised in 1997. Estimates of the unionized share of the workforce

range from 30 to 50 percent. This share continues to shrink as large firms lay off workers, and most new positions appear in small, non-unionized businesses. Bulgaria has two large trade union confederations, the Confederation of Independent Trade Unions of Bulgaria (CITUB) and Podkrepa. CITUB, the successor to the trade union controlled by the former Communist regime, now operates as an independent entity. Podkrepa, an independent confederation created in 1989, was one of the earliest organizations within the Union of Democratic Forces, but is no longer a member of the UDF. In 1995 a third trade union confederation, the Community of Free Union Organizations in Bulgaria (CFUOB), was admitted to the National Tripartite Council (NTCC), which includes employers and the government. In October 1996, a new labor union/civic organization called "Promyana" ("Change") was founded with the explicit goal of removing the Bulgarian Socialist Party (BSP) from power via early elections. Although never officially registered as a labor union, Promyana attracted members of various professions and trades to its ranks and participated visibly in the anti-BSP demonstrations of January and early February 1997 which played a key role in convincing the BSP to relinquish power. The 1992 Labor Code recognizes the right to strike when other means of conflict resolution have been exhausted, but "political strikes" are forbidden, a prohibition widely ignored in January and early February 1997. Workers in essential services (including military, police, energy production and supply, and health sectors) are prohibited from striking, but common practice by such workers is to hold an "effective strike" in which they stop or slow their activities for an hour or two, a practice employed repeatedly in the politically-motivated popular unrest in January and early February. There was no evidence that the Government interfered with the right to strike and several work stoppages took place. The Labor Code's prohibitions against anti union discrimination include a 6-month period of protection against dismissal as a form of retribution. While these provisions appear to be within international norms, there is no mechanism other than the courts for resolving complaints, and the burden of proof in such a case rests entirely on the employee. There are no restrictions on affiliation or contact with international labor organizations, and unions actively exercise this right.

b. *The Right to Organize and Bargain Collectively.*—The Labor Code institutes collective bargaining, which is practiced both nationally and on a local level. The legal prohibition against striking for key public sector employees weakens their bargaining position; however, these groups were able to influence negotiations by staging protests and engaging in other pressure activities without going on strike. Both CITUB and Podkrepa complained that while the legal structure for collective bargaining was adequate, many employers failed to bargain in good faith or to adhere to concluded agreements. Labor observers viewed the Government's enforcement of labor contracts as inadequate. There were several instances in which an employer was found guilty of anti-union discrimination, but the employers appealed the decisions. The backlog of cases in the legal system delayed further action, effectively postponing, perhaps indefinitely, redress of workers' grievances.

c. *Prohibition of Forced or Compulsory Labor.*—The constitution prohibits forced or compulsory labor. Many observers have argued that the practice of shunting minority and conscientious-objector military draftees into work units which often carry out commercial construction and maintenance projects is a form of compulsory labor.

d. *Minimum Age for Employment of Children.*—The Labor Code sets the minimum age for employment of children at 16, and 18 for dangerous work. Employers and the Ministry of Labor and Social Welfare are responsible for enforcing these provisions. Child labor laws are enforced well in the formal sector. However, underage employment has increased in the informal and agricultural sectors as collective farms are broken up and the private sector continues to grow. In addition, children are known to work on family-owned tobacco farms.

e. *Acceptable Conditions of Work.*—The national monthly minimum wage is approximately $26 (45,500 leva). The Labor Code provides for a standard work week of 40 hours, with at least one 24-hour rest period per week. The Ministry of Labor and Social Welfare is responsible for enforcing both the minimum wage and the standard work week. Enforcement has been generally effective in the state sector (although there are reports that state-run enterprises fall into arrears on salary payments to their employees if the firms incur losses), but weaker in the emerging private sector. Bulgaria has a national labor safety program with standards established by the Labor Code. The Constitution states that employees are entitled to healthy and nonhazardous working conditions. The Ministry of Labor and Social Welfare is responsible for enforcing these provisions. Under the Labor Code, employees have the right to remove themselves from work situations that present a serious or immediate danger to life or health without jeopardizing their continued employ-

ment. In practice, refusal to work in situations with relatively high accident rates or associated chronic health problems would result in loss of employment for many workers.

f. *Rights in Sectors with U.S. Investment.*—Overall U.S. investment is relatively small according to official Bulgarian information. Few sectors have an active U.S. presence. Conditions do not significantly differ in these sectors from the rest of the economy. The same obligation of collective bargaining and adherence to labor standards prevails in the export processing zones, and unions may organize workers in these areas.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		0
Total Manufacturing		8
Food & Kindred Products	[1]	
Chhemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	[1]	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
Banking		0
Finance/Insurance/Real Estate		0
Services		0
Other Industries		0
TOTAL ALL INDUSTRIES		8

[1] Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis

---

CZECH REPUBLIC

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Income, Production and Employment:			
Nominal GDP [2]	47.3	54.0	54.6
Real GDP Growth (pct) [3]	4.8	4.1	1.8
GDP by Sector (pct): [4]			
Agriculture	5.2	5.0	5.0
Manufacturing	26.6	26.6	26.6
Services	53.4	54.4	55.4
Government [5]	31.8	31.2	30.9
Per Capita GDP (US$)	4,592	5,314	5,285
Labor Force (000s)	4,777	5,107	5,000
Unemployment (pct)	2.9	3.5	5.2
Money and Prices (annual percentage growth):			
Money Supply Growth (M2) [6]	19.8	9.2	7.7
Consumer Price Inflation	9.1	8.8	8.7
Exchange Rate (CKR/US$):			
Official [7]	26.55	27.14	31.76
Balance of Payments and Trade: [7]			
Total Exports FOB [7]	17.1	21.9	16.3
Exports to U.S. (US$ millions)	363	468	405
Total imports CIF [7]	20.9	27.7	19.7

Key Economic Indicators—Continued

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Imports from U.S. (US$ mlns)	363	945	774
Trade Balance [8]	-3.8	-5.8	-3.4
Balance with U.S. (US$ mlns)	0	-477	-369
Current Account Deficit/GDP (pct)	2.88	8.5	7
External Public Debt	16.5	20.8	22.2
Debt Service Payments/GDP (pct)	5.5	6.0	8.9
Fiscal Deficit/GDP (pct)	0	0	0
Gold and Foreign Exchange Reserves	17.0	16.1	14.7
Aid from U.S. (US$ millions) [8]	19.9	6.0	
Aid from All Other Sources [9]	140.1	N/A	N/A

[1] Unless stated otherwise, 1997 figures are based on the latest estimates of the Czech Statistical Office dated Nov. 3, 1997, and/or on the unofficial estimates from the Czech National Bank.
[2] GDP at factor cost.
[3] Percentage changes calculated in local currency.
[4] 1997 figures are for the first half year only.
[5] Central government spending as pct of GDP.
[6] Seven-month data for 1997. 5.1 pct growth over the same period in 1996.
[7] Nine-month data for 1997 exchange rate and trade. Official Czech Statistical Office estimate of the trade deficit for 1997, based on data available through September 1997, is 138.8 billion CZK ($4.2 billion at 33 CZK per $ rate). Czech imports do not include re-exports of U.S. goods through other countries.
[8] U.S. assistance phased out by October 1, 1997. To that date, it totalled approximately $145 million.
[9] Aggregate figure for EC-Phare program in 1990–1996 is 434 million ECU.

1. General Policy Framework

The Czech Republic has largely consolidated its economic transition to a western market economy with most enterprises now in private hands. While facing problems with external imbalances and industrial restructuring, the country enjoys a smoothly functioning democracy with a favorable macroeconomic climate, a moderate national debt, a low budget deficit, strong foreign currency reserves, relatively low inflation and moderate unemployment. Preliminary data suggest GDP growth of 1.8 percent for 1997, following growth of 4.1 percent in 1996. GDP growth in the range of 2.5–3.1 is forecast for 1998.

Inflation in August 1997 was running at close to 10 percent on an annual basis because of increases in regulated prices in mid-1997. However, the Czech Statistical Office estimates inflation for the year at around 9 percent. Wages grew by 9.7 percent in nominal terms in the first nine months of 1997.

The current government has pursued a balanced budget policy and the coalition and opposition parties have agreed in principle on a balanced budget for 1998. While the government had to trim expenditures in April and May of 1997 in order to minimize the budget deficit for 1997, projections for the next year indicate that it can likely achieve a balanced budget through continued tight fiscal control.

At the same time, vital micro economic tasks remain important, such as completing the privatization of the steel, utilities, telecommunications and financial sectors, restructuring firms to maintain competitiveness, and strengthening the regulatory framework. The austerity packages announced in April and May also included proposals to address these structural problems. However, these initiatives, notably privatization of the major banks and enhanced capital markets regulation, are only now being implemented.

Integrating the Czech economy into the West, and specifically into the European Union, remains a government priority. The Czech Republic continues to take steps to harmonize its legal system and standards and regulations with EU countries. The Czech Republic formally applied for EU membership in 1996 and is expected to be invited to begin negotiations with the EU in early 1998.

Currently, over 70 percent of output is produced by nominally or wholly private firms. Overall unemployment rate for 1997 is predicted to be 5.2 percent. Projected levels for 1998 are in the range of 5.5–6 percent.

During the first nine months of 1997, the Czech Republic's trade deficit reached $3.4 billion, following a trade deficit of $5.8 billion for 1996. For the first nine months of 1997, imports increased by 11.6 percent, while exports grew by 15.6 percent. This is the best result in the past two years. The Czech Statistical office estimates the 1997 trade deficit will be $4.2 billion. Factors explaining the improved trade performance include the depreciation of the Czech crown in May, austerity measures announced by the Government in April and May as well as economic re-

vival in western Europe. Austerity measures should continue to dampen current robust consumer demand for imported goods.

The merchandise trade deficit is partially offset by surpluses in services, mainly tourism ($4 billion in 1996 and $1.7 in 1997 first half), and transportation. The Czech Republic's current account deficit remained high in the first half of 1997 at $2 billion and the Czech Statistical Office's latest estimate for the 1997 current account deficit is $3.1 billion, compared to $4.3 in 1996. Foreign capital inflows reached over $8 billion in 1995 and $4 billion in 1996 but slowed down to $540 million in the first half of 1997. Experts forecast a capital account surplus of $3–3.5 billion in 1997, compared to $4.3 billion in 1996.

2. Exchange Rate Policy

The Czech crown is fully convertible for most business purposes. The Foreign Exchange Act, providing for full current account convertibility, was enacted by the parliament in October 1995. The law made the Czech crown convertible for all trade transactions and many investment transactions. For example, Czechs are free to make direct investments and purchase real estate abroad. Under the law, the Central Bank and the Finance Ministry can take further steps toward capital account convertibility by removing controls on outflows of capital without additional legislation.

In May, speculative pressure on the currency forced the central bank to float the Czech crown (which had previously moved in an exchange rate band of plus/minus 7.5 percent). As a result, the crown depreciated by 10–15 percent.

3. Structural Policies

The Czech government sees full membership in the European Union (EU) as its highest priority. An EU association agreement came into effect in February 1995. The Czech Republic is to begin negotiations on joining the EU in early 1998 but membership is not expected before 2000. The Czech Republic became the first post-communist member of the Organization of Economic Cooperation and Development (OECD) in December 1995. As part of its accession to the OECD, the Czech government agreed to meet, with a small number of exceptions, OECD standards for equal treatment of foreign and domestic investors and restrictions on special investment incentives. The United States succeeded in using the membership process to encourage the Czech Republic to make several improvements to the business climate for U.S. firms.

The Czech government continues its program of income tax reductions. For 1998, the corporate profit tax will go down from 39% to 35%. The 1998 personal income tax changes are limited to adjusting tax brackets for inflation. As of 1997, expatriates no longer benefited from special tax relief equal to 25% of Czech taxable income.

In 1995, the government started to provide for tax write-offs of bad debts, although with considerably less generous treatment of pre-1995 debts, which had been a priority goal of U.S. business. Companies unable to collect debts due after Jan 1, 1995 will be able to write them off over three years. Companies will also be able to write off up to 10 percent per year of bad debts dating before Dec. 31, 1994. Both provisions allow a firm to write off the first year's share of a bad debt without filing suit against the debtor. However, in order to obtain the following years' write-offs, the creditor firm must prove that it tried to collect the due amount for 12 months without success.

U.S. firms have complained that Czech tax legislation effectively penalizes use of holding company structures by leveling both corporate tax and dividend withholding tax on profit flows between group companies, thus creating double taxation on such profits. The tax changes for 1998 reduces but do not eliminate this burden. Czech law also does not permit intra-group use of losses (i.e., offsetting losses in one group entity against profits in another) and imposed corporate tax on dividends received from foreign holdings without allowing use of a foreign tax credit for the underlying tax suffered in the subsidiary's home jurisdiction.

4. Debt Management Policies

The Czech Republic maintains a moderate foreign debt and has received investment grade ratings from the major international credit agencies. As of mid-1997, the gross foreign debt was approximately $21.2 billion. The Czech Republic repaid its entire debt with the IMF ahead of schedule.

5. Significant Barriers to U.S. Exports

The Czech Republic is committed to a free market and maintains a generally open economy with few barriers to trade and investment. The Government has adopted a WTO tariff code with a trade-weighted average tariff of 5-6 percent. This is being reduced to close to 4 percent in accordance with Czech commitments in the Uruguay Round. Most EU exports enjoy lower tariffs under the Czech Republic's EU association agreement, moving to zero tariffs by 2000. In April 1997, the Czech Republic imposed an import deposit scheme for most products which required importers to deposit 20% of the value of the goods in an non-interest bearing account for six months. This scheme was abolished, however, as of August 21.

Trade in agricultural/food products is generally free of major trade barriers although technical barriers continue to hamper imports of certain products. In anticipation of EU membership, the Czech Republic is rewriting much of its legislation related to standards and trade in agricultural/food products. During this transition phase, it is not always clear which rules apply, a situation which has led to some delays in getting products approved for import. The harmonization of standards with the EU will ease the paperwork burden for those exporters already exporting to the EU. However, the alignment of the Czech food legislation with the EU also means that certain products currently prohibited in the EU are also prohibited in the Czech Republic.

Other complaints expressed by American firms in the Czech Republic include: the continuing imposition of high taxes; instances of a lack of a transparent bidding process; general slowness of decision-making in the government; excessive red tape; and the maintenance of higher tariffs against non-European goods while gradually lowering those for European Union countries as specified in the EU association agreement. In addition, those firms which deal with privatization authorities have complained of long delays involved in the privatization process.

The Czech government is required by law to hold tenders for major procurement. After two amendments, a 10 percent price advantage for domestic firms still remains. The Czech Republic is not a member of the WTO Government Procurement Agreement.

Still, American business people often cite a convoluted—or in some cases corrupt—bureaucratic system at both national and local levels which can act as an impediment to market access. Often considerable time is spent by a potential investor to finalize a deal, or enforce the terms of a contract, and the U.S. Embassy is frequently asked to intercede on an investor's behalf. European companies have sought to use the Czech Republic's interest in EU membership to gain advantage in commercial competition.

By law, the government does not differentiate between foreign and domestic investors, or between foreign investors from different countries. The Czech Republic committed not to discriminate against foreign investors in privatization sales, outside of a few excepted sectors, in joining the OECD. In some cases, the Czech government has had to overcome political resistance to foreign investment in certain sensitive sectors. This opposition has come from economic nationalists as well as managers with an interest in the status quo. Examples include the petrochemical, telecommunications and brewery sectors. The ban on foreign ownership of real estate remains another important exception, although foreign-owned Czech firms may purchase real estate freely.

American investors interested in starting joint ventures with or acquiring Czech firms have experienced problems with unclear ownership and lack of information on company finances. Investors have complained about the difficulty of protecting their rights through legal means such as a secured interest. In particular, investors have been frustrated by the lack of effective recourse to the court system. The slow pace of the courts are often compounded by judges' limited understanding of complex commercial cases. Also, in 1995, the Czech Republic imposed a Czech language requirement for trade licenses needed for most forms of business. This requirement can be fulfilled by a Czech partner, but this can be burdensome and involve additional risks.

The opaque nature of the stock market puts U.S. investors and financial services providers at a competitive disadvantage. While stock market reforms were enacted in 1996 to help protect small shareholders and increase transparency of transactions, the Finance Ministry enforcement of them has been uneven. As part of its April austerity package, the Government proposed stricter rules and an independent "Securities Commission" to enforce them. Parliament recently approved a bill to create such a body and it may start operations in 1998.

6. Export Subsidies Policy

In mid-1995, the Czech Export Bank started to provide export guarantees and credits to Czech exporters. The bank has a policy of following the OECD consensus on export credits. Additionally, the government maintains a fund through which it purchases domestic agricultural surpluses for resale on international markets. For some commodities, pricing is established at a level which includes a subsidy to local producers.

7. Protection of U.S. Intellectual Property

The Czech Republic is bound to the Berne and Universal copyright conventions and the Paris Convention on industrial property. The government is working to ensure that Czech laws for the protection of intellectual property meet or exceed those of western Europe. Existing legislation guarantees protection of all forms of property rights, including patents, copyrights, trademarks, and semiconductor chip layout design. While the Czech authorities have made some strides in enforcement, problems with delays in indictments and prosecutions remain. The U.S. government, working with U.S. industry, pressed the Czech government to take specific steps to improve enforcement of IPR norms. Steps taken include creation of an inter ministerial committee on IPR enforcement and increased priority for police action against IPR crimes.

The Czech government addressed certain key shortfalls in IPR laws of concern to the United States in amendments to the trademark law and the copyright law adopted by Parliament in June 1995 and April 1996. The trademark law change brings Czech law into compliance with relevant EU directives and the WTO TRIPs agreement. The change simplifies administrative steps concerning registration and sale of trademarks. It strictly defines trademark fraud and bans unauthorized registration and use in the Czech Republic of generally well-known trademarks not yet registered in this country. In addition, prior to registration of a trademark, the application will be made public to allow for protests by legitimate trademark owners in the case of a fraudulent application.

The amendment to the copyright law is also designed to bring Czech law into full compliance with the WTO TRIPs agreement and EU standards. The amendment incorporates the EU software directive into Czech law, providing computer programs with the same protection as literary creations and narrowing the personal use provision. Extensive cooperation between the U.S. government and industry resulted in satisfactory language on the key issue of ownership of software. The amendment as enacted extends coverage to software created by an independent contractor as well as by an employee. Under previous Czech law, no author could transfer his rights to the software; an author was only allowed to license the software to an employer.

8. Worker Rights

a. *The Right of Association.*—The law provides workers the right to form and join unions of their own choosing without prior authorization, and the government respects this right. The work force was 45 to 50 percent unionized in 1996. Workers have the right to strike, except for those whose role in public order or public safety is deemed crucial. The law requires that labor disputes be subject first to mediation and that strikes take place only after mediation efforts fail. Unions are free to form or join federations and confederations and affiliate with and participate in international bodies. This freedom is fully exercised.

b. *The Right to Organize and Bargain Collectively.*—Czech law provides for collective bargaining, which is generally carried out by unions and employees on a company basis. Wage regulation was abolished in 1995.

c. *Prohibition of Forced or Compulsory Labor.*—The law prohibits forced or compulsory labor, and it is not practiced.

d. *Minimum Age for Employment for Children.*—The Labor Code stipulates a minimum working age of 15 years, although children who have completed courses at special schools (schools for the severely disabled) may work at age 14.

e. *Acceptable Conditions of Work.*—The government sets minimum wage standards. The current minimum wage is 2,500 crowns (about $95) per month. The minimum wage provides a sparse standard of living for an individual worker although, when combined with allowances available to families with children, provides an adequate standard of living for a worker and a family. The law mandates a standard work week of 42° hours. It also requires paid rest of at least 30 minutes during the standard 8 to 8° hour workday, as well as annual leave of 3 to 4 weeks. Overtime ordered by the employer may not exceed 150 hours per year or 8 hours per week as a standard practice. Industrial accident rates are not unusually high. Workers

have the right to refuse work endangering their life or health without risk of loss of employment.

f. *Rights in Sectors with U.S. Investment.*—All of the above observations on worker rights apply to firms with foreign investment. Rights in these sectors do not differ from those in other sectors of the economy. Conditions in sectors with U.S. investment do not differ from those in other sectors of the economy.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		[1]
Total Manufacturing		180
Food & Kindred Products	-23	
Chemicals & Allied Products	113	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	[1]	
Electric & Electronic Equipment	[1]	
Transportation Equipment	9	
Other Manufacturing	54	
Wholesale Trade		17
Banking		[1]
Finance/Insurance/Real Estate		2
Services		-3
Other Industries		[1]
TOTAL ALL INDUSTRIES		380

[1] Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

---

DENMARK

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Income, Production and Employment:			
Nominal GDP [2]	148,143	148,998	136,200
Real GDP Growth (pct.) [3]	2.8	2.5	3.0
GDP by Sector:			
Agriculture	6,196	6,166	5,600
Manufacturing	29,786	29,206	27,200
Services	71,250	71,054	65,300
Government	32,821	33,402	30,000
Per Capita GDP ($)	28,307	28,310	25,586
Labor Force (000s)	2,809	2,793	2,825
Unemployment Rate (pct.)	10.3	8.8	8.0
Money and Prices (annual percentage growth):			
Money Supply Growth (pct.)	4.1	7.2	7.0
Consumer Price Inflation (Pct.)	2.1	2.1	2.2
Exchange Rate: (DKK/$ annual average)			
Official	5.60	5.79	6.60
Balance of Payments and Trade:			
Total Exports FOB [4]	50,616	51,111	47,000
Exports to U.S.[4]	2,002	2,067	2,000
Total Imports CIF [4]	45,583	45,113	43,000
Imports from U.S.[4]	1,998	2,166	2,200
Trade Balance [4]	5,033	5,998	4,000

Key Economic Indicators—Continued

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Balance with U.S.[4]	4	-99	-200
External Public Debt	47,500	45,078	38,600
Fiscal Deficit/GDP (pct.)	1.9	1.4	-0.5
Current Account Surplus/GDP (pct.)	1.1	1.6	0.5
Debt Service Payments/GDP (pct.)	2.8	2.6	2.3
Gold and Forex Reserves	11,358	14,718	17,900
Aid From U.S.	N/A	N/A	N/A
Aid From Other Sources	N/A	N/A	N/A

[1] 1997 figures are all estimates based on available data as of October 27, 1997.
[2] GDP at factor cost.
[3] Percentage changes calculated in local currency.
[4] Merchandise trade (excluding EU Agricultural Export Subsidies).

1. General Policy Framework

Denmark is a small, highly industrialized "value-added" country with a long tradition of extensive foreign trade, free capital movement, and political stability. It is also endowed with an efficient and well-educated labor force and a modern infrastructure effectively linking Denmark with the rest of Europe. Denmark's natural resources are concentrated in oil and gas fields in the North Sea which have, together with renewable energy, made Denmark a net exporter of energy since 1996.

The Danish economy is strong, with a balance of payments surplus, a small public budget surplus, and low inflation. The Danish Government has pursued a carefully monitored economic policy including a fiscal policy of minimum public expenditure increases and a tight monetary and exchange rate policy. However, its extensive foreign trade makes the economy vulnerable to foreign "shocks".

Developments during 1997 in some key economic indicators—rising private consumption, reduced unemployment, and a declining surplus on the balance of payments—are warning signals for the otherwise strong economy. The balance of payments surplus has been particularly important in sustaining foreign confidence in the Danish economy. During 1997, the Government reacted promptly by introducing measures to curb private consumption, which included compulsory pension savings in order to reduce purchasing power. The 1997 public budget shifted from deficit into a small surplus as a result of higher revenues and lower expenditures for unemployment and other transfer income costs.

Denmark welcomes foreign investment. Ambassador Edward E. Elson recently founded the Danish-American Business Forum, which promotes increased direct investment, exchanges of know-how, and U.S./Danish joint ventures. Roughly 75 of the leading Danish and American firms in Denmark are members of this elite organization.

Danish monetary policy puts a high priority on price stability. Denmark has pursued a fixed exchange rate policy since the early 1980's. This policy, and Denmark's full liberalization of capital movements in 1988, leaves the Danish Central Bank limited room to adopt independent interest rate and liquidity policies. Danish monetary policy is linked closely to that of Germany.

Denmark has opted out of the European Monetary Union's (EMU) third phase (establishment of a single EU currency and relinquishment of jurisdiction over monetary policy), although the country's economic performance exceeds the established convergence criteria for membership.

2. Exchange Rate Policy

Denmark is a member of the European Monetary System (EMS) and its Exchange Rate Mechanism (ERM). For more than a decade, the Government has successfully resisted solving Denmark's economic problems through exchange rate adjustments. In September 1997, the trade-weighted value of the krone was 3.7 percent lower than in September 1996, due mostly to the krone's depreciation against the pound, the dollar and the yen. Over the last year, the krone has fallen almost 15 percent against the dollar (from DKK 5.80 to DKK 6.81 to $1.00), but so far with limited impact on U.S. exports to Denmark.

3. Structural Policies

Danish price policies are based on market forces. Entities with the ability to fix prices because of their market dominance are regulated by a Competition Agency. Denmark during 1997 changed its competition legislation from the former "control" principle to the internationally recognized "prohibition" principle.

The highest marginal individual income tax rate is over 60 percent, and applies to all taxpayers with earnings in the "middle income" level or higher (in 1996, approximately $37,000). Foreign executives working in Denmark may benefit from more lenient income taxation (a flat 33 percent tax on gross income in 1997). Danish employers are almost alone in the EU in paying virtually no nonwage compensation. Most sick leave and unemployment insurance costs are paid by the Government. Employees pay their contribution to unemployment insurance out of their wages, while two-thirds of unemployment benefits are paid from general revenues.

The Danish Value Added Tax (VAT), of 25 percent is the highest in the EU. As VAT revenues constitute more than one-quarter of total central government revenues, a reduction would have severe budgetary consequences. The Government therefore has no plans to reduce the VAT, and hopes that EU VAT rate harmonization will raise VAT rates of other EU countries. Environmental taxes are increasingly being imposed on industry (with some roll-back for antipollution efforts) and on consumers. The corporate tax rate is 34 percent and favorable depreciation rules and other deductions exist.

4. Debt Management Policies

Denmark has run a balance of payments surplus since 1990. Consequently, foreign debt has gradually fallen from over 40 percent of GDP in 1990 to 26 percent in 1996. Net interest payments on the debt cost Denmark seven percent of its export earnings. Standard and Poor's and Moody's Investors Service rate Denmark AA+ and AA1, respectively. Denmark's public sector is a net external debtor, while the private sector is a net creditor. At the end of 1996, the government sector's net foreign debt, including foreign exchange reserves, totalled $40 billion, almost equal to the value of krone-denominated government bonds held abroad.

During 1996, central government debt denominated in foreign currencies fell slightly to $15 billion at the end of the year. Of the total debt, 74 percent is denominated in German marks, 7 percent in French francs, 6 percent in Swiss francs, and 5 percent in British pounds. Dollar-denominated debt comprises only two percent. The debt has an average term of 1.9 years.

Denmark's central government deficits are not monetized, but instead financed through sale of government bonds and treasury bills on market terms. The monetary policy instruments used by the Central Bank to manage liquidity are certificates of deposit, repurchase agreements (so-called repos) and current account deposits. The Central Bank issues two-week deposit certificates each week to absorb liquidity and re-purchases both treasury bills and deposit certificates in order to supply liquidity to commercial banks.

For a number of years, the Central Bank has successfully used small discount rate adjustments of between 0.25 and 0.5 percent to control liquidity. On October 27, 1997, the official discount rate stood at 3.5 percent. Low inflation (two percent during 1997) vis-a-vis higher market interest rates has produced higher real interest rates.

5. Significant Barriers to U.S. Exports

Denmark imposes few restrictions on import of goods and services or on investment. Denmark adheres to all GATT/WTO codes and to all EU legislation which impacts on trade and investment. U.S. industrial product exporters face no special Danish import restrictions or licensing requirements. Agricultural goods must compete with domestic production, protected under the EU's Common Agricultural Policy.

As standards are being harmonized within the EU Single Market, new nontariff trade barriers (NTBs) have surfaced in individual EU member countries. As Danish firms have found it difficult to win bids on government procurement contracts in other EU countries, Denmark has taken the lead within the EU to work with the European Commission to combat these problems. The Ministry of Business and Industry's National Agency for Trade and Industry and Danish Competition Authority assist Danish firms facing non-tariff trade barriers.

Denmark provides national and, in most cases, nondiscriminatory treatment to all foreign investment. Ownership restrictions apply only in a few sectors: hydrocarbon exploration (which usually requires limited government participation, but not on a

"carried-interest" basis); arms production (non-Danes may hold a maximum of 40 percent of equity and 20 percent of voting rights); aircraft (foreign citizens or airlines may not directly own or exercise control over aircraft registered in Denmark); and ships registered in the Danish International Ships Register (a Danish legal entity or physical person must own a significant share—about 20 percent—and exercise significant control over the ship or the ship must be on bareboat charter to a Danish firm).

Danish law provides a reciprocity test for foreign direct investment in the financial sector, but that has not been an obstacle to U.S. investment. Two U.S. banks—Republic National Bank of New York and the State Street Bank Trust Company—have representative offices in Denmark. A number of other U.S. financial entities operate in Denmark through subsidiaries in other European countries, including Citicorp (through its U.K. subsidiary), GE Capital Equipment Finance (through Sweden), and Ford Credit Europe (through the U.K.).

The Government liberalized the Danish telecommunications sector in 1997. The large U.S. company Ameritech took over a controlling interest (42 percent) of the former government-controlled Tele Danmark A/S in October 1997. A number of foreign telecom operators, including Swedish Telia and French Mobilix, are making inroads into the Danish market, which has increased competition. Sonofon, a private cellular mobile telephone network (General Systeme Mobile-GSM) with U.S. Bell South participation, competes with Tele Danmark's GSM operation.

Danish government procurement practices meet the requirements of the GATT/WTO Public Procurement Code and EU public procurement legislation. Denmark has implemented the EU's "Supplies" Directive 93/36/EEC, "Works" Directive 93/37/EEC and "Utilities" Directive 93/38/EEC. A 1993 administrative note advised the Danish central and local governments of the EU/U.S. agreement on reciprocal access to certain public procurement.

In compliance with EU rules, the Government and its entities apply environmental and energy criteria on an equal basis with other—price, quality and delivery—terms in procurement of goods and services. This may eventually restrict U.S. companies' ability to compete in the Danish public procurement market. For example, the EU "Ecolabel" and EU "Ecoaudit" requirements may be difficult for U.S. companies to meet. Offsets are used by the Danish Government only in connection with military purchases not covered by the GATT/WTO code and EU legislation. Denmark has no "Buy Danish" laws.

There is no record of any U.S. firm complaining about Danish customs procedures. Denmark has an effective, modern and swift customs administration.

U.S. firms resident in Denmark generally receive national treatment regarding access to Danish R&D programs. In some programs, however, Denmark requires cooperation with a Danish company. There is no record of any complaints by U.S. companies in this area.

6. Export Subsidies Policies

EU agricultural export restitutions (subsidies) to Denmark totalled $536 million (five percent of the value of total Danish agricultural exports) in 1996. Government support for agricultural export promotion programs is insignificant. Denmark has no direct subsidies for its nonagricultural exports except for shipbuilding. Denmark welcomed the 1994 OECD agreement to phase out shipbuilding subsidies internationally.

The Government does not directly subsidize exports by small and medium size companies. Denmark does, however, have programs which indirectly assist export promotion and establishment of export networks for small and medium sized companies, research and development, and regional development aimed at increasing exports. Denmark has one of the EU's lowest rates of state aid to industry (less than two percent of GDP). Danish subsidization of its shipbuilding industry is within the ceiling set in the EU Shipbuilding Directive (nine percent of the contract value) and accounts for about one-third of total Danish state aid to industry.

Denmark also has a well-functioning export credit and insurance system. In its foreign development assistance, Denmark requires that 50 percent of all bilateral assistance be used for Danish-produced goods and services. These programs apply equally to foreign firms which produce in and export from Denmark.

7. Protection of U.S. Intellectual Property

Denmark is a party to and enforces a large number of international conventions and treaties concerning protection of intellectual property rights.

Patents: Denmark is a member of the World Intellectual Property Organization, and adheres to the Paris Convention for the Protection of Industrial Property, the Patent Cooperation Treaty, the Strasbourg Convention and the Budapest Convention. Denmark has ratified the European Patent Convention and the EU Patent Convention.

Trademarks: Denmark is a party to the 1957 Nice Arrangement and to this arrangement's 1967 revision. Denmark has implemented the EU trademark directive aimed at harmonizing EU member countries' legislation, but continues to apply the "global consumption" rather than "regional consumption" principle (see Impact on U.S. Trade below). Denmark strongly supports efforts to establish an EU-wide trademark system. Denmark has enacted legislation implementing EU regulations for the protection of the topography of semiconductor products, which also extends protection to legal U.S. persons.

Copyrights: Denmark is a party to the 1886 Berne Convention and its subsequent revisions, the 1952 Universal Copyright Convention and its 1971 revision, the 1961 International Convention for the Protection of Performers, and the 1971 Convention for the Producers of Phonograms. There is little piracy in Denmark of CDs or audio or video cassettes. However, computer software piracy is more widespread and estimated at over $100 million annually.

Piracy of other intellectual property, including books, appears limited. However, U.S. authors are not receiving all royalties from Denmark for photocopies of their works used in Danish schools. There is no evidence of Danish import or export of pirated products.

New Technologies: There are no reports of possible infringement of new technologies.

Impact on U.S. Trade with Denmark: Trademark-protected U.S. products may be "parallel imported" (i.e, imported outside the normal contractual channels of distribution) for sale in Denmark, because Denmark continues to observe the "global consumption" principle. The German Supreme Court has ruled against the sale of parallel imported products from third countries without the approval of the trademark owner (Germany applies the "regional consumption" principle). Because of this ruling, a Danish company owned by a U.S. citizen has been stopped from selling parallel imported U.S.-made jeans to most other EU markets. This company alone, which accounts for some ten percent of total EU parallel imports of U.S.-produced jeans, claims to have lost sales worth some $25 million.

Denmark is named on the Special 301 Watch List because of its failure to meet its TRIPS obligations to provide unannounced searches and provisional relief as required by TRIPS Article 50. The issue is the subject of bilateral U.S./Danish consultations. The United States is also concerned about Denmark's failure to protect, as required by article 39.3 of the TRIPS agreement, confidential test data submitted to the Danish Environmental Protection Agency for approval of certain chemical products.

8. Worker Rights

a. *Right of Association.*—Workers in Denmark have the right to associate freely, and all (except those in essential services and civil servants) have the right to strike. Approximately 80 percent of Danish wage earners belong to unions. Trade unions operate free of government interference. They are an essential factor in political life and represent their members effectively. During 1996, 75,700 workdays were lost due to labor conflicts compared with 197,300 in 1995. Greenland and the Faroe Islands have the same respect for worker rights, including full freedom of association, as Denmark.

b. *Right to Organize and Bargain Collectively.*—Workers and employers acknowledge each others' right to organize. Collective bargaining is widespread. The law prohibits anti union discrimination by employers against union members, and there are mechanisms to resolve disputes. Salaries, benefits, and working conditions are agreed in biennial or triennial (the industry sector) negotiations between the various employers' associations and their union counterparts. If negotiations fail, a national conciliation board mediates, and its proposal is voted on by both management and labor. If the proposal is turned down, the Government may force a legislated solution (usually based upon the mediator's proposal). In case of a disagreement during the life of a contract, the issue may be referred to the Labor Court. Decisions of that court are binding. Labor contracts which result from collective bargaining are, as a general rule, also used as guidelines in the nonunion sector. Labor relations in non EU parts of Denmark—Greenland and the Faroe Islands—are generally conducted in the same manner as in Denmark.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is prohibited and does not exist in Denmark.

d. *Minimum Age for Employment of Children.*—The minimum age for full-time employment is 15 years. A change in the work environment law, which implemented EU Council Directive 94/33/EU, entered into force in June 1996. This provides for tightening of employment rules for those under 18 years of age, setting a minimum of 13 years of age for any type of work. The law is enforced by the Danish Working Environment Service (DWES), an autonomous arm of the Ministry of Labor. Danish export industries do not use child labor.

e. *Acceptable Conditions of Work.*—There is no legally mandated work week or national minimum wage. The work week set by labor contracts is 37 hours. The lowest wage in any national labor agreement is $11 per hour. Danish law provides for five weeks of paid vacation each year. Danish law also prescribes conditions of work, including safety and health; duties of employers, supervisors, and employees; work performance; rest periods and days off; medical examinations; and maternity leave. The DWES ensures compliance with work place legislation. Danish law provides for government-funded parental and educational leave programs.

Similar conditions, except for leave programs, are found in Greenland and the Faroe Islands, but in these areas the work week is 40 hours. Unemployment benefits in Greenland are either contained in labor contract agreements or come from the general social security system. A general unemployment insurance system in the Faroe Islands was established in August 1992. Sick pay and maternity pay, as in Denmark, fall under the social security system.

f. *Rights in Sectors with U.S. Investment.*—Worker rights in those goods-producing sectors in which U.S. capital is invested do not differ from the conditions in other sectors.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		349
Total Manufacturing		[1]
Food & Kindred Products	273	
Chemicals & Allied Products	37	
Metals, Primary & Fabricated	[1]	
Machinery, except Electrical	-37	
Electric & Electronic Equipment	-13	
Transportation Equipment	(2)	
Other Manufacturing	74	
Wholesale Trade		249
Banking		(d)
Finance/Insurance/Real Estate		668
Services		480
Other Industries		8
TOTAL ALL INDUSTRIES		2171

[1] Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

FINLAND

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Income, Production and Employment:			
Nominal GDP (at factor cost) [9]	110.5	108.8	[1] 101.6

Key Economic Indicators—Continued

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Real GDP Growth (pct)	5.1	3.3	[1] 4.5
GDP by Sector: [9]			
Agriculture, forestry & logging	5.0	4.5	[1] 4.2
Manufacturing, construction mining & quarrying	36.5	35.0	[1] 33.4
Electricity, gas & water supply	3.0	3.0	[1] 2.5
Services	45.9	46.2	[1] 42.7
Government	21.0	20.8	[1] 18.9
Other activities	2.3	2.3	[1] 2.1
Per Capita GDP [9]	21,594	21,200	[1] 19,766
Labor Force (000s)	2,526	2,532	[1] 2,548
Unemployment Rate (pct) [10]	16.9	16.0	[1] 15.0
Money and Prices:			
Money Supply Growth (M2) (annual percentage growth)	5.96	-2.0	[2] 1.0
Consumer Price Inflation	1.0	0.6	[1] 1.2
Exchange Rate (FIM/US$ - annual average)	4.36	4.59	[3] 5.16
Balance of Payments and Trade:			
Total Exports FOB	40.4	40.5	[4] 22.7
Exports to U.S.	2.7	4.1	[4] 1.7
Total Imports CIF	29.5	30.7	[4] 17.1
Imports from U.S.	2.1	3.0	[4] 1.2
Trade Balance	10.9	9.8	[4] 5.6
Balance with U.S.	0.6	1.1	[4] 0.5
External Public Debt	39.5	38.1	[5] 35.0
Fiscal Deficit/GDP (pct) [7]	5.0	3.1	[1] 1.3
Current Account Surplus/GDP (pct)	4.1	3.8	[1] 3.5
Debt Service Payments/GDP (pct)[6]	5.4	5.8	[1] 5.7
Gold and Foreign Exchange Reserves	11.2	7.9	[8] 12.3
Aid from U.S	N/A	N/A	N/A
Aid from All Other Sources	N/A	N/A	N/A

[1] Estimate, Ministry of Finance
[2] August 1996 - August 1997
[3] January-September 1997, Bank of Finland middle rate
[4] January-July 1997, Board of Customs
[5] August 1997, Ministry of Finance
[6] General Government Interest Expenditures
[7] Public Sector's Budget Deficit (EMU)
[8] August 1997, Bank of Finland
[9] Declines in Nominal and Per Capita GDP (despite positive growth rates) are due to the depreciating value of the Finnish Markka.
[10] According to the New Labor Force Study

1. General Policy Framework

At the beginning of the 1990's, the Finnish economy encountered a severe recession, after a period of rapid growth in the 1980s. GDP growth came to a standstill in 1990 and the following year declined by 7 percent. Industrial output and exports bottomed out in 1991, and total industrial output did not start to grow again until 1993. Unemployment began decreasing in 1994 but remains persistently above European Union (EU) averages. EU membership, which took place on January 1, 1995, has helped spur structural change in several sectors.

Economic growth accelerated in the latter half of 1996, and overall GDP growth for 1997 is expected to be 4.5 percent. Industrial output is showing strong growth, bouncing back up towards pre-1990 levels. Inflation remained subdued in the first half of 1997 and wage driven cost pressures are expected to be modest due to a two-year centralized wage settlement which expires on 31 January 1998. The economic recovery so far, however, has produced few new jobs. High unemployment, coupled with low levels of business investment, has resulted in flat government revenues and continued large budget deficits. The deficit is financed by foreign and (increasingly) domestic borrowing through the issuance of bonds.

Slow but steady improvements in Finland's macro economic outlook should result in a public sector deficit-to-GDP ratio of 1.3 percent in 1997. According to the Ministry of Finance convergence program, Finland's public sector deficit is projected to

disappear in 1998, and in 2001 there should be a 1.9 per cent budget surplus with a debt/GDP ratio of 52 per cent. With pension funds purchasing increasing amounts of government bonds, it is expected that total public debt for 1997 will amount to about 59.1 percent of GDP, just below the EMU criteria of 60 percent. A result of the recession of the early 1990s and the concomitant increase in public debt has been the fact that interest payments on debt are the fastest growing government expenditure. Debt servicing accounted for 11.6 percent of government expenditures in 1996 and is estimated to rise to 14.1 percent of total expenditure in 1997. Modest cuts in government social programs and aid to municipalities are helping to keep the debt from rising even faster.

In 1997 Finland's tax ratio (gross wage-earner taxation, including compulsory employment pension contributions, relative to GDP) was 48.3 percent, third highest among OECD countries. This tax ratio is estimated to drop slightly in 1998, to 47.6 percent.

Despite high levels of foreign debt servicing, Finland's balance of payments outlook remains good. Finland has maintained a current account surplus since 1994. The 1996 current account surplus of $4.8 billion is expected to fall to about $4.1 billion in 1997 (3.5 percent of total output). The surplus in merchandise trade in 1997 is expected to remain approximately at 1996 levels. As a result of current account surpluses, net foreign debt as a ratio of GDP is decreasing, and is expected to be 45.5 percent by the end of 1997, compared to 54.1 percent in 1993.

Finnish economic policy is determined to a large extent by consultation and coordination within the EU. EU membership, for example, has resulted in new competition legislation that could help to reduce the cartelized nature of many Finnish industries. Legislation which took effect at the beginning of 1993 liberalizing foreign investment restrictions has helped spur a sharp increase in foreign portfolio investment and hence has contributed to the internationalization of large Finnish companies. The rise in stock market activity is also due to lower domestic interest rates. Reflecting an improvement in the country's relative competitiveness within the EU, foreign direct investment, particularly from the U.S. and Sweden, has increased significantly in recent years. Finland is hoping to capitalize on its location and expertise to serve as a gateway for foreign investors in the former Soviet Union and the Baltic states. This effort has scored some successes as foreign firms establish production and warehousing facilities in eastern Finland, close to the major Russian markets.

EU membership and budgetary constraints have brought about some reform in Finland's highly protected agricultural sector. Finland is slowly transitioning to the EU agricultural regime. The EU agreed to pay compensations totaling approximately $585 million through 1999 for the decrease in value of stocks and other costs associated with Finland's joining the EU. Finland was also granted permission to pay national adjustment support for five years until year 1999. However, these support mechanisms will not be adequate to prevent major structural changes in the agricultural sector. Over the long run, structural changes will entail a reduction in the number of farmers and consolidation of surviving farms into larger, more efficient units.

In 1996 producer prices for agriculture fell more in Finland than in any other EU country. In 1997 food prices average 11.2 percent lower than in 1994 (prior to Finland's EU membership). This fall in prices has been caused by the reduction of producer prices to EU levels and by intensified competition from EU agricultural imports. So far, most Finnish producers have maintained their domestic market shares, but at the cost of significantly lower profits. Agricultural output is expected to expand by about one percent in 1997 but to decline in 1998.

2. Exchange Rate Policy

A 1996 amendment to the Currency Act provides the legislative basis for Finland's participation in the Exchange Rate Mechanism (ERM) of the European Monetary System. Finland joined the ERM in October 1996, at the central rate of 1 ECU = 5.80661 FIM (currently 1 ECU = $1.12). As from 25 November 1996 the ECU central rate is FIM 5.85424.

By joining the ERM, Finland hopes to position itself among the first countries to join Economic and Monetary Union (EMU), in which member countries will share a common currency. As a participant in the ERM, Finland also takes part in the mutual intervention arrangements coordinated between the various central banks, which contribute to essential economic policy goals by stabilizing the exchange rate. 1997 is an especially important year for Finland because the eligibility in satisfying the EMU's convergence criteria will be gauged using 1997 statistics. The current up-

swing of the economy all but guarantees that Finland is a viable candidate for participating in the third stage of the EMU. The first round of EMU participants, which will be selected in the Spring of 1998, almost certainly will include Finland.

3. Structural Policies

Finland replaced its turnover tax with a value added tax (VAT) in June 1994. While the change has had little effect on overall revenues, several areas not previously taxed or taxed at a lower rate, including things such as corporate and consumer services and construction, are now subject to the new VAT. The government has kept the basic VAT rate at the same level as the old turnover tax (22 percent). Some goods and services, including movie tickets, medicines, use of sporting facilities, and books, are taxed at a 12 percent rate. Food stuffs are taxed at a 17 percent rate. Passenger transportation, accommodation, TV licenses, and admission fees to cultural and entertainment events are taxed at a 6 percent rate. Other services, including health care, education, insurance, newspaper & periodical subscriptions and rentals are not subject to VAT. According to the 1998 budget proposal, Finland's value added taxes will be harmonized with EU regulations so that there are only two VAT rates below the primary rate of 22 percent. Food stuffs will still be taxed at a rate of 17 percent rate. It has been proposed that the present 12 percent and 6 percent tax rates be combined at 8 percent.

Agricultural and forestry products continue to be subject to different forms of non-VAT taxation. A uniform tax rate of 28 percent on capital gains took effect in 1996, which includes dividends, rental income, insurance, savings, forestry income, and corporate profits. The sole exception was bank interest, where the tax rate was increased from 20 to 25 percent at the beginning of 1994.

In March 1997, European Union commitments required the establishment of a tax border between the autonomously governed, but territorially Finnish, Aland Islands (Ahvenanmaa) and the rest of Finland. As a result, the trade of goods and services between the rest of Finland and Aland is now treated as if it were trade with a non-EU area. The trade effect of this treatment is minimal since the Aland Islands are part of the EFTA tariff area.

The structure of taxation has been revised modestly to give greater incentives to work and to hire new labor. This had led to income tax reductions of FIM 8 billion for 1996 and 1997. Draft budgets for 1998 include an additional 2 percent income tax reduction worth FIM 750 million. Even with this reduction, however, the tax/GDP ratio will remain at historically high levels. Decisions concerning future levels of income taxation will be made in conjunction with the next round of centralized wage settlement negotiations, due to begin in the winter of 1997. Trade unions publicly have affirmed the importance of keeping inflation under control (The Bank of Finland's target is 2 percent), as well as maintaining the competitiveness of Finnish industry. Given these goals, increases in labor costs over the next two years should be fairly low.

To offset reductions in income tax the Finns have raised so-called "environmental taxes." The 1998 budget proposal includes increased taxes on petrol. There are also tax breaks for use of clean fuels. For example the draft budget proposes a permanent tax break of 50 percent for natural gas. Use of wood or wood-based fuels in the production of electricity will be promoted through the refund of electricity taxes paid for wood produced electricity.

The sharp decline in interest rates and liberalization of foreign investment has resulted in a strong revival of the Finnish stock market and greater corporate use of equity markets. It has also substantially increased the percentage of foreign ownership of many of Finland's leading companies, and is the preferred vehicle for privatization or partial privatization of companies with significant state ownership. The previous Center - Conservative government initiated a program aimed at privatizing as much of the state-owned companies as the Finnish Parliament would permit and the market could absorb. The present government agrees that state ownership at its present level is no longer necessary in manufacturing and energy production. The basic strategy has been to reduce the government's stake through the issuance of stock, rather than by selling off companies to individual investors. In every case, however, the State has retained a substantial holding in majority privatized firms. This minority holding ensures that the State will remain the largest shareholder.

Currently, four of Finland's ten largest companies are majority state-owned. The Government of Finland reduced its ownership in two state companies in 1996, Valmet (engineering) and Kemira (chemicals). The proportion of Valmet owned by the state declined by nearly 40 percent (to 20.3 percent government owned) and of

Kemira by nearly 20 percent (to 53.8 percent government owned). The Government of Finland raised over FIM 3.2 billion from its sale of shares in Valmet and Kemira. In April 1997 the Ministry of Trade and Industry was authorized to sell shares of state-owned Rautaruukki (steel), after which the government's share of Rautaruukki will be no more than 41%. There are 33 companies in Finland with varying degrees of state ownership.

As a result of the recession of the early 1990s, industrial subsidies have increased by about 80 percent of GDP in real terms. The government has begun, however, to reduce subsidies in line with the need for greater fiscal discipline and Maastricht Treaty criteria for monetary union. General horizontal subsidies form the bulk of aid in Finland, including assistance for research and development, environmental protection, energy and investment. All companies registered in Finland have access to government assistance under special development programs. Foreign-owned companies are eligible for government incentives on an equal footing with Finnish owned companies. Government incentive programs are mainly aimed at investment in areas deemed to be in need of development. The support consists of cash grants, loans, tax benefits, investments in equity, guarantees and employee training.

4. Debt Management Policies

Since the early 1990's Finland has rapidly accumulated external debt in order to finance recession-induced budget deficits. Under the government's EMU convergence program, the general government debt is projected to drop to 56.3 percent of GDP by 1999. Finnish corporations, formerly heavy users of foreign capital, are now reducing foreign obligations. However, financing requirements of the central government have not diminished significantly. In January 1997, Moody's upgraded its rating on Finnish long-term government bonds to their second best rating—Aa1. Standard & Poor's rating was upgraded in December 1996 to AA, which is the third best. Finnish debt issues continue to sell easily in international financial markets.

Finland is an active participant in the Paris Club, the London Club and the Group of 24, providing assistance to East and Central Europe and the former Soviet Union. It has been a member of the IMF since 1948. Finland's development cooperation programs channel assistance via international organizations and bilaterally to a number of African, Asian, and Latin American countries. In response to budgetary constraints and changing priorities, Finland has reduced foreign assistance from 0.78 percent of GDP in 1991 to 0.34 percent of GDP in 1997.

5. Significant Barriers to U.S Exports

Finland became a member of the EU in 1995, and, as a result, has had to adopt the EU's tariff schedules. The agricultural sector remains the most heavily protected area of the Finnish economy, with the bulk of official subsidies in this sector. The amount of these subsidies is determined by the difference between intervention and world prices for agricultural products. Since joining the EU, the difference between these two prices has decreased for most agricultural items, resulting in lower, albeit still significant, subsidy levels. As part of its terms of EU accession, Finland temporarily imposes higher tariffs than EU levels on the following items: footwear, rubber, plastic, metals, raw hides and skins and some electric machinery. This transition period ends in 1998.

In mid-1996 the Finnish government's inter-ministerial licensing authority began to oppose within the EU U.S. company applications for commercialization of genetically modified organisms (GMOs) such as insect resistant corn. The Environmental Ministry appears to favor mandatory consumer-oriented labeling of GMOs. Other ministries are more supportive of GMO commercialization. In the absence of clear EU guidelines, the Government of Finland continues to take a case-by-case approach to GMO-related issues.

The Finnish service sector is undergoing considerable liberalization in connection with EU membership. Legislation implementing EU insurance directives have gone into effect. Finland has exceptions in insurance covering medical and drug malpractice and nuclear power supply. Restrictions placed on statutory labor pension funds, which are administered by insurance companies, will in effect require that companies establish an office in Finland. In most cases such restrictions will cover workers' compensation as well. Auto insurance companies will not be required to establish a representative office, but will have to have a claims representative in Finland.

1995 was the first year of fully open competition in the telecommunications sector in Finland. The Telecommunication Act of August 1996 allows both network operators and service operators to use competitor telecommunication networks in exchange for reasonable compensation. The Telecommunication Act was replaced by

the Telecommunications Market Act of 1997, which improved the opportunities of telecommunication operators to profitably lease each other's telecommunications connections.

The government requires that the Finnish broadcasting company devote a "sufficient" amount of broadcasting time to domestic production, although in practical terms this has not resulted in discrimination against foreign produced programs. Finland has adopted EU broadcasting directives, which recommend a 51 percent European programming target "where practicable" for non-news and sports programming. Finland does not intend to impose specific quotas and has voiced its opposition to such measures in the EU.

With the end of the Restriction Act in January 1993, Finland removed most restrictions on foreign ownership of property in Finland. Only minor restrictions remain, such as requirements to obtain permission of the local government in order to purchase a vacation home in Finland. But even restrictions such as this will be abolished as by January 2000, bringing Finland fully in line with EU norms.

Finland is a signatory to the WTO Government Procurement Agreement and has a good record in enforcing its requirements. In excluded sectors, particularly defense, counter trade is actively practiced. Finland is purchasing fighter aircraft and associated equipment valued at $3 billion from U.S. suppliers. One hundred percent offsets are required, as a condition of sale, by the year 2005. As of October 1997, $2.7 billion (or 80 per cent of the total) worth of offsets have been made.

Finland has in most cases completed the process of harmonizing its technical standards to EU norms. It has streamlined customs procedures and harmonized its practices with those of the EU.

6. Export Subsidies Policy

The only significant Finnish direct export subsidies are for agricultural products, such as grain, meat, butter, cheese and eggs as well as for some processed agricultural products. While Finland has advocated worldwide elimination of shipbuilding subsidies through the OECD Shipbuilding Agreement, in January 1996 Finland decided to temporarily provide subsidies (the 9 percent EU norm) to promote shipbuilding exports.

7. Protection of U.S. Intellectual Property

The Finnish legal system protects property rights, including intellectual property, and Finland adheres to numerous international agreements and organizations concerning intellectual property. In 1996, Finland joined the European Patent Convention (EPC).

Finland is a member of WIPO, and participates primarily via its membership in the EU. The idea of protection of intellectual property is well developed. For example, the incidence of software piracy is lower than in the U.S., and by some measures (e.g. BSA) is the lowest in the world.

The Finnish Copyright Act, which traditionally also grants protection to authors, performing artists, record producers, broadcasting organizations and catalog producers, is being amended to comply with EU directives. As part of this harmonization, the period of copyright protection was extended from 50 years to 70 years. Protection for data base producers (currently a part of catalog producer rights) will be defined consistent with EU practice. The Finnish Copyright Act provides for sanctions ranging from fines to imprisonment for up to two years.

Search and seizure are authorized in the case of criminal piracy, as is the forfeiture of financial gains. Computer software has been covered by the Copyright Act since 1991.

Information on copying and copyright infringement is provided by several copyright holder interest organizations such as the Copyright Information and Anti-Piracy Center. The Business Software Alliance (BSA), a worldwide software anti-piracy organization, began operations in Finland in January 1994. According to a recent survey, the rate of software piracy in Finland (41% in 1996) is one of the lowest in Europe.

8. Worker Rights

a. *The Right of Association.*—The Finnish Constitution contains specific guarantees for the right of workers to form trade unions and assemble peacefully. The right to strike is guaranteed by law, with some exceptions for provision of essential public sector services. These rights are honored in practice; trade unions are among the most powerful political forces in Finland. About 80 percent of the work force is

unionized. These applies to employers as well. Unions are free, independent, democratic and associate in three federations as well as internationally.

b. *The Right to Organize and Bargain Collectively.*—The right to organize and bargain collectively is protected both in law and in practice. While collective bargaining traditionally has been conducted according to national guidelines agreed among employers, the three central trade union organizations and the government, in the past two years wage negotiations have been more decentralized. Workers are legally protected against anti-union discrimination. Complaint resolution is governed by collective bargaining agreements as well as by labor laws, both of which are adequately enforced.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is prohibited by the constitution; this prohibition is honored in practice.

d. *Minimum Age For Employment of Children.*—Sixteen is the minimum age for full-time employment (eight hours per day). Children that are fifteen years old may work up to six hours per day under certain restricted conditions. In Finland education is compulsory for children from 7 to 16 years of age. Child labor laws are effectively enforced. There are virtually no complaints of exploitation of children in the work force.

e. *Acceptable Conditions of Work.*—Finland has no legislated minimum wage, but non-union employees are required to receive the minimum wage established by collective bargaining for unionized workers in each sector. These minimum wages generally afford a decent standard of living for workers and their families. The maximum standard legal work week is 5 days, not exceeding 40 hours. In practice most contracts call for standard work weeks of 37-38 hours. Employees working in shifts or during the weekend are entitled to a 24-hour rest period during the week. The law is effectively enforced as a minimum, and many workers enjoy even stronger benefits through well enforced collective bargaining agreements.

Finland's health and safety laws are among the strictest in the world. They are enforced effectively by government inspectors and actively monitored by the unions. Workers can refuse to work under dangerous conditions without risk of penalty.

f. *Rights in Sectors with U.S. Investment.*—There is no difference in the application of worker rights between sectors with U.S. investment and those without.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		[1]
Total Manufacturing		461
Food & Kindred Products	1	
Chemicals & Allied Products	219	
Metals, Primary & Fabricated	[1]	
Machinery, except Electrical	32	
Electric & Electronic Equipment	[1]	
Transportation Equipment	-1	
Other Manufacturing	79	
Wholesale Trade		358
Banking		[1]
Finance/Insurance/Real Estate		3
Services		91
Other Industries		[1]
TOTAL ALL INDUSTRIES		1033

[1] Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

FRANCE

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Income, Production and Employment:			
Nominal GDP	1,535	1,539	1,376
Real GDP growth	2.1	1.5	2.3
GDP by sector [2]	1,985	1,980	N/A
Ariculture	36	36	N/A
Manufacturing	408	399	N/A
Services	1,276	1,278	N/A
Government and non-profit services	264	268	N/A
Per capita GDP	26,422	26,403	23,482
Labor force	25,378	25,613	25,630
Unemployment rate	11.6	12.3	12.5
Money and Prices (annual percentage growth):			
Money supply growth (M3) [3]	4.3	-3.4	-0.1
Consumer Price Inflation	1.8	2.0	1.3
Exchange rate (FF/US$–annual average)	5.0	5.1	5.9
Balance of Payments and Trade:			
Total Exports (FOB) [4]	284	215	186
Exports to US [4]	17	17	17
Total Imports (CIF) [4]	271	198	172
Imports from US [4]	22	23	22
Trade Balance (CIF/FOB)	13	17	15
Balance with US [4]	-5	-5	-4
External public debt	N/A	N/A	N/A
Fiscal Deficit/GDP (percentage)	5.0	4.1	3.1
Current Account [5]	11	21	22
Surplus/GDP (percentage)	0.7	1.3	1.6
Debt service	N/A	N/A	N/A
Payments as a percentage of GDP	N/A	N/A	N/A
Gold and Foreign Exchange Reserves [6]	58	59	56
Aid from US	N/A	N/A	N/A
Aid from all other sources	N/A	N/A	N/A

[1] Embassy estimates based on published French governmentdata unless otherwise indicated.
[2] GDP excludes value added tax and other taxes.
[3] 1997 figure reflects M3 as of August 1997.
[4] 1997 estimate based on seven months.
[5] 1997 estimate based on seven months
[6] 1997 figure reflects reserves as of August 1997.

1. General Policy Framework

France is the fourth largest industrial economy in the world, with annual Gross Domestic Product about one-fifth that of the United States. In terms of international trade, France is the fourth largest importer and exporter in the global market, and is a world leader in high technology, defense, agricultural products, and services. France is the tenth largest trading partner of the United States and the third largest in Europe (after the United Kingdom and Germany). Given the weak, 1.5% growth of the French economy in 1996, U.S. merchandise exports to France increased by only 1.2 percent to $14.4 billion, while merchandise imports from France grew 8 percent to $19.2 billion, according to U.S. Commerce Department data. This results in a U.S. merchandise trade deficit with France of about $5 billion. French trade data, which account differently for re-exports and transshipments via neighboring European countries, tell a different story: France believes that it had a trade deficit of about $5 billion with the U.S. in 1996. The different data can lead to different conclusions about trade policy approaches on both sides of the Atlantic. Trade in services adds around $12 billion more to the total volume of trade between the U.S. and France. The U.S. and France are the world's top two exporters in several important sectors: defense products, agricultural goods, and services.

Promoting job-creating growth is the overarching economic policy objective of the French government. Stronger growth, led by export sectors, started to take hold in the second half of 1997, but this should not be sufficient to generate a significant reduction in France's current 12.5 percent unemployment rate in the near future.

Expectations are for annual real GDP growth of approximately 2.3 percent in 1997, followed by growth in the range of 3.0 percent in 1998. While considerable progress has been made on structural reforms over the past decade, further efforts, including continued tax and fiscal deficit reduction, privatization, increasing the flexibility of labor markets, and financial sector deregulation, will be necessary if France is to achieve its full economic potential.

With exports and imports each accounting for about 30 percent of GDP, France's open external sector is a key part of its economy. The French government has encouraged the development of new markets for French products, particularly in Asia and Latin America and has promoted exports by small and medium-sized firms. France has also actively sought to attract foreign investment. Restrictions on non-EU investors apply only in sensitive sectors, such as telecommunications, agriculture, defense, and aviation, and are generally applied on a reciprocal basis.

2. Exchange Rate Policies

France is a member of the European Monetary System and a participant in the Exchange Rate Mechanism (ERM). The movement of the franc is limited to a narrow band around its ERM central parity. Central bank interventions are usually coordinated with those of other governments, both within the ERM and as part of broader international economic policy coordination efforts among industrialized countries, including the United States.

French monetary, fiscal and exchange rate policy remains committed to the objective of implementing Economic and Monetary Union (EMU) as of January 1, 1999. The value of the franc depreciated by 12 percent against the dollar between January and the end of September 1997.

3. Structural Policies

Over the past decade, the government has made considerable progress reducing its role in the economy through fiscal reform and privatization. The general government deficit as a share of GDP has fallen from 6 percent in 1994 to an estimated 3.0 to 3.2 percent in 1997. The government has targeted a government deficit equivalent to 3.0 percent of GDP for 1998. Deficit reduction by the central government and the social security system has been achieved both through spending restraint and tax increases. Yet, government receipts in France accounted for 50.4 percent of GDP in 1996 according to the OECD. This was the highest rate in the G-7 and among the highest in the industrialized world.

The privatization policy of France's new Socialist government (in office since June 1997) is more restrained than that of its center-right predecessor. Officials have said they will support partial sales of state interests in publicly owned corporations when it is in the public interest or necessary for the international competitiveness of the company. Thus, the government has gone ahead in selling 23.2 percent of its 100 percent stake in France Telecom and said it will allow the sale of a minority stake in Air France. It is also planning to go ahead with the privatization of the insurance giant GAN and its CIC banking group subsidiary. The government has also announced that it plans to merge some of the activities of the government owned defense electronics firm Thomson CSF with the privately owned Alcatel-Alsthom group and aircraft manufacturer Dassault.

Progress on regulatory reform has varied by sector. Substantial progress, for example, has been made in implementing the EU directive on telecommunications liberalization; with the end to France Telecom's monopoly on basic telephone services on January 1, 1998 and with a new independent telecommunications regulatory authority (l'Autorite de Regulation des Telecommunications—ART) beginning operation in 1997;. There has also been some progress in implementing domestic civil aviation deregulation in accordance with EU directives. The government has, however, resisted calls for deregulation of the electricity and postal sectors. Many observers see banking regulatory reform as a key priority area for the French economy in which progress so far has been slow. French-U.S. bilateral civil aviation relations have been based on "comity and reciprocity" since the 1992 renunciation of the bilateral civil aviation agreement by France. Negotiations for an open-skies agreement continue, but progress has been slow.

4. Debt Management Policies

The budget deficit is financed through the sale of government bonds at weekly and monthly auctions. As a member of the G-10 group of leading financial nations, France participates actively in the International Monetary Fund, the World Bank, and the Paris Club. France is a leading donor nation and is actively involved in development issues, particularly with its former colonies in North and Sub-Saharan

Africa. France has also been a leading proponent of debt reduction and relief for the highly indebted poor countries.

5. Significant Barriers to U.S. Exports

In general, France's trade policies are determined by European Union agreements and practices. These policies include preferential trade agreements with African, Caribbean, and Pacific countries under the Lome Convention, and agreements with the Maghreb countries. Although in most cases France follows import regulations as prescribed by the Common Agricultural Policy and various EU directives, there are a number of agricultural products for which France implements unilateral restrictions (irrespective of EU policy) that affect U.S. exports. For instance, French decrees and regulations currently prohibit the import of the following agricultural products: poultry, meat and egg products from countries (including the United States) that use certain feed compounds; products made with enriched flour; and exotic meats (e.g., ostrich, emu and alligator) unless authorized by special derogation. Also, current regulations discriminate against imports of bovine semen and embryos (from the United States) by strictly controlling their marketing in France.

While the vast majority of bilateral trade occurs without controversy, U.S. companies sometimes complain about France's complex technical standards and unduly long testing procedures. Such procedures must usually be done in France and test requirements and standards sometimes appear to exceed reasonable requirements to ensure proper performance and safety. Most of the complaints have involved electronics, telecommunications equipment and agricultural phytosanitary standards.

Since September 1996, the French government has banned imports of U.S. pet food because of technical veterinary policy differences on processing. This dispute, which has affected about $20 million in U.S. exports, remains under negotiation.

France's implementation of the EU broadcast directive limits U.S. and other non-EU audiovisual exports. France applies quotas mandating local content. Nevertheless, U.S. products maintain a high market share. U.S. movies, with almost 60% of the French box office, face no government restrictions. The French government and industry are closely watching the development of new broadcast technologies. Continuation and growth of a strong French A/V sector is a government priority.

The 1992 restructuring of the French legal services system has restricted the provision of legal services in France by U.S. and other non-EU law firms and lawyers. The elimination of the "legal consultant" category under which most American lawyers have practiced in the past has created substantial problems. New-to-market U.S. lawyers must currently pass the regular French bar exam, or an alternate short-form exam for non French nationals, in order to practice any type of law in France. Both exams require a strong command of French and French law. These tests remain, however, subjective and can be subject to the whim of a particular "jury."

As noted above, the French government actively courts foreign investment and has progressively liberalized its investment approval regime since the mid-1980s. With unemployment high, and government officials well aware that U.S. companies can now gain access to the entire EU market by investing in any EU country, attracting foreign investment to France is a priority. Non-EU nationals may be denied national treatment in the following sectors: agriculture, financial services, accounting, legal services, air transport, maritime transport, road transport, publishing, telecommunications, and tourism. These restrictions are generally applied on a reciprocal basis. The U.S. and European countries are currently working within the World Trade Organization and OECD to eliminate many of these restrictions.

France offers a variety of financial incentives to foreign investors and its investment promotion agency, DATAR, provides extensive assistance to potential investors both in France and through its agencies to the world. By book value, which underestimates its true size, the United States is currently the largest investor in France, with 20 percent of foreign investment.

France is a party to all WTO agreements, including the Agreement on Government Procurement.

6. Export Subsidy Policy

France is a party to the OECD guidelines on the arrangement for export credits, which includes provisions regarding the concessionality of foreign aid. To match U.S. export promotion policies that it regards as highly successful, the French government has begun examining ways to promote exports more aggressively, particularly to the emerging markets in East Asia and Latin America. These efforts include

providing information and other services to potential exporters, particularly small and medium-sized enterprises.

There are virtually no direct French government subsidies to agricultural production. Government support of agricultural production comes mainly from the budget of the European Union under the Common Agricultural Policy, whose subsidy reform has been blocked by the French. The French government also offers indirect assistance to French farmers in many forms, such as easy credit terms, start-up funds, and retirement funds.

7. Protection of U.S. Intellectual Property

As a major innovator, France has a strong stake in defending intellectual property rights worldwide. Under the French intellectual property rights regime, industrial property is protected by patents and trademarks, while literary/artistic property and software are protected by the French civil law system of "authors rights" and "neighboring rights." France is a party to the Berne Convention on copyrights, the Paris Convention on industrial property, the Universal Copyright Convention, the Patent Cooperation Treaty, and the Madrid Convention on trademarks. U.S. nationals are entitled to receive the same protection of industrial property rights in France as French nationals. In addition, U.S. nationals have a "priority period" after filing an application for a U.S. patent during which to file a corresponding application in France.

The differences between the U.S. and French IPR systems regarding the work of performing artists and audiovisual productions can cause difficulties for American artists and producers. For example, the levy imposed on purchases of blank video tape to compensate rights holders' losses due to private copying of audiovisual works, is in part supposed to be redistributed to authors and producers. Because of the way "producers" are defined under French law, only part of the funds that the United States believes should accrue to American entities have been paid to them. American artists whose works are performed on French radio and television also have not been paid royalties which French collecting societies have received on their behalf. There are lawsuits and multilateral negotiations in progress on these issues.

8. Worker Rights

a. *The Right of Association.*—The French constitution guarantees the right of workers to form unions. Although union membership has declined to ten percent of the workforce, the institutional role of organized labor in France is far greater than its numerical strength. The French government regularly consults labor leaders on economic and social issues, and joint works councils play an important role even in industries that are only marginally unionized.

b. *The Right to Organize and Bargain Collectively.*—The principle of free collective bargaining was established after World War II, and subsequent amendments to labor laws encourage collective bargaining at national, regional, local and plant levels.

c. *Prohibition of Forced or Compulsory Labor.*—French law prohibits anti union discrimination and forced or compulsory labor.

d. *Minimum Age of Employment of Children.*—With a few minor exceptions for those enrolled in apprenticeship programs, children under the age of 16 may not be employed in France.

e. *Acceptable Conditions of Work.*—The minimum wage is currently FF 37 per hour (about $6.43) and will be raised to FF 39 on January 1, 1998. The legal work week currently stands at 39 hours, but is scheduled to be lowered to 35 hours with implementation beginning in 2000. In general terms, French labor legislation and practice (including occupational safety and health standards) are fully comparable to those in other industrialized market economies. France has three small export processing zones, where regular French labor law and wage scales apply.

f. *Right in Sectors with U.S. Investment.*—Labor law and practice are uniform throughout all industries, including those sectors and industries with significant U.S. investment.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		1103
Total Manufacturing		16,600
Food & Kindred Products	2036	
Chemicals & Allied Products	5584	
Metals, Primary & Fabricated	1645	
Machinery, except Electrical	2845	
Electric & Electronic Equipment	607	
Transportation Equipment	1138	
Other Manufacturing	2746	
Wholesale Trade		4141
Banking		739
Finance/Insurance/Real Estate		7392
Services		2939
Other Industries		1086
TOTAL ALL INDUSTRIES		34,000

Source: U.S. Department of Commerce, Bureau of Economic Analysis

GERMANY

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1 5]
Income, Production and Employment:			
Nominal GDP [2]	2,413	2,355	2,108
GDP Growth (pct) [3]	1.8	1.4	2.5
GDP By Sector (pct GDP):			
Agriculture	1.5	1.5	N/A
Manufacturing	35.7	35.1	N/A
Services	48.9	49.8	N/A
Government	13.8	13.6	N/A
Per Capita GDP ($)	29,572	28,729	25,780
Labor Force (000's)	34,871	34,460	34,050
Unemployment Rate (pct)	9.4	10.2	11.4
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	-1.9	4.6	3.0
Consumer Price Inflation	1.8	1.5	1.8
Exchange Rate (DM/US$-Annual Average)	1.43	1.50	1.73
Balance of Payments and Trade:			
Total Exports FOB [4]	522.8	521.6	509.0
Exports to U.S.[4]	38.1	40.0	N/A
Total Imports CIF [4]	463.3	456.0	434.0
Imports from U.S.[4]	31.6	32.6	N/A
Trade Balance [4]	59.5	65.6	75.0
Balance with U.S.	6.5	7.4	N/A
Current Account Deficit/GDP (pct)	1.0	0.6	0.3
External Public Debt	393.1	410.8	N/A
Fiscal Deficit/GDP (pct)	-3.5	-3.5	-3.1
Debt Service Payments/GDP (pct)	3.8	3.7	3.7
Gold and Foreign Exchange Reserves	57.3	57.2	47.0
Aid from U.S.	N/A	N/A	N/A
Aid from all other Sources	N/A	N/A	N/A

[1] 1997 Figures are all estimates based on available monthly data in October 1997 and consensus forecasts.

[2] GDP at factor cost.
[3] Percentage changes calculated in national currency.
[4] Merchandise trade.
[5] Decline in dollar-denominated GDP due to foreign exchange fluctuations.

1. General Policy Framework

The German economy is the world's third largest, equivalent to just over two trillion dollars (in nominal terms). Real GDP growth, which reached 1.4 percent in 1996, is expected to continue to strengthen through 1998. Most German public and private forecasters estimate growth of around 2.5 percent for 1997 and a slightly higher growth rate in 1998. This expansion is largely fueled by higher exports and, to a lesser extent, by higher equipment investment. Consumer demand remained sluggish in 1997 and the construction sector was a drag on the overall economy.

The leading private economic institutes, in a report issued in late October 1997, expect that for the first time since unification, growth in western Germany in 1997 will be stronger than that in the east. Unemployment remains high and, particularly in eastern Germany, the number of jobless is growing. Many experts estimate that German unemployment will set post-war records during the first quarter of 1998, largely due to the continued sharp deterioration in the east. Even moderate growth of 2.5 percent a year or more, is unlikely to significantly reduce unemployment.

The German "social market" economy is organized on free market principles and affords its citizenry a secure social safety net characterized by generous unemployment, health, educational and basic welfare benefits. In the 1990s, German fiscal policy has also been driven by the financial exigencies of the country's reunification. The country's generous social welfare system was extended as a whole to eastern Germany, and the government further committed itself to trying to quickly raise eastern German production potential via public investment and generous subsidies to attract private investment. However, overall unit labor costs in eastern Germany are still quite high as productivity growth has lagged behind wage increases. This has resulted in heavy job losses and greatly increased Germany's unemployment compensation costs. As a result, western Germany continues to transfer substantial sums to eastern Germany (more than DM 140 billion annually, or almost five percent of German GDP). These transfers have accounted for the dramatic ballooning of public sector deficits and borrowing since 1990. In addition, high marginal tax rates along with generous allowances and loopholes have combined to increase incentives to utilize legal and other means of tax avoidance.

This trend, along with declining employment, has led to a serious erosion of income and value added tax revenues. Total tax revenues in 1997 may actually be lower than the DM 800 billion collected in 1996. While revenues have stagnated, unemployment and unification-related spending have pushed the expenditure side. In 1997 the government has twice resorted to freezes on discretionary expenditure, and is working hard to meet the Maastricht fiscal deficit criteria for European Monetary Union of three percent of GDP. Although government and other estimates indicate the deficit may fall to 2.5 percent in 1998, the above-mentioned problems (and perhaps even higher levels of unemployment) will make it difficult to further reduce the deficit in the short run.

In the early part of the current decade, relatively high rates of inflation (the consumer price index rose an average 4.8 percent in 1992 and 1993) and money growth, upward pressure on wages, and fiscal deficits preoccupied the German central bank (Bundesbank). The Bundesbank places overriding importance on price stability and thus responded to the rising inflation in 1991/92 by hiking short-term interest rates, which peaked in July 1992 at post-war highs. Since then, the central bank discount rate has declined by 6.25 percentage points, with the most recent cut, to a historic low of 2.5 percent, occurring in April 1996. While wage settlements in 1997 have been moderate, import price pressure due to a depreciation of the DM pushed inflation to above 2.0 percent during 1997 although inflation has since moderated somewhat.

The growth of M3, a carefully watched indicator, has recently fallen, staying within the Bundesbank's target range for the fourth month in a row. The government's public sector deficits are financed primarily through sales of government bonds, the maximum maturity of which normally is ten years, although 30 year bonds are occasionally sold. The Bundesbank's primary monetary policy tool is short-term liquidity provided to the banking system via repurchasing operations, at a "repurchasing" rate which the Bundesbank largely determines. To preempt inflationary pressures the Bundesbank raised this rate by 30 basis points in October 1997 to 3.30 percent.

2. Exchange Rate Policies

The Deutsche Mark is a freely convertible currency, and the government does not maintain exchange controls. Germany participates in the exchange rate mechanism of the European Monetary System and has stated its firm intention to be one of the initial members of the European Monetary Union. The Bundesbank intervenes in the foreign exchange markets infrequently, usually in cooperation with other central banks in order to counter disorderly market conditions.

3. Structural Policies

Since the end of the second World War, German economic policy has been based on a "social-market" model which is characterized by a substantially higher level of direct government participation in the production and services sector than in the United States. In addition, an extensive regulatory framework, which covers most facets of retail trade, service licensing and employment conditions, has worked to limit market entry by not only foreign firms but also German entrepreneurs.

Although the continuation of the "social market" model remains the goal of all mainstream political parties, changes resulting from the integration of the German economy with those of its European Union partners, the shock of German unification, pressure from globalization on its traditional manufacturing industries, and record high unemployment have forced a rethinking of the German post-war economic consensus in the so-called "Standort Deutschland" debate (Germany as a location for business and investment). The government has declared a roll back of the State's role in the economy to pre-unification levels to be a principal objective of economic policy and is looking at other ways to restructure the economy and reduce the overall tax burden.

Several structural impediments to the continued growth an diversification of the German economy have been identified. These can be broadly grouped as follows:

(1) a rigid labor market;
(2) a regulatory system that discourages new entrants;
(3) high marginal tax rates and high social charges; and
(4) inadequate access to risk and venture capital for start-up firms.

In recognition of the above problems, the German Government has been pursuing a program of tax reform, privatization, and deregulation since the mid-1980s. The governing coalition's 1997 proposal for major reform of income taxation was rejected by the opposition-controlled upper house. As a result, top marginal personal income tax rates remain at 53 percent of income and the threshold marginal income personal tax rate at 26 percent. Business tax rates also remain high. However, due to loopholes and generous allowances, effective business and personal tax rates are substantially below marginal rates and the tax base has eroded. Tax reform is expected to be an important issue in the fall 1998 elections.

In recent years, the government has carried out a reorganization of the German Federal Railroad and completed transforming the operating entities of the German Federal Post into stock companies. In conjunction with the liberalization of the telecommunications sector, the government-owned Deutsche Telekom was substantially privatized in what was one of the largest stock offerings in history. The revenue is being put back into Telekom. The German Government has fulfilled its commitment to open the telecommunications network monopoly to competition as of January 1, 1998, the date when its nes Post and Telecommunications Regulatory Authority began operation. The federal government also has sold its remaining stake in the national airline, Lufthansa.

Despite the progress in recent years, lack of competition remains a problem in many protected sectors, which drives up business costs in Germany. Services which continue to be subject to excessive regulation and market access restrictions include communications, energy, banking and insurance. The government intends to review existing legislation which limits price competition between firms, as well as laws which reduce competition in the insurance, transport and telecommunication sectors. Despite opposition from small shop owners, on November 1, 1996 legislation was implemented permitting stores to stay open longer on week nights and Saturdays, thereby mitigating a long-standing example of over regulation in the German economy. While retail revenues remain flat, the majority of consumers have lauded the expanded hours. Paralleling German Government efforts to deregulate the economy, the European Union is expected to continue to pressure its member states to reduce barriers to trade in services within the Community. U.S. firms, especially those with operations located in several European Union member states, should benefit from such market integration efforts over the long term.

4. Debt Management Policies

Germany has recorded persistent current account deficits since 1991 due to a dramatic drop in the country's traditionally strong trade surplus, related in part, to strong eastern German demand. These deficits are fairly small, however, in relation to GDP. With demand in eastern Germany slowing and exports strengthening, the trade surplus has increased steadily, reaching the high pre-unification level of some $75 billion in 1997. The strong deterioration of the services balance in recent years, caused principally by German tourism expenditures abroad, has also contributed to the persistent current account deficits. The factor income balance has also worsened in recent years due to government interest payments to foreigners holding increasing stocks of German debt. Nonetheless, due to large current account surpluses from the 1970's until the current decade, Germany remains the world's second-largest creditor, with net foreign assets estimated at roughly $150 billion by mid-1997.

5. Significant Barriers to U.S. Exports

Germany is the United States' sixth-largest export market and its fifth-largest source of imports. During the first eight months of 1997, U.S. exports to Germany totaled $15.5 billion (FOB basis), while U.S. imports from Germany reached $25.6 billion (FOB basis). Other than E.U.-imposed restrictions, there are few formal barriers to U.S. trade and investment in Germany. However, ingrained consumer behavior and the intense competition prevailing in German product and services markets often makes gaining market share a difficult challenge, especially for new-to-market companies. Nevertheless, the Federal Republic of Germany is, on the whole, an excellent place for U.S. companies to do business.

Import licenses: Germany has abolished almost all national import quotas. The country enforces, however, import license requirements placed on some products by the European Union, such as the tariff quota on Latin American bananas imposed by the EU's banana import regime. As a result of this discriminatory marketing arrangement, U.S. fruit trading companies have lost market share in Germany. Recent rulings by the World Trade Organization's dispute resolution panel and the WTO Appeals body, (finding the EU banana regime to violate both the General Agreement on Trade in Services and the General Agreement on Trade in Goods), will require EU members (including Germany) to reform this trading regime.

Service Barriers: Foreign access to Germany's insurance market is still limited to some degree. All telecommunications services will be fully open to competition beginning in January 1998, when the EU's telecommunications market liberalization comes into effect. Liberalization is expected to open up opportunities for U.S. telecommunications service providers. Germany has no foreign ownership restrictions on telecommunications services.

Standards, Testing, Labeling, and Certification: Germany's regulations and bureaucratic procedures are complex and can prove to be a hurdle for U.S. exporters unfamiliar with the local environment. Overly complex government regulations offer—intentionally or not—local producers a degree of protection. Health and safety standards, for example, when overzealously applied, can unnecessarily complicate market access for many U.S. products (e.g., genetically modified organisms).

Government Procurement Practices: German procurement procedures generally appear to comply with WTO Procurement Agreement (to which the E.U. is a signatory), and the United States-Germany Treaty of Friendship, Commerce, and Navigation. Germany has strict domestic anti-corruption and anti-bribery laws, and is considered one of the least corruption countries of the 33 countries which signed the OECD Anti-bribery Convention in December 1997.

However, U.S. equipment makers have continued to express frustration about market access barriers in German power generation market, despite this formal agreement and there have been problems with some aspects of Germany's bid challenge system. As a result, in July 1996, Germany was formally identified under Title VII of the 1988 Trade Act for discriminating against U.S. electrical equipment firms. The case was put on hold in the fall of 1996, following the German cabinet's approval of a proposal to reform German procurement law. A draft procurement reform bill which substantially addresses U.S. concerns was submitted to the upper Chamber of the parliament (Bundesrat) in September 1997, and is expected to be promulgated in the spring of 1998.

Investment Barriers: The German Government and industry actively encourage foreign investment in Germany. Foreign companies with investment complaints in Germany generally list the same investment problems as domestic firms: high tax rates, expensive labor costs, and burdensome regulatory requirements.

Customs Procedures: Administrative procedures at German ports of entry do not constitute a problem for U.S. suppliers.

6. Export Subsidies Policy

Germany does not directly subsidizes exports outside the European Union's framework for export subsidies for agricultural goods. Governmental or quasi-governmental entities do provide export financing, but Germany subscribes to the OECD guidelines that restrict the terms and conditions of export finance.

7. Protection of Intellectual Property

Intellectual property is generally well protected in Germany. Germany is a member or the World Intellectual Property Organization; a party to the Bern Convention for the Protection of Artistic and Literary Works, the Paris Convention for the Protection of Industrial Property, the Universal Copyright Convention, the Geneva Phonograms Convention, the Patent Cooperation Treaty, the Brussels Satellite Convention, and the Treaty of Rome on Neighboring Rights. U.S. citizens and firms are entitled to national treatment in Germany, with certain exceptions. Despite Germany's implementation of its commitment under the intellectual property rights portions (TRIPS) of the Uruguay round, some U.S. firms continue to have concerns about the level of software piracy in Germany. Germany's 1993 implementation of the EU's Software Copyright Directive, as well as an educational campaign by the software industry have helped improve Germany's performance in this area.

8. Worker Rights

a. *The Right of Association.*—Article IX of the German Constitution guarantees full freedom of association. Workers' rights to strike and employers' rights to lockout are also legally protected.

b. *The Right to Organize and Bargain Collectively.*—The Constitution provides for the right to organize and bargain collectively, and this right is widely exercised. Due to a well-developed system of autonomous contract negotiations, mediation is uncommon. Basic wages and working conditions are negotiated at the industry level and then are adapted, through local collective bargaining, to particular enterprises. Nonetheless, some firms in Eastern Germany have refused to join employer associations, or have withdrawn from them, and then bargained independently with workers. In other cases, associations are turning a "blind eye" to firm-level negotiations. Likewise, some large firms in the west withdrew at least part of their workforce from the jurisdiction of the employers association, complaining of rigidities in the centralized negotiating system. They have not, however, refused to bargain as individual enterprises. The law mandates a system of work councils and worker membership on supervisory boards, and thus workers participate in the management of the enterprises in which they work. The law thoroughly protects workers against anti-union discrimination.

c. *Prohibition of Forced or Compulsory Labor.*—The German constitution guarantees every German the right to choose his own occupation and prohibits forced labor, although some prisoners are required to work.

d. *Minimum Age for Employment of Children.*—German legislation in general bars child labor under age 15. There are exemptions for children employed in family farms, delivering newspapers or magazines, or involved in theater or sporting events.

e. *Acceptable Conditions of Work.*—There is no legislated or administratively determined minimum wage. Wages and salaries are set either by collective bargaining agreements between industrial unions and employer federations, or by individual contracts. Covering about 90 percent of all wage and salary earners, these agreements set minimum pay rates and are legally enforceable. These minimums provide an adequate standard of living for workers and their families.

f. *Rights in Sectors with U.S. Investment.*—The enforcement of German labor and social legislation is strict, and applies to all firms and activities, including those in which U.S. capital is invested. Employers are required to contribute to the various mandatory social insurance programs and belong to and support chambers of industry and commerce which organize the dual (school/work) system of vocational education.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		[1]
Total Manufacturing		22,741
Food & Kindred Products	2460	
Chemicals & Allied Products	4815	
Metals, Primary & Fabricated	1476	
Machinery, except Electrical	4163	
Electric & Electronic Equipment	1492	
Transportation Equipment	5501	
Other Manufacturing	2855	
Wholesale Trade		2886
Banking		1395
Finance/Insurance/Real Estate		11,597
Services		[1]
Other Industries		2261
TOTAL ALL INDUSTRIES		44,259

[1] Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

---

GREECE

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Income, Production and Employment:			
Nominal GDP [2]	100,595	103,834	103,618
Real GDP growth (pct) [3]	2.0	2.6	3.5
GDP by Sector:			
Agriculture	9,820	9,658	8,876
Manufacturing	22,334	24,374	23,465
Services	71,897	77,898	82,378
-of which			
Government	13,174	13,576	13,509
Per Capita GDP (Dollars)	10,910	11,668	11,243
Labor Force (000s)	4,249	4,327	4,381
Unemployment Rate (pct)	10.0	10.4	10.1
Money and Prices (annual percentage growth):			
Money Supply Growth (M3 Dec)	10.3	9.	8.5
Consumer Price Inflation	8.8	8.3	5.7
Exchange Rate (DRS/US$-annual average)			
Official	231.7	240.7	275.0
Balance of Payments and Trade:			
Total Exports FOB [4]A	9,990	11,300	12,000
[4]B	5,783	5,770	6,000
Exports to U.S.[4]C	397	506	N/A
Total Imports CIF[4]A	22,325	27,222	28,000
[4]B	22,929	24,135	24,500
Imports from U.S.[4]C	1,519	825	N/A
Trade Balance[4]A	-12,425	-15,922	-16,000
[4]B	-17,146	-18,365	-18,500
Balance with U.S.	-1,121	-319	N/A
External public debt	30,589	30,700	31,000

Key Economic Indicators—Continued

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Fiscal Deficit/GDP (General Government) (pct)	7.6	4.2	2.4
Current Account Deficit/GDP (pct)	2.5	3.7	4.0
Debt Service (Public Sector) Payments/GDP (pct)	5.2	5.5	6.9
Gold and Foreign Exchange Reserves	15,376	19,177	15,000
Aid from U.S.	N/A	N/A	N/A
Aid from all Other Sources	N/A	N/A	N/A

[1] 1997 figures are all estimates based on available monthly data in October 1997.
[2] GDP at factor cost.
[3] Percentage changes calculated in local currency.
[4A] Merchandise Trade; National Statistical Service of Greece; Customs Data.
[4B] Trade; Bank of Greece data; on a settlement basis. The Bank of Greece data, especially those on exports underestimate true trade figures since exporters are no longer obliged to deposit their export receipts in Greece. The Bank of Greece is preparing a new set of accounts (to be ready in 1997) to be in line with other EU central banks.
[4C] Merchandise Trade; U.S. Department of Commerce.

1. General Policy Framework

Greece has been a member of the European Union (EU) since 1981. Its market economy is segmented into the state sector (estimated at 40 percent of GDP) and the private sector (60 percent of GDP). It has a population of 10.6 million and a work force of about 4 million. Some of Greece's economic activity remains unrecorded. (Estimates of how much of the economy remains unrecorded vary, due, at least in part, to deficient data collection). The moderate level of development of Greece's basic infrastructure—road, rail, telecommunications—reflects its middle-income status. Per capita GDP is 11,243 dollars, the lowest in the EU.

Services make up the largest and fastest growing sector of the Greek economy, accounting for about 71 percent of GDP (including government services). Tourism, shipping, trade, banking, transportation, communications, and construction are the largest service sub-sectors. Greece is an import-dependent country, importing more than it exports. In 1996, Greece had a trade deficit of 15.9 billion dollars based on total trade of 38.5 billion dollars. A relatively small industrial base and lack of adequate investment in the last 15 years have restricted the export potential of the country. Over Valuation of the currency as a result of the anti-inflationary "hard drachma" policy, coupled with low public sector productivity, continues to erode the competitiveness of a large part of the Greek economy. Greece exports primarily light manufactured and agricultural products, and imports more sophisticated manufactured goods. Tourism receipts, emigrant remittances, shipping receipts, and transfers from the EU form the core of invisibles earnings. Substantial funds from the EU (about 20 billion dollars) are allocated for major infrastructure projects (road and rail networks, ports, airports, telecommunications etc.) being built over the period 1994-99. However, the Greek government has been slow in utilizing these funds. According to the Greek government, about 40 percent of the funds allocated under the 1994-99 Delors II package have been utilized to date.

The government is in its fourth year of an austerity program designed to meet the Maastricht Treaty's convergence criteria for the European Monetary Union (EMU) and has announced that this policy (convergence) will continue in 1998. The results of the austerity program on the economy have been positive. By September 1997, inflation has fallen to 4.9 percent, the lowest rate since 1965. Investment and consumer confidence remain strong and the growth of GDP in 1997 is projected to be around 3.5 percent, up from 2.6 percent in 1996. Unemployment, which stood at 10.4 percent in 1996 is projected to drop slightly to 10.1 percent in 1997. The chronic government budget deficit has also been reduced (4.2 percent for 1997) thanks mainly to higher taxes, a crack down on rampant tax evasion and lower interest payments on government debt. However, real progress in reducing public expenditures has been limited due to fierce opposition to structural reforms by labor unions, professional associations, politicians, and the media.

Greece's huge government debt (111.8 percent of GDP or 133.9 billion U.S. Dollars in 1996) stems to a great extent from government acquisition of failing enterprises and a bloated public sector. The government employs directly about 15 percent of the total labor force. Greece's social security program has also been a major drain on public spending. Deficits are financed primarily through issuance of government securities.

Monetary policy is implemented by the Bank of Greece (the central bank). The Bank uses the discount and other interest rates in its transactions with commercial banks as tools to control the money supply. The State continues to retain privileged access to credit via the still low-taxed status accorded to government debt obligations (which includes the right of Greek residents to purchase government debt obligations without having to declare their source of income to the tax authorities). Treasury bills and state bonds are issued by the Ministry of Finance but they are expected to comply with the monetary targets set by the Bank of Greece.

2. Exchange Rate Policy

Foreign exchange controls have been progressively relaxed since 1985. Medium and long-term capital movements have been fully liberalized. Most restrictions on short-term capital movements were lifted in 1994. Remaining restrictions on short-term capital movements were lifted on August 1, 1997, although some controls still exist to facilitate enforcement of money laundering laws and tax collection. Greece's foreign exchange market is now in line with EU rules on free movement of capital.

Despite recent exchange-rate liberalization, Greece retains a "crawling-peg" system for fixing the value of the drachma. Informal mechanisms are also available to the Bank of Greece to help determine the currency's value. In order to combat the high rate of inflation (which, at triple the EU average is well above that of Greece's principal trading partners), the Bank of Greece has kept the drachma virtually pegged to the ECU. This has had an adverse impact on the country's export potential. There has been pressure from domestic industry for depreciation of the drachma, but the government has so far resisted this out of concern over inflation. The drachma depreciated only by one percent against the ECU in 1996. The 1994-99 economic convergence program provides for no change of the drachma parity against the ECU from 1997 onwards.

3. Structural Policies

Greece's structural policies are largely dictated by the need to comply with the provisions of the EU Single Market and the Maastricht Treaty on Economic and Monetary Union. The 1994-99 Convergence Program, designed to enable Greece to comply with the Maastricht Treaty criteria, set targets that should encourage significant structural reforms, including privatizations. Progress in this area, however, has been very limited. After privatizing a few small banks and shipyards, the government raised capital for the telephone monopoly OTE through an April 1996 public flotation of new shares. A subsequent sale of existing shares in June 1997 reduced the government holding to 80 percent of OTE. As part of its 1998 fiscal policy, the government has decided to proceed with the sale of minority stakes in several state owned organizations (Public Power Corporation, Duty Free Shops, Olympic Airways Catering); two small banks; assets (hotels) of the National Tourist Organization; and a few remaining industries currently under the supervision of the state Industrial Reconstruction Organization (IRO). It is unclear whether these "privatizations" will change the companies' management practices and commercial viability.

Pricing Policies. The only remaining price controls are on pharmaceuticals. The last change in pharmaceutical prices in October 1997 inhibited imports of some U.S. pharmaceuticals. The Greek government can also set maximum prices for fuel and private school tuition fees, and has done so several times in the last two years.

About one quarter of the goods and services included in the consumer price index (CPI) are produced by state-controlled companies. As a result, the government retains considerable indirect control over pricing. While this distorts resource allocations in the domestic economy, it does not directly inhibit U.S. imports (with the exception of pharmaceuticals).

Tax policies. Tax legislation passed in January 1997:

—abolished the majority of income tax exemptions or deductions, including the ability of multinational firms to deduct more than token royalty and home office expenses without seeking a waiver from a special interministerial committee;
—imposed taxation on all categories of bank deposits which had been exempted from the 15 percent tax withholding;
—imposed a 7.5 percent tax rate on all government securities issued or renewed as of 1/1/97;
—increased tax rates on ships under the Greek flag;
—introduced taxation on real property holdings, including those of non-profit organizations;

—raised the tax rate on profits of all banks to 40 percent. (This benefited branches of foreign banks which for the previous two years had been taxed at 40 percent while Greek banks were taxed at a 35 percent rate.)

Higher corporate and personal property taxes are planned for 1998. There are plans to index rates at least for lower income brackets to compensate for inflation.

4. Debt Management Policies

Greece's "General Government Debt" (Maastricht definition) was 133.9 billion dollars, or 111.8 percent of GDP (market prices) in 1996 (end year). Foreign exchange reserves fluctuated in the first half of 1997 between 16.3 and 20.5 billion dollars or 8 to 10 months of imports.

Servicing of external debt (public sector) in 1997 (interest and amortization) is estimated to equal 59.6 percent of exports and 6.9 percent of GDP. About 65 percent of the external debt is denominated in currencies other than the dollar. Foreign debt does not affect Greece's ability to import U.S. goods and services.

Greece has regularly serviced its debts and has generally good relations with commercial banks and international financial institutions. Greece is not a recipient of World Bank loans or International Monetary Fund programs. In 1985, and again in 1991, Greece received a balance of payments loan from the EU.

5. Significant Barriers to U.S. Exports

Greece has both EU-mandated and Greek government-initiated trade barriers. Greece maintains specific barriers in services such as law, aviation, and motion pictures:

—Greece maintains nationality restrictions on a number of professional and business services, including legal advice. Restrictions on legal advice do not apply to EU citizens, and U.S. companies can generally circumvent these barriers by employing EU citizens.

—The Greek flag air carrier, Olympic Airways, has a monopoly in providing ground handling services to other airlines, who must either contract from Olympic or self-handle. As of January 1, 1998, airlines will be able to choose between two ground handling agents, one of which will be Olympic. This is part of an EU-directed liberalization of ground handling.

—Greece insists on testing U.S. wheat shipments for karnal bunt disease; it will not accept U.S.D.A. certificates stating that wheat comes from areas free from the disease. The testing method used provides a high incidence of false positive results. After one shipment was rejected late in 1996, Greek importers have been unwilling to risk importing from the U.S.

—Greece has not been responsive to applications for introduction of bioengineered (genetically modified) seeds for field tests despite support for such tests by Greek farmers.

—Greek film production is subsidized by a 12 percent admissions tax on all motion pictures. Moreover, enforcement of Greek laws protecting intellectual property rights for film, software, music, and books is problematic (see below).

Investment barriers:

Both local content and export performance are elements which are seriously taken into consideration by Greek authorities in evaluating applications for tax and investment incentives. However, they are not legally mandatory prerequisites for approving investments. New investment incentive legislation is under preparation.

Greece restricts foreign and domestic private investment in public utilities. Private power production for sale to the national grid is limited to "nontraditional" energy sources (e.g. wind and solar).

U.S. and other non-EU investors receive less advantageous treatment than domestic or other EU investors in the banking, mining, maritime, and air transport sectors, and in broadcasting. There are also restrictions for non-EU investors on land purchases in border regions and certain islands (on national security grounds).

Greek laws and regulations concerning government procurement nominally guarantee nondiscriminatory treatment for foreign suppliers. Officially, Greece also adheres to EU procurement policy, and Greece has adhered to the GATT Government Procurement Code since 1992. Nevertheless, many of the following problems still exist: occasional sole-sourcing (explained as extensions of previous contracts); loosely written specifications which are subject to varying interpretations; and allegiance of tender evaluators to technologies offered by longtime, traditional suppliers. Firms from other EU member states have had a better track record than U.S. firms in winning Greek government tenders. It has been noted that U.S. companies submit-

ting joint proposals with European companies are more likely to succeed in winning a contract. The real impact of Greece's "buy national" policy is felt in the government's offset policy (mostly for purchases of defense items) where local content, joint ventures, and other technology transfers are required.

In December 1996, the Greek Parliament passed legislation (Law 2446, article 16) which allows public utilities in the energy, water, transport, and telecommunications sectors to sign "term agreements" with local industry for procurement. "Term agreements" are contracts in which Greek suppliers are given significant preference. The reason for the signing of these agreements is to support the national manufacturing base. This was made possible as a result of Greece's receipt of an extension until January 1, 1998, to implement the EU's Utilities Directive 93/38.

6. Export Subsidies Policies

The Greek Government does not use any form of national subsidies to support exports. Some agricultural products (most notably cotton, olive oil, tobacco, cereals, canned peaches, and certain other fruits and vegetables) receive production subsidies from the EU which enhance their export competitiveness.

7. Protection of U.S. Intellectual Property

Greek laws extend protection of intellectual property rights to both foreign and Greek nationals. Greece is a party to the Paris Convention for the Protection of Industrial Property, the European Patent Organization, the World Intellectual Property Organization, the Washington Patent Cooperation Treaty, and the Bern Copyright Convention. As a member of the EU, Greece is in the process of harmonizing its legislation with EU rules and regulations. The WTO-TRIPS agreement was incorporated into Greek legislation as of February 28, 1995 (Law 2290/95).

Despite Greece's legal framework for and voiced commitment to copyright protection, piracy of copyrighted material remains widespread. Greece took an important step toward addressing this problem by enacting a new copyright law in February 1993 (Law 2121/93), which offers a high standard of protection for all copyrighted works. Furthermore, Law 2328/95 (voted in the summer of 1995 and effective as of August 3, 1995) establishes a new systematic legal framework for the radio-television market, whose archaic development following termination of the state monopoly in 1989 encouraged piracy of copyrighted films and TV shows.

Inability of rights holders to obtain effective action against TV stations pirating copyrighted works resulted in Greece being elevated in December 1994 to the USTR's "Priority Watch List" under the "Special 301" provision of the 1988 Trade Act. Just prior to an out-of-cycle review in December 1996, the Greek government presented an "Action Plan" of specific steps it promised to take by April 1997 to enforce its 1995 media law to end piracy of copyrighted audio-visual products and to protect copyrighted software. The Greek government, however, has been slow in implementing the "Action Plan," and the level of copyright piracy remained the same. In April 1997, the USTR gave Greece until July 1997 to reduce piracy or face a challenge in the World Trade Organization for failure to enforce its commitments under the TRIPS Agreement. Discussions with Greek officials continue in view of recent government steps to license television stations and control piracy at the local level.

Although Greek trademark legislation is fully harmonized with that of the EU, another intellectual property protection problem is the lack of effective protection of trademarks, particularly in the apparel sector.

Intellectual property appears to be adequately protected in the field of patents. Patents are available for all areas of technology. Compulsory licensing is not used. Patents and trade secrets are protected by law for a period of twenty years. There is a potential problem concerning the protection of test data relating to non-patented products. Violations of trade secrets and semiconductor chip layout design are not problems in Greece.

8. Worker Rights

The Greek economy is characterized by significant labor-market rigidities. Greek labor law prohibits laying off more than two percent per month of total personnel employed by a firm. This restricts the flexibility of firms and the mobility of Greek labor and contributes to unemployment.

a. *The Right of Association.*—Approximately 30 percent of Greek workers are organized in unions, most of which tend to be highly politicized. While unions show support for certain political parties, particularly on issues of direct concern to them, they are not controlled by political parties or the government in their day-to-day operations. The courts have the power to declare strikes illegal, although such deci-

sions are seldom enforced. Employers are not permitted to lock out workers, or to replace striking workers (public sector employees under civil mobilization may be replaced on a temporary basis).

b. *The Right to Organize and Bargain Collectively.*—The right to organize and bargain collectively was guaranteed in legislation passed in 1955 and amended in February 1990 to provide for mediation and reconciliation services prior to compulsory arbitration. Anti-union discrimination is prohibited, and complaints of discrimination against union members or organizers may be referred to the Labor Inspectorate or to the courts. However, litigation is lengthy and expensive, and penalties are seldom severe. There are no restrictions on collective bargaining for private workers. Social security benefits are legislated by parliament and are not won through bargaining. Although civil servants have no formal system of collective bargaining, they negotiate their demands with the Ministry for Public Administration.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is strictly prohibited by the Greek constitution and is not practiced. However, the government may declare "civil mobilization" of workers in case of danger to national security or to social and economic life of the country.

d. *Minimum Age of Employment of Children.*—The minimum age for work in industry is 15, with higher limits for certain activities.

e. *Acceptable Conditions of Work.*—Minimum standards of occupational health and safety are provided for by legislation. Although the Greek General Confederation of Labor (GSEE) has characterized health and safety legislation as satisfactory, it has also charged that enforcement of the legislation is inadequate, citing statistics indicating a relatively high number of job-related accidents in Greece. Inadequate inspection, outdated industrial plants and equipment, and poor safety training of employees contribute to the accident rate.

f. *Rights in Sectors with U.S. Investment.*—Although labor/management relations and overall working conditions within foreign business enterprises may be among the most progressive in Greece, worker rights do not vary according to the nationality of the company or the sector of the economy.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		[1]
Total Manufacturing		145
Food & Kindred Products	[1]	
Chemicals & Allied Products	78	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	[1]	
Transportation Equipment	0	
Other Manufacturing	33	
Wholesale Trade		83
Banking		89
Finance/Insurance/Real Estate		66
Services		61
Other Industries		[1]
TOTAL ALL INDUSTRIES		506

[1] Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

HUNGARY

Key Economic Indicators [1]

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997
Income, Production and Employment:			
Nominal GDP	44.3	43.9	[2] 43.5
Real GDP growth (pct)	1.5	1.0	3.5
GDP by Sector:[3]			
Agriculture	2.8	3.0	3.1
Manufacturing	8.8	9.2	9.4
Construction	2.0	2.0	2.0
Services	24.0	23.6	23.1
Government	7.5	6.9	6.6
Per Capita GDP (US$)	4,273	4,351	4,290
Labor Force (000s)	6,252	6,215	6,200
Unemployment Rate (pct)	11.1	10.8	8.6
Money and Prices (annual percentage growth):			
Money Supply Growth	18.4	20.9	[4] 20.4
Avg. Consumer Price Inflation	28.2	23.6	18.0
Official Exchange Rate (HUF/US$ - annual average)	125.7	152.6	188
Balance of Payments and Trade Total Exports FOB	12.9	15.7	17.3
Exports to U.S. (US$ mlns) [5]	547	653	1,009
Total Imports CIF	15.5	18.1	19.9
Imports from U.S. (US$ mlns) [5]	295	331	465
Trade Balance	-2.3	-2.4	-2.6
Balance with U.S. (US$ mlns) [5]	252	322	543
Current Account Deficit/GDP (pct)	5.3	4.0	3.7
Net External Public Debt	11.0	9.5	5.0
Debt Service Payments/GDP (pct)	17.3	21	10-11
Fiscal Deficit/GDP (pct)	6.7	3.2	[6] 4.9
Gold and Foreign Exchange Reserves	12.0	9.8	[7] 8.2
Aid from U.S. (US$ mlns)	27.2	17.0	15.0
Aid from All Other Sources	N/A	N/A	N/A

[1] Source: Ministry of Finance and National Bank, except where otherwise noted. 1997 projected figures based on data available through October 1997
[2] Apparent decrease is due to the ongoing Hungarian forint devaluation against the U.S. dollar
[3] GDP by sectors is higher than total GDP due to double counting
[4] January-June 1997
[5] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1997 figures projected based on trade through August
[6] Increase in 1997 due solely to changed methodology for interest payments
[7] July 1997

1. General Policy Framework

Starting in the late 1960s, Hungary's former communist regime began economic reforms along capitalist lines that continued until the end of communism in 1989. Some academics estimate that Hungary was one-third of the way to capitalism in 1989. The first democratic government (1990-94) began significant economic reform, particularly in trade and foreign investment, but did not complete social welfare and external debt rationalization. An austerity program implemented by the new government in 1995 in the face of rising fiscal and current account deficits brought economic stabilization. Concurrent and subsequent economic restructuring should provide for sustainable growth in the medium term. The current government has accelerated the pace of economic reform, particularly in privatization. Hungary leads Central Europe in relative and absolute inflows of foreign direct investment, with at least $16 billion since 1989. In 1997, Hungary continued to enjoy solid increases in industrial output, exports, and overall output, while continuing to reduce inflation.

The revised Foreign Exchange Law, effective January 1, 1996, made the Hungarian forint essentially convertible for current account transactions. The government's stabilization and restructuring package introduced in March 1995 has led to lower fiscal and current account deficits. The government has also significantly lowered government expenditures as a percentage of GDP. A signatory to the Uruguay Round Agreement and a founding member of the World Trade Organization, Hun-

gary joined the Organization for Economic Cooperation and Development (OECD) in May 1996 and, as a part of that process, is further liberalizing capital account transactions. Hungary seeks to harmonize its laws and regulations with European Union standards by 1999 and hopes to join the EU as early as 2002.

A new Law on Privatization, passed in May 1995, improved transparency and initiated a simplified process. Privatization has progressed dramatically since late 1995, particularly in the energy, telecommunication, and banking sectors. Currently about 80 percent of the country's GDP is derived from the private sector. The government hopes to complete the privatization process by 1998, by which time the private sector should account for about 85 percent of GDP.

Hungary's per capita foreign debt decreased significantly in 1997. Foreign direct investment since 1989 exceeds net foreign debt. Hungary has an unblemished debt payments record and since late 1996 has been rated investment grade by all the major rating agencies. Foreign currency reserves stood at $8.2 billion through July 1997, enough for seven months of imports. The government finances the fiscal deficit primarily through government bonds, issued both domestically and abroad. The consolidated budget deficit in 1997 will equal about 4.9 percent of GDP, down from 8.2 percent in 1994. The 1997 result will exceed the 1996 figure due solely to the now on-budget costs of public external debt service (which until 1997 were partially in the National Bank budget).

The government continues to adhere to stabilization and restructuring efforts. A partial privatization of the pension system in July 1997 will broaden and deepen capital markets. Unfinished reform efforts include health care and local government financing. Following declines of 11 percent in 1995 and 6 percent in 1996, net real wages will increase by 3.5 to 4.5 percent in 1997. The government projects a $1.5 to 2 billion current account deficit for 1997, down from $2.5 billion in 1995. Foreign direct investment will exceed the current account deficit, preventing an increase in net external debt.

In accord with government policy to promote foreign direct investment, Hungarian law allows the establishment of companies in customs-free zones which are exempt from foreign-exchange requirements and indirect taxation tied to the turnover of goods. Tax exemptions for significant investments are also under consideration.

The Hungarian National Bank (MNB) carries out monetary policy through open market operations focusing on an interest rate policy consistent with disinflation and within the constraints of the foreign exchange regime. Commercial banks can conclude foreign exchange swap transactions with the MNB.

2. Exchange Rate Policy

As of January 1, 1996, the forint became fully convertible for almost all current account transactions within Hungary. Foreigners and Hungarians can maintain both hard currency and forint accounts. At the end of 1996 the German Mark replaced the 70 percent share of the ECU in the currency basket to which the forint is pegged (the dollar remains 30 percent of the basket). In August 1997 the government reduced the monthly rate of devaluation from 1.1 to 1.0 percent. Improved macroeconomic performance has helped slow average annual inflation from 28.3 percent in 1995 to a projected 18 percent for 1997.

3. Structural Policies

Prices for most consumer product and services are freely set by the market. Nonetheless, prices for public transport, utilities such as gas, electricity and water, pharmaceuticals, and vehicle fuel continue to be partially set by the state. The government offers a wholesale floor price for unprocessed agricultural products. Privatized energy companies expected a cost-plus-eight percent price structure beginning January 1, 1997, as stipulated in the 1995 Law on Privatization. Despite quarterly price reviews by an independent regulatory office, prices are not quite at the market levels expected by foreign energy firms. Foreign investors are nonetheless working with the government to boost current and future production.

Tax changes designed to cut inflation and release extra resources to the business sector took effect in 1997. Personal income taxes were lowered by an average 1.5 percent and the highest rate was cut from 48 to 42 percent. Employer social security contributions have dropped from 42 to 39 percent under changes effective in 1997. The flat company tax remains at 18 percent, while the current 23 percent supplementary profit tax on distributed net profit will be replaced by a 20 percent withholding tax. Investments of at least HUF 1 billion (about $5.2 million as of October 1997) or that increase exports by more than HUF 600 million ($3.1 million) receive a 50 percent tax preference for up to five years; investments of at least HUF 3 bil-

lion in less developed regions can receive up to 10 years full tax holiday. In the 1997-98 budget, employer social insurance contributions will probably decrease by 1 to 2 percent, while corporate taxes on turnover will likely increase; overall taxation is unlikely to decrease.

A new Competition Law which came into effect January 1, 1997, eliminated a provision that had allowed foreign firms registered outside Hungary to execute mergers through their parent companies abroad. This law conforms with EU regulations.

Major legislation has been passed and further legislation is expected in the area of structural budget reform, including fiscal expenditure, health care, and local government financing. In July 1997 Parliament approved a new Pension system which mandates private pension funds alongside (and eventually partially replacing) the current fully-funded public system. The next government is likely to reform health care and local government financing, in order to further reduce state expenditures.

4. Debt Management

Hungary has one of the highest per capita foreign debts in Europe, with gross foreign debt expected to be $25.5 billion at the end of 1997 versus $26 billion in 1996. Through 1997, net foreign debt is projected to be $12.5 billion, down from $14 billion in 1996. Net public debt was $5.0 billion at the end of October 1997, slightly over half of the level at the end of 1996. The government has consistently met all external interest and principal payments on time. The government concluded a standby credit agreement with the International Monetary Fund in March 1996, and has complied with its provisions while avoiding any credit draw down. The agreement will expire in February 1998 and not be renewed. Hungary received an investment grade rating on long-term debt from the two leading U.S. credit rating agencies in late 1996. Hungary projects to have reserves of $8.2 billion by the end of 1997.

5. Significant Barriers to U.S. Exports

On July 1, 1997, as pledged, the government eliminated an import surcharge it had imposed as part of the March 1995 austerity package. Also as of that date, Hungary joined the Pan European Free Trade Zone and Cumulation System. Import duty must be paid on imports from outside the Pan-European Zone, which may then be exported duty-free to other countries within the Pan European Region. However, duty paid on intermediate goods processed and then exported outside the Pan-European Region is not refunded.

Although 95 percent of imports (in value terms) no longer require prior government approval, some 20 product groups, mainly cars, textiles, and precious metals, are still affected by quotas. Hungary imposes a $750 million global quota on imports of consumer goods. Under WTO rules, Hungary will phase out quotas on textiles and apparel by 2004. As a result of the Uruguay Round, quotas on agricultural products and processed foods have been replaced by tariffs.

Importers must file a customs document (VAM 91 form) with a product declaration and code number, obtained from the Central Statistical Office. Upon importation, the importer must present Commercial Quality Control Institute (KERMI) certified documentation to clear customs. This permit may be replaced by other national certification and testing agency documents, such as those of the National Institute for Drugs. Hungary participates in the International Organization for Standardization (ISC) and the International Electro-Technical Commission (IEC).

Foreign ownership is allowed in sectors open to private investment. Foreign investment is restricted or prohibited in civil aviation, defense, the media, and farmland.

Under the November 1995 law on government procurement, public tenders must be invited for purchases of goods with a value over HUF 10 million ($51,000), construction projects worth HUF 20 million ($102,000), and designs and services worth over HUF 5 million ($26,500). Bids containing more than 50 percent Hungarian content receive a 10 percent price preference. This procurement process does not apply to military purchases, gas, oil, and electricity contracts.

6. Export Subsidy Policies

There are no direct export subsidies on industrial products, but some agricultural product groups receive export subsidies from the state. The Export-Import Bank and Export Credit Guarantee Ltd., both founded in 1994, provide credit and/or credit insurance for 8 to 10 percent of total exports. Over the past several years, agricultural export subsidies exceeded Hungary's Uruguay Round commitments in the range and value of products subsidized; in October 1997, the WTO approved an agreement with Hungary to phase out excess subsidies in the coming years, in which the Hun-

garian Government also committed not to expand exports of subsidized products to new markets.

7. Protection of U.S. Intellectual Property

Hungary belongs to the World Intellectual Property Organization, the Paris Convention on Industrial Property, the Nice Agreement on Classification and Registration of Trademarks, the Madrid Agreement Concerning Registration and Classification of Trademarks, the Patent Cooperation Treaty, and the Berne and the Universal Copyright Conventions.

In 1993, the United States and Hungary signed a comprehensive bilateral intellectual property rights treaty. Law Number VII (1994) on the Amendment to Industrial Property and Copyright Legislation, effective July 1994, extended patent protection for pharmaceutical/chemical products and addressed rights of intellectual property by providing the legal means to prevent proprietary information from being disclosed or acquired by other than "honest commercial practices." A Media Law enacted in December 1995 requires firms in the electronic media to respect international copyrights and includes enforcement provisions against individual offenders as well as corporate violations that affect license renewals. Two laws protecting intellectual property entered into force in January 1992. Act XXXVIII of 1991 protects utility models, and Act XXXIX of 1991 protects the topography (layout design) of semiconductor chips.

However, a complaint by DuPont Merck calls into question the effectiveness of Hungary's enforcement structure for IPR protection. The inability to resolve this case in more than seven years has sparked concerns about what appears to be persistent problems in the Hungarian judicial system which make it difficult to prevent patent infringement. Hungary was listed on the Other Observations portion of the 1997 Special 301 review to encourage a speedy resolution to these concerns.

8. Worker Rights

a. *The Right of Association.*—The 1992 Labor Code, as amended in 1997, recognizes the right of unions to organize and bargain collectively and permits trade union pluralism. Workers have the right to associate freely, choose representatives, publish journals, and openly promote members' interests and views. With the exception of military personnel and the police, they also have the right to strike.

b. *The Right to Organize and Bargain Collectively.*—Labor laws permit collective bargaining at the enterprise and industry levels. The Interest Reconciliation Council (ET), a forum of representatives from employers, employees, and the government, sets minimum and recommended wage levels in the public sector. Trade unions and management negotiate private wage levels. The Ministry of Labor drafts labor-related legislation, and special labor courts enforce labor laws. Affected parties may appeal labor court decisions in civil court. The 1992 legislation prohibits employers from discriminating against unions and their organizers.

c. *Prohibition of Forced or Compulsory Labor.*—The Labor Ministry enforces the legal prohibition of compulsory labor.

d. *Minimum Age for Employment of Children.*—The Labor Code forbids work by minors under the age of 14, and regulates labor conditions for minors age 14 to 16 (e.g., in apprentices programs).

e. *Acceptable Conditions of Work.*—The Labor Code specifies conditions of employment: termination procedures, severance pay, maternity leave, trade union consultation rights in management decisions, annual and sick leave entitlement, and conflict resolution procedures.

f. *Rights in Sectors with U.S. Investment.*—Conditions in specific goods-producing sectors in which U.S. capital is invested do not differ from those in other sectors of the economy.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		2
Total Manufacturing		655
Food & Kindred Products	21	
Chemicals & Allied Products	66	

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996—Continued

[Millions of U.S. dollars]

Category		Amount
Metals, Primary & Fabricated	1	
Machinery, except Electrical	2	
Electric & Electronic Equipment	1	
Transportation Equipment	1	
Other Manufacturing	52	
Wholesale Trade		85
Banking		1
Finance/Insurance/Real Estate		5
Services		1
Other Industries		1081
TOTAL ALL INDUSTRIES		1910

[1] Suppressed to avoid disclosing data of individual companies.
[2] Indicates a value between $-500,000 and $500,000.
Source: U.S. Department of Commerce, Bureau of Economic Analysis

IRELAND

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Income, Production and Employment:			
Nominal GDP [2]	54,816	60,397	61,194
Real GDP Growth (pct) [3]	10.4	7.7	8.1
GDP by Sector: [2]			
Agriculture	2,845	2,858	N/A
Industry	21,286	23,168	N/A
Services	26,176	29,565	N/A
Government	2,803	3,090	N/A
Per Capita GDP (thousands)	17,224	18,587	18,471
Labor Force (000's)	1,430	1,475	1,514
Unemployment Rate (pct) [4]	12.1	11.9	10.3
Money and Prices (annual percentage growth):			
Money Supply Growth (M3)	14.1	23.1	25.0
Consumer Price Inflation	2.4	1.7	1.6
Exchange Rate (Ip/usd)			
official	0.62	0.62	0.67
Balance of Payments and Trade:			
Total Exports (FOB) [5]	44.4	48.5	51.3
Exports to U.S.	3.6	4.5	N/A
Total Imports (CIF) [5]	32.5	35.0	37.2
Imports from U.S.	5.8	5.5	N/A
Trade Balance	12.0	13.5	14.1
Balance with U.S.	-2.2	-1.0	N/A
External Public Debt [6]	17,465	13,949	N/A
Fiscal Deficit/GDP (pct) [7]	-2.1	-0.9	0.6
Current Account Balance/GDP (pct)	2.8	2.0	1.6
Debt Service Payments/GDP (pct)	6.2	5.9	N/A
Gold And Foreign Exchange Reserves [6]	8,757	7,936	9,500
Aid from U.S. [8]	5	5	5
Aid from other sources [9]	1,189	1,142	1,256

[1] US Embassy forecasts
[2] GDP at factor cost
[3] GDP at constant market prices (local currency).
[4] ILO definition (measured in april of each year)

[5] Merchandise Trade
[6] End Year
[7] General Government.
[8] Each year the United States contributed $19.6 million to the International Fund to Ireland (IFI). A quarter of this amount is estimated to be spent in the Republic of Ireland's border constituencies.
[9] These figures include transfers from the EU's European Social Fund, Regional Development Fund, Cohesion Fund and Special Programme for Northern Ireland and the border constituencies, as well as the contributions from countries other than the United States to the IFI.

Sources: Central Bank of Ireland (cbi); Central Statistics Office (CSO); Irish Trade Board (ITB); National Treasury Management Agency (NTMA).

1. General Policy Framework

Ireland is a small open economy on the periphery of Europe, with a population of 3.62 million. Despite its peripheral geographic location, Ireland has one of the greatest exposures to international trade of any country in the world, with total imports and exports equivalent to just under 147 percent of GDP in 1996. Increasing openness to trade has been accompanied by fast economic growth; In 1997 Ireland is expected to be the fastest growing OECD economy for the fourth consecutive year (total Irish output has increased by just over 50 percent in real terms since 1990.) despite strong economic growth, inflation has been kept under tight control and the balance of payments has remained in surplus. Increased consumer confidence has resulted from rising disposable incomes, low interest rates, fast employment and strong growth in property prices. In recent years economic growth has been broadly based, with strong contributions from both domestic and foreign demand.

Fiscal policy: After the runaway deficits of the mid 1980s, the Irish Government has maintained a relatively tight fiscal policy, keeping the general government deficit below 2.5 percent of GDP since 1989. This is consistent with the provisions of the 1992 Maastricht Treaty, which require countries hoping to enter EMU in 1999 to, amongst other things, keep their fiscal deficits below three percent of GDP. furthermore, Ireland's debt/GDP ratio has fallen from over 125 percent in 1987 to just under 73 percent in 1996, and is expected to fall further to 67 percent by the end of 1997. In nominal terms, the debt amounted to just over $51 billion (using average 1996 exchange rates). Of this, 29 percent was denominated in a foreign currency, down from 41 percent at end 1993. Most new government borrowing is made through the sale of Irish pound-denominated securities, although a large proportion of these are purchased by non-residents.

Personal income and consumption taxes form the bulk of total government tax revenue. There are two personal tax rates; the standard 26 percent rate and the higher 48 per cent rate. The higher rate kicks in at slightly below the median industrial wage (about $23,000). Emboldened by fast tax revenue growth, and as part of the current national wage agreement, the current administration has promised to make substantial cuts in the personal income tax rates over the next five years. The rate of value added tax (consumption tax), at 21 percent is also high, but is the subject of some control at EU level. Corporate taxation makes a relatively modest contribution to the public finances. This is largely as a result of the special 10 percent rate available to companies producing internationally-traded manufactured goods and services, and to companies operating in certain industrial zones. The standard rate of corporate tax is 36 percent, although this is expected to fall rapidly towards the special rate over the next five years.

Monetary policy: Monetary policy is operated by the central bank of Ireland, and is conducted without political interference. The goal of monetary policy is price stability. in the pursuit of this objective, the central bank gives priority to the maintenance of a firm exchange rate under the framework of the European Monetary System's exchange rate mechanism (ERM see below.) It has been largely successful in this regard; inflation has averaged only 2.2 percent in the five years to 1996 and is expected to average 1.6 percent in 1997, which will almost certainly ensure that Ireland satisfies the Maastricht inflation criteria for EMU. The primary tool of monetary policy in Ireland is the adjustment of the discount rate (known as the short-term facility), although the central bank also frequently engages in open market operations. In making its assessment of future consumer price movements, the central bank takes account of trends in money supply, private sector credit and a range of intermediate price indicators. As the final stage of EMU approaches, Irish official interest rates will have to converge with those of the European core, and the ability of the Irish central bank to pursue a monetary stance appropriate for domestic conditions will be undermined.

2. Exchange Rate Policies

The Irish pound is a freely convertible currency and the government does not maintain any exchange rate controls. Participation in the ERM since 1979 requires

Ireland to maintain the Irish pound within 15 percent of its central rate against the weakest and strongest of the other currencies in the grid. Compliance is achieved through central bank intervention in the foreign exchange markets and through the prevention of monetary policy divergence from the European core. In ratifying the 1992 Maastricht treaty, Ireland committed itself to participation in the third and final phase of EMU, which is scheduled to begin on January 1, 1999. Successive Irish governments have since reaffirmed this commitment, and Ireland is now highly likely to be among the first wave of EU countries to adopt the new currency, the euro, from 1999 onwards. The decision by the UK to remain outside of EMU for the foreseeable future has sparked a debate over the Irish pound's appropriate conversion rate into the euro, with farmers and exporters anxious to ensure that swings in the value of sterling after 1999 do not damage the competitiveness of Irish goods in the UK, Ireland's largest trading partner. The Irish pound fell strongly against the dollar during late 1996 and the first half of 1997, and is expected to average ip 0.67:USD 1 in 1997, down from ip 0.62:USD 1 in 1996.

3. Structural Policies

Economic policy in Ireland is geared primarily towards lowering unemployment and raising average living standards, although income redistribution and social cohesion are also important goals. After the failure of expansionary fiscal policies of the late 1970s to stimulate growth, government policymakers have focused on creating an environment attractive to private enterprise, and in particular to inward direct investment by export-oriented multinationals. The most important policies in this regard have been the following:

(a) tight control over the public finances in order to maintain macroeconomic stability—in 1997 the fiscal budget may be in balance for the first time in over 50 years; (b) the development of a social consensus on economic policy through national wage agreements negotiated by the government, employers and trade unions. the latest agreement, partnership 2000, took effect at the beginning of 1997 and trades off continued moderation by trade unions in wage demands against substantial cuts in personal taxation; (c) the availability of a special 10 percent rate of corporate taxation and generous grants to attract foreign investment; (d) a commitment to the single European market and to participation in EMU; (e) high levels of investment in education and training—of all OECD countries only the Japanese workforce has a higher proportion of trained engineers and scientists; (f) improvements in physical infrastructure—structural investment between 1993 and 1999 is expected to total around $16 billion (almost $4,500 per head). much of this will have been funded by generous EU transfers.

The success of the above policies in attracting foreign investors and raising incomes has had two distinct effects on U.S. exports to Ireland; (a) approximately 500 U.S. firms are now located in Ireland. These companies import a large proportion of their capital equipment and operating inputs from parent companies and other suppliers in the United States. Accordingly, the largest component of U.S. exports to Ireland is office machinery and equipment, followed by electrical machinery and organic chemicals. Furthermore, as U.S. firms in Ireland become increasingly integrated with the local economy, sales by u.s. parent companies to local Irish enterprises are believed to have increased dramatically, although the data on this remains sketchy; (b) the fast growth in both personal incomes and corporate profitability in Ireland has led to a strong increase in demand for U.S. capital and consumer goods from Irish companies and workers. the combination of the above two effects has seen U.S. exports to Ireland quadruple between 1983 to 1996. As a result, the United States has become Ireland's third largest source of imports, behind only the UK and Germany.

4. Debt Management Policies

The National Treasury Management Agency (NTMA) is the state agency responsible of the management of the government debt. Ireland's general government debt at end 1996 amounted to just over $51 billion (using average 1996 exchange rates), equivalent to just under 73 percent of GDP. The bulk of the national debt was accumulated in the 1970's and early 1980's, partly as a result of high oil prices, but more generally as a result of expanding social welfare programs and public-sector employment. However, increased fiscal rectitude since the late 1980s means that Ireland is expected to be the only EU member state which will have a lower debt/GDP ratio in 1997 than it had in 1991. Foreign currency debt at end 1996 made up approximately 29 percent of the total, down from just over 41 percent at end 1993. Most new government borrowing is financed through the issuance of Irish pound securities, although a substantial proportion of these are purchased by non-resident inves-

tors. The total debt servicing cost in 1996 was around $4 billion, equivalent to 5.8 percent of GDP. Debt servicing costs are expected to continue falling as a proportion of national income and total government expenditure. This should pave the way for further reform of the personal taxation system, thus increasing consumer demand for U.S. exports of goods and services.

5. Aid

Each year the United States contributes $19.6 million to the International Fund for Ireland, of which around 5 million is estimated to be spent in the border constituencies of the Republic of Ireland, with the balance being spent in the UK province of Northern Ireland.

6. Significant Barriers to U.S. Exports

The United States is Ireland's third largest source of imports, behind only the UK and Germany. Total exports from the United States into Ireland in 1996 were valued at $5.5 billion (15.5 percent of total Irish imports), up from just over $3 billion in 1990. With Irish exports to the U.S. in 1996 standing at $4.5 billion, the trade balance between the two countries favors the U.S. by about $1.0 billion.

As a member of the EU, Ireland administers tariff and non-tariff barriers in accordance with applicable EU policies. with regard to services trade, Ireland maintains some barriers in the aviation industry: airlines serving Ireland may provide their own ground handling services, but are prohibited from providing similar services to other airlines. The Irish banking and insurance sectors are slowly becoming deregulated. Full deregulation in insurance will not occur until 1998.

The Irish Government liberalized the corporate market for telecom services on July 1, 1997 as directed by the European Commission. However, Telecom Eireann, the state telecom company, will retain its monopoly on providing voice telephony services to residential users until 2000, as opposed to most EU countries who must liberalize their markets by 1998. Ireland ratified the WTO telecoms agreement by the end of 1997. The deal will requires Ireland to end restrictions on international interconnection of mobile telephones by January 1, 1999, instead of 2001 as originally hoped for by the government. Ireland also dropped its restrictions to telex and telegraph services from January 1, 2000 to January 1, 1998.

Although some liberalization has taken place in recent years, Ireland still maintains some of the strictest animal and plant health import restrictions in the EU. These, together with EU import duties, effectively exclude many meat-based foods, fresh vegetables and other agricultural exports from the United States. Restrictions also apply to foods containing genetically modified organisms (GMOS), bananas from outside the Caribbean area, and cosmetics containing specified risk materials (SRMS), although as with other goods, these policies are determined at EU level.

Ireland has been a member of the World Trade Organization (WTO) since it came into effect on January 1, 1995. The WTO agreement was ratified by the Irish Parliament in November 1994. As member of the EU, however, Ireland participates in a large number of EU regional trade agreements, which may distort trade away from countries with whom Ireland trades purely on an MFN, non-preferential WTO basis.

7. Export Subsidies Policies

The government generally does not provide direct or indirect support for local exports. However, companies located in designated industrial zones, namely the Shannon Duty Free Processing Zone (SDFPZ) and Ringaskiddy Port, receive exemptions from taxes and duties on imported inputs used in the manufacture of goods destined for non-EU countries. furthermore, Ireland applies a special 10 percent rate of corporation tax (the standard rate is 36 percent) to companies producing internationally traded manufactures and services and to companies operating out of the SDFPZ and the international financial service center in Dublin. Although Ireland is adamant that this is a purely national tax issue, the European Commission's competition authorities view the tax as a form of export subsidization and would like to see the preferential rate eliminated over the next few years.

Since January 1992 the government has provided export credit insurance for political risk and medium-term commercial risk in accordance with OECD guidelines. As a participant in the EU's Common Agricultural Policy, the Irish Department of Agriculture, Food and Forestry administers CAP export refund and other subsidy programs on behalf of the EU Commission.

8. Protection of U.S. Intellectual Property

Ireland is a member of the World Intellectual Property Organization and a party to the International Convention for the Protection of Intellectual Property. However, there are legislative deficiencies and the Department of Enterprise, Trade and Employment is now drafting new intellectual property legislation.

Ireland's copyright law does not conform to the WTO's agreement on Trade Related Aspects of Intellectual Property (TRIPS) and does not adequately protect copyright holders. examples of TRIPS inconsistencies include absence of a rental right for sound recordings, no "anti-bootlegging" provision, and very low criminal penalties, all of which have contributed to high rates of piracy in Ireland (it has been claimed that up to 70 percent of computer software used in Ireland is pirated. This is especially ironic given that Ireland is now the world's second largest exporter of packaged software.) In April the U.S. government initiated WTO dispute settlement proceedings against Ireland and has placed Ireland on its special 301 watch list, which identifies countries which do not adequately protect intellectual property. In order to correct these deficiencies the government is in the process of drafting a new copyright bill, which it expects to submit to parliament in the second half of 1998.

Patents: Ireland's patent law also fails to conform to the TRIPS Agreement in at least two respects: (1) the compulsory licensing provisions of the 1992 patent law are inconsistent with the "working" requirement prohibition of TRIPS Articles 27.1 and the general compulsory licensing provisions of Article 31; and (2) compulsory licensing conditions provided for in the 1964 patent law, which continues to apply to some applications processed after December 20, 1991, do not conform to the nondiscrimination requirement of TRIPS Article 27.1. The Irish Government is expected to make a ministerial order in early 1998 which will bring Irish patent legislation into conformity with the TRIPS Agreement.

Trademarks: In accordance with EU Council Directive 89/104/European Economic Community (EEC), the harmonization of trademark laws, EU Council Regulation (EC) no. 40/94, Community Trademark And The Registration Of Trademarks In Services Industries, among others, new legislation was required to replace the Trademarks Act of 1963. The Trademarks Act 1996 was signed into law in July 1996. As yet, there appear to be no problems with the new law.

9. Worker Rights

a. *The Right of Association.*—The right to join a union is guaranteed by law, as is the right to refrain from joining. The industrial relations act of 1990 prohibits retribution against strikers and union leaders. About 55 percent of workers in the public sector and 45 percent in the private sector are trade union members. Police and military personnel are prohibited from joining unions or striking, but they may form associations to represent them in matters of pay, working conditions, and general welfare. The right to strike is freely exercised in both the public and private sectors. The Irish Congress of Trade Unions (ICTU), which represents unions in both the Republic and Northern Ireland, has 65 member-unions with 682,211 members.

b. *The Right to Organize and Bargain Collectively.*—Labor unions have full freedom to organize and to engage in free collective bargaining. Legislation prohibits anti-union discrimination. In recent years, most terms and conditions of employment in Ireland have been determined through collective bargaining in the context of a national economic pact. The current 3-year agreement, partnership 2000, which expires at the end of 1999, trades off continued moderation by trade unions in wage demands against cuts in personal taxation by the government. Employer interests in labor matters are generally represented by the Irish Business And Employers Confederation.

The Labor Relations Commission, established by the Industrial Relations Act of 1990, provides advice and conciliation services in industrial disputes. The Commission may refer unresolved disputes to the Labor Court. The Labor Court, consisting of an employer representative, a trade union representative, and an independent chairman, may investigate trade union disputes, recommend the terms of settlement, engage in conciliation and arbitration, and set up joint committees to regulate conditions of employment and minimum rates of pay for workers in a given trade or industry.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is prohibited by law and does not exist in Ireland.

d. *Minimum Age of Employment of Children.*—By law, children are required to attend school until the age of 15. the employment of children under 15 is generally prohibited by the 1977 Protection of Young Persons (Employment) Act, but 14-year-

olds are allowed to do light, nonindustrial work during school holidays with the written permission of their parents. The law limits the number of hours which children under age 18 may work. These provisions are enforced effectively by the Department of Enterprise, Trade And Employment.

e. *Acceptable Conditions of Work.*—At present no national hourly minimum wage exists in Ireland, although the current government has promised to abide by its electoral commitment to introduce a minimum wage during its term of office and has already established a commission to investigate the appropriate level. Minimum wages have been operating in certain low paid industries, such as textiles and cleaning, but these have applied to a relatively small proportion of the workforce. The standard work week is 39 hours. Working hours in the industrial sector are limited to 9 hours per day and 48 hours per week. Overtime is limited to 2 hours per day, 12 hours per week, and 240 hours in a year.

f. *Rights in Sectors with U.S. Investment.*—Worker rights described above are applicable in all sectors of the economy, including those with significant U.S. investment.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		[1]
Total Manufacturing		7457
Food & Kindred Products	348	
Chemicals & Allied Products	290	
Metals, Primary & Fabricated	241	
Machinery, except Electrical	222	
Electric & Electronic Equipment	1435	
Transportation Equipment	-2	
Other Manufacturing	2312	
Wholesale Trade		470
Banking		[1]
Finance/Insurance/Real Estate		2780
Services		863
Other Industries		74
TOTAL ALL INDUSTRIES		11,749

[1] Suppressed to avoid disclosing data of individual companies.Source: U.S. Department of Commerce, Bureau of Economic Analysis

ITALY

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Income, Production and Employment:			
Nominal GDP [2]	1,087.0	1,214.2	1,139.7
Real GDP Growth (pct) [3]	2.9	0.7	1.0
GDP by Sector:			
Agriculture	35.6	39.9	N/A
Manufacturing	301.9	332.4	N/A
Services	544.2	608.0	N/A
Government	205.3	233.9	N/A
Per Capita GDP (US$)	18,959	21,131	19,834
Labor Force (millions)	22.7	22.9	23.0
Unemployment rate (pct)	12.0	12.2	12.2
Money and Prices (annual percentage growth):			
Money Supply (M2)	1.9	3.2	4.0

Key Economic Indicators—Continued

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Consumer Price Inflation	5.4	3.9	1.9
Exchange Rate (Lira/US$ - annual average)			
Official	1629	1543	1700
Balance of Payments and Trade:			
Total Exports FOB [4]	234.0	250.8	138.9
Exports to U.S.[4]	16.8	18.4	10.8
Total Imports CIF [4]	206.1	207.0	119.3
Imports from U.S.[4]	9.9	10.2	5.3
Trade Balance [4]	27.9	43.8	46.8
Balance with U.S.[4]	7.0	8.2	5.5
Current Account Surplus/GDP (pct)	2.5	3.4	3.0
External Public Debt	51.6	65.2	76.0
Debt Service Payments/GDP (pct) [5]	11.8	11.1	11.0
Fiscal Deficit/GDP (pct)	7.0	6.7	3.0
Gold and Foreign Exchange Reserves	57.7	69.8	65.3
Aid from U.S.	N/A	N/A	N/A
Aid from All Other Sources	N/A	N/A	N/A

[1] 1997 figures are all estimates based on data available through October 1997.
[2] GDP at factor cost
[3] Percentage changes calculated in local currency
[4] Merchandise trade. 1997 data through July
[5] Represents total debt servicing costs; less than six percent of total debt is foreign debt.

1. General Policy Framework

The Italian economy is the world's fifth largest, having undergone a dramatic transformation into an industrial power in the last 50 years. Italy maintains an open economy, and is a member of major multilateral economic organizations such as the Group of Seven (G-7) industrialized countries, the Organization for Economic Cooperation and Development, the World Trade Organization, the International Monetary Fund, and the European Union.

Italy has a dynamic private sector characterized primarily by a large number of small and medium-sized firms, although there are some large companies with well-known names and extensive overseas operations (Fiat, Pirelli and Olivetti for example). Economic activity is concentrated in northern Italy, resulting in a divergence of wealth between north and south that remains one of Italy's most difficult economic and social problems. The Italian government traditionally has played an active role in the economy through regulation and through ownership of several large industrial and financial companies; recent privatizations have reduced somewhat the government's presence.

Italy's most pressing macroeconomic problems remain its public sector deficit and public debt. For years, government spending was boosted by generous social welfare programs, inefficiency and projects designed to achieve political objectives, creating large public sector deficits that were financed by incurring debt.

In the last few years, Italy has begun to address these problems in order to qualify for first-round membership in European Monetary Union. The deficit, which was 6.76 percent of GDP in 1996, is expected to drop to 3.0 percent in 1997, the level required for monetary union. The stock of debt, almost all of it held domestically, represents about 124 percent of GDP, but has been dropping. The government hopes to continue reducing it. Interest rates on Italian government securities have come down substantially as the government gets its financial house in order, and European rates converge in the run-up to monetary union.

Price stability is the primary objective of the Bank of Italy's monetary policy; the Bank has carried out a restrictive monetary policy in an effort to defeat Italy's long-term inflation problem. It appears to be working. M-2 grew only 3.2 percent in 1996, well below the rate of nominal GDP growth (5.8 percent), and inflation is expected to average 1.9 percent in 1997. The Bank of Italy uses indirect instruments, primarily open market operations exercised through repurchase agreements with commercial banks, to implement its monetary policy. The central bank discount window is seldom used, although changes in the discount rate are used to signal policy shifts, as occurred in June, 1997, when the Bank of Italy reduced the discount rate.

2. Exchange Rate Policy

The Italian lira re-entered the Exchange Rate Mechanism of the European Monetary System (EMS) in November 1996, after a four-year absence. Participation in EMS is a prerequisite for membership in the European Monetary Union (EMU) and obligates Italy to maintain the lira within a 15 percent band of fluctuation vis-a-vis central parities with other EMU currencies. Since re-entry to EMS, the lira has fluctuated closely around the new parities, an indication that financial markets think Italy's currency is priced about right.

The government has been successful at avoiding undue pressure on the lira. It will continue this approach in the months leading up to May, 1998, when countries selected for monetary union will set exchange rates vis-a-vis one another, and January 1999, when monetary union actually begins and countries begin using the new joint currency, the euro.

3. Structural Policies

Italy has not implemented any structural policies over the last two years which directly impede U.S. exports. Several long-standing irritants regarding access by U.S. banks and financial service firms to the Italian market have been resolved or are nearing resolution. Certain characteristics of the Italian economy impede growth and reduce import demand. These include rigid labor markets, underdeveloped financial markets, and a continued heavy state role in the production sector. There has been some progress at addressing these structural issues. Privatization is reducing the government's role in the economy. The 1993 "single banking law" removed a number of anachronistic restrictions on banking activity. Italy's implementation of EU financial service and capital market directives in 1996 has injected further competition into the sector.

U.S. financial service firms are no longer subject to an incorporation requirement to operate in the Italian market, although they must receive permission to operate from the government's securities regulatory body. In August 1996, the Bank of Italy eliminated certain lending limits based on branch capital which had put non-EU banks at a disadvantage vis-a-vis EU banks. U.S. financial service firms and banks are active in Italy, in particular in the wholesale banking and bond markets. In general, U.S. and foreign firms can invest freely in Italy, subject to restrictions in sectors determined to be of national interest, or in cases which create anti-trust concerns.

4. Debt Management Policy

Although Italy has not had problems with external debt or balance of payments since the mid 1970's, its domestic public debt is extremely high at 124 percent of GDP. Public debt is financed primarily through domestic capital markets, with securities ranging from three months to thirty years. Italy's official external debt is relatively low, constituting roughly 5.9 percent of total debt. Italy maintains relatively steady foreign debt targets, and uses issuance of foreign-denominated debt essentially as a source of diversification, rather than because of need.

5. Significant Barriers to U.S. Exports

Import Licensing: With the exception of a small group of largely agricultural items, practically all goods originating in the U.S. and most other free-world countries can be imported without import licenses and free of quantitative restrictions. There are, however, monitoring measures applied to imports of certain sensitive products. The most important of these measures is the automatic import license for textiles. This license is granted to Italian importers when they provide the requisite forms.

Service Barriers: Telecommunications services are still tightly regulated by the state, which essentially maintains a monopoly (aside from dedicated fixed-line networks owned by, i.e., the parastatal electricity company ENEL) on fixed-line voice telephony (but not on cellular service) and the telecommunications infrastructure, including all switching. Enhanced services must be offered over the public switched network or through dedicated leased circuits. Omnitel Pronto Italia, which is 43 percent U.S.-owned, began offering cellular service in December 1995 after winning the competition for the second cellular operating license—making it Telecom Italia's only competitor at present. Italy plans to award a third cellular license, for DCS-1800 service, but the government's notional date for this competition has slipped from 1996 into 1997 and most recently to February 1998. Italy passed a law in 1997 to establish an independent regulatory "Authority" for all communications, including telecoms and broadcasting; but the Authority is not expected to be established until mid-late 1998. U.S. and other observers will be watching closely to see how Italy

respects the EU's January 1, 1998 deadline for full liberalization of its telecoms sector.

In keeping with the 1989 EU Broadcast Directive, Italy's 1990 Broadcast Law requires that upon conclusion of three years from concession of a national broadcast license, a majority of TV broadcast time for feature films be reserved for EU-origin films. The Italian law also requires that half of the European quota be dedicated to Italian films.

The Government of Italy introduced a telecommunications reform bill in July 1996 that included a provision to make 51 percent European content mandatory during prime time. The bill remains before the Italian Parliament as of October 1997. If enacted, the bill would make Italy's TV broadcast quota stricter than the EU norm. (The European Parliament voted in November 1996 to let stand EU Broadcast Directive language that quotas will be applied "where practicable . . . and using appropriate means." The European Parliament thereby rejected more restrictive language.)

Standards: As a member of the EU, Italy applies the product standards and certification approval process developed by the European Community. Italy is required by the Treaty of Rome to incorporate approved EU directives into its national laws. However, there is frequently a long lag in implementing these directives at the national level. In addition, in some sectors such as pollution control, the uniformity in application of standards may vary according to region, further complicating the certification process. Italy has been slow in accepting test data from foreign sources, but is expected to adopt EU standards in this area.

Most standards, labeling requirements, testing and certification for food products have been harmonized within the European Union. However, where EU standards do not exist, Italy can set its own national requirements and some of these have been known to hamper imports of game meat, processed meat products, frozen foods, alcoholic beverages, and snack foods/confectionery products. U.S. exporters of "health" foods, weight loss/diet foods, baby foods and vitamins should work closely with an Italian importer, since Italy's labeling laws regarding health claims can be particularly stringent. Italy is still working on specific sectors of the food law to bring the regulations up to date scientifically in the areas of hygiene/sanitation. In the case of food additives, coloring and modified starches, Italy's laws are considered to be close to current U.S. laws, albeit sometimes more restrictive.

U.S. exporters should be aware that any food or agricultural product transshipped through Italian territory must meet Italian requirements, even if the product is transported in a sealed and bonded container and is not expected to enter Italian commerce.

Some professional categories (e.g. engineers, architects, lawyers, accountants) face restrictions that limit their ability to practice in Italy without either possessing EU/Italian nationality, having received an Italian university degree, or having been authorized to practice by GOI institutions.

Rulings by individual local customs authorities can be arbitrary or incorrect, resulting in denial or delays of entry of U.S. exports into the country. Considerable progress has been made in correcting these deficiencies, but problems do arise on a case-by-case basis.

Investment Barriers: While official Italian policy is to encourage foreign investment, industrial projects require a multitude of approvals and permits, and foreign investments often receive close scrutiny. These lengthy procedures can present extensive difficulties for the uninitiated foreign investor. There are several industry sectors which are either closely regulated or prohibited outright to foreign investors, including domestic air transport, aircraft manufacturing, and the state monopolies (e.g., railways and tobacco manufacturing).

Italian anti-trust law gives the government the right to review mergers and acquisitions over a certain threshold value. The government has the authority to block mergers involving foreign firms for "reasons essential to the national economy" or if the home government of the foreign firm does not have a similar anti-trust law or applies discriminatory measures against Italian firms. A similar provision requires government approval for foreign entities' purchases of five or more percent of an Italian credit institution's equity.

Government Procurement: In Italy, fragmented, often non-transparent government procurement practices and previous problems with corruption have created obstacles to U.S. firms' participation in Italian government procurement. Italy has, however, made some progress in making the laws and regulations on government procurement more transparent. Italy has not yet fully updated its government pro-

curement code, nor has it completely implemented EU directives on government procurement. The pressure to reduce government expenditures while increasing efficiency is resulting in increased use of competitive procurement procedures and somewhat greater emphasis on best value rather than automatic reliance on traditional suppliers.

6. Export Subsidies Policies

Italy subscribes to EU directives and Organization for Economic Cooperation and Development (OECD) and World Trade Organization (WTO) agreements on export subsidies. Through the EU, it is a member of the General Agreement on Tariffs and Trade (GATT) Subsidies Agreement, and as a WTO member, is subject to WTO rules. Italy also provides extensive export refunds under the Common Agricultural Policy (CAP), as well as an extensive array of export promotion programs. Grants range from funding of travel for trade fair participation to funding of export consortia and market penetration programs. Many programs are aimed at small-to-medium size firms. Italy provides some direct assistance to industry and business firms to improve their international competitiveness. This assistance includes export insurance through the state export credit insurance body, as well as interest rate subsidies under the OECD consensus agreement.

The Italian peach processing sector receives subsidies to compensate them for having to pay the EU minimum grower price for their raw product. It is recognized that this grower price is above the world market price for peaches and a U.S.-E.U. agreement is in place to monitor the level of subsidies paid. However, there is concern that the processors may receive extra benefits from loopholes in the system.

The Italian wheat processing sector (pasta) in the past received indirect subsidies to build plants and infrastructure. While these plants are still operating, there are no known programs similar to the initial subsidies operating at present.

7. Protection of U.S. Intellectual Property

The Italian Government is a member of the World Intellectual Property Organization, and a party to the Bern and Universal Copyright conventions, the Paris Industrial Property and Brussels Satellite conventions, the Patent Cooperation Treaty, and the Madrid Agreement on International Registration of Trademarks.

Since 1989, the U.S. Trade Representative has placed Italy on the Intellectual Property Rights (IPR) "watch list" under the Special 301 provision of the United States Trade Act of 1988, primarily reflecting problems with protection of copyrights for computer software and film videos. Enactment in Italy (at the end of 1992) of the EU software directive making software copyright violations a criminal offense was a major step forward. In response to U.S. IPR concerns, the Italian authorities have created an Interministerial Anti-Piracy Committee, introduced IPR training courses for law enforcement officers, and created specialized "pools" of prosecutors charged with combating intellectual property crimes in major municipal centers (e.g., Milan, Rome, and Naples). Italian implementation of the EU Rental Rights Directive in November 1994 established explicit protections for rental, distribution, and lending rights, as well as penal sanctions against the bootleg recording of performances. A decree-law issued in June 1995 (and subsequently passed by Parliament as a permanent law) extended copyright protection in Italy from 50 to 70 years in accordance with the EU Directive on Copyright Duration.

Film, sound recording, and software piracy remains a serious problem, despite a significant increase in raids and confiscation of illegal product and reproduction equipment. In October 1996, the Italian government introduced in Parliament anti-piracy legislation that would impose administrative penalties and increase criminal sanctions. As of October 1997, the bill was still awaiting final Parliamentary approval. The U.S. will continue to monitor developments in this area closely.

New Technologies: In the spring of 1997, the Italian Minister of Health signed a decree banning the cultivation of Ciba Geigy's Bt Corn in Italy, despite the fact that no Bt seed varieties are currently included in Italy's National Seed Register. This decision was taken on the advice of Italy's Interministerial Biotechnology Commission, ostensibly based on their opinion that there was a lack of a proper monitoring program regarding Bt corn's effect on the ecosystem. After the Biotech Commission reversed its decision, and following EC pressure to remove the ban, the Minister of Health signed the legislation removing the ban in late September.

Intellectual property protection is generally not a problem for agricultural products with the exception of sluggish approval policies for genetically-modified organisms.

8. Worker Rights

a. *The Right of Association.*—The law provides for the right to establish trade unions, join unions, and carry out union activities in any workplace employing more than 15 employees. Trade unions are free of government controls and no longer have formal ties with political parties. Workers are protected from discrimination based on union membership or activity. The right to strike is embodied in the Constitution, and is frequently exercised. Hiring workers to replace strikers is prohibited. A 1990 law restricts strikes affecting essential public services such as transport, sanitation, and health.

The law prohibits discrimination by employers against union members and organizers. It requires employers who have more than 15 employees and are found guilty of anti-union discrimination to reinstate the workers affected. In firms with fewer than 15 workers, an employer must state the grounds for firing a union employee in writing. If a judge deems these grounds spurious, he can order the employer to reinstate or compensate the worker.

b. *The Right to Organize and Bargain Collectively.*—The Constitution provides for the right of workers to organize and bargain collectively and these rights are respected in practice. In practice (though not by law), national collective bargaining agreements apply to all workers regardless of union affiliation. There are no export processing zones.

c. *Prohibition of Forced or Compulsory Labor.*—The law prohibits forced or compulsory labor, and it does not occur.

d. *Minimum Age for Employment of Children.*—The law forbids employment of children under 15 years of age (with some exceptions). There are also specific restrictions on employment in hazardous or unhealthy occupations of males under age 18 and females under age 21. Enforcement of the minimum age laws is effective only outside the extensive "underground" economy, which is mainly in Southern Italy.

e. *Acceptable Conditions of Work.*—Minimum wages are set not by law but rather by national collective bargaining agreements. These specify minimum standards to which individual employment contracts must conform. In case of disputes, the courts may step in to determine fair wages on the basis of practice in comparable activities or agreements.

A 1997 law reduced the work week from 48 hours to 40. The regular work week should not exceed six days, and the regular work day eight hours, with some exceptions. Most collective agreements provide for a 36- to 38-hour work week. Overtime may not exceed two hours a day or an average of 12 hours per week.

The law sets basic health and safety standards and guidelines for compensation for on-the-job injuries. European Union directives on health and safety have also been incorporated into domestic law; some have already taken effect and others will be phased in during 1997. Labor inspectors are from local health units or from the Ministry of Labor. They are few, given the scope of their responsibilities. Courts impose fines and sometimes prison terms for violation of health and safety laws. Workers have the right to remove themselves from dangerous work situations without jeopardy to their continued employment. Women are usually forbidden to work at night.

f. *Rights in Sectors with U.S. investment.*—Conditions do not differ from those in other sectors of the economy.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		549
Total Manufacturing		11,549
Food & Kindred Products	849	
Chemicals & Allied Products	3409	
Metals, Primary & Fabricated	539	
Machinery, except Electrical	2681	
Electric & Electronic Equipment	1892	
Transportation Equipment	395	

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996—Continued

[Millions of U.S. dollars]

Category		Amount
Other Manufacturing	1784	
Wholesale Trade		2537
Banking		320
Finance/Insurance/Real Estate		1900
Services		1474
Other Industries		358
TOTAL ALL INDUSTRIES		18,687

Source: U.S. Department of Commerce, Bureau of Economic Analysis

NETHERLANDS

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated] [1]

	1995	1996	1997 [2]
Income, Production and Employment:			
Nominal GDP [3]	394.4	395.0	362.3
Real GDP Growth (pct) [4]	2.3	3.3	3.75
GDP by Sector:			
Agriculture	14.8	14.3	12.7
Manufacturing	61.3	59.3	52.9
Services	224.1	220.4	196.7
Government	35.8	34.2	30.6
Per Capita GDP (US$)	25,611	25,652	23,373
Labor Force (000s)	6,394	6,471	6,557
Unemployment Rate (percent)	8.3	7.6	6.9
Money and Prices (annual percentage growth):			
Money Supply (M2)	4.8	5.4	8.0
Consumer Price Inflation	2.0	2.1	2.25
Exchange Rate (guilders/US$ - annual average)			
Official	1.61	1.69	1.95
Balance of Payments and Trade:			
Total Exports (FOB) [5]	210.1	212.0	203.1
Exports to U.S.[6]	6.4	6.6	7.0
Total Imports (CIF) [5]	185.0	186.7	179.1
Imports from U.S.[6]	16.6	16.6	19.0
Trade Balance [5]	15.6	15.0	12.3
Balance with U.S.[6]	-10.2	-10.0	-12.0
Current Account Surplus/GDP (pct)	6.2	6.3	7.0
External Public Debt [6]	0	0	0
Debt Service Payments/GDP (pct) [7]	9.0	8.3	6.9
Fiscal Deficit/GDP (pct)	4.0	2.3	2.0
Gold and Foreign Exchange Reserves	42.6	36.4	33.0
Aid from U.S.	0	0	0
Aid from All Other Sources	0	0	0

[1] All figures have been converted at the average guilder exchange rate for each year.
[2] 1997 figures are official forecasts or estimates based on available monthly data in October 1997
[3] GDP at factor costs
[4] Percentage changes calculated in local currency
[5] Merchandise trade
[6] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1997 figures are estimates based on data available through October 1997.
[7] All public debt is domestic and denominated in guilders. Debt service payments refers to domestic public debt.

Sources: Central Bureau of Statistics (CBS), Netherlands Central Bank (NB), Central Planning Bureau (CPB)

1. General Policy Framework

The Netherlands is a prosperous and open economy, and depends heavily on foreign trade. It is noted for stable industrial relations; a large current account surplus from trade and overseas investments; net exports of natural gas; and a location as a European transportation hub with excellent ports, and air, road, rail, and inland waterway transport.

Dutch trade and investment policy is among the most open in the world. The government has reduced its role in the economy since the 1980s, and privatization and deregulation continue with little debate or opposition. Nevertheless, the state dominates the energy sector, and plays a large role in public transport, aviation, and telecommunications.

Dutch economic policy is geared towards environmentally sustainable economic growth and development by way of economic restructuring, energy conservation, environmental protection, regional development, and other national goals. Policy is guided by a national environmental action plan.

A three-party coalition in office since August 1994, is nearing the end of its term in office, and general elections are planed for May, 1998. Helped by strong (by EU standards) economic growth, the coalition has achieved many of its policy targets agreed in the 1994 coalition accord. The Dutch economy continues as one of Europe's strongest, and can look forward to continued brisk GDP growth in 1997 (3.25 percent) and 1998 (3.75 percent), fueled predominantly by rising consumer demand, higher investment, and firming exports. This is the strongest economic growth performance in the 1990s. A swine fever epidemic which swept through the Netherlands in 1997 has reduced the growth outlook for that year by at least 0.6 percentage points. Consumer price inflation of slightly over two percent in 1997 and 1998 continues moderate, and unemployment of less than seven percent (EU definition) remains well below the EU average. A strong current account surplus of well over seven percent of GDP in 1997 and 1998 continues as one of the strong features of the Dutch economy.

The Netherlands has been relatively successful in meeting the criteria for European Economic and Monetary Union (EMU). Fiscal policy aims at striking a balance between further reducing public spending, and lowering taxes and social security contributions. The budget deficit should fall from 2.3 percent of GDP in 1996 to 1.4 percent 1998, which is well below the three percent EMU criterion. The stock of public debt will fall from a high of 77.2 percent of GDP in 1996 to 70.4 percent in 1998, still well over the 60 percent EMU criterion. A falling budget deficit is expected to further reduce the debt to GDP ratio, and close the gap with the EMU debt criterion.

The deficit is largely funded by government bonds. Since January 1, 1994, financing has also been covered by Dutch Treasury Certificates (DTC). DTCs replace a standing credit facility for short-term deficit financing with the Central Bank which, under the Maastricht Treaty, was abolished in 1994.

2. Exchange Rate Policies

Dutch monetary policy aims at exchange rate stability. This is regarded as a sine-qua-non for a small open economy like the Netherlands, which is heavily dependent on foreign trade. Since the European Monetary System (EMS) was introduced in 1979, the Netherlands Central Bank (NB) has maintained a stable exchange rate between the guilder and the German mark using interest rate policy. The guilder is one of Europe's strongest currencies and remains in the original EMS 2.25 point fluctuation band. A strong guilder should encourage imports from the United States and reduce exchange rate risk for U.S. investors in the Netherlands. There are no multiple exchange rate mechanisms. There are no exchange controls, although Netherlands residents must obtain an NB exchange license for certain large international financial transactions.

The NB controls money market rates by adjusting short term rates and by varying the terms of banks' access to NB financing. The NB's open market policy gives the bank a tool to influence short term rates.

3. Structural Policies

Tax policies: The Dutch recently took the first step towards a fundamental reform of the tax system, partly with a view to further EU integration. The new tax regime for the 21st century entails a substantial reduction of wage and individual income taxes, and simultaneous broadening of the tax base as well as rising VAT rates. The highest marginal tax rate on wage and salary income will be reduced from 60 percent to 50 percent. When implemented, the new tax plan will yield a more trans-

parent and equitable tax system and result in an appreciable shift from taxation of labor to taxation of consumption. The Dutch corporate income tax rate is among the lowest in the EU. As of January 1, 1997, corporations (including foreign-owned corporations) pay a standard corporate tax rate of 36 percent over the first 100,000 guilders of profits, with the excess being taxed at 35 percent. Effective January 1, 1998, the 36 percent rate will be further reduced, resulting in a rate of 35 percent on all taxable profits. In recent years, Dutch and foreign multinationals have increasingly established their group finance activities outside the Netherlands due to attractive tax regimes elsewhere. In an attempt to reverse this trend, a bill became effective January 1, 1997, offering finance companies of multinationals a more friendly tax regime. Under certain conditions, companies conducting group financing activities will be allowed to establish an international financial services reserve for tax purposes of up to 80 percent of its annual profits. The reduced profits will then be subject to the standard corporate tax rate

Regulatory Policies: Limited, targeted, transparent investment incentives are used to facilitate economic restructuring and to promote economic growth throughout the country. Measures blend tax incentives and subsidies and are available to foreign and domestic firms alike. There are also subsidies to stimulate R&D and to encourage development and use of new technology by small and medium sized firms.

New Dutch competition legislation will become effective on January 1, 1998, which will comply with EU competition legislation. The new law will include a provision for the supervision of company mergers by a new competition agency. The law is expected to boost competition, improve transparency, and provide greater de facto access to a number of sectors for foreign companies.

4. Debt Management Policies

With a current account surplus of over seven percent of GDP and no external debt, the Netherlands is a major creditor nation. The Dutch have run a surplus on current account since the early 1980s. During that period, gross public sector debt (EMU criterion) grew sharply, to 79.1 percent of GDP by 1995. Since the late 1980s, the Dutch fiscal balance has drastically improved. Most observers now predict a significant decline of the debt to GDP ratio towards the EMU 60 percent criterion over the next four years. Debt servicing and rollover has fallen to almost seven percent of GDP, with interest payments alone at four percent of GDP. All government debt is domestic and denominated in guilders. There are no difficulties in tapping the domestic capital market for loans, and public financing requirements are generally met before the end of each fiscal year. The Netherlands is a major foreign assistance donor nation with a bilateral and multilateral development assistance budget of 1.1 percent of GDP equal to $4.3 billion in 1998. Official Development Aid (ODA) amounts to 0.8 percent of GDP or $3.1 billion. The Netherlands belongs to, and strongly supports, the IMF, the World Bank, EBRD, and other international financial institutions.

5. Significant Barriers to U.S. Exports

The Dutch pride themselves on their open market economy,nondiscriminatory treatment of foreign investment, and a strong tradition of free trade. Foreign investors receive full national treatment, and the Netherlands adheres to the OECD investment codes and the international convention for dispute settlement. There are no significant Dutch barriers to U.S. exports, and relatively few trade complaints are registered by American firms against Dutch firms. The few trade barriers that do exist result from common EU policies. The following are areas of potential concern for U.S. exporters:

Agricultural trade barriers: These result from the Common Agricultural Policy (CAP) and common external tariffs, which severely limit imports of U.S. agricultural products. Bilateral import barriers, although usually connected with EU-wide regulations, do arise in customs duties, grading, inspection and quarantine. Overzealous implementation of EU rules and procedures increasingly hinder commodity and product entry. Although only a few cases have been reported to date, an increasing pattern of delayed or rejected shipments of agricultural commodities, food and beverages appears to have developed. Also, in the absence of EU-wide regulations, tedious approval and administrative procedures hamper the import of some agricultural products, e.g., genetically modified organisms (GMOs). Some of these rejections or delays in clearance cause major financial and logistical problems to Dutch importers and U.S. exporters for particular products, thus dampening trade prospects and flows.

Offsets for defense contracts: All foreign contractors must provide at least 100 percent offset/compensation for defense procurement over five million Dutch guilders

(about $2.7 million). The seller must arrange for the purchase of Dutch goods or permit the Netherlands to domestically produce components or subsystems of the systems it is buying. A penalty system for noncompliance with offset obligations is under consideration.

Broadcasting and media legislation: The Media Act was amended in 1992 to admit local and foreign commercial broadcasters onto the cable network. The Dutch comply with the EU Broadcast Directive, but U.S. television shows and films are popular and readily available.

Cartels: Although the export sector of the Dutch economy is open and free, cartels exist in the domestic sector of the economy. A new cartel law which took effect in 1996 bans cartels unless its proponents can conclusively demonstrate a public interest. The United States knows of only two complaints by U.S. firms of having been disadvantaged by cartels in the Netherlands, and neither involved U.S. exports.

Public procurement: Dutch public procurement practices comply with the requirements of the GATT/WTO Agreement on Public Procurement and with EU public procurement legislation. The Netherlands has fully implemented the EU's Supplies Directive 93/36/EEC, Works Directive 93/37/EEC, and the Utilities Directive 93/38/EEC. Implementation of EU and GATT public procurement obligations have contributed to greater transparency of the Dutch public procurement environment at central and local government level. Independent studies show that transparency and enforcement in this area can be deficient, especially at the local level, and procurement may be contingent on offset or local content requirements. The EU Utilities Directive may force more public notification and end the effective duopoly in Dutch power generation and distribution.

6. Export Subsidies Policies

Under the Export Matching Facility, the Dutch government provides interest subsidies for Dutch export contracts competing with government subsidized export transactions in third countries. These subsidies bridge the interest cost gap between Dutch export contracts and foreign contracts which have benefited from interest subsidies. The government provides up to 10 million guilders (about $5.5 million) of interest subsidies per export contract, up to a maximum of 35 percent per export transaction. An export transaction must have at least 60 percent Dutch content to be eligible. For defense, aircraft and construction transactions, the minimum Dutch content is one-third.

There is a local content requirement of 70 percent for exporters seeking to insure their export transactions through the Netherlands Export Insurance Company. The Dutch provide some subsidies for shipping. Under strict conditions, Dutch ship owners ordering new vessels or buying existing vessels not older than five years may be eligible for a premium of 10 percent of the contract price distributed over five years. The government may also guarantee loans to Dutch shipping companies for investment purposes. The present guideline is the seventh EU Directive. In conformity with the OECD understanding on subsidies, the government also grants interest rate subsidies (maximum two percent) to Dutch shipbuilders up to 80 percent of a vessel's cost with a maximum repayment period of 8.5 Years. This subsidy is only available when "matched" by similar offers by non-EU shipyards. As long as 1994 OECD agreement to phase out shipbuilding subsidies internationally has not been ratified by all parties, the Dutch will continue to support their shipbuilding industry. Despite termination of the EU shipbuilding subsidies regime in 1996, the shipbuilding subsidies budget earmarks 30 million guilders ($18 million) in 1997.

7. Protection of U.S. Intellectual Property

The Netherlands has a generally good record on IPR protection, with the exception of the enforcement of antipiracy laws. It belongs to the World Intellectual Property Organization (WIPO), is a signatory of the Paris Convention on industrial property and the Bern copyright convention, and conforms to accepted international practice for protection of technology and trademarks. Patents for foreign investors are granted retroactively to the date of original filing in the home country, provided the application is made through a Dutch patent lawyer within one year of the original filing date. Patents are valid for 20 years. Legal procedures exist for compulsory licensing if the patent is determined to be inadequately used after a period of three years, but these procedures have rarely been invoked. Since the Netherlands and the United States are both parties to the Patent Cooperation Treaty (PCT) of 1970, patent rights in the Netherlands may be obtained if PCT application is used.

The Netherlands is a signatory of the European Patent Convention, which provides for a centralized Europe-wide patent protection system. This convention has simplified the process for obtaining patent protection in the member states. In-

fringement proceedings remain within the jurisdiction of the national courts, which could result in divergent interpretations detrimental to U.S. investors and exporters. The limited scope of resources devoted to enforcement of antipiracy laws is of concern to U.S. producers of software, audio and video tapes, and textbooks. Legislation was enacted in early 1994 to explicitly include computer software as intellectual property under the copyright statutes, and the government is working with industry on enforcement.

8. Worker Rights

a. *The Right of Association.*—The right of Dutch workers to associate freely is well established. One quarter of the employed labor force belongs to unions, but union-negotiated collective bargaining agreements are usually extended to cover about three quarters of the workforce. Membership in labor unions is open to all workers including military, police, and civil service employees. Unions are entirely free of government and political party control and participate in political life. They also maintain relations with recognized international bodies and form domestic federations. The Dutch unions are active in promoting worker rights internationally. All union members, except most civil servants, have the legal right to strike. Civil servants have other means of protection and redress. There is no retribution against striking workers. In the European Union, the Netherlands has one of lowest percentages of days lost due to labor strikes. In 1996, seven days were lost due to industrial disputes compared with 691 days in 1995.

b. *The Right to Organize and Bargain Collectively.*—The right to organize and bargain collectively is recognized and well-established. There are no union shop requirements. Discrimination against union membership is illegal and does not exist. Dutch society has developed a social partnership among government, private employers, and trade unions. This tripartite system involves all three participants in negotiating guidelines for collective bargaining agreements which, once reached in a sector, are extended by law to cover the entire sector. Such generally binding agreements (AVVs) cover most Dutch workers.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is prohibited by the constitution and does not exist.

d. *Minimum Age for Employment of Children.*—Child labor laws exist and are enforced. The minimum age for employment of young people is 16. Even at that age, youths may work full time only if they have completed the mandatory 10 years of schooling and only after obtaining a work permit (except for newspaper delivery). Those still in school at age 16 may not work more than eight hours per week. Laws prohibit youths under the age of 18 from working at night, overtime, or in areas which could be dangerous to their physical or mental development. In order to promote the employment of young people who have finished formal schooling, the Netherlands has a reduced minimum wage for employees between ages 16 and 23.

e. *Acceptable Conditions of Work.*—Dutch law and practice adequately protect the safety and health of workers. A forty hours work week is established by law, but collective bargaining agreements often set a shorter work week. The average work week for adults working full time is 38 hours, but collective bargaining negotiations are heading towards and eventual 36 hours work week. The high level of part-time work have lowered the estimated actual work week to 35.8 hours. Collective bargaining negotiations are heading towards an eventual 36 hours work week for full-time employees. The legally-mandated minimum wage is subject to semiannual living cost adjustment. Working conditions are set by law, and regulations are actively monitored.

f. *Rights in Sectors with U.S. Investments.*—The worker rights described above hold equally for sectors in which U.S. capital is invested.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		2564
Total Manufacturing		10,472
Food & Kindred Products	1224	
Chemicals & Allied Products	4058	
Metals, Primary & Fabricated	585	

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996—Continued

[Millions of U.S. dollars]

Category		Amount
Machinery, except Electrical	1029	
Electric & Electronic Equipment	839	
Transportation Equipment	548	
Other Manufacturing	2190	
Wholesale Trade		3910
Banking		134
Finance/Insurance/Real Estate		23,592
Services		2424
Other Industries		1571
TOTAL ALL INDUSTRIES		44,667

Source: U.S. Department of Commerce, Bureau of Economic Analysis

NORWAY

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Income, Production and Employment:			
Nominal GDP	146,531	157,533	159,000
Real GDP Growth (pct)	3.6	5.3	3.9
GDP By Sector:			
Agriculture	3,604	3,476	3,450
Oil and Gas Production	16,713	23,268	24,000
Manufacturing	18,145	18,500	18,000
Services	84,854	87,845	88,550
Government	23,215	24,444	25,000
Per Capita GDP	33,570	35,930	36,095
Labor Force (000s)	2,131	2,246	2,303
Unemployment Rate (percent)	4.9	4.9	4.2
Money and Prices:			
Money Supply (M2) (pct. ch.)	5.4	6.2	4.8
Cons. Price inflation (pct. ch.)	2.4	1.3	2.5
Exchange Rate [2] (NOK/US$)	6.34	6.46	7.05
Balance of Payments And Trade:			
Total Exports FOB	42,151	49,796	48,500
Exports to U.S.[3]	2,508	3,509	3,100
Total Imports CIF	34,214	36,896	36,500
Imports from U.S.[3]	2,183	2,380	2,450
Trade Balance	7,937	12,900	12,000
Balance with U.S.	325	1,129	650
External Public Debt	9,686	6,892	3,000
Debt Service Payments	976	2,857	3,960
Fiscal Surplus/GDP (pct)	0.4	6.3	6.7
Current Acc. Surplus/ GDP (pct)	3.3	7.2	8.6
Gold And Foreign Exchange Res.	22,664	26,368	34,000
Aid from U.S.	0	0	0
Aid from other Countries	0	0	0

[1] 1997 Figures are all Estimates Based on Monthly Data in November 1997
[2] Central Bank overnight lending rate; Not annual percentage growth
[3] Norwegian foreign trade statistics. Exports exclude Norwegian oil shipped to the U.S. from terminals overseas

1. General Policy Framework

Exploitation of Norway's vast energy resources—including oil, gas, and hydropower—will continue to drive the country's economic growth for at least the next two decades. Offshore, Norway's remaining discovered oil reserves will last for another 16 years at current extraction rates, while the equivalent figure for natural gas is 108 years. Energy-intensive industries such as metal processing and fertilizer production will remain prominent on the mainland due to the availability of abundant hydropower.

Some constraints continue to limit Norway's economic flexibility and ability to maintain international competitiveness. Availability of labor is limited by Norway's small 4.3 million population and a restrictive immigration policy. Norway is also a high-cost country with a highly centralized collective bargaining process and the government providing generous social welfare benefits. Several inefficient sectors, including agriculture, survive largely through subsidies and protection from international competition. These sectors face a long period of adjustment as the government implements its obligations under the Uruguay Round and the European Economic Area (EEA) Accord, which is bringing Norway into the European Union's (EU's) "Single Market."

State intervention in the economy remains significant. The government owns just over 50 percent of domestic businesses, including majority stakes in the two largest industrial conglomerates and the two largest commercial banks. While new legislation governing investment was implemented in 1995 to meet EEA and WTO obligations, screening of foreign investment and restrictions on foreign ownership remains.

The government's dependence on petroleum revenue has increased substantially since the early 1970's, generating an estimated 22 percent of total government 1997 revenue. Following the 1986 collapse of world oil prices, the government used oil revenue to cover shortfalls in the non-oil portion of the budget in the 1986-1994 period. With overall budget posting a surplus in 1995, Norway has eliminated its net foreign debt; and the government is projecting a budget surplus of about USD nine billion (15 percent of the budget) for 1997. The surplus is being set aside in an oil fund to supplement future budgets after 2015, when oil revenues may be substantially less.

No general tax incentives exist to promote investment, although tax credits and government grants are offered to encourage investment in northern Norway. Several specialized state banks provide subsidized loans to sectors including agriculture and fishing. Transportation allowances and subsidized power are also available to industry.

Although rejecting EU membership in November 1994 following a national referendum, Norway has preferential access to EU markets and theoretically is bound to nearly all EU directives (except regulating agriculture) through the EEA Accord which entered into force in January 1994. The former Labor party government (which resigned October 13) had announced it did not plan to apply for EU membership in the 1997-2000 period, The new centrist coalition government has no plans for EU membership.

The government controls the growth of the money supply through reserve requirements imposed on banks, open market operations, and variations in the Central Bank overnight lending rate. Since the government's priority is to maintain a stable exchange rate, the Central Bank's flexibility is limited in using the money supply as an independent policy instrument.

2. Exchange Rate Policy

The Norwegian Krone remains on a managed float with the central bank using open market operations and interest rate policy to keep the currency stable. While the Krone was unpegged from the ECU in December 1992, Norway continues to keep the Norwegian Krone stable vis-a-vis European currencies included in the ECU. The New Coalition Government has announced that this policy will continue until further notice.

Quantitative restrictions on credit flows from private financial institutions were abolished in the late 1980's. Norway dismantled most remaining foreign exchange controls in 1990. U.S. companies operating within Norway have never reported problems to the Embassy in remitting payments.

3. Structural Policies

The government's highest economic priorities include maintaining high employment, generous welfare benefits, and rural job opportunities. Thus, parts of the

mainland economy—particularly agriculture and rural industries—remain protected and cost inefficient from a global viewpoint with Norway's agricultural sector remaining the most heavily subsidized in the OECD. While some progress has been made in reducing subsidies in the manufacturing industry, support remains significant in areas including food processing and shipbuilding

A revised legal framework for the functioning of the financial system was adopted in 1988, strengthening competitive forces in the market and bringing capital adequacy ratios more in line with those abroad. Further liberalization in the financial services sector occurred when Norway joined the EEA and accepted the EU's banking directives. The Norwegian banking industry has returned to profitability following reforms prompted by the banking crises in the early 1990's.

Norway has taken some steps to deregulate the non-bank service sector. However, large parts of the transportation and telecommunications markets remain subject to restrictive regulations, including statutory barriers to entry. Looking ahead, the GON remains committed to an ambitious structural reform program which may gradually improve U.S. market access, but progress will likely be slow for political reasons.

4. Debt Management Policies

Norway's prudent budgetary and foreign debt policies in recent years are limiting the state's exposure in foreign markets. The government's gross external debt (about USD seven billion at the end of 1996) will likely decline through 1997 and 1998 thanks to the GON's strong financial position. Norway's overall public and private foreign debt (foreign liabilities less foreign assets) evaporated in mid-1995 with rising foreign trade surpluses contributing to the improvement.

Since 1990, the Government has allowed the private sector increased access to long-term foreign capital markets to facilitate improvements in the term structure of its foreign debt. Following the floating of the krone in December 1992, foreign capital inflows have contributed to falling Norwegian interest rates.

5. Aid

There are no aid flows between Norway and the U.S.

6. Significant Barriers to U.S. Exports

Norway supports the principles of free trade but significant barriers to trade remain in place. While Norway is in the process of reforming its agricultural support regime, the government maintains high agricultural tariffs which are administratively adjusted when internal market prices fall outside certain price limits. These unpredictable administrative tariff adjustments disrupt advance purchase orders and severely limit agricultural imports into Norway from the U.S. and other distant markets.

State ownership in Norwegian industry continues to raise competitive issues in a number of sectors including telecommunications, financial services, oil and gas, and alcohol and pharmaceutical distribution. Despite some ongoing reforms, Norway still maintains regulatory practices, certification procedures and standards that limit market access for U.S. materials and equipment in a variety of sectors, including telecommunications and oil and gas materials and equipment.

While there has been substantial banking reform, competition in this sector still remains distorted due to government ownership of the two largest commercial banks, and the existence of specialized state banks which offer subsidized loans in certain sectors and geographic locations.

Restrictions also remain in the distribution of alcohol and medical drugs, which historically have been handled through state monopolies. Norway is obligated to terminate these monopolies under the EEA Accord but implementation is slow. The European Free Trade Association (EFTA) Surveillance Agency (ESA—the organization responsible for insuring EEA compliance) has been monitoring Norway's progress in these areas. While Norwegian policy clearly favors liberalization, progress has been limited due to opposition by Norwegian trade unions and other interest groups which are concerned about safeguarding national ownership.

7. Export Subsidy Policies

As a general rule the Government of Norway does not subsidize exports, although some heavily subsidized goods, such as dairy products, may be exported. The Government indirectly subsidizes chemical and metal exports by subsidizing the electricity costs of manufacturers. In addition, the Government provides funds to Norwegian companies for export promotion purposes. Under its WTO obligations, Nor-

way is reducing its agricultural subsidies in stages over six years. Norway has also ratified the OECD shipbuilding subsidy agreement and will eliminate shipbuilding subsidies as soon as the agreement is ratified by other major shipbuilders including the United States and Japan.

8. Protection of U.S. Intellectual Property

The impact of Norwegian IPP practices on U.S. trade is negligible. Norway is a signatory of the main intellectual property accords, including the Bern Copyright and Universal Copyright Conventions, the Paris Convention for the Protection of Industrial Property, and the Patent Cooperation Treaty.

Norwegian officials believe that counterfeiting and piracy are the most important aspects of intellectual property rights protection. They complain about the unauthorized reproduction of furniture and appliance designs and the sale of the resultant goods in other countries, with no compensation to the Norwegian innovator.

Product patents for pharmaceuticals became available in Norway in January 1992. Previously, only process patent protection was provided to pharmaceuticals.

9. Worker Rights

a. *The Right of Association.*—Workers have the right to associate freely and to strike. The Government can invoke compulsory arbitration under certain circumstances with the approval of Parliament.

b. *The Right to Organize and Bargain Collectively.*—All workers, including government employees and the military, have the right to organize and to bargain collectively. Labor legislation and practice is uniform throughout Norway.

c. *Prohibition of Forced or Compulsory Labor.*—Forced labor is prohibited by law and does not exist.

d. *Minimum Age for Employment of Children.*—Children are not permitted to work full time before age 15. Minimum age rules are observed in practice.

e. *Acceptable Conditions of Work.*—Ordinary working hours do not exceed 37.5 hours per week, and 25 working days of paid leave are granted per year (31 for those over 60). There is no minimum wage in Norway, but wages normally fall within a national wage scale negotiated by labor, employers, and the government. The Workers' Protection and Working Environment Act of 1977 assures all workers safe and physically acceptable working conditions.

f. *Rights in Sectors with U.S. Investment.*—Norway has a tradition of protecting worker rights in all industries, and sectors where there is heavy U.S. investment are no exception.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		3898
Total Manufacturing		705
Food & Kindred Products	[1]	
Chemicals & Allied Products	16	
Metals, Primary & Fabricated	3	
Machinery, except Electrical	36	
Electric & Electronic Equipment	-1	
Transportation Equipment	[1]	
Otther Manufacturing	19	
Wholesale Trade		353
Banking		[1]
Finance/Insurance/Real Estate		763
Services		[1]
Other Industries		73
TOTAL ALL INDUSTRIES		6103

[1] Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

POLAND

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Income, Production and Employment:			
Nominal GDP	119,100	134,500	137,000
Real GDP Growth (pct)	7.0	6.1	5.5
GDP by Sector (pct):			
Agriculture	6.4	5.8	N/A
Manufacturing	21.7	20.6	N/A
Services	N/A	N/A	N/A
Government	N/A	N/A	N/A
Per Capita GDP (US$)	3,084	3,482	3,800
Labor Force (000s)	17,597	17,847	17,550
Unemployment Rate (pct)	14.9	13.2	10.7
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	34.9	29.3	25.3
Consumer Price Inflation	21.6	18.5	13.0
Exchange Rate (PZL/US$ - annual average)			
Official	2.42	2.70	3.30
Balance of Payments and Trade:			
Total Exports FOB [2]	22.9	24.4	26.4
Exports to U.S.[3]	0.6	0.6	0.7
Total Imports CIF	29.1	37.1	44.5
Imports from U.S.[3]	0.77	0.97	1.2
Trade Balance	-6.2	-12.7	-18.1
Balance with U.S.[3]	-0.11	0.34	-0.52
External Public Debt	44.0	40.6	38.4
Fiscal Deficit/GDP (pct)	2.6	2.5	2.2
Current Account Surplus/Deficit/GDP (pct) [4]	4.6	-1.0	N/A
Debt Service Payments/GDP (pct)[5]	2.9	1.9	1.8
Gold and Foreign Exchange Reserves	15.0	18.0	20.1
Aid from U.S. (USD millions) [6]	90.4	66	52.7
Aid from Other Sources (USD millions)	390	419	N/A

[1] 1997 figures are Polish Government predictions as of Oct. 1997, unless otherwise noted
[2] Source: Polish Government trade figures, which include direct trade only. U.S. data includes transshipments via third countries
[3] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1997 figures are Embassy estimates based on data available through August 1997.
[4] Including estimated unrecorded trade
[5] Debt service includes paid interest and principal.
[6] Source: U.S. Government estimate.

1. General Policy Framework

Introduction: Since 1989, Poland has steadfastly pursued a policy of liberalizing trade, investment and capital flow measures; it stands out as one of the most successful and open transition economies. In 1997, Poland is expected to post its fourth year of GDP growth above 5 percent and is expected to maintain this pace through the year 2000. The privatization of small and medium state-owned companies and a liberal law on establishment allowed for the rapid development of a vibrant private sector responsible for at least two-thirds of economic activity. In contrast, Poland's large agriculture sector remains handicapped by structural problems, surplus labor, inefficient small farms, and lack of investment. A shadow "grey economy" is estimated at 15—20 percent of GDP.

Government Priorities: The government's determination to enter the EU affects all parts of its economic policies. The chair of the Committee for European Integration is a position of cabinet level rank. Each ministry has an EU integration department. The Poland—EU Association Agreement has resulted in growing tariff differentials some U.S. exporters have said will disadvantage them.

Improving Poland's worsening current account deficit is a priority. To date, the government has resisted pressure for protectionist solutions and continues to support regional free trade initiatives. Poland is an active member of the Central European Free Trade Agreement (CEFTA). In 1997 Poland also signed free trade agreements with Croatia, Israel and Lithuania. The government approved an export

strategy which emphasizes promotion and a more aggressive export assistance program.

Fiscal Policy: The government continues to hold the budget deficit to less than three percent of GDP (if privatization revenues are included and certain unfunded liabilities are excluded). Domestic commercial banks finance most of the deficit. Further progress on public finance depends mainly on comprehensive reform of the social welfare system and privatization of Poland's remaining state sector. The social welfare system consumes around 16 percent of GDP, funded in part by a 48 percent payroll tax. Poland implemented a limited mass privatization plan through national investment funds in which over 90 percent of those eligible participated. However, restructuring and privatization of "sensitive sectors" (eg. coal, steel) has been delayed; the government has also postponed long-awaited privatizations in aviation, energy, and telecommunications.

Monetary Policy: The President of the independent National Bank of Poland (NBP) sets monetary policy and has had considerable success at reducing inflation through control of the money supply. Starting in 1998, monetary policy will be set by an independent committee selected by the President and the parliament. The NBP's principal tools have been reserve requirements, basic interest rates, and open market operations. The NBP's tight money policies have contributed to a reduction in inflation from 600 percent in 1990 to 13 percent in 1997. In an effort to slow the growth in domestic demand for credits, the NBP significantly tightened monetary policy. In 1997 it raised interest rates, increased reserve requirements and even began taking retail deposits. Real deposit interest rates rose from 0 percent in 1996 to 5 percent in mid-1997.

2. Exchange Rate Policies

In 1991 the NBP began managing the exchange rate through a crawling peg mechanism against a basket of reserve currencies (in percentage terms: Dollar—45; D-Mark—35; Sterling—10; and French and Swiss Francs—5 each). Since mid-1995, the zloty has been allowed to float within a seven percent band of the peg. The zloty depreciated against the dollar in real terms about ten percent in 1995 and 1996, which should benefit U.S. exporters.

Poland has consistently followed a policy of liberalizing exchange rate controls, achieving IMF Article VIII current account convertibility in 1995. In 1996, the government eliminated the requirement for Polish firms to convert their foreign currency earnings into zloty. As part of the OECD accession process, Poland liberalized rules governing capital account transactions and in 1997 removed nearly all limits on capital account outflows by Polish citizens.

In 1998, the Polish zloty is to become fully convertible in current account transactions, payments and transfers. The new regulations will also liberalize capital flow to and out of Poland, although certain restrictions will remain as regards Polish investments in countries which are not members of OECD and with which Poland has not concluded relevant bilateral agreements (permits will be required from the central bank). There will also be restrictions concerning deposits by foreign nationals in Polish banks.

3. Structural Policies

Prices Most subsidies and controls on the prices of consumer goods were eliminated in Poland's 1990 "big bang" shock therapy. Price controls on fuel (especially coal), and electricity continue, though the Polish government has pledged to the EU to deregulate prices and start to privatize both sectors in the next several years.

Taxes: Poland introduced a value added tax in 1993. In 1996 the Polish Parliament voted to reduce corporate tax from 40 percent in 1996 to 32 percent by 2000. Poland continues to establish special economic zones which provide foreign investors with substantial tax holidays. Personal income tax rates range from 20 to 44 percent, though the Ministry of Finance would like to lower the highest rate to 40 percent in 1998. U.S. investors often complain about inconsistent tax administration. The lowering of tariffs in line with WTO, EU and CEFTA commitments and the elimination of the three percent import surcharge in 1997 has diminished customs receipts.

Regulatory Policies: The primary difficulties concern product certification standards (below) and regulation of telecommunications in favor of the state-owned telephone company. New products/technology never before sold in Poland require Ministry of Industry approval.

4. Debt Management Policies

Poland's foreign debt situation has dramatically improved since its default in the 1980s. The agreements with the Paris Club (1991) and the London Club of commercial banks (1994), reduced debt by nearly half ($23 billion in net present value terms). At the end of 1997, Poland's total foreign debt was estimated at $38.4 billion, including $27.5 billion to the Paris Club, $7.7 billion Brady bonds, $1.9 billion to the World Bank, and $0.72 billion Eurobonds. Total repayments for 1997 total $2.4 billion ($1.0 billion in principal, $1.4 billion in interest), amounting to 9.0 percent of exports and 1.8 percent of GDP. Flush with soaring foreign exchange reserves, Poland fully repaid its IMF drawings in July 1995. In 1995 it also received an investment grade rating from various rating agencies and returned to international capital markets with a $250 million Eurobond flotation. Total state debt (foreign and domestic) shrank to 51.3 percent of GDP by 1997. The new constitution prohibits the NBP from financing the budget deficit (as of 1 January 1999).

5. Aid

The U.S. provided Poland with $52.7 million in aid in 1997. Of this sum, $40.13 million was SEED Act funds to help Poland's transition to a free market democracy. The remaining $12.5 million was military aid.

6. Significant Barriers to U.S. Exports

Import Licenses: Poland is a member of the WTO. Import licenses are required for strategic goods on the Wassenaar dual use and munitions lists. It also issues licenses for beer and wine, fuel, tobacco, dairy and poultry. The plant quarantine inspection service issues a mandatory phytosanitary import permit for all imports of live plants, fresh fruits, and vegetables into Poland. Several common weed seeds have quarantine status, which hampers U.S. grain exports to Poland. Certificates from the Veterinary Department in the Ministry of Agriculture are also required for meat, dairy and live animal products. U.S. bovine genetics have only limited access to the Polish market. In 1997, Polish parliament passed a new animal breeding law which will affect future access for livestock genetics products. The law will become effective in April 1998.

Services Barriers: The situation in this area has improved, but many barriers remain, especially in telecommunications, financial services, and legal services. The government has announced a privatization plan for the state telecommunications monopoly starting in 1998 and agreed to open domestic long-distance service to competition in 1999 and international services in 2003. Local service licenses are being awarded, but interconnectability remains the domain of the state monopoly. As a condition of its accession to the OECD, Poland agreed to allow firms from OECD countries to open branches and representative offices in the insurance and banking sector starting in 1999. The government allows foreign banks to open subsidiaries. Beginning January 1998 a new banking law and a new law on the central bank will come into force. A new law giving preferential treatment to EU citizen lawyers was passed but has not yet gone into effect.

Standards, Testing, Labeling, and Certification: The primary Polish regulation which may adversely affect U.S. exports is a requirement for some 1400 products sold in Poland to obtain a safety "B" certificate from a Polish test center. This regulation was initially set to go into effect in 1995, but has been postponed and should go into effect in 1998. Under the "B" rule, the EU "CE" mark and ISO 9000 will accelerate the certification process. New laws allowing for self-certification may be implemented in 1998. U.S. companies have complained about the complexity and slowness of the testing process as well as vague information on fees and procedures.

Investment Barriers: Polish law permits 100 percent foreign ownership of most corporations (sole proprietorships and partnerships not allowed; the legal form requirement will remain through January 1, 1999). However, the outgoing government coalition declared that the state should retain a key role in certain "strategic sectors": mining, steel, defense, transportation, energy, banking, and telecommunications. It is too early to tell how the new government will deal with those sectors.

The Polish State Treasury often retains a significant stake in enterprises being privatized. Foreign companies owning a large minority stake are meant to have managerial control of the enterprise, but in at least one joint venture, Centertel, the supposedly passive Polish majority stake holder seized control and prevented additional investment, leading the U.S. partner to file for arbitration. A settlement was later reached in this case.

Certain controls remain on foreign investment. Broadcasting legislation restricts foreign ownership to a 33 percent stake. Foreign stakes in air and maritime trans-

port, fisheries, and long-distance telecommunications are capped at 49 percent. No foreign investment is currently allowed in international telecommunications or gambling. The government continues to work on auto assembly/manufacturing regulatory changes which would encourage operators to increase domestic content and move towards full manufacturing operations.

As a result of OECD accession, Poland allows foreign entities to purchase up to 4000 square meters of urban land or up to one hectare of agricultural land without a permit. Larger purchases, or the purchase of a controlling stake in a Polish company owning real estate, require approval from the Ministry of Interior and the consent of both the Defense and Agriculture Ministries.

Government Procurement Practices: Poland's new government procurement law is modelled on the UN model procurement code and based on competition, transparency, and public announcement. It does not, however, cover most purchases by state-owned enterprises. The only single source breaches of the stated preference for unlimited tender come for reasons of state security or national emergency. There have been several complaints alleging lack of transparency and impartiality in regard to the Huzar helicopter armament tender. The domestic performance section in the law requires 50 percent domestic content and gives domestic bidders a 20 percent price preference. Companies with foreign participation organized under the Joint Ventures Act of 1991 may qualify for "domestic" status. There is also a protest/appeals process for tenders viewed to be unfairly awarded. Since September 1997, Poland has the status of an observer to the WTO's Government Procurement Agreement (GPA).

Customs Procedures: Poland has a harmonized tariff system, having signed the GATT customs valuation code in 1989. The customs duty code currently binding in Poland has different rates for the same commodities, depending on the point of export. Poland's Association Agreement with the EU, the CEFTA agreement and the FTA with Israel, Croatia and Lithuania grants firms from these areas certain tariff preferences over U.S. competitors.

Some American companies have been critical of Polish Customs' performance, citing long delays, indifferent and incompetent officials, and inconsistent application of customs rules. The Polish government acknowledges the problems that developed since the opening of Poland's economy in 1989 have overwhelmed border and port facilities and personnel. In response, the Parliament overhauled customs law and procedures. The new Customs Law will come into effect January 1998.

7. Export Subsidies Policies

With its 1995 accession to the WTO, Poland ratified the Uruguay Round Subsidies Code. Poland has eliminated past practices of tax incentives for exporters, but it provides for drawback levies on raw material imports from EU and CEFTA countries which are processed and reexported into finished products within thirty days. The sugar refining industry, coal, and a number of politically powerful state-owned enterprises continue to directly or indirectly receive production subsidies which result in lower export prices. Poland's policy of rolling-over unused WTO sugar subsidy allowances to be used in combination with current year allowances has been protested by the U.S. and others within the WTO.

Polish industry and exporters are critical of the government for not providing more support for export promotion. The one existing export insurance scheme has very limited resources and rarely guarantees contracts to high-risk countries such as Russia, placing Polish firms at a disadvantage to most western counterparts. It covers only one percent of Polish exports.

8. Protection Of U.S. Intellectual Property

The Polish government has made major strides in improving protection of intellectual property rights. The United States-Polish Bilateral Business and Economic Treaty contains provisions for the protection of U.S. intellectual property. It came into force in 1994, once Poland passed a new copyright law which offers strong criminal and civil enforcement provisions and covers literary, musical, graphical, software, audio-visual works, and industrial patterns. Poland also adheres to the Berne Convention (Paris Text, 1971), the Rome Convention on Sound Recordings, and TRIPS provisions within the WTO. Poland's 1993 Patent Law, in all other ways adequate, did not provide 20 year pipeline protection favored by the pharmaceutical industry.

Much of the pirated or fake items available in Poland are imported from abroad (CDs from Bulgaria and Russia; hosiery from Italy) rather than being manufactured in Poland. Industry associations estimate 1996 levels of piracy in Poland to be: 20

percent in sound recordings; 10 percent in books and video, and 80 percent in software.

While enforcement has improved noticeably, remaining difficulties, particularly in the prosecution of IPR cases, allow for continuing, if reduced, levels of piracy and trademark infringement. Due to a lack of manpower and resources, Polish authorities often rely on rights holders to provide preliminary evidence of violations. In one important 1996 case, a large U.S.-based firm successfully defended several trademarks by employing local counsel.

9. Worker Rights

The Labor Code, which became effective June 1996, thoroughly redefined the rights and duties of employers and employees in more modern, free-market terms.

a. *The Right of Association.*—Polish law guarantees all civilian workers, including military employees, police and frontier guards, the right to establish and join trade unions of their own choosing, the right to join labor federations and confederations, and the right to affiliate with international labor organizations. Independent labor leaders have reported that these rights are largely observed in practice.

b. *The Right to Organize and Bargain Collectively.*—The laws on trade unions and resolution of collective disputes generally create a favorable environment to conduct trade union activity. Labor leaders, however, reported numerous cases of employer discrimination against workers seeking to organize or join unions in the growing private sector.

c. *Prohibition of Forced or Compulsory Labor.*—Compulsory labor, except for prisoners convicted of criminal offenses does not exist.

d. *Minimum Age for Employment of Children.*—Polish law contains strict legal prescriptions over the conditions in which children may work. The State Labor Inspectorate has reported that increasing numbers of Polish children now work and that many employers violate labor rules by underpaying or paying them late.

e. *Acceptable Conditions of Work.*—The large size of the grey economy, along with the insufficient number of labor inspectors, complicate enforcement of minimum wage requirements and minimum workers' health and safety standards. Enforcement is a problem of unclear jurisdiction.

f. *Rights in Sectors with U.S. Investment.*—Observance of the five worker rights conditions in firms which have U.S. investment generally meets and can exceed those in comparable Polish firms. Over the last several years, there have been relatively few cases where Polish unions have charged managers of U.S.-based firms of violating Polish labor law; those that have arisen have been largely resolved. In cases where American companies purchase an existing Polish enterprise, unions usually continue to operate. There tend to be no unions, however, where U.S. firms build new facilities.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		0
Total Manufacturing		639
Food & Kindred Products	267	
Chemicals & Allied Products	38	
Metals, Primary & Fabricated	[1]	
Machinery, except Electrical	-4	
Electric & Electronic Equipment	-1	
Transportation Equipment	[1]	
Other Manufacturing	[1]	
Wholesale Trade		95
Banking		[1]
Finance/Insurance/Real Estate		20
Services		[1]
Other Industries		40
TOTAL ALL INDUSTRIES		933

[1] Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

PORTUGAL

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Income, Production and Employment:			
Nominal GDP [2]	103.5	108.0	101.5
Real GDP Growth (pct) [3]	2.3	3.3	3.5
GDP by Sector:			
Agriculture	4.9	5.0	5.1
Industry	35.6	36.2	36.8
Services	59.5	58.8	58.1
Per Capita GDP	10,452	10,914	10,251
Labor Force (000s)	4,551	4,583	4,622
Unemployment Rate (pct)	7.2	7.3	6.9
Money and Prices (annual percentage growth):			
Money Supply (M2)	8.1	9.3	3.0
Consumer Price Inflation (pct)	4.1	3.1	2.2
Exchange Rate (PTE/USD - annual average)	150.0	154	175.0
Balance of Payments and Trade:			
Total Exports FOB [4]	24.1	25.3	24.1
Exports to U.S.[4]	1.1	1.1	1.1
Total Imports CIF [4]	32.6	34.9	33.2
Imports from U.S.[5]	0.9	1.1	1.2
Trade Balance [4]	-8.5	-9.6	-9.1
Balance with U.S.[5]	0.2	0.0	-0.1
Current Account Deficit/GDP (pct)	-0.7	-2.5	-2.0
External Public Debt	12.3	12.6	12.7
Debt Service Payments/GDP (pct)	13.1	10.1	9.4
Fiscal Deficit/GDP (pct)	5.8	3.2	2.9
Gold and Foreign Exchange Reserves	21.7	21.4	18.7
Aid from U.S.	0	0	0
Aid from All Other Sources	N/A	N/A	N/A

[1] 1997 figures are all estimates based on available monthly data in October 1997.
[2] GDP at factor cost
[3] Percentage changes calculated in local currency
[4] Merchandise trade
[5] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1997 figures are estimates based on data available through November 1997.

1. General Policy Framework

The government seeks to modernize Portuguese markets, industry, infrastructure, and workforce in order to match the productivity and income levels of its more advanced European Union (EU) partners. Portugal's per capita GDP (on a purchasing power parity basis) rose to close to 69.4 percent of the EU average in 1996 from 52.9 percent in 1985.

The government aims to be in the first round of EU countries to join the European Economic and Monetary Union (EMU) on January 1, 1999. Portugal currently meets three of the EMU convergence criteria—the exchange rate, long-term interest rates, and inflation—and is on track to satisfy the remaining two—the general government deficit and debt. The current policy mix to ensure first-round EMU membership includes continued budget discipline and tight monetary policy in support of a stable exchange rate; wage moderation to support the disinflation process; and privatization and free trade policies to increase the efficiency and productivity of the economy.

Portuguese agriculture accounts for about 5 percent of GDP, industry for 35 percent, and services for 60 percent. Portuguese exports are based on both traditional industries—textiles, clothing, footwear, cork/wood products, beverages (wine), porcelain/earthenware, and glass/glassware—and burgeoning modern ones—machinery, transport equipment (autos and components), minerals/metals, and chemicals. Sales of the two year-old AutoEuropa (Ford/VW) plant amounted to 2.2 percent of GDP

and 12 percent of merchandise exports in 1996. The tourism industry continues to expand: some 23.3 million tourists visited Portugal in 1996 from Spain, the United Kingdom, Germany, France, the Netherlands, Belgium, and the United States.

Portugal traditionally runs a large merchandise trade deficit, which is made possible by net receipts from tourism, remittances from Portuguese workers abroad, and net transfers from the EU. Net EU transfers averaged over 3 percent of GDP during 1995–1997 and are expected to be 2.6 billion dollars or 2.5 percent of GDP in 1998. During 1989–1996, Portugal's current account was broadly in balance and foreign direct investment averaged 2 percent of GDP.

Fiscal Policy: The government finances its deficit through issuance of medium-term escudo and foreign currency-denominated treasury obligations. The risk premium on 10-year escudo-denominated bonds versus equivalent German bonds declined from over 400 basis points in October 1995 to about 35 basis points in October 1997. The GOP enjoys a solid international credit rating (AAA on long-term debt in escudos, AA on long-term debt in foreign currency) and has ready access to international financial markets. Three kinds of government spending put pressure on the deficit: government personnel outlays, including pensions; current transfers for social programs; and domestic counterpart funding for major public investment projects co-financed with the EU. As in other EU countries, value-added taxes (17 percent in Portugal's case) raise prices to consumers. Other direct taxes, such as the stamp tax on financial transactions, and the cylinder-based automobile tax, affect product demand in specific markets.

Monetary Policy: The government subordinates monetary policy to the need to maintain a stable exchange rate. Interest rates and the monetary aggregates generally reflect market conditions. The Bank of Portugal intervenes as necessary—through liquidity absorption/provision and foreign exchange operations—to smooth market exchange rate fluctuations and ensure medium-term price stability.

2. Exchange Rate Policy

Portugal participates in the Exchange Rate and Intervention Mechanism (ERM) of the European Monetary System (EMS). In accordance with this agreement, Portugal maintains the spot exchange rates between the Portuguese escudo and the currencies of the other participants within margins of 15 percent above or below the cross rates based on the central rates expressed in European Currency Units (ECUs).

The monetary authorities have kept the escudo within a narrow band around its central rate against the German mark for the past two years. Strong dollar appreciation against the escudo in 1997 reduced the price competitiveness of U.S. products in Portugal, but U.S. exports have continued to grow in line with increased economic growth/import demand in Portugal.

3. Structural Policies

The Portuguese government continues to liberalize the economy to stimulate growth and convergence with EU standards. Investment in new public infrastructure, privatization and foreign direct investment are changing the face of the economy and creating demand for U.S. exports.

Portugal is rapidly improving its road, energy, health, and environmental infrastructure. The government has earmarked a large portion of its 20 billion dollar EU-backed regional development financing package for 1997-2000 for new infrastructure projects. Site construction and associated urban renewal for the Lisbon World Exposition in 1998 involves investment of 5 billion dollars in the Lisbon area, of which 3 billion dollars will have been made by 1998. A 4.5 billion dollar natural gas pipeline from Algeria through Morocco to Spain and Portugal involves investment of 2 billion dollars in Portugal and will supply 2.5 billion cubic metres of natural gas per year for 25 years on a take-or-pay basis. The northern rail modernization, subways, dams, water treatment facilities, and environmental projects offer numerous additional opportunities for U.S. exporters of equipment and services.

The government has steadily rolled back the state presence in the economy since joining the European Community in 1986. Full or partial privatization of over 100 companies since 1989 (including major banking, insurance, energy, telecommunications, cement, and steel companies) has reduced the weight of the state-held sector in the economy from 20 percent to 10 percent. By the end of 1997, privatization will have yielded over 15 billion dollars in cumulative receipts, equivalent to an average of almost 2 percent of GDP per year, one of the highest ratios in the OECD. Privatization has helped to reduce public debt, increased the efficiency of Portuguese industry, promoted the development of the local equity market, and contrib-

uted to the development of more sophisticated Portuguese industrial and financial groups. Formerly state-owned companies will be streamlining and upgrading operations under private management and thereby creating new markets for U.S. goods and services.

Foreign investments in the automotive, electronics and financial sectors are steadily integrating Portugal's economy with those of Europe and other developed countries. These investments have direct spiller effects for U.S. exports.

4. Debt Management Policies

Portugal's external public debt is relatively small and can be serviced comfortably. Direct state external debt stands at about 12.7 billion dollars—12.5 percent of GDP and 68 percent of international reserves. In July 1997, the debt service ratio stood at 9.4 percent, with long-term principal and interest payments amounting to 6.9 percent and 2.5 percent, respectively, of current account receipts. Large gold and foreign exchange reserves (amounting to 18 percent of GDP), and the ability to tap international financial markets on favorable terms, enable Portugal to manage balance of payments pressures and maintain financial stability.

Portugal is an aid donor nation and a Member of the OECD Development Assistance Committee. Portugal closely follows development issues in its former African colonies. Portugal's official development assistance as a proportion of GDP peaked at 0.36 percent in 1992 and fell to 0.25 percent in 1996. A large proportion of Portugal's aid is in the form of debt forgiveness and refinancing on concessional terms of private sector loans to Lusophone African countries, principally Angola and Mozambique.

5. Significant Barriers to U.S. Exports

As of January 1, 1993, all barriers to trade, capital flows and labor mobility between Portugal and its EU partners were eliminated. Most barriers to U.S. exports, therefore, are common to all EU member states.

Quantitative import restrictions remain for the following products: automobiles, fabrics and nets, fuses, parts of footwear, iron and steel tubes and pipes, and weaving machines for certain countries. Textiles are covered by the Multi-Fiber Arrangement (MFA) and protected by EU-wide quotas that are being phased out over 10 years under the Uruguay Round Agreement.

Portugal follows EU directives for standards, testing, labeling, and certification. The Portuguese Quality Institute establishes national standards and implements EU directives. Portugal has already adopted most EU directives into Portuguese law. The Portuguese Telecommunications Institute sets standards for telecommunication products, and the National Laboratory of Civil Engineering sets construction standards.

Low voltage electrical and electronic equipment must meet the requirements of EC directive 73/23/EEC. Imported textiles, apparel, and leather goods must carry a label indicating country of origin and composition by percentage of the fabric.

EU-funded Projects: Portuguese law does not discriminate against foreign firms in bidding on EU-funded projects. Nevertheless, as a practical matter, foreign firms bidding on EU-funded projects have found that having an EU or a Portuguese partner (depending on the project) enhances their prospects. For certain high-profile direct imports (i.e., aircraft), the GOP has shown a political preference for EU products (i.e., Airbus).

Value-Added Tax: Value-added tax (IVA) is collected at the time of import on products coming from outside the EU. Portuguese importers and distributors therefore have an incentive to import U.S. products through another EU country, rather than directly from the United States, in order to defer paying IVA until the product has been sold. In some instances, however, the need to take a circuitous route to obtain U.S. products without up-front IVA payment encourages Portuguese importers/distributors to buy European products instead.

The government offers a generous package of incentives to foreign investors, including 100 percent foreign-owned subsidiaries. The package of incentives ranges from 25 to 35 percent of the total investment but can go higher to attract certain desired investments.

Portugal's 1990 privatization law limits non-EU participation in state-owned enterprises being privatized. Portugal limits non-EU investment to 15 percent in television broadcasting and 25 percent in complementary telecommunications. It limits foreign investment in the capital of public service telecommunications operators to 25 percent. Non-EU investment in financial services is subject to an economic needs test. Only companies headquartered in Portugal and whose majority of capital and

management control belongs to Portuguese national entities can receive licenses to operate marine and air transport. Air transport between the Azores and Madeira and mainland Portugal remains a public monopoly.

Government procurement legislation makes no distinction as to country of origin. The only exception is for purchases of items manufactured in Indonesia. In July 1993, the GATT accepted Portugal's list of entities covered by the Government Procurement Code.

6. Export Subsidies Program

Portugal instituted the Special Program of Support for the Export Sector (PEASE) to promote diversification of Portugal's export markets. Under this program, the government contracts with a private insurance firm, COSEC, to provide political risk coverage for interbank credit lines to support Portuguese exports to "non-traditional" (high-risk) markets. In addition, Portugal recently announced a new package of direct financial support (mainly credit subsidies) for Portuguese firms expanding their international operations.

7. Protection of U.S. Intellectual Property

The Portuguese Industrial Code largely conforms with the trademark and patent provisions of the TRIPs agreement and additional revisions are currently being considered to bring it into full compliance. Portugal's current substantive law on copyright protection, promulgated in 1985, is also largely in accordance with TRIPs. EU directives on rental and broadcasting have been transposed into law. Portugal is a member of the World Intellectual Property Organization and is party to the Berne and Universal Copyright Conventions and the Paris Industrial Property Convention.

Portuguese software law explicitly offers copyright protection for computer programs and stipulates stiff fines for software piracy. Business and software organizations have taken a proactive role in the fight against piracy, and industry sources indicate that the piracy rate, while above the EU average, continues to decline. Enforcement action against unauthorized copying of software and audio and video cassettes also improved significantly last year.

8. Worker Rights

a. *The Right of Association.*—Workers in both the private and public sectors have the constitutional right to associate freely and establish unions in the workplace "to defend their interests." Unions may be established by profession or industry. Strikes are permitted for any reason, including political causes; they are not common, usually of short duration, and generally are resolved through direct negotiations. Two principal labor federations exist and are closely affiliated with political parties. There are no restrictions on formation of additional labor unions. Unions function without hindrance by the government. There are no restrictions on unions' ability to join federations or on federations' ability to affiliate with international labor bodies.

b. *The Right to Organize and Bargain Collectively.*—Unions are free to organize without interference by the government or by employers. Collective bargaining is provided for in the Constitution and is practiced extensively in the public and private sectors. Collective bargaining disputes rarely lead to prolonged strikes. If a long strike occurs in an essential sector such as health, energy, or transportation, the government may order the workers back to work for a specific period. This did not occur in 1997.

c. *Prohibition of Forced or Compulsory Labor.*—Forced labor is prohibited and does not occur. This prohibition is enforced by the General Labor Inspectorate (IGT).

d. *Minimum Age for Employment of Children.*—The minimum employment age is 16 years. The two main labor federations and observers from other European countries have charged that a number of "clandestine" companies in the textile, shoe, and construction industries exploit child labor. The IGT confirms that hundreds of children under the age of 16 are employed illegally, mainly in the northern cities of Porto and Braga, but believes the number is declining. In 1996, the government created the National Inter-Ministerial Commission to Combat Child Labor (CNCTI) with the aim of eradicating child labor in Portugal. In 1997, the CNCTI, the Ministry of Employment, and one of the unions undertook a public education campaign targeted at high-risk communities to convince parents to keep their children in school. The Ministry of Education required teachers to inform the IGT in the event of continued absences or declines in productivity on the part of students. The Ministry of Employment published a "blacklist" of companies caught illegally employing child labor and denied those companies access to EU funding or benefits. Neverthe-

less, one union maintains that the CNCTI has too little independent funding to be able carry out its functions.

e. *Acceptable Conditions of Work.*—Minimum wage legislation covers full-time workers, as well as rural workers and domestic employees age 18 or over. The monthly minimum wage of about 315 dollars (56,700 escudos), which came into effect on January 1, is generally enforced. Along with widespread rent controls, basic food and utility subsidies, and a guaranteed minimum income that is steadily expanding to cover the most needy communities, the minimum wage affords a basic standard of living for a worker and family. Average monthly earnings range from about 460 dollars (83,469 escudos) for skilled low-level personnel to about 1,580 dollars (284,263 escudos) for higher management personnel.

The maximum legal working day is 8 hours and maximum working week is 40 hours. For public sector employees, the maximum working week is 39 hours. Current law permits a maximum of 2 hours of paid overtime per day and 200 hours per year, with a minimum interval of 12 hours between normal working days. The Ministry of Employment monitors compliance through its regional inspectors and working hour limits are respected in practice. Employees receive 22 days of paid annual leave, plus vacation and Christmas ("13th month") bonuses. Employers are legally responsible for accidents at work and are required by law to carry accident insurance. Although an existing body of law regulates safety and health, unions continue to argue for stiffer laws. The General Directorate for Hygiene and Labor Safety develops safety standards and the IGT is responsible for enforcing them. A relatively large proportion of accidents occurs in the construction industry, where unions claim many foreign workers are hired illegally and work under unregulated conditions. Major accidents involving loss of life on some high-profile public and private projects have focused the government's attention on improving worker safety in the construction sector in particular. There is also considerable concern about poor environmental controls in the textile industry.

f. *Worker Rights in Sectors with U.S. Investment.*—Legally, worker rights apply equally to all sectors of the economy.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		[1]
Total Manufacturing		689
Food & Kindred Products	181	
Chemicals & Allied Products	235	
Metals, Primary & Fabricated	[1]	
Machinery, except Electrical	[1]	
Electric & Electronic Equipment	[1]	
Transportation Equipment	[1]	
Other Manufacturing	45	
Wholesale Trade		451
Banking		[1]
Finance/Insurance/Real Estate		148
Services		331
Other Industries		[1]
TOTAL ALL INDUSTRIES		1854

[1] Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

ROMANIA

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Income, Production and Employment:			
Nominal GDP [2]	35.3	35.52	31.4
Real GDP Growth (pct) [3]	7.1	4.1	-2.0
GDP by Sector:			
Agriculture	7.0	6.9	6.8
Industry	12.3	12.7	10.6
Services [4]	16.2	15.9	14.0
Per Capita GDP (US$)	1,565	1,564	1,389
Labor Force (millions)	10.5	10.4	10.4
Unemployment (pct)	9.5	6.3	9.0
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	71.6	66.0	111.8
Consumer Price Inflation	27.8	56.9	151.4
Exchange Rate (Leu/US$ - annual average)			
Official	2,033	3,082	7,161
Balance of Payments and Trade:			
Total Exports FOB [5]	7.9	8.1	8.8
Exports to U.S. (US$ mlns) [6]	200.8	180	300
Total Imports CIF [5]	9.5	10.6	10.5
Imports from U.S. (US$ mlns) [6]	419.4	375.8	347.6
Trade Balance [5]	-1.6	-2.5	-1.7
Balance with U.S. (US$ mlns) [6]	-218.6	-195.8	-47.6
Current Account Deficit/GDP (pct)	4.9	7.3	5.1
External Public Debt	6.8	9.1	10.4
Debt Service Payments/GDP	3.8	5.6	8.0
Fiscal Deficit/GDP (pct)	-2.6	-3.9	-3.7
Gold and Foreign Exchange Reserves [7]	2.27	2.54	4.41
Aid from U.S. (US$ millions) [8]	39.0	26.0	33.1
Aid from All Other Sources [8] (US$ millions)	200.7	142.6	76.9

[1] All figures for 1997 are estimates extrapolated from dataavailable in October, 1997.
[2] GDP at factor cost.
[3] Percentage changes calculated in local currency.
[4] Government expenditure is included in services.
[5] Merchandise trade.
[6] Source: Romanian National Statistics Commission.
[7] Total banking system net international reserves; end of period.
[8] Does not include military aid.

1. General Policy Framework

In early 1997, Romania's newly elected government adopted an economic reform program, backed by a stand-by agreement with the IMF. The Government of Romania has seen some success in implementing the macroeconomic stabilization program: inflation has dropped, the current account deficit has been reduced, foreign exchange reserves have increased, and the exchange rate has stabilized. The government deficit is within the IMF-target of 4.5 percent of GDP. The government has been less successful, however, in its restructuring and privatization efforts. More than half of industrial production remains in state hands.

Romania is committed to becoming a member of the European Union, which is by far Romania's largest trading partner. In the first seven months of 1997, the EU received 57.3 percent of Romania's total merchandise exports and provided 51.7 percent of its merchandise imports. In contrast, the United States accounted for only 3.95 percent of Romania's exports and 3.92 percent of its imports during the same period.

2. Exchange Rate Policy

The foreign exchange market was liberalized in February, 1997 and has been functioning effectively since that time. Romania has passed legislation to implement full leu-convertibility by the end of January, 1998, which will increase domestic confidence in the economic reform program.

3. Structural Policies

Economic reform has entailed creating new laws in virtually every sphere: commerce, privatization, intellectual property, banking, labor, foreign investment, environment, and taxation. While new legislation is necessary to create a basis for a market economy, the rate of change of legislation has also served as a brake on trade and investment. For example, an emergency law on foreign investment was issued in June, 1997, but the necessaryimplementing regulations were not put in place until October. In the interim, Parliament decided to redraft the legislation to provide a level playing field for domestic as well as foreign investors. The result has been to significantly slow the inflow of investment until the legal framework is clarified.

In the agricultural sector, Romania has made significant progress in its reform program. Prices for almost all products have been liberalized, export quotas have been lifted, and tariffs have been reduced. Privatization and liquidation of state-owned farms is on track.

In contrast, Romania has moved slowly to privatize and reform state-owned banks or to restructure heavy industry, which remains largely in state hands. In August, 1997 the government announced plans to close 16 energy-intensive industries which cannot pay their bills. Implementation of the plan has been uneven.

4. Debt Management Policies

At the end of 1996, Romania's medium and long-term external debt amounted to $6.9 billion. At the same time, the short-term debt amounted to $1.2 billion. The National Bank's foreign exchange reserves amounted to $550.7 million, and the commercial banks' reserves reached $1.6 billion. At the same time, Romania had claims against foreign countries worth $3 billion, stemming from economic transactions prior to December, 1989.

Romania's foreign indebtedness and external debt service ratio remain relatively low and manageable. The ceiling for 1997 foreign borrowing has been set at $3.2 billion by law.

5. Significant Barriers to U.S. Exports

Traditionally defined trade and investment barriers are not a significant problem in Romania. There are no laws which directly prejudice foreign trade or business operations, although EU and members of the Central European Free Trade Area (CEFTA) enjoy tariff preferences for some goods as a result of Romania's Association Agreement with the European Union and membership in CEFTA as of July, 1997.

Bureaucratic red tape and uncertainties in the legal framework can make doing business in Romania difficult. There is little experience in Western methods of negotiating contracts and, once concluded, there is no effective means to enforce contracts. In addition, title insurance is not available for property acquisitions and purchasers are potentially subject to legal challenge by former owners or managers. The absence of effective legal means for pressing claims against debtors is a further complication for foreign investors.

The cost of doing business in Romania is high, particularly for office rentals, transportation, and telecommunication services. Lack of an efficient, modern payments system further delays transactions in Romania. The capital requirements for foreign investors are not onerous, but income taxes are steep. Foreign companies investing over certain amounts qualify for some tax exemptions.

Investment barriers are few in Romania. The Foreign Investment Law allows up to 100 percent foreign ownership of an investment project (including land), and there are no legal restrictions on the repatriation of profits and equity capital. Governmental approval of joint ventures requires extensive documentation. U.S. investment in Romania is increasing and by November, 1997, totaled $254.5 million, ranking the United States second among foreign investors after the Netherlands.

Romania is a member of the World Trade Organization, but not a signatory to the agreement on government procurement or civil aircraft.

6. Export Subsidies Policies

The Romanian government does not provide export subsidies but does attempt to make exporting attractive to Romanian companies. For example, the government provides for the total or partial refund of import duties for goods that are processed for export or are incorporated into exported products. The Romanian Export-Import Bank engages in trade promotion activities on behalf of Romanian exporters of goods produced in Romania.

There are no general licensing requirements for exports from Romania, but the government does prohibit or control the export of certain strategic goods and technologies. For example, the government has on occasion banned the export of various commodities due to domestic shortages. There are also export controls on imported or domestically produced goods of proliferation concern.

7. Protection of U.S. Intellectual Property

Romania has made significant progress in the area of intellectual property protection since the end of the communist era. Patent and trademark laws are in place and legislation on pipeline protection for pharmaceuticals is expected to be passed by the Parliament early in 1998. Copyright legislation, which was enacted in 1996, has sparked new interest among American technology firms in investing and marketing their products in Romania. The Romanian government has proven receptive to offers of international assistance in enforcement, but has yet to establish a strong enforcement record in the copyright area.

Pirated copies of audio and video cassette recordings are available, but not openly displayed. In a few cases, pirated films are broadcast via local cable television stations. Illegal compact discs sold in Romania are imported, but there are no known exports of pirated products from Romania. An industry association representing U.S. companies estimated annual losses due to piracy of intellectual property at roughly $45 million in 1996.

Romania is member of Berne (the Stockholm Convention of (1968), World Intellectual Property Organization, the Paris Industrial Property Convention, the Patents Cooperation Treaty, the Madrid Convention, and the Hague Convention on Industrial Design, Drawings and Models. As a country in transition, Romania will implement the WTO agreement on intellectual property on January 1, 2000.

8. Worker Rights

a. *The Right of Association.*—All workers except public employees, police, and military personnel, have the right to associate freely and to form and join labor unions without prior authorization. Labor unions are free from government or political party control but may engage in political activity. Labor unions may join federations and affiliate with international bodies, and representatives of foreign and international organizations may freely visit and advise Romanian trade unionists.

b. *The Right to Organize and Bargain Collectively.*—Workers have the right to bargain collectively. Basic wage scales for employees of state-owned enterprises are established through collective bargaining with the state. There are legal limitations on the right to strike only in industries such as defense, health care, transportation, and telecommunications, which the government considers critical to the public interest.

c. *Prohibition of Forced or Compulsory Labor.*—The Constitution prohibits forced or compulsory labor. The Ministry of Labor and Social Protection effectively enforces this prohibition.

d. *Minimum Age for Employment of Children.*—The minimum age for employment is 16. Children as young as 14 may work with the consent of their parents or guardians but only "according to their physical development, aptitude, and knowledge." Working children under 16 have the right to continue their education, and employers are obliged to assist in this regard.

e. *Acceptable Conditions of Work.*—Minimum wage rates are generally observed and enforced. The Labor Code provides for a standard work week of 40 hours, with overtime for work in excess of 40 hours, and paid vacations of 18 to 24 days annually. Employers are required to pay additional benefits and allowances to workers engaged in dangerous occupations. Nevertheless, some labor organizations press for healthier, safer working conditions. The Ministry of Labor and Social Protection has established safety standards for most industries, but enforcement is inadequate and employers generally ignore the Ministry's recommendations. On average, women experience a higher rate of unemployment than men and earn lower wages despite educational equality. The average gross monthly wage in September 1997 was around $100.

f. *Rights in Sectors with U.S. Investment.*—Conditions do not appear to differ in goods-producing sectors in which U.S. capital is invested. Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		0
Total Manufacturing		[1]
Food & Kindred Products	[1]	
Chemicals & Allied Products	[1]	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	1	
Wholesale Trade		-1
Banking		[1]
Finance/Insurance/Real Estate		0
Services		0
Other Industries		[1]
TOTAL ALL INDUSTRIES		63

[1] Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

---

RUSSIA

Key Economic Indicators [1]

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997
Income, Production and Employment:			
Nominal GDP [2]	1,630	2,256	2,678
Real GDP Growth (pct)	-4	-2.8	0.3
GDP by Sector:			
Manufacturing [2]	75.0	97.4	97.6
Services [2]	76.4	109.3	124.2
Per Capita GDP [3]	2,711	2,581	2,485
Labor Force (000s)	73,000	73,000	72,000
Unemployment Rate (pct)	8.2	9.3	9.2
Money and Prices (annual percent growth):			
Money Supply Growth (M2)	126	34	25
Consumer Price Index	131	22	15
Exchange Rate:			
(ruble/US$ - annual average)	4557	5775	5780
Balance of Payments and Trade:			
Total Exports (FOB) [4]	78.2	85.0	84.0
Exports to U.S. [4]	4.3	4.8	4.1
Total Imports (CIF) [4]	46.7	45.9	42.8
Imports from U.S. [4]	2.6	2.9	3.0
Trade Balance [4]	31.5	39.1	41.2
Balance with U.S. [4]	1.7	1.9	1.1
Current Account [4]	17.0	19.4	18.1
External Public Debt [4]	728	1,069	1,289
Debt Service Payments/GDP (pct)	1.9	2.1	1.4
Fiscal Deficit/GDP (pct)	5.4	8.0	6.5
Gold and Foreign Exchange [5]	17.1	15.3	24.5
Aid from U.S. (US$ millions) [6]	286	182	150
Aid from All Other Sources	N/A	N/A	N/A

[1] Figures are from the Russian Statistics Committee (Roskomstat) and U.S. Embassy estimates.

[2] In trillions of Russian rubles. Reliable dollar figures can not be developed due to quality of the data, high inflation and rapid depreciation of the ruble against the dollar.
[3] In rubles, 1990 prices. Reliable dollar figures can not be developed.
[4] Source: State Customs Committee 1997 trade data are estimates based on first six months.
[5] Source: International Monetary Fund. 1997 data as of June.
[6] USAID, total obligations for the year.

1. General Policy Framework

At the start of 1996, Russia embarked on a three-year economic stabilization program characterized by tight monetary and fiscal policy. This program formed the basis for a three-year $10.2 billion Extended Fund Facility (EFF) credit from the IMF. While performance has generally been deemed satisfactory, the IMF delayed disbursements in July, October, and December 1996 due to poor government revenue collections, a problem that persists.

Despite the revenue shortfalls, the Government has held the line on spending, and the Central Bank has maintained a tight monetary policy. The fiscal deficit is largely financed by domestic bond issues. As a result, inflation has continued to decline, from an annual rate of 131% in 1995 to 14.9% in August, 1997. However, compressed government spending has led to a build-up of arrears, creating a ripple effect throughout the economy. The Government has moved to address the problem, eliminating pension arrears and the bulk of wage arrears to military servicemen, with a pledge to bring all public sector wages current by January 1, 1998. The Government is pursuing tax reform to widen the tax base and increase revenues. At the same time, the draft 1998 budget attempts to reduce the expenditure side of the equation to bring revenues and expenditures closer in line.

There are very preliminary indications that, after five straight years of decline, the economy may be recovering. Overall industrial production in July 1997 was 1.2% higher than the comparable 1996 period. Virtually all of this increase is due to increased estimates of the activity of small businesses and the shadow economy, the accuracy of which is difficult to measure. Production at large and medium firms in July was down 2.8% versus the year earlier level. Freight haulage, an often used secondary indicator of economic activity, was also down 6.5% in July over the same period last year. Early data for July indicates a 5.6% decline in exports over the same period in 1996. Imports, including estimates for informal shuttle trade are essentially flat for the seven months ending in July.

2. Exchange Rate Policy

Russia has been an IMF Article VIII signatory since July 1, 1996, removing all restrictions from current account transactions. Since that time, the Central Bank has employed a "crawling band" mechanism to manage the currency, generally pursuing a policy of gradual nominal depreciation. Exchange rates have remained at the upper level of the band parameters of 5500-6100 in January to 5750-6350 at year's end. Tight monetary and fiscal policy, together with a healthy trade surplus and increasing capital inflows has created pressure to appreciate the ruble and, in real terms, the ruble has appreciated very slightly since the beginning of 1997. 1998 exchange rate policy will be announced at the end of November.

3. Structural Policies

The pace of economic liberalization was renewed in March 1997 following sluggish progress in 1996. The GOR moved forward on a program to restructure the "natural monopolies" in Russia's electricity, rail and gas sectors, starting with reasserting its own influence on the boards of directors. There has been early progress on rationalizing pricing, to help lower costs of these key inputs for manufacturing enterprises and plans to continue in this direction are on track. The GOR has also managed to reduce subsidization of housing services, though this remains a heavy burden for municipal budgets. To attack the problem of weak management skills among Russian entrepreneurs, President Yeltsin has proposed an initiative to increase business and management training for Russians domestically and abroad.

Approximately 70 percent of GDP is now produced by private companies. The July 1997 auction of a portion of the state telecommunications holding company, Svyazinvest, indicated that the government was shifting away from the non-competitive practices that characterized the controversial loans-for-shares program. The GOR has promised more openness and transparency in future privatizations, and to increase the revenues from the program. By October, actual 1997 privatization proceeds exceeded the year's target by 85%—a real turnaround from years of underperformance.

Taxes in Russia are confusing, subject to constant revision and inconsistently applied. The Government submitted a revised draft tax code, designed to streamline

and rationalize the tax system, to the Duma in April. Legislators approved the code in its first reading (three are required for legislation to become law) in June, but signaled that they still had major concerns with the Government's draft. Discussion about how best to pursue tax reform is on-going. However, implementation of any new approved provisions, whether encapsulated in a unified code or submitted as separate legislation, will be gradually phased-in.

4. Debt Management Policies

After rescheduling, Russia has an external debt servicing to exports ratio of 5.8%. In 1996, the Paris Club of official creditors rescheduled Russia's outstanding stock of debt (more than $40 billion, including debt inherited from the former Soviet Union) over 25 years. The agreement is subject to periodic reviews which are tied to performance under the IMF EFF program. In October 1997, Russia concluded an agreement with the London Club of commercial creditors to reschedule $24 billion of commercial debt. Russia will commence payments under the rescheduling agreement in December, 1997. In September 1997, Russia also joined the Paris Club as a creditor, in an effort to recoup some of the estimated $52 billion in debt owed to it by Paris Club debtor nations. Russia re-entered international capital markets in November 1996 and has successfully placed two Eurobond issues (for $2 billion and DM2 billion) to date. Such international borrowings are expected to become a standard feature of government financing in 1998 and beyond.

5. Significant Barriers to U.S. Exports

In general, Russia relies on tariff barriers for protection of domestic industry. Russia raised import tariffs in several stages beginning from zero when the Soviet Union split up. In March 1995, by presidential decree, these rates were revised to raise the floor (except for a small list of zero-duty goods) to five percent and lower the ceiling (except for a few luxury goods) to 30 percent. In the spring of 1996, the Government raised tariffs on alcoholic beverages, chicken and some other food products, resulting in an average weighted tariff of 14 percent. In addition, excise taxes and value added taxes (VAT) are applied to selected imported goods. Excise taxes vary from 20 percent to 570 percent on a price exclusive basis. The VAT rate is currently 20 percent with the exception of selected food products, where it is 10 percent and VAT is applied to the import price plus tariff plus excise tax.

Import licenses are required for importation of various goods, including ethyl alcohol and vodka, combat and sporting weapons, self-defense articles, explosives, military and ciphering equipment, encryption software and related equipment, radioactive materials and waste including uranium, strong poisons and narcotics, and precious metals, alloys and stones. In October 1997, the Committee on Defensive Trade Measures proposed licensing of color TV imports, to go into effect in 1998; this proposal awaits decision by the Council of Ministers. Most import licenses are issued by the Russian Ministry of Foreign Economic Relations (MINFER) or its regional branches, and controlled by the State Customs Committee. Import licenses for sporting weapons and self-defense articles are issued by the Ministry of Internal Affairs.

The June 1993 Customs Code standardized Russian customs procedure in accordance with international norms. However, customs regulations change frequently, (often without sufficient notice), are subject to arbitrary application, and can be quite burdensome.

Based on Russia's July 1993 Consumer Protection law, many products imported for sale into the Russian Federation are required to have a certificate of conformity issued by the Russian State Committee on Standards (Gosstandart). Gosstandart tests and certifies products according to a combination of international (notably European Union and Russian Government) standards. Certificates are required for each food import shipment, as well as additional sanitary and phytosanitary certificates as necessary. Manufactured items can receive certificates allowing import of a good over a three-year period. U.S. companies have complained of costly procedures and arbitrary certification requirements. The Russian Federation is considering the establishment of reciprocal standardization with the United States and other countries and acceptance of foreign certification by accredited institutions.

In July 1997, the Russian government announced the current food labeling law, which requires that imported food have labels in the Russian language containing information on content, nutritional value, shelf life, conditions of storage, and use of the product. The Russian importer is responsible for complying with the import labeling requirements, not the U.S. exporter or supplier. The new law strengthens the role of the State Committee for Standards (Gosstandart) in managing these requirements by providing instructions and other details. Gosstandart also proposed

in 1997 use of a new holographic mark of conformity with Russian regulations for a few goods, but this requirement, which is considered by foreign investors to be costly and unnecessary, has not been finalized.

Although under current law little of Russia's legislation in the services sector is overtly protectionist, the domestic banking, securities and insurance industries have secured concessions in the form of presidential decrees. Foreign participation in banking, for example, is limited to 12 percent of total banking capital. In practice, because of latent protectionism and nontransparent requirements, foreign companies are often disadvantaged vis-a-vis Russian counterparts in obtaining contracts, approvals, licenses, registration, and certification, and in paying taxes and fees. Negotiation of greater market access for foreign firms is complicated by the fact that service industries are not yet well developed and the Russian government still needs to decide the degree of foreign participation it will permit. Many service industries still lack comprehensive regulatory legislation.

Although there are no current, significant legal barriers to doing business in Russia, Russian foreign investment regulations and notification requirements are confusing and contradictory. The Ministry of Finance, local authorities and/or various central government bodies all register foreign investments. Prior approval is required for investment in new enterprises using assets of existing Russian enterprises, foreign investment in defense industries (which may be prohibited in some cases), investment in the exploitation of natural resources, all investments over 50 million rubles, investment ventures in which the foreign share exceeds 50 percent, or investment to take over incomplete housing and construction projects. Additional registration requirements exist for investments exceeding 100 million rubles. Projects involving large scale construction or modernization may also be subject to expert examination for environmental considerations. Although the situation has improved over the past few years, foreigners encounter significant restrictions on ownership of real estate in some cities and regions in Russia.

The 1991 Investment Code guarantees foreign investors rights equal to those enjoyed by Russian investors. Senior GOR officials have reconfirmed many times Russia's desire to attract foreign participation in privatization, but in practice the bounds of the foreign role varies by sector and region. For example, foreign participation is sharply limited in some "strategic" sectors. In the 1995 loans-for-shares privatization program, foreign investors were banned from the oil, gas, and precious metals sectors.

The government maintains a monopoly on the sale of precious and several rare-earth metals and conducts centralized sales of diamonds, and conducts centralized purchases for export of military technology. In September and October, gold and diamond trading were liberalized slightly, but state control is still intact. In August 1997, a series of presidential decrees were enacted which established tighter control over military exports by the state enterprise Rosvooruzheniye, enabled two additional state firms to sell military goods and technology, and opened the door to future direct sales by arms manufacturers, if licensed and approved by the Ministry of Foreign Economic Relations.

The Russian legislature is currently considering amendments to the Russian Law on Foreign Investments; the first version of this bill, considered in February 1997, was more restrictive than current legislation and likely to discourage foreign investment and trade. Proposals in the draft legislation would restrict or ban foreign investment in numerous industries and services; impose new barriers to the import of capital equipment; introduce ambiguities into Russia's legal protection of intellectual property rights, and reduce investment climate stability by limiting grandfathering provisions.

Most of these issues are the subject of discussion, as Russia continues negotiations on its accession to the World Trade Organization (WTO). By the end of 1997, the Government had completed seven WTO working party meetings. Russia has indicated that its initial WTO market access offer for goods could be tabled in early 1998; the services offer is expected to take more time. Russia is not yet a signatory of the WTO Government Procurement or Civil Aircraft agreements.

6. Export Subsidies Policies

The Government of the Russian Federation has not instituted export subsidies, although a 1996 executive decree allows for provision of soft credits for exporters and government guarantees for foreign loans. The government does provide some subsidies for the production of coal. Soft credits are at times provided to small enterprises for specific projects.

7. Protection of U.S. Intellectual Property

In 1992-93, Russia enacted laws strengthening the protection of patents, trademarks and appellations of origins, and copyright of semiconductors, computer programs, literary, artistic and scientific works, and audio/visual recordings. Legal enforcement of intellectual property rights (IPR) improved somewhat in 1997 with a series of raids on pirates and some seizures of CD's at the border by Russian Customs. A new criminal code took effect January 1, 1997, that contains considerably stronger penalties for IPR infringements. By presidential decree, a higher patent chamber is to be established at the Russian Patent and Trademark Agency (Rospatent) which should bring greater expertise and efficiency to the resolution of patent and trademark disputes. Rospatent is also seeking to establish a Russian Trademark Owners Association to represent the concerns of trademark holders. Nevertheless, widespread sales of pirated U.S. video cassettes, recordings, books, computer software, clothes, toys, foods and beverages continues and several U.S. industry groups have charged that losses from violation of intellectual property rights in Russia are exceeded only by those in China. This lack of enforcement resulted in Russia being placed on the Priority 301 watch list in 1997. The lack of sufficient retroactive copyright protection for U.S. works in Russia remains a key issue of concern for the United States.

The patent law includes a grace period, procedures for deferred examination, protection for chemical and pharmaceutical products, and national treatment for foreign patent holders. Inventions are protected for 20 years, industrial designs for ten years, and utility models for five years. The law on trademarks and appellation of origins introduces for the first time in Russia protection of appellation of origins. The law on copyright and associated rights, enacted in August 1993, protects all forms of artistic creation, including audio/visual recordings and computer programs as literary works for the lifetime of the author plus 50 years. The September 1992 law on topography of integrated microcircuits, which also protects computer programs, protects semiconductor topographies for ten years from the date of registration.

Russia has succeeded to the obligations of the former Soviet Union under the Universal Copyright Convention, the Paris Convention, the Patent Cooperation Treaty, and the Madrid Agreement. In March 1995 Russia acceded to the Berne Convention and the Geneva Phonograms Convention. Under the United States-Russian bilateral investment treaty (signed in 1992 but not yet ratified by the Russian Parliament) Russia has undertaken to protect investors' intellectual property rights. The bilateral trade agreement stipulates protection of the normal range of literary, scientific and artistic works through legislation and enforcement.

8. Worker Rights

a. *The Right of Association.*—Legally, workers enjoy the right to join and form trade unions. Roughly 55 percent of the labor force is organized. The Federation of Independent Trade Unions of Russia (FNPR), the successor organization to the communist trade unions, dominates the trade union movement. FNPR unions frequently include management as part of the bargaining unit. Employee benefits can vary depending on union affiliation, and can discourage the formation of new unions.

b. *The Right to Organize and Bargain Collectively.*—Collective bargaining is protected under the law. Most strikes, however, are considered technically illegal since often the labor dispute at issue was not first reviewed by an arbitration court. The court has the right to order the confiscation of union property to settle damages and losses to an employer if a strike is found to be illegal. An increasing number of strikes are therefore organized by strike committees, rather than unions.

Various employers have refused to negotiate collective bargaining agreements. Management also frequently refuses to provide the financial information demanded by trade unions. If trade unions ask for such information, enterprise management is legally required to provide it. There have been incidences of reprisals for organizing, protesting and strike activity.

Russia has no export processing zones. Worker rights in the special economic zones/free trade zones are fully covered by the Labor Code.

c. *Prohibition of Forced or Compulsory Labor.*—The Labor Code prohibits forced or compulsory labor.

d. *Minimum Age for Employment of Children.*—Regular employment for children under the age of 16 is prohibited under the Labor Code. The Code also regulates the working conditions of children under the age of 18, including banning dangerous, nighttime and overtime work. Children may, under certain specific conditions, work in apprenticeship or internship programs at age 14 and 15. Although,

in some instances, children can be found selling consumer goods on street corners, accepted social prohibitions against employment of children and the availability of adult workers at low wage rates combine to prevent widespread abuse of child labor.

e. *Acceptable Conditions of Work.*—Non-payment of wages continues to be the most widespread abuse of the Labor Code experienced by Russian workers. As of July 1997, official government statistics showed that workers were owed 54.6 trillion rubles or roughly 9.4 billion dollars in accumulated wage arrears. About 80-90 percent of all arrears are due to failure to pay by enterprises. Wage arrears are the primary reason for the over 5000 enterprises and organizations that were struck in January and February 1997, and the over 4000 that were struck in March 1997. Wage arrears affect all manner of workers, from air traffic controllers to draftees in the military and are especially prevalent in the education, medicine, industry and energy/coal sectors. Wage arrears across industries range between three and nine months. The government in 1997 succeeded in paying off pension arrears and the bulk of wage arrears for the military and was working to complete elimination of arrears for all other workers paid out of the budget.

Although a small but increasing percentage (perhaps 6 percent) of workers owed back wages have sought relief through the court system, this has proved to be a lengthy process. Indexation of back wages is not automatic.

Many enterprises, because of systemic non-payments and debts owed them, are not in a position to pay their employees. Elsewhere, poor management and corruption have meant that workers are not paid even though managers control sufficient funds to do so. Neither enforcement actions by the labor ministry and court judgments against enterprises have been sufficient to stem wage arrears. A presidential spokesman said that illegal non-payment of wages continues because there is a minimum of disciplinary measures specified in the Civil Code and no criminal liability. Criminal liability for administrative violations of labor legislation was annulled in January 1997. In order to draw public and federal government attention to their plight, and place political pressure on the enterprises to resolve their wage arrears, many workers resorted to mass hunger strikes, demonstrations, picketing, blocking roads and rail lines, hostage-taking, and, in individual instances, suicide.

Wage arrears are a very significant problem for workers because of the relative lack of labor mobility, due to both lack of a developed real estate market and the system of residency permits Still in effect in some cities, such as Moscow. The minimum wage in Russia in 1997 was 83,490 rubles (roughly 14 dollars) per month.

Workers were also at high levels of risk of industrial accidents or death. In 1995, the leading cause of death for Russians of working age was accidents and traumas, which caused 39 percent of deaths in this age group versus 16 percent for all age groups. In 1996, work-related deaths and injuries increased over 1995, to 6.1 injuries per 1000 workers, up from 5.5.in 1995.

f. *Rights in Sectors with U.S. Investment.*—Observance of worker rights in sectors with significant U.S. investment (petroleum, telecommunications, food) did not significantly differ from other sectors.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		258
Total Manufacturing		298
Food & Kindred Products	[1]	
Chemicals & Allied Products	16	
Metals, Primary & Fabricated	[1]	
Machinery, except Electrical	1	
Electric & Electronic Equipment	-1	
Transportation Equipment	(2)	
Other Manufacturing	4	
Wholesale Trade		[1]
Banking		[1]
Finance/Insurance/Real Estate		503
Services		-3
Other Industries		204

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996—Continued

[Millions of U.S. dollars]

Category	Amount
TOTAL ALL INDUSTRIES	1311

[1] Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis

SPAIN

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Income, Production and Employment:			
Real GDP (1986 prices) [2]	334.4	336.7	[3] 300.0
Real GDP growth (pct) [4]	2.7	2.3	3.2
GDP (at current prices)	559.6	580.9	527.0
By sector:			
Agriculture	16.4	20.1	17.5
Industry	135.0	136.2	122.0
Construction	46.0	45.2	40.0
Services	330.7	344.8	310.0
Government	93.4	95.7	83.5
Per capita GDP	14,239	14,595	13,165
Labor Force (000s)	15,878	15,936	16,100
Unemployment Rate (pct)	22.8	21.7	21.0
Money and Prices (annual percentage growth):			
Money supply (M2)	3.1	7.0	10.0
Consumer Price Inflation	4.7	3.6	2.2
Exchange rate (Pta/US dol - Annual Average)	124.7	126.6	147.0
Balance of Payments and Trade:			
Total exports FOB [5]	90.7	102.8	90.0
Exports to U.S. [5]	3.8	4.3	4.2
Total imports CIF [5]	113.6	122.5	106.0
Imports from U.S. [5]	7.4	8.0	7.1
Trade Balance [5]	-22.9	-19.7	-16.0
Balance with U.S. [5]	-3.6	-3.7	-2.9
Fiscal deficit/GDP (pct)	6.6	4.4	3.0
External Public debt	N/A	N/A	N/A
Debt service payments (paid)	N/A	N/A	N/A
Gold and foreign exchange reserves	38.2	61.8	75.0

[1] 1997 Figures are all estimates based on available monthly data in August 1997.
[2] GDP at factor cost.
[3] Devaluation
[4] Percentage changes calculated in local currency.
[5] Merchandise trade.

1. General Policy Framework

Spain's economy is growing well, even better than expected for 1997 (originally expected growth was 3.0 percent, but latest projections show 3.2 percent). This growth is expected to continue at similar levels through 1998. Growth is broadly based and enjoys major support from agricultural exports, capital goods investment, and finally, after a slight fall off in 1996, private consumption.

Increases in private consumption offset declines on construction investment and public sector consumption as the current government (led by the Partido Popular since March 1996) continues to maintain a tight fiscal policy.

The stock market has reached new highs throughout the year and weathered well the gyrations of late October 1997. Due to substantial investment inflows Spain en-

joys an increasingly positive current account and a narrowing trade deficit with the United States.

Much of Spain's economic policy has focused on meeting Maastricht Treaty targets which set out criteria for consideration to join the European Monetary Union. These policies have already reaped benefits in the form of lower interest rates and low inflation rates which have helped Spain promote investment and spur consumer demand. These latter activities have provided greater than anticipated tax receipts which in turn have allowed Spain to meet handily government deficit/GDP targets. Annual inflation, at 2.1 percent, is at its lowest level in over thirty years. Past government budget cuts, higher than expected tax receipts, and lower than expected payments for servicing government debt will allow this government's deficit/GDP ratio to fall below 3 percent in 1997. However, the government debt/GDP ratio is expected to reach 69.6 percent in 1997 (above the Maastricht target of 60 percent).

Unemployment remains the one area in which structural policies have not yet made significant inroads. The present government encouraged direct negotiations between employers and unions on employment terms in 1996 instead of looking to the government to make changes through legislation. Earlier this year the two sides agreed on changes in hiring practices that would lessen somewhat the high fixed cost of permanent new hires. This step in the right direction, combined with a buoyant economy, have succeeded in lowering the unemployment rate to below 20 percent for the first time since 1992. Continuing rigidities in the labor market, if unaddressed, will affect Spain's competitiveness in a single currency area.

2. Exchange Rate Policy

Spain's major interest is in staying within a very close margin with the DM to prepare for the fixing of exchange rates. The rate has remained at 84-85 pesetas to the DM throughout 1997. We believe the Bank of Spain has intervened on various occasions to forestall a rise in the peseta/DM rate. Foreign currency reserves stand at 72.1 billion dollars as of October 1997, up from 61.8 billion dollars in 1996.

3. Structural Policies

As a member of the European Union, Spain has eliminated tariff barriers for imports from other EU countries and applies common EU external tariffs to imports from non-EU countries. Similarly Spain will be bound to the mutual recognition agreements in its application of certain non-tariff regulations applied to eight categories of goods from the United States.

In 1989, as part of the investment sector reforms necessary to comply with EU membership, Spain made stock market rules and operations more transparent and provided for the licensing of investment banking services. The reform also eased conditions for obtaining a broker's license. A 1992 investment law removed many administrative requirements for foreign investments. EU resident companies (i.e. companies deemed European under Article 58 of the Treaty of Rome) are free from almost all restrictions. Non-EU resident investors must obtain Spanish government authorization to invest in broadcasting, gaming, air transport, or defense. Restrictions on broadcasting and in transport are facing increasing pressure as the government looks to privatizing its national airline (perhaps in 1999), and completes the privatization of its telephone company.

Faced with the loss of the Spanish feed grain market as a result of Spain's membership in the EU, the United States negotiated an Enlargement Agreement with the EU in 1987 which established a 2.3 million ton annual quota for Spanish imports of corn, specified non-grain feed ingredients and sorghum from non-EU countries. The Uruguay Round agreement had the effect of extending this agreement indefinitely. The United States remains interested in maintaining access to the Spanish feed grain market and will continue to press the EU on this issue. U.S. exports of corn and sorghum, valued at about 500 million dollars annually, are an important part of U.S. trade with Spain.

Under its EU accession agreement, Spain was forced to transform its structure of formal and informal import restrictions for industrial products into a formal system of import licenses and quotas. While Spain does not enforce any quotas on U.S.-origin manufactured products, it still requires import documents for some goods, which are described below. Neither of the following documents constitute a trade barrier for U.S.-origin goods.

Import Authorization, (Autorizacion Administrativa de Importacion, AAI) is used to control imports which are subject to quotas. Although there are no quotas against U.S. goods, this document may still be required if part of the shipment contains products or goods produced or manufactured in a third country. In essence, for U.S.-

origin goods, the document is used for statistical purposes only or for national security reasons.

Prior notice of imports (Notificacion previa de importacion) is used for merchandise that circulates in the EU Customs Union Area, but is documented for statistical purposes only. The importer must obtain the document and present it to the General Register.

Importers apply for import licenses at the Spanish General Register of Spain's Secretariat of Commerce or any of its regional offices. The license application must be accompanied by a commercial invoice that includes freight and insurance, the C.I.F. price, net and gross weight, and invoices number. License application has a minimum charge. Customs accepts commercial invoices by fax. The license, once granted, is normally valid for six months but may be extended if adequate justification is provided.

Goods that are shipped to a Spanish customs area without proper import licenses or declarations are usually subject to considerable delay and may run up substantial demurrage charges. U.S. exporters should ensure, prior to making shipments, that the necessary licenses have been obtained by the importing party. Also, U.S. exporters should have their importer confirm with Spanish customs whether any product approvals or other special certificates will be required for the shipment to pass customs.

The Government of Spain has signed and ratified the Marrakech Agreement which concluded the Uruguay Round of multilateral trade negotiations and established the World Trade Organization.

4. Debt Management Policy

Twenty percent of Spanish medium and long-term debt is held by non-residents. The Spanish government has standby loan arrangements in foreign currency with a consortia of foreign banks and has an agreement with several investment banks to float bonds in foreign markets as an alternative to domestic financing. Approximately one-third of Spanish government debt is short-term (less than one year) and less than one quarter is long-term (i.e. maturities greater than five years).

At the end of October 1997, international reserves at the Bank of Spain totaled 72.1 billion dollars.

5. Significant Barriers to U.S. Exports

Import Restrictions: Under the EU's Common Agricultural Policy (CAP), Spanish farm incomes are protected by direct payments and guaranteed farm prices that are higher than world prices. One of the mechanisms for maintaining this internal support are high external tariffs that effectively keep lower priced imports from entering the domestic market to compete with domestic production. However, the Uruguay Round agreement has required that all import duties on agricultural products be reduced by an average of 36 percent during the six year period beginning in 2000.

In addition to these mechanisms, the EU employs a variety of strict animal and plant health standards which act as barriers to trade. These regulations end up severely restricting or prohibiting Spanish imports of certain plant and livestock products. One of the most glaring examples of these policies is the EU ban on imports of hormone treated beef, imposed in 1989 with the stated objective of protecting consumer health. Despite a growing and widespread use of illegal hormones in Spanish beef production, the EU continues to ban U.S. beef originating from feed lots where growth promotants have been used safely and under strict regulation for many years. In August 1997, the WTO ruled that the ban was illegal and must be removed. The WTO is expected to rule on the EU's appeal of that decision in early 1998.

One important aspect of Spain's EU membership is how EU-wide phytosanitary regulations, and regulations that govern food ingredients, labeling and packaging impact on the Spanish market for imports of U.S. agricultural products. The majority of these regulations took effect on January 1, 1993 when EU "single market" legislation became fully implemented in Spain, and now agricultural and food product imports into Spain are subject to the same regulations as in other EU countries.

While many restrictions that had been in operation in Spain before the transition have now been lifted, for certain products the new regulations impose additional import requirements. For example, Spain now requires any foodstuff that has been treated with ionizing radiation to carry an advisory label. In addition, a lot marking is now required for any packaged food items. Spain, in adhering to EU-wide standards, continues to impose strict requirements on product labeling, composition, and

ingredients. Like the rest of the EU, Spain prohibits imports which do not meet a variety of unusually strict product standards. Food producers must conform to these standards, and importers of these products must register with government health authorities prior to importation.

Telecommunications: While most of the EU member countries will liberalize their telecommunications markets beginning January 1, 1998, Spain has obtained a derogation from the EU Commission to delay complete liberalization of its telecommunications sector until December 1998. Prior to this date, the Spanish Government plans to phase in competition in basic telephony through a duopoly comprised of recently privatized monopoly operator Telefonica, and (also recently privatized) second operator Retevision. Cable operators could also provide basic telephony beginning January 1, 1998, but only using their own networks; that is, they cannot provide basic telephony by interconnecting with the Telefonica or Retevision networks. This, in combination with several other mitigating factors, has resulted in a slow start for the establishment of the cable sector in Spain. The Spanish Government has also announced plans for a third fixed telephony license to be issued sometime in 1998.

On the other hand, digital television, especially via satellite, has emerged as a promising industry in the Spanish market. There are two digital television platforms, Via Digital and Canal Satellite Digital, which currently offer digital television programming. Retevision has announced plans to offer a competing digital TV package provided over a terrestrial network. Spain's mobile telephony market has also experienced a very rapid growth in subscribers. Bidding for a third mobile license is scheduled for sometime in early 1998. New opportunities are emerging in advanced telecommunications services, including the Internet and high-speed data transmission. Finally, the Spanish Government recently established the Telecommunications Market Commission as an independent regulatory authority to oversee all activity in this sector.

Government Procurement: Spain's Uruguay Round government procurement obligations took effect on January 1, 1996. Under the bilateral U.S.-EU government procurement agreement, Spain's obligations took effect also on January 1, 1996, except those for services which took effect on January 1, 1997. Offset requirements are common in defense contracts and some large non-defense related and public sector purchases (e.g. commercial aircraft and satellites).

Television Broadcasting Content Requirements : The EU revision of the 1989 "Television Without Frontiers" Broadcast Directive was completed in 1997, without significant change. It left intact the flexible language of the original version as regards the quota regime which mandates that 51 percent of broadcast time be allocated to European content and avoided extending its scope to the new technologies. Therefore, insofar as it was affected by this directive, the market in Spain for U.S. audiovisual products remains the same.

Motion Picture Dubbing Licenses and Screen Quotas: In January 1997, the Spanish Government adopted the implementing regulations for the 1994 Cinema Law, which had provoked a strong reaction from U.S. industry because of protectionist provisions that sought to reserve a portion of the theatrical market for EU-produced films. Thanks to successful industry-government negotiations, the new regulations significantly ease the impact of the 1994 law on non-EU producers and distributors as it applies to screen quotas and dubbing licenses. For screen quotas the new required ratio for exhibitors is changed from one day of EU-produced film for every two days of non-EU-produced film to one day for every three days. The incentive provision for films dubbed into a minority language film such as Catalan is more generous than the original version.

For dubbing licenses, the regulations established a three-tiered system. Up to three licenses may be earned by showing a single EU-produced film—the first when the film's box office receipts exceed 10 million pesetas, the second when they exceed 20 million pesetas, and a third when they exceed 30 million pesetas. If a film is dubbed, it must be dubbed into a minority language and earn at least 5 million pesetas in the minority language version to qualify for the third license. Despite these protectionist elements, Spain's theatrical film system has been modified sufficiently so that it is no longer a major source of trade friction as it was in recent years.

Product Standards and Certification Requirements: Product certification requirements (homologation) have been liberalized considerably since Spain's entry into the EU. After several years in which telecommunications equipment faced difficulties, Spain adapted its national regulations in this area to conform to EU directives. For example, now all telecom equipment must carry the CE mark, which certifies that it complies with all applicable EU directives. This process may take three to four

months after all tests have been performed and necessary documents are submitted. However, recognition from other EU countries and an early presentation of all documentation can speed up the process considerably. There is still some uncertainty as to whether the earlier exemption from homologation and certification requirements for equipment imported for military use is still valid.

In general there has been improved transparency of process. For example, the CE registration for medical equipment from any of the EU member states is considered valid here. Thus, the product registration procedure is shortened (to about six months) and no longer must be initiated by a Spanish distributor. Pharmaceuticals and drugs still must go through an approval and registration process with the Ministry of Health requiring several years unless previously registered in an EU member state or with the London-based EU Pharmaceutical Agency, in which case the process is shortened to a few months. Vitamins are covered under this procedure; however, import of other nutritional supplements is prohibited, and they are dispensed only at pharmacies. Spanish authorities have been cooperative in resolving specific trade problems relating to standards and certifications brought to their attention. The United States has been negotiating with the EU for mutual recognition of product standards and acceptance of testing laboratory results.

6. Export Subsidies Policies

Spain aggressively uses "tied aid" credits to promote exports, especially in Latin America, the Maghreb, and more recently, China. Such credits reportedly are consistent with the OECD arrangement on officially supported export credits.

As a member of the EU, Spain benefits from EU export subsidies which are applied to many agricultural products when exported to destinations outside the Union. Total EU subsidies of Spanish agricultural exports amounted to about 220 million dollars in 1996. Spanish exports of grains, olive oil, other oils, tobacco, wine, sugar, dairy products, beef, and fruits and vegetables benefited most from these subsidies in 1996.

7. Protection of U.S. Intellectual Property

Spain adopted new patent, copyright, and trademark laws, as agreed at the time of its EU accession in 1986. It enacted a new patent law in March of 1986, a new copyright law in November 1987, and a new trademark law in November of 1988. All approximate or exceed EU levels of intellectual property protection. Spain is a party to the Paris, Berne, and Universal copyright conventions and the Madrid Accord on Trademarks. Spanish government officials have said that their laws reflect genuine concern for the protection of intellectual property.

In October 1992, Spain enacted a modernization patent law which increases the protection afforded patent holders. At that time, Spain's pharmaceutical process patent protection regime expired and product protection took effect. However, given the long (10 to 12 year) research and development period required to introduce a new medicine into the market, industry sources point out that the effect of the new law will not be felt until after the turn of the century. U.S. pharmaceutical manufacturers in Spain complain that this limits effective patent protection to approximately eight years and would like to see the patent term lengthened. Of at least equal concern to the U.S. industry is the issue of parallel imports, i.e. lower-priced products manufactured in Spain that are diverted to northern European markets where they are sold at higher prices. U.S. companies have suffered significant losses as a result. While the pharmaceutical sector would like the Spanish government to intervene, it looks to the EU Commission to resolve this Single Market problem.

The copyright law is designed to redress historically weak protection accorded movies, video cassettes, sound recordings and software. It includes computer software as intellectual property, unlike the prior law. In December 1993, legislation was enacted which transposed the EU software directive. It includes provisions that allow for unannounced searches in civil lawsuits. Some searches have taken place under these provisions.

According to industry sources, Spain has a relatively high level of computer software piracy despite estimated declines in the last two years. Industry estimates for 1996 show a drop to 63 percent from 74 percent in 1995. Therefore, concerned groups have focused increasingly on enforcement, with industry and government cooperating on a series of problems aimed at educating the judiciary, police and customs officials to be more rigorous in their pursuit of this problem.

Motion picture (i.e. video) and audio cassette piracy also remains a problem. However, thanks to the Spanish government prohibition on running cable across public thoroughfares and strict enforcement of the copyright law that holds that no motion

picture can be shown without authorization of the copyright holder, the incidence of "community" video piracy has declined.

Spain's trademark law incorporates by reference the enforcement procedures of the patent law, defines trademark infringements as unfair competition and creates civil and criminal penalties for violations. The government has drafted a new trademark law which will incorporate TRIPs, the EU Community Trademark Directive, and the Trademark Law Treaty, and which it anticipates will be enacted in 1998. National authorities seem committed to serious enforcement efforts and there continue to be numerous civil and criminal actions to curb the problem of trademark infringement. To combat this problem in the textile and leather goods sector, the Spanish government had begun to promote the creation and sale of devices to protect trademark goods and to train police and customs officials to cope more effectively. Despite these efforts, industry estimates rank Spain as the country with the second highest incidence of trademark fraud in the clothing sector in Europe.

8. Worker Rights

a. *The Right of Association.*—All workers except military personnel, judges, magistrates and prosecutors are entitled to form or join unions of their own choosing without previous authorization. Self-employed, unemployed and retired persons may join but may not form unions of their own. There are no limitations on the right of association for workers in special economic zones. Under the constitution, trade unions are free to choose their own representatives, determine their own policies, represent their members' interests, and strike. They are not restricted or harassed by the government and maintain ties with recognized international organizations.

b. *The Right to Organize and Bargain Collectively.*—The right to organize and bargain collectively was established by the Workers Statute of 1980. Trade union and collective bargaining rights were extended to all workers in the public sector, except the military services, in 1986. Public sector collective bargaining in 1989 was broadened to include salaries and employment levels. Collective bargaining is widespread in both the private and public sectors. Sixty percent of the working population is covered by collective bargaining agreements although only a minority are actually union members. Labor regulations in free trade zones and export processing zones are the same as in the rest of the country. There are no restrictions on the right to organize or on collective bargaining in such areas.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is outlawed and is not practiced. Legislation is effectively enforced.

d. *Minimum Age for Employment of Children.*—The legal minimum age for employment as established by the Workers Statute is 16. The Ministry of Labor and Social Security is primarily responsible for enforcement. The minimum age is effectively enforced in major industries and in the service sector. It is more difficult to control on small farms and in family-owned businesses. Legislation prohibiting child labor is effectively enforced in the special economic zones. The Workers Statute also prohibits the employment of persons under 18 years of age at night, for overtime work, or for work in sectors considered hazardous by the Ministry of Labor and Social Security and the unions.

e. *Acceptable Conditions of Work.*—Workers in general have substantial, well defined rights. A 40 hour work week is established by law. Spanish workers enjoy 12 paid holidays a year and a month's paid vacation. The employee receives his annual salary in 14 payments—one paycheck each month and an "extra" check in June and in December. The minimum wage is revised every year in accordance with the consumer price index. Government mechanisms exist for enforcing working conditions and occupational health and safety conditions, but bureaucratic procedures are cumbersome.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		191
Total Manufacturing		7109
Food & Kindred Products	1689	
Chemicals & Allied Products	990	
Metals, Primary & Fabricated	203	

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996—Continued

[Millions of U.S. dollars]

Category		Amount
Machinery, except Electrical	579	
Electric & Electronic Equipment	954	
Transportation Equipment	1736	
Other Manufacturing	958	
Wholesale Trade		1023
Banking		1572
Finance/Insurance/Real Estate		733
Services		517
Other Industries		248
TOTAL ALL INDUSTRIES		11,393

Source: U.S. Department of Commerce, Bureau of Economic Analysis

---

SWEDEN

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Income, Production and Employment:			
Nominal GDP [2]	231.4	252.0	233.6
Real GDP Growth (pct) [3]	3.6	1.1	2.3
By sector:			
Agriculture	1.5	1.6	1.5
Manufacturing	49.2	51.2	47.5
Services	98.9	106.1	98.4
Government	43.5	48.5	45.0
Per Capita GDP (US$) [2]	24,647	28,319	26,377
Labor Force (000's)	4,319	4,310	4,340
Unemployment Rate (pct)	7.7	8.1	8.4
Money and Prices (annual percentage growth):			
Money Supply (M3) [4]	2.7	11.5	2.2
Consumer Price Inflation	2.8	0.8	1.0
Exchange Rate (SEK/US$)	7.13	6.70	7.69
Balance of Payments and Trade:			
Total Exports FOB [5]	79.8	84.5	90.1
Exports to U.S.[6]	6.2	7.0	7.5
Total Imports CIF [5]	64.9	66.6	69.9
Imports from U.S.[6]	3.4	3.9	4.0
Trade Balance [5]	14.9	17.9	20.2
Balance with U.S.[6]	2.8	3.1	3.4
External Public Debt [7]	54.9	59.5	52.4
Fiscal Deficit/GDP (pct)	7.9	2.5	1.4
Current Account Surplus/GDP (pct)	2.1	2.4	3.1
Debt Service Payments/GDP (pct)	8.60	12.23	10.62
Gold and Foreign Exchange Reserves	24.0	20.9	14.6
Aid from U.S.	0	0	0
Aid from All Other Sources	0	0	0

[1] 1997 figures are all estimates based on available monthly data in October 1997.
[2] Decrease due to depreciation of currency
[3] Percentage changes calculated in local currency
[4] Source: The central bank. M3 is the measurement used in Sweden, very close to a potential Sweden, very close to a potential Swedish M2-figure.
[5] Merchandise trade
[6] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1997 figures are estimates based on data available through October 1997.
[7] Source: Swedish National Debt Office

1. General Policy Framework

Sweden is an advanced, industrialized country with a high standard of living, extensive social services, a modern distribution system, excellent transport and communications links with the world, and a skilled and educated work force. Sweden exports a third of its Gross Domestic Product (GDP) and is a strong supporter of liberal trading practices. Sweden became a member of the European Union (EU) on January 1, 1995, (and had already harmonized much of its legislation and regulation with the EU's as a member of the European Economic Area).

Sweden uses both monetary and fiscal policy to achieve economic goals. Active labor market practices are particularly important. The Central Bank enjoys significant autonomy in pursuit of its avowed goal of price stability. Fiscal policy decisions in the late 1980's to lower tax rates while maintaining extensive social welfare programs swelled the government budget deficit and public debt, most of which is financed domestically. Since the beginning of 1995, however, Sweden has made impressive strides with its economic convergence program, having restored macroeconomic stability and created the conditions for moderate, low-inflation economic growth.

During 1995 and 1996, Sweden has pulled out of its worst and longest recession since the 1930s. (GDP declined by six percent from 1991 to 1993). Unemployment has recently averaged 12 to 14 percent. (Swedes quote two unemployment figures, open and "hidden." "Hidden" unemployment, those in government training and work programs, accounts for some 5 percentage points of total unemployment.) In 1992 the Swedish krona came under pressure and was floated late that year; Swedish interest rates soared but have come down rapidly during 1996-1997 and are now about one percentage point above German rates.

Sweden's export sector is strong, resulting in large trade balance surplus and increasing current account surplus since 1994. Domestic demand has only recently started to pick up, and it is expected to contribute to the growth in 1997. Structural changes in recent years have prepared the way for future economic growth. The Social Democratic government at the end of the 1980's and the conservative coalition government at the beginning of the 1990's deregulated the credit market; removed foreign exchange controls; reformed taxes; lifted foreign investment barriers; and began to privatize government-owned corporations.

2. Exchange Rate Policies

Sweden floated the currency in November 1992 after briefly defending the krona during the turbulence in European financial markets. From 1977 to 1991 the krona was pegged to a trade weighted basket of foreign currencies in which the dollar was double weighted. From mid-1991 the krona was pegged to the ECU.

Sweden dismantled a battery of foreign exchange controls in the latter half of the 1980's. No capital or exchange controls remain. (The Central Bank does track transfers for statistical purposes).

3. Structural Policies

Sweden's tax burden exceeds 50 percent of GDP (53.8 percent for 1997). Central government expenditure during the recent severe recession was nearly 75 percent of GDP. The maximum marginal income tax rate on individuals is 55 percent. Effective corporate taxes are comparatively low at 28 percent, though social security contributions add ABOUT 40 percent to employers' gross wage bills. The value added tax is two-tiered, with a general rate of 25 percent and a lower rate of 12 percent for food, domestic transportation, and many tourist-related services.

Trade in industrial products between Sweden, other EU countries, and EFTA countries is not subject to customs duty, nor are a significant proportion of Sweden's imports from developing countries. When Sweden joined the EU, its import duties were among the lowest in the world, averaging less than five percent ad valorem on finished goods and around three percent on semi-manufactures. Duties were raised slightly on average to meet the common EU tariff structure. Most raw materials are imported duty free. There is very little regulation of exports other than military exports and some dual use products that have potential military or nonproliferation application.

Sweden began abolishing a complicated system of agricultural price regulation in 1991. Sweden's EU membership and consequent adherence to the EU's common agricultural policy has brought some re-regulation of agriculture.

4. Debt Management Policies

Central government borrowing guidelines require: that most of the national debt be in Swedish crowns; that the borrowing be predictable in the short term and flexible in the medium term; that the government(that is, the Cabinet) direct the extent of the borrowing; and that the government report yearly to the Parliament.

Sweden's Central Bank and National Debt Office have borrowed heavily in foreign currencies since the fall of 1992, increasing the central government's foreign debt five-fold to about a third of the public debt. Management of the increased debt level so far poses no problems to the country, but interest payments on the large national debt grew rapidly in the early 1990's. Total debt in late 1997 is about 76 percent of GDP.

5. Significant Barriers to U.S. Exports and Investment

Sweden is open to imports and foreign investments and campaigns vigorously for free trade in the World Trade Organization (WTO) and other fora. Import licenses are not required except for items such as military material, hazardous substances, certain agricultural commodities, fiberboard, ferro alloys, some semi-manufactures of iron and steel. Sweden enjoys licensing benefits under section 5(k) of the U.S. Export Administration Act. Sweden makes wide use of EU and international standards, labeling, and customs documents in order to facilitate exports.

Sweden has harmonized laws and regulations with the EU's. Sweden is now open to virtually all foreign investment and allows 100 percent foreign ownership of businesses and commercial real estate, except in air and maritime transportation and the manufacture of military materiel. Foreigners may buy and sell any corporate share listed on the Stockholm Stock Exchange. Corporate shares may have different voting strengths.

Sweden does not offer special tax or other inducements to attract foreign capital. Foreign-owned companies enjoy the same access as Swedish-owned enterprises to the country's credit market and government incentives to business such as regional development or worker training grants.

Public procurement regulations have been harmonized with EU directives and apply to central and local government purchases in excess of ECU 400,000. Sweden is required to publish all government procurement opportunities in the European Community Official Journal. Sweden participates in all relevant WTO codes concerned with government procurement, standards, etc. There are no official countertrade requirements.

6. Export Subsidies Policies

The Swedish government provides basic export promotion support through the Swedish Trade Council, which it and industry fund jointly. The government and industry also fund jointly the Swedish Export Credit Corporation, which grants medium and long-term credits to finance exports of capital goods and large-scale service projects.

Sweden's agricultural support policies have been adjusted to the EU's common agricultural policy, including intervention buying, production quotas, and increased export subsidies.

There are no tax or duty exemptions on imported inputs; no resource discounts to producers; and no preferential exchange rate schemes. Sweden is a signatory to the GATT subsidies code.

7. Protection of U.S. Intellectual Property

Swedish law strongly protects intellectual property rights having to do with patents, trademarks, copyrights, and new technologies. The laws are adequate and clear. However, enforcement is not as strong as it should be, especially in the area of copyright protection for software. The police and prosecutors need additional resources, some specialized training to help with acquiring and preserving evidence, and clear signals from the top of the government that copyright protection is a real priority, especially within Swedish public sector organizations.

The courts are efficient and honest. Sweden supports efforts to strengthen international protection of intellectual property rights, often sharing U.S. positions on these questions. Sweden is a member of the World Intellectual Property Organization and is a party to the Berne Copyright and Universal Copyright Conventions and to the Paris Convention for the Protection of Industrial Property, as well as to the Patent Cooperation Treaty. As an EU member, Sweden has undertaken to adhere to a series of other multilateral conventions dealing with intellectual property rights.

8. Worker Rights

a. *The Right of Association.*—Laws protect the freedom of workers to associate and to strike, as well as the freedom of employers to organize and to conduct lockouts. These laws are fully respected. Some 83 percent of Sweden's work force belongs to trade unions. Unions operate independently of the government and political parties, though the largest federation of unions has always been linked with the largest political party, the Social Democrats.

b. *The Right to Organize and Bargain Collectively.*—Labor and management, each represented by a national organization by sector, negotiate framework agreements every two to three years. More detailed company agreements are reached locally. The law provides both workers and employers effective mechanisms, both informal and judicial, for resolving complaints.

c. *Prohibition of Forced or Compulsory Labor.*—The law prohibits forced or compulsory labor, and the authorities effectively enforce this ban.

d. *Minimum Age of Employment of Children.*—Compulsory nine-year education ends at age 16, and the law permits full-time employment at that age under supervision of local authorities. Employees under age 18 may work only during daytime and under supervision. Union representatives, police, and public prosecutors effectively enforce this restriction.

e. *Acceptable Conditions of Work.*—Sweden has no national minimum wage law. Wages are set by collective bargaining contracts, which non-union establishments usually observe. The standard legal work week is 40 hours or less. Both overtime and rest periods are regulated. All employees are guaranteed by law a minimum of five weeks a year of paid vacation; many labor contracts provide more. Government occupational health and safety rules are very high and are monitored by trained union stewards, safety ombudsmen, and, occasionally, government inspectors.

f. *Rights in Sectors with U.S. Investment.*—The five worker-right conditions addressed above pertain in all firms, Swedish or foreign, throughout all sectors of the Swedish economy.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		[1]
Total Manufacturing		5554
Food & Kindred Products	[1]	
Chemicals & Allied Products	[1]	
Metals, Primary & Fabricated	10	
Machinery, except Electrical	778	
Electric & Electronic Equipment	33	
Transportation Equipment	[1]	
Other Manufacturing	[1]	
Wholesale Trade		378
Banking		[1]
Finance/Insurance/Real Estate		961
Services		635
Other Industries		-19
TOTAL ALL INDUSTRIES		7629

[1] Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

SWITZERLAND

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Income, Production and Employment:			
Nominal GDP	302.6	292.6	246.8
Real GDP Growth (pct) [2]	0.8	-0.7	-0.4
GDP By Sector [2]			
Agriculture	5.8	N/A	N/A
Manufacturing	94.3	N/A	N/A
Services	204.9	N/A	N/A
Government [3]	46.4	44.7	37.6
Per Capita GDP (000s)	43.7	41.7	34.7
Labor Force (000s) [4]	2,677	2,649	2,609
Unemployment Rate (pct)	3.5	3.9	4.5
Money and Prices (annual percentage growth):			
Money Supply (M3)	2.2	7.1	6.7
Consumer Price Inflation (pct)	1.8	0.8	0.6
Exchange Rate(SFr/US$)	1.18	1.21	1.48
Balance of Payments and Trade:			
Total Exports [5]	77.5	76.2	69.5
Exports to U.S.	6.6	6.8	6.7
Total Imports [5]	76.8	74.5	69.2
Imports from U.S.	4.5	4.9	4.9
Trade Balance [5]	0.7	1.8	0.3
Balance with U.S.	2.1	1.9	1.8
External Public Debt.[6]	69.6	71.6	64.3
Fiscal Deficit/GDP (pct)	2.2	2.8	3.2
Current Account Surplus/GDP (pct)	7.0	6.9	7.9
Debt Service Payments/GDP (pct)	0.9	0.8	0.9
Gold & Foreign Exchange Reserves [7]	44.4	40.6	40.3
Aid from the U.S.	0	0	0
Aid from All Other Sources	0	0	0

[1] All 1997 figures are estimated.
[2] Estimates for 1996
[3] Including Social welfare expenditures
[4] Full-time workers only
[5] Merchandise trade excluding gold and other precious metals, jewels, artwork antiques; Source: Swiss CustomsAdministration; 1997 figures are estimates based on data available through August 1997.
[6] Federal government only, excluding cantons and communities
[7] As of 8/97

1. General Economic Framework

Switzerland is a small, highly developed, internationally oriented, and open multilingual market, characterized by a developed manufacturing sector, a highly skilled workforce, a large services sector and a high savings rate. Per capita GDP is the highest in Europe. When Swiss voters decided in December, 1992 to reject the European Economic Area (EEA) Treaty, Switzerland found itself in the awkward position of being located in the heart of Europe, without being part of the EEA or a member of the EU. With over 60 percent of its exports going to Europe, the Swiss government is making every effort to maintain its competitiveness in Europe while diversifying its export markets. Currently, Switzerland is in bilateral negotiations with the EU covering a number of sectors, but talks have been stalled for months over the thorny issue of fees for EU trucks transiting Switzerland.

After economic prosperity in the eighties, the Swiss economy has been Western Europe's weakest since 1990, with growth averaging less than one percent per year. As a result, Switzerland has run large deficits causing a corresponding increase in public debt. The federal government is seeking to reduce the deficit to less than one billion Swiss Francs in 2001 by strictly controlling expenditures. No systematic use is made of fiscal policy to stimulate the economy. In April 1997, however, the Swiss Parliament voted to spend USD 379 million on an investment program to help the Swiss economy pull out of recession. Most of the funds will be spent in the construction sector to renovate public infrastructure. USD 41 million will be provided to maintain the apprenticeship program and USD 14 million will be spent for the promotion of technology and innovation.

The Swiss National Bank (SNB) is independent from the Finance Ministry. The main objective of the SNB's policy is price stability. Monetary policy is conducted through open market operations. The discount rate is used by the SNB as a signal to the public.

2. Exchange Rate Policies

Since the extremely weak domestic economic outlook became clear, the SNB has prevented further appreciation of the Swiss franc by accelerating growth of the money supply. The high Swiss franc had been seen as one of the main reasons for the weak performance of exports. In the mid and long term, the SNB does not follow any exchange rate policy, and the Swiss franc is not pegged to any foreign currency.

3. Structural Policies

Few structural policies have a significant effect on U. S. exports. One exception is telecommunications. In 1997, the Swiss Parliament decided to liberalize and privatize the Swiss telecommunications sector, opening a market to investment and competition from U.S. firms. The liberalization is scheduled for implementation by January 1, 1998.

Agriculture is heavily regulated and supported by the federal government. Farmers' revenues are pegged to those of blue collar workers in industry through guaranteed prices or direct payments. As a result of the Uruguay Round, Switzerland converted all non-tariff barriers into tariffs and must reduce them by an average of 30 percent by the year 2000. In June 1996, Swiss voters supported a revision of the agriculture article in the Federal Constitution. The new article establishes the basis for decoupling agricultural subsidies from production to promote more market-based and environmentally friendly production. The Swiss parliament is currently (fall 1997 and winter 1998) debating the government's proposal for agricultural reform.

In early 1996, the new cartel law came into effect, introducing the presumption that horizontal agreements setting prices, production volume, or territorial distribution diminish effective competition and are therefore unlawful. As part of its Uruguay Round commitments, Switzerland enacted legislation on January 1, 1996, providing for nondiscrimination and national treatment in public procurement at the federal level. A separate law makes less extensive guarantees at the cantonal and community levels.

4. Debt Management Policies

As a net international creditor, debt management policies are not relevant to Switzerland.

5. Aid

Switzerland does not receive any aid payments.

6. Significant Barriers to U.S. Exports

Import Licenses: Import licenses for many agricultural products are subject to tariff-rate quotas and tied to an obligation for importers to take a certain percentage of domestic production. Tariffs remain quite high for most agricultural products that are also produced in Switzerland.

Services Barriers: The Swiss services sector features no significant barriers to U.S exports. Foreign insurers wishing to do business in Switzerland are required to establish a subsidiary or a branch here. Foreign insurers may offer only those types of insurance for which they are licensed in their home countries. The most serious barriers to U.S. exports existed in

the area of telecommunications. In 1997 however, parliament approved a legislative package which will liberalize and privatize the Swiss telecommunications sector by January 1, 1998, opening this market to foreign competitors.

Standards, Testing, Labeling, and Certification: By adopting EU automobile standards in 1995, Switzerland allowed cars made in the EU (including EU-made products of U.S. manufacturers) to enter the Swiss market without further testing. This development threatened to put automobiles manufactured in the United States at a competitive disadvantage. As a result of action by the United States, Switzerland agreed that U.S.-made cars imported directly by individuals can be registered with only minimal modification and testing. However, the United States is still seeking complete parity with the favorable access now enjoyed by EU models and encouraging the Swiss government to recognize U.S. auto standards and test results. Certification of pet food continues to be a problem for U.S. exports. While the problem for pet food containing poultry was resolved in 1997, the problem with pet food containing beef continues. The Swiss government passed a new law at the end of 1996 stipulating that products containing genetically modified organisms must be

labeled as such. This administrative requirement threatens to make even worse the difficulties in importing packaged, consumer ready food products. The slow process for approving genetically modified products also presents problems for imports from the U.S. Switzerland approved imports of genetically modified soybeans well after the EU and as of October, 1997 still had not approved imports of any genetically modified corn. Other standards and technical regulations in force in Switzerland are based on international norms. Labels are required to be in German, French and Italian.

Investment Barriers: In most cases, foreign investment in Switzerland is granted national treatment. Some restrictions on foreign investment apply to the following areas: ownership of real estate by foreigners; aviation services; limits on the number of foreign workers; and restrictions concerning the number of foreign directors on the boards of corporations registered in Switzerland. For reasons of national security, foreign participation in the hydroelectric and nuclear power sectors, operation of oil pipelines, transportation of explosive materials, television and radio broadcasting, ownership of Swiss-based airlines, and maritime navigation, are restricted by law.

The board of directors of a joint stock company must consist of a majority of members permanently residing in Switzerland and having Swiss nationality. Government Procurement Practices: Switzerland is a signatory of the WTO Government Procurement Agreement and fully complies with WTO rules concerning public procurement. On the cantonal and local levels, a new law passed by the Parliament in October 1995 provides for nondiscriminatory access to public procurement. The U. S. and Switzerland reached a bilateral agreement in mid-1996 on a text which expands the scope of public procurement.

Customs Procedures: Customs procedures in Switzerland are straightforward and not burdensome. All countries are afforded WTO most-favored-nation treatment.

7. Export Subsidies Policies

Switzerland's only subsidized exports are in the agricultural sector, where exports of dairy products (primarily cheese) and processed food products (chocolate products, grain-based bakery products, etc.) benefit from state subsidies. On rare occasions, exports of domestic products such as beef, experiencing temporary surpluses, are also subsidized. The United States and other WTO members raised in the WTO the issue of Swiss beef export subsidies, which violated WTO rules. The implementation of the Uruguay Round agreement requires a gradual reduction of export subsidies and prohibits the introduction of subsidies for new products, such as beef.

8. Protection of U.S. Intellectual Property

Switzerland has one of the best regimes in the world for the protection of intellectual property, and protection is afforded equally to foreign and domestic rights holders. Switzerland is a member of all major international intellectual property rights conventions and was an active supporter of a strong IPR text on the GATT Uruguay Round negotiations. Enforcement is generally very good. It is expected that by mid-1998 the Swiss will be in full compliance with their obligation under TRIPS to protect company test data required by national authorities in order to obtain approval to market pharmaceuticals. New directives by the Swiss Intercantonal Office for the Control of Medicines will mandate a ten-year protection period for such data. The lack of protection in this area has caused a problem recently for one U.S. company. However, if the new protection period is implemented on schedule, it is very unlikely that any further problems would arise for U.S. firms.

Patent protection is very broad, and Swiss law provides rights to inventors that are comparable to those available in the United States. Switzerland is a member of both the European Patent Convention and the Patent Cooperation Treaty (PCT), making it possible for inventors to file a single patent application in the United States (or other PCT country, or any member of the European Patent Convention, once it enters into force) and receive protection in Switzerland. If filed in Switzerland, a patent application must be made in one of the country's three official languages (German, French, Italian) and must be accompanied by detailed specifications and, if necessary, by technical drawings. The duration of a patent is 20 years. Renewal fees are payable annually on an ascending scale. Patents are not renewable beyond the original 20-year term, with the exception of pharmaceuticals, where the Swiss adopted a patent term restoration procedure in 1995.

According to the Swiss Patent Law of 1954, as amended, the following items cannot be covered by patent protection: surgical, therapy and diagnostic processes for application on humans and animals; inventions liable to disturb law and order and

offend "good morals"; and animals and biological processes for their breeding. In virtually all other areas, coverage is identical to that in the United States.

Trademarks are well protected. Switzerland recognizes well known trademarks and has established simple procedures to register and renew all marks. The initial period of protection is 20 years. Service marks also enjoy full protection. Trademark infringement is very rare in Switzerland—street vendors are relatively scarce here, and even they tend to shy away from illegitimate or gray market products.

A new copyright law in 1993 improved a regime that was already quite good. The new law explicitly recognizes computer software as a literary work and establishes a remuneration scheme for private copying of audio and video works which distributes proceeds on the basis of national treatment. According to industry sources, software piracy is on the rise, however. The problem appears to be largely due to illegal copying by individuals and perhaps some retail establishments. It is highly unlikely that there are any exports. Owners of television programming are fully protected and remunerated for rebroadcast and satellite retransmission of their works, and rights holders have exclusive rental rights. Collecting societies are well established. Infringement is considered a criminal offense. The term of protection is life plus 70 years.

The Swiss also protect layout designs of semiconductor integrated circuits, trade secrets, and industrial designs. Protection for integrated circuits and trade secrets is very similar to that available in the U.S., and protection for designs is somewhat broader.

Industry sources estimate lost sales due to software piracy at $121 million in 1996. Trade losses and denied opportunities for sales and investment in all other IPR sectors are minor in comparison.

9. Workers Rights

a. *The Right of Association.*—All workers, including foreign workers, have freedom to associate freely, to join unions of their choice, and to select their own representatives.

b. *The Right to Organize and Bargain Collectively.*—Swiss law gives workers the right to organize and bargain collectively and protects them from acts of anti-union discrimination. The right to strike is legally recognized, but a unique informal agreement between unions and employers has meant fewer than 10 strikes per year since 1975. There were no significant strikes in 1997.

c. *Prohibition of Forced or Compulsory Labor.*—There is no forced or compulsory labor, although there is no legal prohibition of it.

d. *Minimum Age for Employment of Children.*—The minimum age for employment of children is 15 years. Children under 13 may be employed in light duties for not more than 9 hours a week during the school year and 15 hours otherwise. Employment between ages 15 and 20 is strictly regulated.

e. *Acceptable Conditions of Work.*—There is no national minimum wage. Industrial wages are negotiated during the collective bargaining process. Such wage agreements are also widely observed by non-union establishments. The Labor Act establishes a maximum 45-hour work week for blue and white collar workers in industry, services, and retail trades, and a 50-hour work week for all other workers. The law prescribes a rest period during the work week. Overtime is limited by law to 260 hours annually for these working 45 hours per week and to 220 hours annually for those working 50 hours per week.

The Labor Act and the Federal Code of Obligations contain extensive regulations to protect worker health and safety. The regulations are rigorously enforced by the Federal Office of Industry, Trades, and Labor. There were no allegations of worker rights abuses from domestic or foreign sources.

f. *Rights in Sectors with U.S. Investments.*—Except for special situations (e.g. employment in dangerous activities regulated for occupational, health and safety or environmental reasons), legislation concerning workers rights does not distinguish among workers by sector, by nationality, by employer, or in any other manner which would result in different treatment of workers employed by U.S. firms from those employed by Swiss or other foreign firms.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		703
Total Manufacturing		4426
Food & Kindred Products	[1]	
Chemicals & Allied Products	937	
Metals, Primary & Fabricated	190	
Machinery, except Electrical	789	
Electric & Electronic Equipment	494	
Transportation Equipment	[1]	
Other Manufacturing	633	
Wholesale Trade		10,341
Banking		2083
Finance/Insurance/Real Estate		16,826
Services		1241
Other Industries		131
TOTAL ALL INDUSTRIES		35,751

[1] Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

---

TURKEY

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Income, Production and Employment:			
Nominal GDP	169.8	182.3	194
Real GDP Growth (pct)	7.2	7.0	6.0
GDP by Sector:			
Agriculture	26.7	30.7	N/A
Manufacturing	44.7	38.5	N/A
Services	84.9	91.8	N/A
Government	13.6	15.3	N/A
Per Capita GDP (US$)	2,755	2,962	3,000
Labor Force (000s)	22,446	23,030	[2] 22,537
Unemployment Rate (pct)	6.6	5.8	[2] 5.9
Money and Prices (annual percent growth):			
Money Supply Growth (M2)	93.4	130.3	96
Consumer Price Inflation	89.1	80.4	85
Exchange Rate (TL/US$, avg)	45,705	81,137	152,000
Balance of Payments and Trade:			
Total Exports FOB	21.6	23.1	26
Exports to U.S.	1.5	1.6	1.9
Total Imports CIF	35.7	42.9	46
Imports from U.S.	3.7	3.2	3.5
Trade Balance	-14.1	-19.9	-20
Balance with U.S.	-2.2	-1.6	-1.6
External Public Debt	73.3	79.8	[3] 81.2
Fiscal Deficit/GDP (pct)	-4.0	-8.1	-9
Current Account Deficit/GDP (pct)	-1.3	-2.4	-2.4
Debt Service Payments/GDP (pct)	6.9	6.4	7.0
Gold and For Exchange Reserves [4]	24.4	27.8	31.1
Aid from U.S.	0.41	0.36	0.31

Key Economic Indicators—Continued

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Aid from other sources	N/A	N/A	N/A

[1] Unless otherwise indicated, 1997 figures are estimates based on available monthly data in November 1997.
[2] As of April 1997.
[3] As of end-June 1997
[4] Includes reserves held by Central Bank and commercial banks. 1997 figure is as of 10/10/97.

1. General Policy Framework

From the establishment of the Republic in 1923 until 1981, Turkey was an insulated, state-directed economy. In 1981 the country embarked on a new course. The government abandoned protectionist policies and opened the economy to trade and investment. The state gave up much of its role in directing the economy and abolished many outdated restrictions on private business. These reforms unleashed the country's private sector and have brought impressive benefits. Since 1981, Turkey's average 4.8 percent real GNP growth rate has been the highest of any OECD country. In terms of market opening, Turkey's efforts reached a new stage in 1996 with the finalization of a customs union with the European Union. Turkey has now harmonized nearly all of its trade and industrial policies with those of the EU. Over the coming years, Turkey is likely to reap substantial benefits from the customs union, both in terms of trade creation and improved economy efficiency. This should have an overall positive impact on U.S. exports.

Despite the impressive reforms introduced since 1981, Turkey continues to suffer from an inefficient public sector (including substantial state ownership in the industrial sector) and weak, often populist, political leadership. These remain the source of the country's perennial problems—large budget deficits and high inflation—and are a bottleneck to sustainable growth. Inflation has averaged about 75 percent since 1988, and is likely to exceed 90 percent in 1997. In 1994, mismanagement of these economic imbalances triggered a financial crisis and forced the government to introduce a tough austerity program. The 1994 recession was Turkey's worst since World War II. The economy has bounced back strongly, however, growing by over 6 percent each year since 1995, indicating that Turkey's cyclical boom-bust growth pattern remains unbroken. Strong domestic demand has sparked a surge in imports, as has the reduction of import duties and surcharges which accompanied the introduction of the customs union on January 1, 1996.

After declining in 1994 and 1995, the budget deficit and public sector borrowing requirement (PSBR) both rose significantly in 1996 and 1997, reflecting in part the cost of the 1995 elections and populist economic measures introduced by the governments which have followed. The budget deficit is likely to reach 10 percent of GNP in 1997. To finance the deficit in the face of political uncertainty, the government is forced to offer very high interest rates on short term domestic bonds, further exacerbating the deficit. Turkey's recent coalition governments have had little success implementing the structural reform elements of the 1994 program. Public sector reform—including privatization, social security and tax reforms, and trimming of agricultural and other subsidy programs—is widely acknowledged as the key to resolving the economy's problems and setting the stage for stable, private sector led growth. Turkey and the IMF concluded a standby arrangement in 1994, which lapsed in 1995; they are discussing the possibility of a new agreement.

Building on significant liberalization of the economy in the mid-1980s, Turkey's private sector has become less dependent on the government. As a result, it has grown at an even faster pace than the overall economy, while it also expanded its share of Turkey's GDP. Turkey's most successful companies are foreign oriented and very competitive. U.S. companies have experienced a boom in exports to Turkey, expanding both their market share and their overall value of trade. The United States maintains a large and growing trade surplus with Turkey.

2. Exchange Rate Policy

The Turkish lira (TL) is fully convertible and the exchange rate is market determined, although the Central Bank sets a daily reference rate. The Central Bank intervenes in money markets to dampen short term exchange rate fluctuations and manage the TL's rate of depreciation.

Overvaluation of the TL from 1989-93 was a significant factor in the 1994 financial crisis. As a result, the TL depreciated against the dollar in real terms in 1994. Since then, the government's stated policy has been to maintain a stable real TL exchange rate, measured against a trade-weighed dollar/German mark basket. Since 1994, however, the TL has again appreciated in real terms, with the process accelerating somewhat during 1997.

3. Structural Policies

Since 1980, Turkey has made substantial progress implementing certain structural reforms and liberalizing its trade, investment, and foreign exchange regimes. The resulting high growth rate and high rate of creation of private businesses has generated tremendous demand for imported goods, particularly capital goods and raw materials, which together account for over 85 percent of total imports.

The government's failure to pursue unfinished structural reform measures has constrained private sector growth and prevented the economy from functioning at full efficiency. State-owned enterprises still account for some 35 percent of manufacturing value added; although many of these firms are profitable, transfers to state firms constitute a substantial drain on the economy. Government control of key retail prices (especially in the energy and utilities sectors) also contributes to market distortion, as prices are sometimes manipulated to meet political objectives. The government actively supports the agricultural sector through both subsidized inputs and crop support payments.

Turkey and the European Union entered into a customs union on January 1, 1996. Turkey has adopted the EU's common external tariff for third countries, which has resulted in lower tariffs for U.S. products. Nearly all industrial goods from EU and EFTA countries, however, now enter Turkey duty free. The government has also abolished various import surcharges. As part of the customs union agreement, Turkey has revised its trade, competition, and incentive policies to meet EU standards.

4. Debt Management Policies

As of June 1997, Turkey's gross outstanding external debt was $81 billion, 75 percent of which is government debt. Debt service payments in 1997 will amount to an estimated 6.9 percent of GNP (and 51 percent of exports). Turkey has had no difficulty servicing its foreign debt in recent years.

Turkey's relatively low credit rating since 1994 has limited its access to foreign borrowing, although in late 1997, Turkey successfully floated large ten-year Eurodollar and Euromark issues. As a result, Turkey's domestic debt stock has increased significantly. With the government forced to offer high real interest rates for short periods to attract capital, interest payments have become a large budget burden. In 1997 they account for nearly 30 percent of total budget expenditures; they are forecast to be 40 percent of 1998 expenditures.

5. Aid

In 1997, the United States provided Turkey with $22 million in Economic Support Funds (grant assistance), $175 million in Foreign Military Financing (market-rate loans), $4.4 million in assistance under a USAID-funded family planning program, $1.4 million in International Military Education and Training funding, and $400,000 in counter-narcotics assistance. Turkey receives significant grant and loan aid from the European Union, but much of this is on hold as the result of political disputes.

6. Significant Barriers to U.S. Exports

The introduction of Turkey's customs union with the EU in 1996 resulted in reduced import duties for U.S. industrial exports. The weighted rate of protection for non-EU/EFTA industrial products dropped from 11 percent to 6 percent. By comparison, the rate of protection for industrial exports from EU and EFTA countries in 1995 had been 6 percent; nearly all these goods now enter Turkey duty free. There have been very few complaints from U.S. exporters that the realignment of duty rates under the customs union has disrupted their trade with Turkey. The customs union does not cover agricultural trade. U.S. exporters have voiced increasing frustration over barriers to agricultural trade, most notably a ban on the import of livestock due to an outbreak of foot and mouth disease in 1996. Although the disease was brought under control by December 1996, and despite government promises to lift the ban, it remained in effect as of November 1997.

Import Licenses: Import licenses are generally not required for industrial products. The exception is products which need after-sales service (e.g. photocopiers, ADP equipment, diesel generators). Licenses are required for agricultural commod-

ities. In addition, the government requires certification that quality standards are met for importation of human and veterinary drugs and certain foodstuffs. This has posed problems for U.S. exporters. In 1996 the government tightened standards for levels of various toxins found in grain, effectively halting U.S. grain exports. Discussions with the Ministry of Agriculture successfully resolved the issue on an interim basis. As of November 1997, imports of paddy rice were similarly banned because of concerns about a possible nematode in imported rice; a U.S. government survey of rice stocks should permit this trade to resume.

Government Procurement Practices: Turkey is not a signatory of the WTO Government Procurement Agreement. It normally follows competitive bid procedures for domestic, international and multilateral development bank assigned tenders. U.S. companies sometimes become frustrated over lengthy and often complicated bidding and negotiating processes. Some tenders, especially large projects involving coproduction, are frequently opened, closed, revised, and opened again. There are often numerous requests for "best offers"; in some cases, years have passed without the selection of a contractor.

U.S. bidders for Turkish government contracts were subject to a 15 percent withholding tax. A bilateral tax treaty between the U.S. and Turkey was signed in March 1996 and ratified by the U.S. Senate in October 1997. The Turkish parliament approved the treaty in December 1997.before the end of the year, it will enter into force in 1998. The treat will eliminate this withholding tax for U.S. bidders.

Investment Barriers: The United States-Turkish bilateral investment treaty entered into force in May 1990. Turkey has an open investment regime. There is a screening process for foreign investments, which the government applies on an MFN basis; once approved, firms with foreign capital are treated as local companies. There are, however, restrictions on the level of foreign capital in firms established in a number of sectors including banking, insurance, petroleum, broadcasting, aviation and maritime transportation. The right to third party arbitration, a condition for the BIT, has not been upheld by Turkish courts, a source of major concern to many investors.

7. Export Subsidies Policies

Turkey employs a number of incentives to promote exports, although programs have been scaled back in recent years to comply with EU directives and GATT/WTO standards. Turkish Eximbank provides exporters with credits, guarantees, and insurance programs. Certain tax credits are also available to exporters.

8. Protection of U.S. Intellectual Property

Turkey's intellectual property has improved in certain respects since 1995. After years of complaints from western businesses and governments about weak intellectual property laws and lax enforcement, the Turkish Parliament approved a number of new laws in mid-1995 as part of Turkey's harmonization with the EU in advance of the customs union. The new patent, trademark, copyright and other laws, as well as Turkish acceptance of a number of multilateral intellectual property conventions, have given Turkey a comprehensive legal framework for protecting intellectual property rights. Efforts are underway to educate businesses, consumers, judges, prosecutors and others on the implications of the new laws. However enforcement efforts remain lax and as a result copyright and patent piracy is widespread. The Turkish judicial system remains overburdened and it will likely be some time before the necessary elements for a smoothly functioning system are in place.

Copyrights: In June 1995 Parliament passed a bill amending Turkey's 1951 copyright law. The bill:

—extends the term of copyrights from 20 to 70 years,
—extends coverage to computer software,
—increases fines for violators, and
—removes many previous exemptions to full copyright protection.

Turkey also acceded to a number of international copyright conventions during 1995, including the Paris Act (1971) of the Berne Convention and the 1961 Rome Convention.

While a significant improvement, the amended copyright law still has deficiencies. The government has acknowledged the need for further amendments to bring Turkey's laws fully into compliance with Uruguay Round standards, but its ability to pass legislation in 1996 and 1997 has been hampered by multiple changes of government.

Patents: A new patent law came into effect in June 1995 replacing Turkey's 19th century patent law. The new law was subsequently amended in August and November of 1995. Turkish officials insist the law is fully compatible with the Uruguay Round's TRIPs agreement, although U.S. officials have questioned the law's broad compulsory licensing provisions.

The United States has pressed for further improvements, including coverage for pharmaceutical products which will not begin until 1999 in accordance with Turkey's Customs Union commitments to the EU. The legislation does not contain "pipeline" protection for pharmaceutical products. The Turkish Patent Institute is now accepting applications for pharmaceutical patents in accordance with the TRIPs agreement's "mailbox" provisions.

Trademarks: Along with the patent law, Turkey replaced its trademark law in 1995. Here, too, it remains to be seen how effective the Turkish bureaucracy and legal system will be in controlling the current widespread counterfeiting of foreign trademarked products.

Turkey acceded to a number of international patent and trademark conventions in 1995, including:

—the Stockholm Act (1979) of the Paris Convention for Protection of Industrial Property,
—the Patent Cooperation Treaty (1984),
—the Strasbourg Agreement on International Patent Classifications,
—the Geneva Act (1979) of the Nice Agreement on International Classification of Goods and Services, and
—the Vienna Agreement establishing an international classification of figurative elements of marks.

9. Worker Rights

a. *The Right of Association.*—All workers except police and military personnel have the right to associate freely and form representative unions. Most workers also have the right to strike, but the Constitution does not permit strikes among workers employed in the public utilities, petroleum, sanitation, education and national defense sectors, or by workers responsible for protection of life and property. Turkish law requires collective bargaining before a strike. Solidarity, wildcat, and general strikes are illegal. The law on free trade zones forbids strikes for ten years following their establishment, although union organizing and collective bargaining are permitted. The high arbitration board settles disputes in all areas where strikes are forbidden.

b. *The Right to Organize and Bargain Collectively.*—Apart from the categories of public employees noted above, Turkish workers have the right to organize and bargain collectively. The law requires that in order to become a bargaining agent, a union must represent not only "50 percent plus one" of the employees at a given work site, but also 10 percent of all workers in that particular branch of industry nationwide. After the Ministry of Labor certifies the union as the bargaining agent, the employer must enter good faith negotiations with it.

c. *Prohibition of Forced or Compulsory Labor.*—The Constitution prohibits forced or compulsory labor, and it is not practiced.

d. *Minimum Age for Employment of Children.*—The Constitution prohibits work unsuitable for children, and current legislation forbids full time employment of children under 15. The law requires that school children of age 13 and 14 who work part time must have their working hours adjusted to accommodate school requirements. The Constitution prohibits children from engaging in physically demanding labor, such as underground mining, and from working at night. The laws are effectively enforced only in organized industrial and service sectors. Unionized industry and services do not employ underage children. In the informal sector, many children under 13 work as street vendors, in home handicrafts, on family farms, and in other enterprises.

e. *Acceptable Conditions of Work.*—The Ministry of Labor is legally obliged, through a tripartite government-union-industry board, to adjust the minimum wage at least every two years and does so regularly. Labor law provides for a nominal 45 hour work week and limits the overtime that an employer may request. Most workers in Turkey receive nonwage benefits such as transportation and meal allowances, and some also receive housing or subsidized vacations. In recent years, fringe benefits have accounted for as much as two-thirds of total remuneration in the industrial sector. Occupational safety and health regulations and procedures are mandated by law, but limited resources and lack of safety awareness often result in inadequate enforcement.

f. *Rights in Sectors with U.S. Investment.*—Conditions do not differ in sectors with U.S. investment.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		87
Total Manufacturing		594
Food & Kindred Products	186	
Chemicals & Allied Products	103	
Metals, Primary & Fabricated	[1]	
Machinery, except Electrical	[1]	
Electric & Electronic Equipment	[1]	
Transportation Equipment	87	
Other Manufacturing	117	
Wholesale Trade		75
Banking		[1]
Finance/Insurance/Real Estate		-1
Services		[1]
Other Industries		2
TOTAL ALL INDUSTRIES		1025

[1] Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis

---

UKRAINE

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Income, Production and Employment:			
Nominal GDP	36.0	40.6	48.75
Real GDP Growth (pct) [2]	-11.8	-10.0	-3.4
GDP by Sector:			
Agriculture	4.9	14.50	15.29
Manufacturing	12.7	N/A	N/A
Services (annual pct change)	-11.7	-12.7	N/A
Government	N/A	N/A	N/A
Per Capita GDP (US$)	680	854	863
Labor Force (millions)	21.2	21.2	21.2
Unemployment Rate (pct)	0.6	1.1	3.1
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	117	40	N/A
Consumer Price Inflation	181	40	12.6
Exchange Rate (hryvnia/US$ - annual average)			
Official	1.47	1.84	1.85
Balance of Payments and Trade:			
Total Exports, FOB [3]	13.6	18.46	18.38
Exports to U.S. (US$ mlns) [4]	406	507	500
Total Imports, CIF [3]	16.0	19.35	19.78
Imports from U.S. (US$ mlns) [4]	223	395	450.7
Trade Balance [3]	-2.3	-.89	-1.4
Balance with U.S. (US$ mlns) [4]	183	122	267
Current Account Deficit/GDP (pct)	-4.3	-3.1	N/A
External Public Debt/GDP (pct)	8.1	9.9	N/A
Debt Service Payments/GDP (pct)	3.7	3.5	N/A
Fiscal Deficit/GDP (pct)	6.7	6.0	N/A

Key Economic Indicators—Continued

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Gold and Foreign Exchange Reserves	1.1	1.7	N/A
Aid from U.S. (US$ millions) [5]	44.8	545.8	369.07
Aid from All Other Sources	N/A	N/A	N/A

[1] 1997 figures are all estimates based on available monthly data through August 1997, or are 1997 forecast. Source: Government of Ukraine
[2] Percentage changes calculated in local currency
[3] Merchandise trade
[4] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.
[5] Figures are actual FY expenditures. Cumulative budgeted assistance (credits and grants)for FY 92-96 totals $2.09 billion.

1. General Policy Framework

Ukraine, a country which celebrated its sixth anniversary of independence in August 1997, has followed a course of democratic development, social stability, and economic reform. Since independence, Ukraine has changed governments, held parliamentary elections, drafted and passed a Constitution, eliminated its inherited nuclear weapons, created new governmental institutions, curbed inflation, introduced a new currency (the "hryvnia"), and assumed an active foreign policy. A tremendous amount of work still lies ahead—particularly in the area of economic development and the creation of an economic environment conducive to true market forces. Progress has been relatively slow—but the movement is in a forward direction.

Ukraine's economic inheritance from the Soviet Union of a large defense sector and energy-intensive heavy industry has made transition to a market economy particularly difficult. The move to market pricing, the interruption of relationships with producers and suppliers in other parts of the former Soviet Union, and the delay in undertaking serious economic reforms have led to steep declines in production and widespread hardship among the population. Ukraine's principal resources and economic strengths include rich agricultural land, significant coal and more modest gas and oil reserves, a well developed infrastructure, a strong scientific establishment, and an educated, skilled workforce. Ukraine is an important emerging market at the crossroads of Eastern Europe, Russia, Central Asia, and the Middle East, and holds great potential for becoming an important new market for U.S. trade and investment. A significant number of both large multinationals and smaller foreign investors are present in this challenging market. Ukraine's ultimate trade and investment potential will depend largely on the success of its attempts to accelerate the movement toward a market economy.

Economic reform in Ukraine began in earnest in October 1994, when President Leonid Kuchma laid out his economic credo in a speech to the Ukrainian parliament and set the country's course on a definitive direction toward a free market. Ukraine still has much progress to make in the areas of privatization, tax reform, and contract enforcement. The government has had its greatest success in achieving macroeconomic stability. Inflation, for example, was reduced from a rate of over 400 percent in 1994 to 40 percent in 1996; the rate in 1997 is likely to be lower than 15 percent. The exchange rate (vis-a-vis the U.S.) dollar has been steady within a narrow band in 1996 and 1997.

Ukraine entered 1997 with a comprehensive macroeconomic reform plan—Ukraine Economic reform 1997—that held great promise. The package consisted primarily of tax reforms and deregulation measures designed to stimulate economic developments, coax business out of the shadow economy, improve government revenues and strengthen the pension system. Economic Reform 1997 was heralded as a breakthrough in the government's commitment to long-term, sustainable economic reform. However, due to a lack of cohesion within the government and a failure by the Kuchma administration and the cabinet of Ministers to fully embrace Economic Reform 1997, the package was unable to overcome entrenched interests in the parliament, where it was dissected and scrutinized in its many parts rather than considered as a package of interdependent reforms. Although many important components such as the Value Added Tax (VAT) and Enterprise Profit Tax Reform were eventually passed, the bulk of the program has not been enacted.

The 1997 Budget was sent back to the cabinet several times for revision based on only those provisions in the package that were enacted. The 1997 budget was finally passed in July, and even those who voted for it conceded that it was "unreal-

istic." This was a primary factor in the postponement of the International Monetary Fund's (IMF) Extended Fund Facility in favor of a less demanding and shorter-term stand-by loan. Disagreement over the government's failure to get the budget through the parliament, as well as to deal with a host of other pressing issues such as official corruption and mounting wage arrears, were factors in President Kuchma's dismissal of Prime Minister Lazarenko and therefore, under the Constitution, the entire cabinet. This change in government further delayed implementation of measures that were crucial to reform and international financial institution (IFI) conditionalities.

Ukraine's budget deficit, which in the early years of independence was very large and financed through highly inflationary borrowing from the National Bank of Ukraine (NBU), is now largely under control, although continued shortfalls in expected revenue have meant that the government normally operates on a "cash management" basis and wage arrears are common. The main sources of deficit financing are limited government borrowing from the NBU, increasing issuance of domestic government securities, and inflows of international financing through grants and credits. The latter are largely from official sources. The role of IFIs, in particular the IMF and the World Bank, has been very important in Ukraine.

The NBU considers fighting inflation a top priority, and is aware that Ukraine's thin monetary base, a legacy of previous hyperinflation, means that even small changes in the money supply can be potentially inflationary. Weak control over government spending also presents challenges, as do Ukraine's relatively large inflows of international assistance and its substantial debt repayment obligations, which are spread unevenly throughout the year. Ukraine has cut back on credits to industry and agriculture, which previously had led to high inflation.

2. Exchange Rate Policy

Ukraine has had a single unified exchange rate since October 1994. The exchange rate is determined by daily auctions of the Ukrainian Interbank Currency Exchange (UICE). A large number of currency exchange points also exists. The difference between the UICE-set rate and the average rates at the currency exchange points is normally insignificant. The National Bank of Ukraine intervenes in the currency market to prevent rapid changes in the exchange rate and normally tries to keep the hryvnia inside an informally set trading band against the dollar. Ukraine's policy of requiring the mandatory exchange into hryvnia of 50 percent of foreign currency earnings remains unchanged. Despite significant progress in other areas, Ukraine still maintains a number of restrictions on current account and capital account payments. Tough restrictions are also maintained for capital account transactions. Any borrowing abroad has to be approved by the National Bank of Ukraine (NBU). All these regulations do not seem to stem the excessive flow of foreign currency within the economy.

3. Structural Policies

Ukraine's burdensome and nontransparent tax structure remains a major hindrance to foreign investment and business development. In addition, the regulatory environment is chaotic and taxes excessively high, forcing much business activity underground and providing fertile ground for corruption. The Ministry of Finance has moved to adopt new budget procedures for 1998, including spending ceilings by ministry and budget justifications by program and spending priorities. The government is in the process of establishing a one-stop business registration process designed to have businesses registered within five days, reduce licensing requirements to the minimum deemed necessary for health and safety, and centralize issuance in the new Licensing Chamber. A draft Customs Code is advancing, and import and export tariffs and restrictions on most products have been reduced.

Progress on mass privatization has been promising, with sufficient numbers of enterprises entering the privatization pipeline to make the goal of privatizing 8,000 large and medium enterprises by the end of 1997 achievable. The July passage of the 1997 Privatization program by the parliament and other recent measures have helped accelerate the process and expedite the sale of large "blue chip" enterprises. About 34,000 small scale enterprises out of a total of 40-45,000 have been privatized. The State Property Fund, Ukraine's privatization authority, streamlined its procedures for attracting strategic investors and has begun holding commercial and noncommercial tenders for enterprises that are being privatized according to individual plans.

4. Debt Management Policies

Ukraine's foreign debt stood at about $11-12 billion in late 1996. The largest amount is owed to Russia and Turkmenistan, primarily for past trade credits for deliveries of gas, which have been rescheduled into long-term state credits. Ukraine owes another $2.5 billion to international financial institutions and bilateral export credit agencies. The proportion of debt to Russia and Turkmenistan is continuing to decline, since Ukraine is no longer building up significant arrearages for fuel deliveries. Debt service as a percent of GDP, approximately three percent in 1996, is expected to climb in 1997 as larger portions of previously rescheduled debt to Russia and Turkmenistan become due.

Ukraine has begun to borrow from commercial markets, placing a loan with a Japanese bank in August. Ukraine had planned to issue formal Eurobonds and Samuraibonds in 1997, but world financial turmoil and Ukraine's fiscal problems have put them on hold. Ukraine has made extensive use of IMF resources, starting with a Systemic Transformation Facility in fall 1994, a standby loan in spring 1995, and a second standby loan in spring 1996. Ukraine failed to negotiate a three year Extended Fund Facility agreement with the IMF in 1997 and instead has negotiated another stand-by agreement. Ukraine also has made extensive use of World Bank structural adjustment lending.

5. Significant Barriers to U.S. Exports

The daunting menu of a VAT (20 %), import duties (ranging from 5-200%) and excise taxes (10-300%) present a major obstacle to trade with Ukraine. A limited number of goods, including raw materials, component parts, equipment, machinery, and energy supplies imported by commercial enterprises for "production purposes and their own needs" are exempted from VAT. Many agricultural enterprises are also exempt from the VAT.

Import duties differ and largely depend upon whether a similar item to that being imported is produced in Ukraine; if so, the rate may be higher. A list of goods subject to excise taxes includes alcohol, tobacco, cars, tires, jewelry, and other luxury items. Excise duty rates are expressed as a percentage of the declared customs value, plus customs duties and customs fees paid for importing products.

The significant progress made in the last few years on economic stabilization and the reduction in inflation have greatly improved conditions for U.S. companies in Ukraine. However, foreign firms need to develop cautious and long term strategies which take full account of the problematic commercial environment. The underdeveloped banking system, poor communications networks, difficult tax and regulatory climate, increasing occurrences of crime and corruption, limited opportunities to participate in privatization, and lack of a well functioning legal system impede U.S. exports and investment to Ukraine.

Ukraine's domestic production standards and certification requirements apply equally to domestically produced and imported products. Product testing and certification generally relate to technical, safety and environmental standards as well as efficacy standards with regard to pharmaceutical and veterinary products. At a minimum, imports to Ukraine are required to meet the certification standards of their country of origin. In cases where Ukrainian standards are not established, country of origin standards may prevail.

U.S. exports to Ukraine receive preferential custom rates if the following three criteria are met: (1) the company is registered in the United States; (2) the goods have a certificate to prove U.S. origin; and (3) the goods are imported directly from the United States. There are no special registration or other requirements, according to the State Customs Committee. Duties on goods imported for resale are subject to varying ad valorem rates. Imported goods are not considered legal imports until they have been processed though the port of entry and cleared by Ukrainian customs officials. Import licenses are required for very few goods, primarily medicines, pesticides, and some industrial chemical products.

6. Export Subsidies Policies

As part of its efforts to cut the budget deficit, the government has significantly reduced the amount of subsidies it provides to state-owned industry over the last two years. Nonetheless, subsidies remain an important part of Ukraine's economy, particularly in the coal and agriculture sectors. These subsidies, however, appear not to be specifically designed to provide direct or indirect support for exports, but rather to maintain full employment and production during the transition to a market-based economy. The government does not target export subsidies specifically to small business. Ukraine's subsidy policy may change in the context of its negotia-

tions to join the World Trade Organization (WTO). The country's fifth WTO Working Party meeting was held in November 1997. Ukraine has tabled WTO marke access offers for both goods and services.

7. Protection of U.S. Intellectual Property

Ukraine is committed legislatively to the protection of intellectual property, but enforcement remains inadequate. Ukraine is a successor state to many of the conventions and agreements signed by the former Soviet Union and is a member of the World Intellectual Property Organization (WIPO). It is a member of the Paris Convention on industrial property and the Universal Copyright Convention, and in 1995 joined the Berne Convention. Ukraine is also a member of the International Copyright Convention, the Madrid Agreement on registration of marks, and the Patent Cooperation Treaty.

Ukraine has established a comprehensive legislative system for the protection of intellectual property rights. Since 1993 Ukraine has enacted five IPR laws covering inventions, industrial designs, trademarks, plant varieties, and copyrights. Computer programs and sound recordings can be copyrighted according to Articles 18 and 19 of the Ukrainian copyright law. There are no data on infringement or counterfeiting of trademarks. According to the Ukrainian Patent Agency, there are also no statistics on the extent of piracy of books, music recordings, videos, or computer software, although pirated movie videos, software music cassettes and CDs are widely and openly available in stores and street kiosks in Kiev and other major cities. Piracy and counterfeits clearly affect U.S. exports.

8. Worker Rights

a. *The Right of Association.*—The new constitution guarantees the right to join trade unions to defend "professional, social and economic interests." Under the constitution all trade unions have equal status, and no government permission is required to establish a trade union. The 1992 law on citizens' organizations stipulates noninterference by authorities in the activities of these organizations and their right to establish and join federations and to affiliate with international organizations on a voluntary basis. In negotiating wages with the government, all unions are permitted to participate. In principle, all workers and civil servants including members of the armed forces are free to form unions, but in practice the government discourages certain categories of workers (e.g., nuclear power plant workers) from doing so.

There are no official restrictions on the right of unions to affiliate with international trade union bodies. The independent miners' union and independent trade unions have not been pressured to limit their contacts with international nongovernmental organizations. The AFL/CIO has a permanent representative in Kiev who interacts freely with the consultative council of independent trade unions.

b. *The Right to Organize and Bargain Collectively.*—The law on labor conflict resolution guarantees the right to strike to all but members of the armed forces, civil and security services, and employees of "continuing process plants" (e.g., metallurgical factories). This law prohibits strikes that "may infringe on the basic needs of the population" (e.g., rail and air transportation). Strikes based on political demands are illegal. However, this has not stopped miners and other workers from striking and making political as well as economic demands.

The law on enterprises states that joint worker-management commissions should resolve issues concerning wages, working conditions, and the rights and duties of management at the enterprise level. Overlapping spheres of responsibility frequently impede the collective bargaining process. The government, in agreement with trade unions, establishes wages in each industrial sector and invites unions to participate in the negotiations. Under current law, disputes are to be resolved by the courts. There have been cases in which such disputes have not been settled in a fair and equitable manner.

c. *Prohibition of Forced or Compulsory Labor.*—The Constitution prohibits compulsory labor, and it is not known to exist.

d. *Minimum Age for Employment of Children.*—The minimum employment age is 17. In certain nonhazardous industries, however, enterprises may negotiate with the government to hire employees between 14 and 17 years of age, with the consent of one parent. School attendance is compulsory to the age of 15, a regulation vigorously enforced by the Ministry of Education.

e. *Acceptable Conditions of Work.*—The labor code provides for a maximum 40-hour work week, a 24-hour day of rest per week, and at least 15 days of paid vacation per year. Stagnation in some industries (e.g., defense industry) significantly reduced the work week for some categories of workers. The Constitution and other

laws contain occupational safety and health standards, but these are frequently ignored in practice. Lax safety standards caused many serious mine accidents, resulting in 243 deaths over 8 months of 1996 (358 in all of 1995), which represents a considerable increase in the ratio of fatalities per ton of coal extracted amid decreasing coal output. In theory workers have a legal right to remove themselves from dangerous work situations without jeopardizing continued employment. In reality, however, independent trade unionists report that asserting this right would result in retaliation or perhaps dismissal by management.

f. *Rights in Sectors with U.S. Investment.*—Enterprises with U.S. investment frequently offer higher salaries and are more observant of regulations than their domestic counterparts. Otherwise, conditions do not differ significantly in sectors with U.S. investment from those in the economy in general.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		0
Total Manufacturing		1
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	1	
Wholesale Trade		2
Banking		0
Finance/Insurance/Real Estate		0
Services		0
Other		[1]
TOTAL ALL INDUSTRIES		[1]

[1] Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis

UNITED KINGDOM

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise noted] [1]

	1995	1996	1997 [2]
Income, Production and Employment:			
Nominal GDP	960.8	1002.9	1091.9
Real GDP Growth	2.5	2.7	2.6
GDP by Sector:[3]			
Agriculture	18.2	18.4	N/A
Industry	290.9	301.7	N/A
Services	465.5	485.8	N/A
Government	180.6	187.4	N/A
Per Capita GDP (US$))	16,430	17,100	18,600
Labor Force (millions)	28.1	28.2	28.1
Unemployment Rate (pct)	8.6	8.3	7.9
Money and Prices (annual percentage growth):			
Money Supply (M4)	9.8	9.6	11.8
Consumer Price Inflation	3.5	2.4	2.7
Exchange Rate (US$/BPS)	1.58	1.56	1.63
Balance of Payments and Trade:[4]			
Total Exports FOB	244.8	262.1	274.4

Key Economic Indicators—Continued

[Billions of U.S. Dollars unless otherwise noted] [1]

	1995	1996	1997 [2]
Exports to U.S.[5]	28.4	31.0	34.8
Total Imports FOB	268.0	287.5	295.2
Imports from U.S.[5]	32.0	35.6	40.5
Trade Balance	-23.1	-25.4	-20.8
Balance with U.S.[5]	-3.7	-4.7	-5.7
Current Account Deficit/GDP	1.5	1.5	.75
External Public Debt	N/A	N/A	N/A
Debt Service Payments/GDP (pct)	N/A	N/A	N/A
Fiscal Deficit/GDP (pct)	5.4	4.0	1.5
Gold and Foreign Exchange Reserves	47.0	46.3	41.1
Aid from U.S.	0	0	0
Aid from All Other Sources	0	0	0

[1] Converted from British pound sterling (BPS) at the average exchange rate for each year.
[2] 1997 figures estimated from data available through September.
[3] No sectoral data is available for 1997. For 1995 and 1996, sectors do not add to total due to treatment of net exports and construction.
[4] Merchandise trade (does not include services)
[5] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1997 figures are estimates based on data available through September 1997.

Sources: U. K. Office for National Statistics, Bank of England

1. General Policy Framework

The United Kingdom (UK) has a free market economy and a liberal financial services environment.

In May, 1997, the Labour Party won an overwhelming Parliamentary majority, ending 17 years of Conservative government. The new Prime Minister, Tony Blair, inherited a strong economy, with the recovery from the 1990-92 recession in its fifth year. Gross Domestic Product (GDP) expanded 2.3 percent in 1996 and at a 3.0 percent annual rate during the first half of 1997. Most analysts expect growth to slow in the second half of 1997 and in 1998 as tighter monetary and fiscal policy combine with a stronger sterling to put a brake on the economy. Underlying inflation averaged 3.0 percent in 1996, and is now slightly above the 2.5 percent target range. Unemployment has fallen significantly, reaching 7.1 percent in summer 1997, well below that of many continental European nations.

Fiscal Policy: The sharp recession of 1990-92 led to a record budget deficit in 1993, encouraging the previous government to launch a deficit reduction program in 1994. This and the economic recovery has helped begin to unwind the deficit. The new government's determination to live within spending limits set by the previous government, along with the introduction of additional revenue measures in July 1997, has put the UK on a clear course to achieve fiscal balance by the year 2000. The General Government Financial Deficit was 4.0% of GDP in fiscal year 1996 (April 1996-March 1997) and is expected to fall to 1.5% in fiscal year 1997 and 0.25% in fiscal year 1998.

Tax Policy: The new government promised during the campaign not to raise the personal income tax rate or broaden the Value Added Tax (VAT). The bottom and top personal tax rates thus remain at 20 and 40 percent. The government intends, however, to strengthen incentives for work and savings, and will review the tax (and benefit) system to that end. This may produce tax reform in the medium-term. The capital gains tax is being reviewed; findings will be reported in March 1998. The main corporate tax rate was reduced in July 1997 to 31 percent from 33 percent; the small companies' rate was reduced to 21 from 23 percent. Labour also undertook a controversial measure to tax the windfall gains of privatized utilities; this tax is expected to yield 5.2 billion pounds sterling over three years, which will be used to help finance the government's new Welfare-to-Work program. Other domestic tax revenue sources include the VAT (currently 17.5 percent) and excise taxes on alcohol, tobacco, retail motor fuels and North Sea oil production.

Monetary Policy: After the UK was effectively forced from the Exchange Rate Mechanism (ERM) at the beginning of 1993, the Tory government established an inflation target as the guiding objective for monetary policy. The new Labour government has reiterated the importance of a low inflation policy. It quickly granted the Bank of England independence to set interest rates, with the aim of achieving an inflation target of 2.5 percent. The UK manages monetary policy through open

market operations by buying and selling overnight funds and commercial paper. There are no explicit reserve requirements in the banking system.

2. Exchange Rate Policy

Since the UK's withdrawal from the ERM in January 1993, the pound sterling has floated freely. Sterling's trade weighted exchange rate (1990=100) averaged 86.3 in 1996. In the first nine months of 1997, it averaged 99.6. This appreciation reflects a variety of factors, including higher interest rates in the UK than in continental Europe and possibly concerns in the market about European Economic and Monetary Union (EMU).

The new Labour government has indicated it views EMU favorably, although it has also declared it "unlikely" that the UK will join EMU when it is launched on January 1, 1999. Should the government decide to pursue EMU membership, it has promised to seek approval from Parliament and from the public (either through a referendum or general election) before proceeding.

3. Structural Policies

The UK economy is characterized by free markets and open competition, and the government promotes these policies within the EU and in international trade fora. The UK's low labor costs and labor market flexibility are often credited as major factors influencing the UK's success in attracting foreign investment.

Prices for virtually all goods and services are established by market forces. Prices are set by the government in those few sectors where the government still provides services directly, such as urban transportation fares, and government regulatory bodies monitor the prices charged by telecommunications, electric, natural gas and water utilities. The UK's participation in the EU Common Agricultural Policy significantly affects the prices for raw and processed food items, but prices are not fixed for any of these items.

Over the past 17 years, Conservative governments pursued growth and increased economic efficiency through structural reform, principally privatization and deregulation. The financial services and transportation industries were deregulated. The government sold its interests in the automotive, steel, coal mining, aircraft and air transportation sectors. Electric power (except nuclear), rail transportation and water supply utilities were also privatized. Local bus transportation is in the process of privatization. Subsidies were cut substantially, and capital controls lifted. Employment legislation significantly increased labor market flexibility, democratized unions, and increased union accountability for the industrial acts of their members. The Labour government in general is expected to continue this approach, and has launched further reviews of the regulatory systems governing utilities and transportation.

Although these structural policies have achieved substantial economic results, some segments of the economy have still not adjusted. Social welfare programs and the business community are still adjusting to job losses and changes in the business climate resulting from deregulation and privatization.

4. Debt Management Policies

The UK has no meaningful external public debt. London is one of the foremost international financial centers of the world, and British financial institutions are major intermediaries of credit flows to the developing countries. The British government is an active participant in the Paris Club and other multilateral debt negotiations.

5. Significant Barriers to U.S. Exports

Structural reforms and open market policies make it relatively easy for U.S. firms to enter UK markets. The UK does not maintain any barriers to U.S. exports other than those implemented as a result of EU policies.

6. Export Subsidies Policies

The government opposes export subsidies as a general principle, and UK trade-financing mechanisms do not significantly distort trade. The Export Credits Guarantee Department (ECGD), an institution similar to the Export-Import Bank of the United States, was partially privatized in 1991.

Although much of ECGD's business is conducted at market rates of interest, it does provide some concessional lending in cooperation with the Department for International Development (DFID, akin to the U.S. Agency for International Development) for projects in developing countries. Occasionally the United States objects to financing offered for specific projects.

The UK's development assistance program also has certain "tied aid" characteristics. The UK adheres to the OECD "Arrangement on Officially-Supported Export Credits" to minimize the distortive effects of such programs.

7. Protection of U. S. Intellectual Property

UK intellectual property laws are strict, comprehensive and rigorously enforced. The UK is a signatory to all relevant international conventions, including the Convention Establishing the World Intellectual Property Organization (WIPO), the Paris Convention for the Protection of Industrial Property, the Berne Convention for the Protection of Literary and Artistic Works, the Patent Cooperation Treaty, the Geneva Phonograms Convention and the Universal Copyright Convention.

New copyright legislation simplified the British process and permitted the UK to join the most recent text of the Berne Convention. The United Kingdom's positions in international fora are very similar to the U.S. positions.

8. Worker Rights

a. *The Right of Association.*—Unionization of the work force in Britain is prohibited only in the armed forces, public sector security services, and police force.

b. *The Right to Organize and Bargain Collectively.*—Nearly 9 million workers, about a third of the work force, are organized. Employers are not legally required to bargain with union representatives, but are barred from discriminating based on union membership. Employers are allowed to pay workers who don't join a union higher wages than union members doing the same work. The 1993 Trade Union Reform and Employment Rights Act limited that prohibition under certain special circumstances in matters short of dismissal. The new Labor Government has promised it will require union recognition where at least half the workers belong to a trade union. A white paper outlining this proposal is due early in 1998.

The 1990 Employment Act made unions responsible for members' industrial actions, including unofficial strikes, unless union officials repudiate the action in writing. Unofficial strikers can be legally dismissed, and voluntary work stoppage is considered a breach of contract.

During the 1980s, Parliament eliminated immunity from prosecution in secondary strikes and in actions with suspected political motivations. Actions against subsidiaries of companies engaged in bargaining disputes are banned if the subsidiary is not the employer of record. Unions encouraging such actions are subject to fines and seizure of their assets. Many unions claim that workers are not protected from employer secondary action such as work transfers within the corporate structure.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is unknown in the UK.

d. *Minimum Age for Employment of Children.*—Children under the age of 16 may work in an industrial enterprise only as part of an educational course. Local education authorities can limit employment of children under 16 years old if working will interfere with a child's education.

e. *Acceptable Conditions of Work.*—The new government has promised to establish a minimum wage, which was abolished by the Trade Union Reform and Employment Rights Act of 1993. A Tri-partite Commission is expected to make a specific recommendation in 1998 regarding the level. Daily and weekly working hours are not now limited by law, although the EU directive outlawing mandatory work weeks longer than 48 hours will be implemented soon.

Hazardous working conditions are banned by the Health and Safety at Work Act of 1974. A health and safety commission submits regulatory proposals, appoints investigatory committees, does research and trains workers. The Health and Safety Executive (HSE) enforces health and safety regulations and may initiate criminal proceedings. This system is efficient and fully involves workers' representatives.

f. *Rights in Sectors with U.S. Investment.*—U.S. firms in the UK are obliged to obey legislation relating to worker rights.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category	Amount
Petroleum	14,889

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996—Continued

[Millions of U.S. dollars]

Category		Amount
Total Manufacturing		32,341
Food & Kindred Products	4202	
Chemicals & Allied Products	8846	
Metals, Primary & Fabricated	1771	
Machinery, except Electrical	6756	
Electric & Electronic Equipment	2705	
Transportation Equipment	1384	
Other Manufacturing	6677	
Wholesale Trade		7365
Banking		5260
Finance/Insurance/Real Estate		68,339
Services		8521
Other Industries		5846
TOTAL ALL INDUSTRIES		146,560

Source: U.S. Department of Commerce, Bureau of Economic Analysis

AMERICAS

ARGENTINA

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Income, Production and Employment:			
GDP (at current prices) [2]	276	291	310
Real GDP growth (pct)	-4.4	4.3	6.0
GDP by Sector (pct):			
Agriculture	8.3	8.5	8.5
Maufacturing	29.7	29.2	30
Mining	1.9	1.9	2.5
Services	N/A	N/A	N/A
Government	15.5	15.8	15.5
Per Capita GDP (US$)	8,100	8,300	8,900
Labor Force (millions)	13.9	14.0	14.0
Unemployment Rate (pct)	16.4	17	13.7
Money and Prices (annual percentage growth):			
Money Supply (M2) [3]	-10.0	4.0	1.4
Consumer Price Inflation [3]	1.6	0.5	1.0
Exchange Rate (Peso/US$)	1.0	1.0	1.0
Balance of Payments and Trade:			
Total Exports (FOB)	20.8	23.7	26
Exports to the U.S. [4]	1.8	2.3	2.5
Total Imports (CIF)	19.8	23.7	30
Imports from the U.S.[4]	4.2	4.5	5
Trade Balance	1.0	0.6	-4.0
Balance with the U.S.[4]	-2.4	-2.2	-2.5
External Public Debt	80.1	87.0	100
Fiscal Deficit/GDP (pct)	-3.0	-1.8	-1.4
Current Account Deficit/GDP (pct)	-1.3	-1.6	-2.8
Debt Service Payments/GDP (pct)5.5 6.55.4.			
Gold and Foreign Exchange Reserves	15.9	16.0	20.0
Aid from United States	0	0	0
Aid from All Other Sources	N/A	N/A	N/A

[1] Figures for 1997 are Embassy estimates.
[2] Nominal GDP is virtually the same in dollars or pesos. In April 1991, when the convertibility plan took effect, the peso was tied to the U.S. dollar at the rate of one to one.
[3] End of period.
[4] Source: U.S. Department of Commerce and U.S Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.

1. General Policy Framework

President Carlos Menem's far-reaching reform program, which began in earnest in 1991, has revitalized Argentina's economy. From 1991 to 1994, real GDP growth averaged nearly eight percent annually. However, due principally to the Mexican peso crisis, real GDP fell 4.4 percent in 1995. The economy rebounded in 1996 with a GDP growth of 4.3 percent. In 1997, GDP growth will exceed six percent. Inflation remains low with the annual rate of increase for consumer prices in 1997 expected to be below 1.0 percent—a major accomplishment given Argentina's bouts with hyperinflation within the last decade. A stable exchange rate and reductions in trade barriers resulted in a boom in imports, particularly from the United States, during 1991-94. In 1997, Argentina's trade deficit with the United States is pro-

jected to be about 2.5 billion dollars. Argentina is expected to incur a four billion dollar overall trade deficit in 1997, reflecting strong demand for imports generated by rapid economic growth.

The number of financial institutions in Argentina dropped from over 200 in December 1994 to about 120 by the end of 1997. In many respects, Argentina's macroeconomic perspectives are better than at any time since December 1994. Argentina remains one of the hemisphere's most promising emerging markets.

The public sector budget is expected to run a deficit in 1997 of about 4.5 billion dollars—less than 1.5 percent of GDP. Tax collection has improved, but evasion is a major problem for the government. Still, impressive economic growth and increases in consumption generated better tax receipts in 1997 than in 1996.

The Central Bank of Argentina controls the money supply through the buying and selling of dollars. Under the Convertibility Law of 1991, the exchange rate of the Argentine peso is fixed to the dollar at the rate of one to one. This rate is expected to remain unchanged in the medium term.

2. Exchange Rate Policy

Argentina has no exchange controls. Customers may freely buy and sell currency from banks and brokers at market prices. The Central Bank buys and sells dollars at the rate of one peso per dollar.

3. Structural Policies

The Menem administration's reform program has made significant progress in transforming Argentina from a closed, highly regulated economy to one based on market forces and international trade. The government's role in the economy has diminished markedly through the privatization of most state firms, including the large oil firm YPF in 1993. The authorities have also eliminated price controls on almost all goods and services. Still, recurrent trade deficits from 1992 to 1994 and high unemployment led the government to take some ad hoc protectionist measures. For example, in 1994 the authorities imposed increased "specific" duties on almost all textile and footwear imports, followed in 1995 by increased duties on apparel imports. Subsequently, the government put in place burdensome certificate-of-origin and labeling requirements on imports of these, and other unrelated products. In February 1997, Argentina repealed the existing "specific" duties on footwear—only to immediately reinstate them under a safeguard investigation. At the same time, the United States requested formation of a WTO panel to review Argentina's footwear and textile regimes, as well as the three-percent statistical tax. In a preliminary ruling in September 1997, the WTO panel found that the textile regime and statistical tax violate Argentina's WTO commitments. Further, in November 1997, the Government of Argentina put in place pre-shipment inspection requirements for imports of most consumer goods and vehicle products.

Argentina, Brazil, Paraguay and Uruguay established the Southern Cone Common Market (Mercosur) in 1991, and on January 1, 1995, formed a partial customs union with a common external tariff (cet) covering approximately 85 percent of trade. The CET ranges from zero to 23 percent. Initially, the government exempted some products from the cet, such as capital goods, informatics and telecommunications, to help support the modernization of the industrial infrastructure. However, in August 1996 tariffs on these items were increased to the Mercosur level. As a result, many non-Mercosur products entering Argentina now face higher tariffs. Chile signed a free trade agreement with Mercosur, effective October 1, 1996, but will not participate in the cet. Bolivia also entered into a similar pact on April 30, 1997. Mercosur is also discussing the prospect of a free trade agreement with the Andean community. In January 1998, the Government of Argentina put in place a three percent increase in its CET allowing for exceptions in capital goods, informatics, telecommunications and other items.

Argentina signed the Uruguay Round agreements in April 1994, its congress ratified the agreements at the end of 1994, and Argentina became a founding member of the WTO on January 1, 1995.

4. Debt Management Policies

Argentina's public debt maturities are mostly concentrated in the longer term. Debt increased in 1997 and approached $100 billion—slightly less than 30 percent of gdp. Argentina is expected to make total debt service (principal and interest) payments of about $15 billion per year through 1999. Interest payments on public debt in 1998 will represent only about two percent of gdp. There is no indication that Argentina will face debt financing difficulties in the medium term.

5. Significant Barriers to U.S. Exports

One of the key reforms of the Menem administration has been to open the Argentine economy to international trade. The government abolished the import licensing system in 1989, and in 1990 cut the average tariff from nearly 29 percent to less than 10 percent. However, Mercosur common external tariff rates are slightly higher, so that Argentina's average tariff is now closer to 17 percent. In August 1996, to increase revenue in the aftermath of the Tequila crisis, the Government of Argentina raised the tariff on capital goods—from ten to fourteen percent—to boost revenues. Capital goods account for over 40 percent of U.S. exports.

Barriers to U.S. Exports: despite the generally open market for imports, the authorities occasionally erect protectionist barriers, such as the increase in "specific" duties applied to textiles and footwear in January 1994. Restrictions apply to imports of a broad range of used and manufactured equipment as well. In May 1996 the government issued a resolution requiring local generation of a majority of cable TV channels carried by cable and pay television operators in Argentina. The resolution also obliges all operators to register their programming with a government regulatory body. U.S. companies fear the measure will limit the entrance of new foreign channels and programming, but it has had little impact to date on their operations.

Argentina also protects the automobile assembly industry through a combination of quotas and heavy tariffs. Nevertheless, the number of foreign-manufactured vehicles on the roads is increasing because of heavy demand that outstrips local production. The government plans to dismantle the present auto protection scheme by 2000, when a common Mercosur auto policy is scheduled to take effect.

Standards: Argentina generally recognizes U.S. and European standards. However, as the government and its Mercosur partners gradually establish a more structured and defined standards system, the standards requirements are becoming progressively more complex, particularly for medical products. Under the WTO Agreement on Technical Barriers to Trade, Argentina established an "enquiry point" to address standards-related enquiries. While this enquiry point exists formally at the Direccion General de Industria, it is not fully functional at present.

Service Barriers: in January 1994, the authorities abolished the distinction between foreign and domestic banks. U.S. banks are well represented in Argentina and are some of the more dynamic players in the financial market. U.S. insurance companies are active in providing life, property and casualty, and workers compensation insurance. The privatization of pension funds has also attracted U.S. firms.

Investment Barriers: There are very few barriers to foreign investment. Firms need not obtain permission to invest in Argentina. Foreign investors may wholly own a local company, and investment in shares on the local stock exchange requires no government approval. There are no restrictions on repatriation of funds.

A United States-Argintina bilateral investment treaty came into force on October 20, 1994. Under the treaty, U.S. investors enjoy national treatment in all sectors except shipbuilding, fishing and nuclear power generation. An amendment to the treaty removed mining, except uranium production, from the list of exceptions. The treaty allows arbitration of disputes by the International Center for the Settlement of Investment Disputes or any other arbitration institution mutually agreed by the parties.

Government Procurement Practices: Argentina is not a signatory to the WTO Government Procurement Agreement, and the "Buy Argentina" program was permanently eliminated in October 1991. Government procurement in Argentina is subject to articles 55 through 64 of the Accounting Law (Ley de Contabilidad del Estado). Government purchases of less than $100, 000 are affected by direct invitation to bid; no tender is published. Purchases of between $100,000 and $1,000,000 require published tenders and an open bidding process. When required, tenders are published in the Official Gazette. Tenders for purchases of less than $5,000,000 are published for a period of two to four days; for purchases of more than $5,000,000 tenders are published for a period of eight days.

Customs Procedures: Customs procedures are cumbersome and time-consuming, thus raising the cost for importers. Installation of an automated system in 1994 has eased the burden somewhat. The government is resorting more frequently to certificate-of-origin requirements and reference prices to counter under invoicing and "social" dumping, primarily from the Far East. In 1997, the government merged the customs and tax authorities to boost revenue collection and improve efficiency. It instituted a preshipment inspection system in late 1997 to verify the price, quality and quantity of imports. The system will be implemented by six private firms.

6. Export Subsidies Policies

As a WTO member, Argentina adheres to WTO subsidies obligations. It also has a bilateral agreement with the United States to eliminate remaining subsidies provided to industrial exports and ports located in the Patagonia region. Nevertheless, the government retains minimal supports, such as reimbursement of indirect tax payments to exporters. The government also maintains an industrial specialization program which allows certain industries that boost their exports to report a comparable amount of imports at a reduced tariff. The program will end in the year 2000.

7. Protection of U.S. Intellectual Property

Argentina is a member to most treaties and international agreements on intellectual property, including the Paris Convention on Industrial Property (Lisbon revision and nonsubstantive portions of the Stockholm revision), the Brussels and Paris revisions of the Berne Convention, the Universal Copyright Convention, the Geneva Phonogram Convention, the Treaty of Rome and the Treaty on the International Registration of Audiovisual Works. In addition, Argentina is a member of the World Intellectual Property Organization (WIPO). However, reform of Argentina's patent system has in recent years been a contentious bilateral issue. The United States suspended fifty percent of Argentina's GSP benefits in May 1997, because of its failure to enact adequate patent protection for pharmaceuticals, and Argentina remains on the Special 301 Priority Watch List. U.S. industries have cited enforcement of existing intellectual property protection as problematic in several instances.

Patents: after a three-year conflict between the Argentine executive and congress over the issue of patent protection for pharmaceutical products, the executive issued a March 1996 decree consolidating previous patent legislation. Under the decree, Argentina will issue patents for pharmaceuticals starting in November 2000. The decree does not provide patent protection for products under development, and contains ambiguous language on parallel imports and compulsory licenses. For example, the decree bans parallel imports but allows the import of products which have been licitly placed in commerce in a third country. Compulsory licenses can be awarded in cases of anti competitive practices or for failure to work a patent.

The March 1996 decree improves earlier Argentine patent legislation, but provides less protection than that originally proposed by the executive. The decree also does not meet the concerns of the U.S. Pharmaceutical industry. In December 1996, the Argentine congress passed a data confidentiality law that fails to provide effective protection for test data submitted to Argentine health authorities by companies seeking marketing approval for pharmaceutical and agrochemical products. Despite these flaws, the Argentine executive does not plan to seek further changes in the patent regime or data law before the year 2000.

Copyrights: Argentina's Copyright Law, enacted in 1933, is adequate by international standards. Recent decrees provided protection to computer software and extended the term of protection for motion pictures from 30 to 50 years after the death of the copyright holder. As in many countries, video piracy is a serious problem. Efforts are underway to combat this, including arrests, seizure of pirated material, and introduction of security stickers for cassettes. However, a recent lower court decision, currently on appeal to the supreme court, put in question the application of criminal sanctions in cases involving unauthorized use of computer software. A bill making criminal sanctions clearly applicable in software piracy cases is pending in the Chamber of Deputies.

Trademarks: Trademark laws and regulations in Argentina are generally good. The key problem is a slow registration process, which the government has striven to improve.

Trade Secrets: Argentina has no trade secrets law as such, but the concept is recognized and encompassed by laws on contract, labor and property. Penalties exist under these statutes for unauthorized revelation of trade secrets.

Semiconductor Chip Layout Design: Argentina has no law dealing specifically with the protection of layout designs and semiconductors. This technology conceivably could be covered by existing legislation on patents or copyrights, but this has not been verified in practice. Nevertheless, Argentina has signed the wipo treaty on integrated circuits.

8. Worker Rights

a. *The Right of Association.*—All Argentine workers except military personnel are free to form unions. Union membership is estimated at 30-40 percent of the work force. Unions are independent of the government and political parties, although

most union leaders are affiliated with President Menem's Justicialist Party. Unions have the right to strike, and strikers are protected by law. Argentine unions are members of international labor associations and secretariats and participate actively in their programs.

b. *The Right to Organize and Bargain Collectively.*—Argentine law prohibits anti-union practices. The trend continues towards bargaining on a company level, in contrast to negotiating at the national level on a sectoral basis, but the adjustment has not been easy for either management or labor. Both the federal government and a few highly industrialized provinces are working to create mediation services to promote more effective collective bargaining and dispute resolution.

c. *Prohibition of Forced or Compulsory Labor.*—The constitution prohibits forced labor, and there were no reports of such incidents during 1995.

d. *Minimum Age for the Employment of Children.*—The law prohibits employment of children under 14, except in rare cases where the Ministry of Education may authorize a child to work as part of a family unit. Minors aged 14 to 18 may work in a limited number of job categories, but not more than six hours a day or 35 hours a week. The law is effectively enforced except in some isolated rural areas where government monitoring capabilities are thin.

e. *Acceptable Conditions of Work.*—The national monthly minimum wage is $200. Federal labor law mandates acceptable working conditions in the areas of health, safety and hours. The maximum workday is eight hours, and the work week is limited to 48 hours. The government has enacted reforms aimed at giving small and medium enterprises greater flexibility in the management of their personnel. The government is also striving to modernize the system of workers compensation. Argentina has well-developed health and safety standards, but the government often lacks sufficient resources to enforce them.

f. *Rights in Sectors with U.S. Investment.*—Argentine law does not distinguish between worker rights in nationally-owned enterprises and those in sectors with U.S. investment. The rights enjoyed by Argentine employees of U.S.-owned firms in Argentina equal or surpass Argentine legal requirements.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		851
Total Manufacturing		3703
Food & Kindred Products	1013	
Chemicals & Allied Products	1690	
Metals, Primary & Fabricated	195	
Machinery, except Electrical	[2]	
Electric & Electronic Equipment	57	
Transportation Equipment	195	
Other Manufacturing	554	
Wholesale Trade		773
Banking		957
Finance/Insurance/Real Estate		1097
Services		206
Other Industries		512
TOTAL ALL INDUSTRIES		8060

[1] Indicates a value between $-500,000 and $500,000.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

THE BAHAMAS

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997
Income, Production and Employment:			
GDP (at current prices)	3,500	3,750	N/A
Real GDP Growth	1.3	3.7	4.0
GDP by Sector (percent of total):			
Tourism	50	50	60
Finance	12	12	12
Manufacturing	4	4	3
Agriculture/Fisheries	4	4	3
Government	12	12	12
Other	18	18	10
Per Capita GDP (US$) [1]	11,059	11,115	N/A
Labor Force (000s)	143.0	146.6	N/A
Unemployment Rate (percent)	11.1	11.5	N/A
Money and Prices (annual percent change):			
Money Supply Growth (M2)	7.2	6.0	[3] 6.9
Retail Price Inflation	2.1	1.4	0.4
Exchange Rate (B$/US$$)	1.00	1.00	1.00
Balance of Payments and Trade:			
Total Exports (FOB)	175.9	201.7	N/A
Exports to U.S.[2]	156.0	165.4	N/A
Total Imports (CIF)	1155.5	1261.6	N/A
Imports from U.S.[2]	660.5	725.0	N/A
Trade Balance	-979.6	-1059.9	N/A
Balance with U.S.[2]	-504.5	-652.0	N/A
Current Account Deficit/GDP (pct)	5.6	7.9	N/A
External Public Debt	90.9	77.0	N/A
Debt Service Payments/GDP (pct)	2.5	2.6	N/A
Fiscal Deficit/GDP	0.6	1.2	N/A
Foreign Exchange Reserves	170.6	163.0	[3] 298.2
Aid from U.S.	0	0	0
Aid from Other Countries	N/A	N/A	N/A

[1] Source: Interamerican Development Bank
[2] Source: U.S. Department of Commerce
[3] At June 1997

Source: Central Bank of The Bahamas and the Department of Statistics

1. General Policy Framework

The Bahamas is a politically stable, middle-income developing country. The economy is based primarily on tourism and financial services, which account for approximately 60 percent and 12 percent of GDP respectively. The agricultural and industrial sectors, while small, continue to be the focus of government efforts to produce new jobs and diversify the economy.

The United States remains the Bahamas' major trading partner. U.S. exports to The Bahamas increased from $660.5 million in 1995 to $725 million in 1996 and account for approximately 55 percent of all imports. Although certain areas of economic activity are reserved for Bahamian citizens, The Bahamian government actively encourages foreign investment in unreserved areas and promotes the free trade zone on Grand Bahama. Capital and profits are freely repatriated, and personal and corporate income is not taxed by the Bahamian government. Designation under the Caribbean Basin Initiative (CBI) trade program allows qualified Bahamian goods to enter the United States duty free.

The Bahamian government enacted a policy in the 1995-1996 budget in which the annual amount of new borrowings would be no greater than the amount of debt redemption. The 1997-1998 budget totaling $968 million provides for recurring expenditures of $846 million, an increase of $256.6 million including $26 million from the 1995/96 budget. A total of $68.4 million has been allocated for repayment of government debt. Overall, the budget concentrates on improving health care services, education and training programs, and reducing crime. Although the budget again

held no new taxes and did not raise existing taxes, the GCOB expects sustained economic expansion and improvements in revenue collection to support revenue growth. The government instituted new customs duty exemptions to stimulate Family Island development and encourage growth in small scale tourist resorts in the Bahamas.

Recurrent revenue for 1997-1998 is projected at $766.3 million, representing an increase of seven percent over the 1996-1997 fiscal year. This figure also reflects an additional $40 million in anticipated savings, not yet identified at the time of the budget process. The commercial banks' prime lending rate remained at 6.75 percent.

2. Exchange Rate Policy

The Bahamian dollar is pegged to the U.S. dollar at an exchange rate of 1:1, and the Bahamian government recently repeated its long-standing commitment to maintain parity.

3. Structural Policy

Price controls exist on 13 bread basket items, as well as gasoline, utility rates, public transportation, automobiles, and auto parts. The rate of inflation is estimated at 0.4 percent.

The Bahamas is recognized internationally as a tax haven. The government does not impose income, inheritance or sales taxes. In the 1995-1996 budget, the government lowered taxes and reduced the stamp duty on various tourism related items including: liqueurs and spirits, jewelry and watches, perfumes, toilet water, table linens, and non-leather designer handbags. The government hopes this measure will increase the country's competitive edge in the tourism sector and expects merchants to pass these savings on to tourists. These concessions were also instituted to safeguard employment in retail trade catering to tourists and promote the price competitiveness of goods in the Bahamian market. The rate of stamp duty on cigarettes was also lowered.

Certain goods may be imported conditionally on a temporary basis against a security bond or deposit which is refundable upon re-exportation. These include: fine jewelry, goods for business meetings or conventions, traveling salesman samples, automobiles or motorcycles, photographic and cinematographic equipment, and equipment or tools for repair work.

In 1993 the Bahamian government repealed the Immovable Property (Acquisition by Foreign Persons) Act, which required foreigners to obtain approval from the Foreign Investment Board before purchasing real property in the country, and replaced it with the Foreign Persons (Landholding) Act. Under the new law, approval is automatically granted for non-Bahamians to purchase residential property of less than five acres on any single island in the Bahamas, except where the property constitutes over fifty percent of the land area of a cay (small island) or involves ownership of an airport or marina.

The new law also provides for a two-year real property tax exemption for foreign persons acquiring undeveloped land in The Bahamas for development purposes, provided that substantial development occurs during those two years. The tax structure for foreign property owners is as follows:

—$1–$3,000 - the standard property tax is $30.00.
—$3,001–$100,000 - the property tax is 1 percent of the assessed value.
—over $100,000 - the property tax is 1° percent of the assessed value.

This new legislation has stimulated the second home/vacation home market and revived the real estate sector.

In addition, the government lowered the rate of stamp duty on real estate transactions in the 1995-1996 budget. The stamp duty reduction ranges from two percent on transactions under $20,000 to eight percent on transactions over $100,000.

To increase revenues, the airport departure tax was raised from $13 to $15 per person in 1993. The harbor departure tax was lowered from $20 to $15 per person effective April 1, 1992 because of protests from ship operators.

Although the Bahamas encourages foreign investment, the government reserves certain businesses exclusively for Bahamians, including restaurants, most construction projects, most retail outlets, and small hotels. Other categories of businesses are eligible solely as joint ventures.

The Bahamas Investment Authority (BIA), a "one-stop shop" for foreign investment, was established in 1992. BIA's mandate is to: develop investment policies; promote investment; evaluate project proposals; monitor projects and provide support. Project proposals for foreign investment in the Bahamas have to be presented

to BIA for evaluation and final approval. BIA also coordinates with other government agencies regarding investment matters.

Other measures providing trade and investment incentives include:

—The International Business Companies Act - simplifies procedures and reducing costs for incorporating companies.
—The Industries Encouragement Act - provides duty exemption on machinery, equipment, and raw materials used for manufacturing.
—The Hotel Encouragement Act - grants refunds of duty on materials, equipment, and furniture required in construction or furnishing of hotels.
—The Agricultural Manufacturers Act - provides exemption for farmers from duties on agricultural imports and machinery necessary for food production.
—The Spirit and Beer Manufacturers Act - grants duty exemptions for producers of beer or distilled spirits on imported raw materials, machinery, tools, equipment, and supplies used in production.
—The Tariff Act - grants one-time relief from duties on imports of selected products deemed to be of national interest.

The Hawksbill Creek Agreement of 1954 granted certain tax and duty exemptions on business license fees, real property taxes, and duties on building materials and supplies in the town of Freeport on Grand Bahama Island. In July 1993, the government enacted legislation extending most Hawksbill Creek tax and duty exemptions through 2054, while withdrawing exemptions on real property tax for foreign individuals and corporations. The Prime Minister declared, however, that property tax exemptions might still be granted to particular investors on a case-by-case basis.

The Bahamas is a beneficiary of the United States' Caribbean Basin Initiative (CBI) trade program, permitting the country to export most goods duty-free to the United States.

The Casino Taxation Act was amended in October 1995 to allow for the establishment of small scale casinos through the reduction of the basic tax and winnings tax rates for casinos of less than 10,000 square feet. The basic tax was reduced from $200,000 to $50,000 for casinos with floor space of less than 5,000 square feet. The tax rises to $100,000 for casinos of 5,000-10,000 square feet. Unlike the winnings tax rate for traditional casinos (25 percent of the first $20 million), small casinos pay a progressive winnings tax rate of 10 percent on the first $10 million of gross winnings, and 15 percent thereafter.

4. Debt Management Policies

The Bahamas' national debt increased to $1.63 billion at the end of June 1997 from $1.54 billion at year end 1996. Debt amortization amounted to 88.1 million with $56.7 million applied towards internal domestic and foreign currency obligations and 31.4 million for external debt.

5. Significant Barriers to U.S. Exports

The Bahamas is a more than $700 million market for U.S. companies. Substantial duties apply to most imports regardless of country of origin. Deviations from the average duty rate often reflect policies aimed at import substitution. Tariffs on items produced locally are at a rate designed to provide protection to local industries. The Ministry of Agriculture occasionally issues temporary bans on the import of certain agricultural products when it determines that a sufficient supply of locally grown items exits. The government's quality standards for imported goods are similar to those of the United States.

The Ministry of Agriculture imposed a ban on banana imports in October 1995, creating a monopoly for locally grown bananas. The ban has been extended to include other varieties of produce for which the Ministry determines that demand can be met by local farmers (e.g. Christmas poinsettias, romaine lettuce, yellow squash, and zucchini). In June 1996, the Ministry announced a ban on the importation of fruits, vegetables, flowers, plants or other propagate materials from Caribbean countries unless the Department of Agriculture is assured that the country is free of the pink (or hibiscus) mealy bug. Shipments must be accompanied by a phytosanitary certificate issued by the Ministry of Agriculture in the country of origin. The Ministry continues to enforce its ban on imports of citrus from Florida, which was instated in 1995 because of reported outbreaks of canker disease. Imports of citrus plants are permitted from states other than Florida.

6. Export Subsidies Policies

The Bahamian government does not provide direct subsidies to private industry. The Export Manufacturing Industries Encouragement Act provides exemptions from

duty for raw materials, machinery, and equipment to approved export manufacturers. The approved goods are not subject to any export tax.

7. Protection of U.S. Intellectual Property

The Bahamas is a member of the World Intellectual Property Organization (WIPO)and a party to the Paris Convention on industrial property and the Berne Convention on copyright (older versions for some articles of the latter are used). It is also a member of the Universal Copyright Convention. Although local intellectual property laws exist, enforcement is generally weak.

Copyrights: The majority of videos available for rent are the result of unauthorized copying of videotapes from promotional tapes provided by movie distributors, U.S. hotel "pay-for-view" movies and shows, or from satellite transmissions. It is doubtful that pirated videotapes are exported. In May 1996, the government passed a bill to amend the Copyright Act to provide for payment of equitable royalties to copyright owners (particularly Bahamian musicians) of works broadcast on radio and television. In September a local radio station was ordered to pay copyright damages to the Performing Rights Society of London for failing to enter a defense in an action accusing the station of breach of copyright laws.

8. Workers Rights

a. *Right of Association.*—The constitution specifically grants labor unions the rights of free assembly and association. Unions operate without restriction or government control, and are guaranteed the right to strike and to maintain affiliations with international trade union organizations.

b. *Right to Organize and Bargain Collectively.*—Workers are free to organize, and collective bargaining is extensive for the 34,225 workers (25 percent of the work force) who are unionized. Collective bargaining is protected by law and the Ministry of Labor is responsible for mediating disputes. The Industrial Relations Act requires employers to recognize trade unions.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is prohibited by the Constitution and does not exist in practice.

d. *Minimum Age for Employment of Children.*—While there are no laws prohibiting the employment of children below a certain age, compulsory education for children up to the age of 16 years and high unemployment rates among adult workers effectively discourage child employment. Nevertheless, some children sell newspapers along major thoroughfares and work at grocery stores and gasoline stations, generally after school hours. Children are not employed to do industrial work in the Bahamas.

e. *Acceptable Conditions of Work.*—The Fair Labor Standards Act limits the regular work week to 48 hours and provides for at least one 24-hour rest period. The Act requires overtime payment (time and a half) for hours in excess of the standard. The Act permits the formation of a wages council to determine a minimum wage. To date no such council has been established. However, the GCOB recently instituted a minimum wage for public service employees who are paid hourly wages. A new minimum labor standards act is under consideration which will cover employees in both the public and private sectors. This act contains new guarantees of employee rights to paid vacations, sick leave, redundancy payments and protection against unfair dismissal.

The Ministry of Labor is responsible for enforcing labor laws and has a team of several inspectors who make on-site visits to enforce occupational health and safety standards and investigate employee concerns and complaints. The Ministry normally announces these inspections ahead of time. Employers generally cooperate with the inspections in implementing safety standards. A 1988 law provides for maternity leave and the right to re-employment after childbirth. Workers rights legislation applies equally to all sectors of the economy.

f. *Rights in Sectors with U.S. Investment.*—Authorities enforce labor laws and regulations uniformly for all sectors and throughout the economy, including within the export processing zones.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		70
Total Manufacturing		[1]
Food & Kindred Products	0	
Chemicals & Allied Products	[1]	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	1	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	1	
Wholesale Trade		170
Banking		390
Finance/Insurance/Real Estate		1188
Services		56
Other Industries		[1]
TOTAL ALL INDUSTRIES		2021

[1] Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis

BOLIVIA

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997
Income, Production and Employment:[1]			
Nominal GDP	6,760	7,100	7,500
Real GDP Growth (pct)	3.9	4.0	4.2
GDP by Sector (pct of total):			
Agriculture	15.0	14.9	N/A
Manufacturing	16.7	16.8	N/A
Services	27.6	30.3	N/A
Government	9.1	9.1	N/A
Per Capita GDP (US$)	913	935	965
Labor Force (million)	2.2	2.4	2.5
Unemployment Rate (pct)[2]	3.6	4.1	5.0
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)[3]	21.4	12.8	9.0
Consumer Price Inflation	12.5	8.0	7.0
Average Exchange Rate (Bs/US$)	4.82	5.09	5.30
Trade and Balance of Payments:			
Total Exports (FOB)	1,181	1,295	1,400
Exports to the U.S. (FAS)[4]	331	326	310
Total Imports (CIF)	1,433	1,656	1,900
Imports from the U.S. (Customs)[4]	316	458	490
Trade Balance	-252	-361	-500
Balance with U.S.[4]	14	-132	-180
Current Account Deficit/GDP	-5.0	-5.1	-7.3
External Public Debt	4,523	4,366	4,200
Debt Service Payments/GDP (pct)	7.7	4.8	3.3
Fiscal Deficit/GDP (pct)	1.8	2.1	3.8
Gold and Foreign Exchange Reserves	650	950	980
Aid from U.S.[5]	90	84	120
Aid from All Other Sources[5]	183	188	168

[1] Sources: National Institute of Statistics, Central Bank of Bolivia (INE) - all 1997 data are projections

[2] For urban areas; data does not consider underemployment
[3] Data excludes dollars, which distorts its representativeness
[4] Source: U.S. Census Bureau and Embassy estimates
[5] Aid disbursed

1. General Policy Framework

Following a prolonged period of economic instability characterized by hyperinflation, the Paz Estenssoro Administration (1985-89) initiated a series of economic reforms in 1985 which relied on a greater market-orientation and encouraged efficiencies through opening the economy to international competition. These reforms included allowing the currency to float, permitting commercial banks to set their own interest rates, eliminating import and investment permit requirements, opening economic activities previously reserved for state-owned corporations to private investment and entering into an IMF stand-by program.

The Paz Zamora Administration (1989-93) generally continued these market-oriented policies. The Sanchez de Lozada Administration (1993-97) greatly expanded on this base, with its "capitalization" of five large state-owned corporations (preceded by the establishment of the regulatory framework) and its "popular participation" program (which devolved budgetary authority to municipalities). It also inter alia passed milestone legislation which would form the basis for the eventual transformation of the judicial and the pension systems.

The various economic reforms undertaken since 1985 have succeeded in curbing inflation, in promoting steady economic growth and in encouraging the growth of private investment and savings (principally in U.S. dollars). The government projects that the economy will grow by about four percent in 1997, with inflation dropping to less than seven percent.

Bolivia's macroeconomic indicators have shown steady improvement since the dark days of the early 1980s. Commercial bank deposits have more than doubled since 1992, to over $3.2 billion as of September 1997, about 40 percent of GDP. Despite persistent trade deficits, official foreign exchange reserves held by the Central Bank have grown—to $1.1 billion in September 1997, equal to about eight months' imports—thanks to large inflows of foreign investment and donor assistance. The government reduced the budget deficit of the non-financial public sector to 2.1 percent of GDP in 1996. Tax revenues have improved, thanks to better administration and an increase of the taxpayer population. Direct transfers the government once received from the former public enterprises which were capitalized have been more than offset by direct taxes.

The money supply (both M1 and M2) has grown slowly since 1985, with M1 now averaging around 5 percent of GDP. The published figures for money in circulation is misleading, however, since there are billions of U.S. dollars in circulation side-by-side with the boliviano. Dollars are a legal means of exchange, and contracts can be written in dollars. Banks offer dollar accounts and make loans in dollars. In fact, nearly 89 percent of the $3.1 billion of deposits in the Bolivian financial system is denominated in dollars.

The preponderance of the U.S. dollar and the low rate of domestic inflation have both tended to stabilize interest rates throughout the economy. In September 1997, the average rate paid on dollar deposits was 8.1 percent, and the average rate charged on dollar loans was 16.3 percent. Increased bank competition—including new entrants from abroad—and new legal reserve requirements should place a downward pressure on the spread charged by banks, making loans less expensive over time.

2. Exchange Rate Policy

There is free currency conversion at local banks and exchange houses. The official exchange rate is set by a daily auction of dollars managed by the Central Bank, which sets an undisclosed minimum floor price for the dollars. With this mechanism, the Central Bank has allowed the boliviano to depreciate slowly to preserve its purchasing power parity. Parallel exchange rates have consistently stayed within one percent of the official rate. There are no restrictions on remittances. The official exchange rate fell by 5.1 percent in 1995 and 4.8 percent in 1996, with respect to the dollar.

3. Structural Policies

In 1990, the government reduced tariffs from 16 to 10 percent for all imports except for capital goods, which has a tariff of five percent. The government charges a 13 percent value-added tax and a three percent transaction tax on all goods, whether imported or produced domestically. There are also excise taxes charged on

some consumer products. No import permits are required, except for the import of arms and pharmaceutical products.

A variety of laws have liberalized the economy significantly. The 1990 Investment Law establishes guarantees inter alia the free remission of profits, the freedom to set prices and full convertibility of currency. It essentially guarantees national treatment for foreign investors and authorizes international arbitration. A law authorizing international arbitration was enacted in 1996. There are no limits placed on foreign equity participation. The 1996 Hydrocarbons Law authorized YPFB (the petroleum parastatal) to enter into joint ventures with private firms and to contract companies to take over YPFB fields and operations, including refining and transportation. Full deregulation of fuel prices is expected to take effect in late 1997. A new mining law taxed profits (a tax which can be credited against taxes paid in the United States) and opened up border areas to foreign investors as long as their Bolivian partners hold the mining concession.

In 1993 the Congress passed a new banking law which established clear rules for commercial banks and authorized them to maintain foreign currency accounts. A Central Bank law passed in October 1995 increased its autonomy and established stricter requirements governing capital, reserves and lending.

The cornerstone of President Sanchez de Lozada's economic program was the capitalization (privatization) program of the largest state-owned companies: YPFB (oil), ENDE (electricity), ENTEL (telecommunications), LAB (airline), ENFE (railroad) and VINTO (tin/antimony smelter). Capitalization gave the "strategic" partner 50 percent ownership and management control; the partner paid a fixed price and committed to a set investment plan. The other 50 percent remained in Bolivian hands, with the predominant share going to the Pension Fund Managers (AFP) which will manage the reformed pension system. The capitalization of all the listed companies has been completed, with the exception of VINTO.

The capitalization strategy was designed to boost investment, increase output and efficiency, reduce corruption, increase fiscal revenues and create jobs. Strategic investors have pledged about $1.6 billion in the capitalized companies: ENDE, $142 million; ENTEL, $610 million; LAB, $47 million; ENFE, $39 million; and, YPFB, $834 million. The capitalization of smaller companies has netted an additional $100 million. The Banzer Administration has announced its intentions to privatize many of the few remaining companies in government hands.

4. Debt Management Policies

The Bolivian government owes about $4.2 billion to foreign creditors, 64 percent of which is owed to international financial institutions (principally the Inter-American Development Bank, the World Bank and the Andean Development Corporation). Another 35 percent is owed to foreign governments and only 0.6 percent is owed to private banks. Capitalization reduced the total stock of debt significantly, since the new owners assumed part of the parastatal's debt as well as a share of the equity. Bilateral debt payments have been rescheduled six times by the Paris Club, and several foreign governments have forgiven substantial amounts of the bilateral debt unilaterally. In 1997, Bolivia was declared eligible for the Highly Indebted Poor Country (HIPC) program, which should reduce this stock even further once it comes into effect.

The Bolivian Government has reduced its commercial debt from over $700 million in 1985 to $29 million in September 1997. The government achieved this by buying back its outstanding debt on the market (at rates as low as 11 cents on the dollar) and by exchanging other debt claims for investment bonds.

5. Significant Barriers to U.S. Exports

There are no significant barriers to U.S. exports to Bolivia. The 1993 Export Law prohibits the import of products which might affect the preservation of wildlife, particularly nuclear waste. Bolivia became a member of the World Trade Organization (WTO) in September 1995.

The Investment Law essentially guarantees national treatment for foreign investors. The one real barrier to direct investment—a prohibition on foreigners holding mining concessions within 50 kilometers of the border—is applied uniformly to all foreign investors. Bolivians with mining concessions near the border, however, may have foreign partners as long as they are not from the country adjacent to that portion of the border, except if authorized by law. There are no limitations on foreign equity participation, and dozens of Bolivian companies are wholly owned by U.S.-based investors.

6. Export Subsidies Policies

The government does not directly subsidize exports. The 1993 Export Law replaced a former drawback program with one in which the government grants rebates of all domestic taxes paid on the production of items later exported.

7. Protection of U.S. Intellectual Property

In September 1996, the U.S. Trade Representative placed Bolivia on the Special 301 Watch List for failure to protect Intellectual Property Rights (IPR) adequately. At that time, the International Intellectual Property Alliance (which represents U.S. copyright industries) estimated that U.S. companies lost $42 million in 1995 and $28 million in 1996 in Bolivia due to piracy of motion pictures, sound recordings, computer programs and books.

Regional Andean Pact Decisions primarily define scope of protection for patents, trademarks, copyrights and plant varieties. These decisions are currently being reviewed by the Andean Community. The current decisions are deficient with respect to patents and trademarks in the areas of compulsory licensing, working requirements and transitional ("pipeline" protection). In May 1997, Bolivia issue a Supreme Decree on software which clarifies that computer software is protected under Boliva's copyright law.

Weak enforcement of existing laws has done little to discourage piracy in Bolivia, despite the high-level attention drawn to the issue by the USTR's designation. There is some movement, however: in September 1997, the Banzer Administration enacted Law No. 1788, which created a National Service of Intellectual Property which (once established) will be responsible for protecting IPR. For the first time, patents, trademarks and copyright issues will be the responsibility of one agency.

Bolivia's accession to the WTO obliges it to comply with the Trade-Related Aspects of Intellectual Property Rights (TRIPS) by the end of 1999. Boiliva is a member of the Berne Convention for the Protection of Literacy Works and the Paris Convention for the Protection of Industrial Property.

8. Worker Rights

a. *The Right of Association.*—Workers may form and join organizations of their choosing. Although the Labor Code requires prior governmental authorization to establish a union, permits only one union per enterprise, and allows the government to dissolve unions, the government has not enforced these provisions in recent years. While the Code denies civil servants the right to organize and bans strikes in public services (including banks and public markets), nearly all civilian government workers are unionized. Workers are not penalized for union activities. In theory, the Bolivian Labor Federation (COB) represents virtually the entire work force; approximately one-half of the workers in the formal economy belong to labor unions. Some members of the informal economy also participate in labor organizations. Workers in the private sector frequently exercise the right to strike. Solidarity strikes are illegal, but the government does not prosecute those responsible, nor does it impose penalties.

The COB has called numerous strikes to protest the government's economic reforms, but they were poorly attended and ineffectual. The radical Trotskyite leadership of the urban teachers union has conducted several strikes closing public schools for a few days at a time, in opposition to the educational reform program that deprived the union of its exclusive control of education. The COB demonstrations that habitually have disrupted public order in major cities have been largely absent in 1997. There were, however, several short-lived strikes by health and municipal workers and by workers in some private enterprises, over specific issues involving their work places.

Unions are not free from influence by political parties. Most parties have labor committees that try to sway union activity, causing fierce political battles within unions. Most unions also have party activists in the unions.

The law allows unions to join international labor organizations. The COB became an affiliate of the formerly Soviet-dominated World Federation of Trade Unions (WFTU) in 1988.

b. *The Right to Organize and Bargain Collectively.*—Workers may organize and bargain collectively. Collective bargaining (voluntary direct negotiations between unions and employers without participation of the government) is limited but growing.

The COB contends that it still is the exclusive representative of all Bolivian workers. Consultations between government representatives and COB leaders are com-

mon but have little effect on wages or working conditions. The COB issues a list of demands and the government concedes some points, but rarely grants wage increases exceeding inflation. Capitalization of the major state enterprises has further eroded COB's legitimacy as the sole labor representative. Private employers, now including management of some of the capitalized enterprises, may use public sector settlements as guidelines for their own adjustments and in fact often exceed them. These adjustments, however, usually result from unilateral management decisions or from talks between management and employee groups at the local shop level, without regard to the COB.

The law prohibits discrimination against union members and organizers. Complaints go to the National Labor Court, which can take a year or more to rule. Union leaders say problems are often moot by the time the court rules. Labor law and practice in the seven special free trade zones are the same as in the rest of Bolivia.

c. *Prohibition of Forced or Compulsory Labor.*—The law prohibits forced or compulsory labor. Reported violations were the unregulated apprenticeship of children, agricultural servitude by indigenous workers, and some individual cases of household workers effectively imprisoned by their employers.

d. *Minimum Age for Employment of Children.*—The law prohibits employment of persons under 18 years of age in dangerous, unhealthy or immoral work. The labor code is ambiguous on conditions of employment for minors aged 14 to 17; it permits apprenticeship for those 12 to 14. This practice has been criticized by the International Labor Organization. Urban children hawk goods, shine shoes, and assist transport operators. Rural children often work with parents from an early age. Children are not generally employed in factories or formal businesses but, when employed, often work the same hours as adults.

The past two governments attempted to revise the labor code but desisted in the face of COB opposition. Responsibility for enforcing child labor provisions resides in the Labor Ministry, but the provisions generally are not enforced.

e. *Acceptable Conditions of Work.*—The law establishes a minimum wage (about $45 per month), bonuses and fringe benefits. The minimum wage does not provide a decent standard of living, and most workers earn more. Although the minimum wage falls below prevailing wages in most jobs, certain benefit calculations are pegged to it. The minimum wage does not cover about 20 percent of urban workers—e.g., vendors and shoe polishers—nor does it cover farmers, some 30 percent of the working population.

Only half the urban labor force enjoys an 8-hour workday and a work week of 5 or 5½ days, because the maximum work week of 44 hours is not enforced. The Labor Ministry's Bureau of Occupational Safety has responsibility for protection of workers' health and safety, but relevant standards are poorly enforced. Work conditions in the mining sector are particularly bad. Although the State Mining Corporation has an office charged with safety, many mines, often old and using antiquated equipment, are dangerous and unhealthy.

In some cooperative mines, miners earn less than three dollars per 12-hour day. They work without helmets, boots or respirators in mines where toxic gases abound. They must buy their own supplies (including dynamite), have no scheduled rest periods and must survive underground from 24 to 72 hours continuously with little water and food.

f. *Rights in Sectors with U.S. Investment.*—The majority of U.S. investment is in mining, power generation and the petroleum industry. Rights in these are legally the same as in other sectors. However, conditions and salaries for workers in the petroleum industry are generally better than in other industries because of stronger labor unions in that industry.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		84
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals & Allied Products	0	

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996—Continued

[Millions of U.S. dollars]

Category		Amount
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		[1]
Banking		[1]
Finance/Insurance/Real Estate		0
Services		0
Other Industries		19
TOTAL ALL INDUSTRIES		311

[1] Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

---

BRAZIL

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Income, Production and Employment:			
Nominal GDP [2]	718	750	790
Real GDP Growth (pct) [3]	4.2	3.0	3.2
GDP By Sector (pct)			
Agriculture	5.1	3.0	N/A
Industry	2.0	2.5	N/A
Services	6.0	3.4	N/A
Per Capita GDP (US$) [4]	4,611	4,746	4,950
Labor Force (millions)	74.1	75.6	
Unemployment Rate (pct)	4.6	5.4	6.0
Money and Prices (annual percentage growth):			
Money Supply (M2)	56.6	40.0	33.7
Consumer Price Index [5]	22.0	9.1	6.2
Exchange Rate (R/US$ - annual average)			
Commercial	0.9	1.0	1.1
Balance of Payments and Trade:			
Total Exports FOB [6]	46.5	47.7	53.4
Exports to U.S. [7]	8.8	8.8	10.1
Total Imports FOB [6]	49.9	53.3	63.2
Imports from U.S. [7]	11.4	12.7	15.0
Trade Balance [6]	-3.4	-5.5	-9.8
Balance with U.S. [7]	-2.6	-3.9	-4.9
Fiscal Deficit/GDP (pct) [8]			
Nominal	7.1	6.1	4.9
Operational (inflation adj)	4.8	3.9	2.8
Current Account Deficit/GDP (pct)	2.5	3.3	4.3
External Public Debt [9]	87.5	84.3	N/A
Debt Service/GDP (pct)	1.5	1.7	2.0
Gold and Foreign Exchange Reserves (int'l liquidity)	51.8	60.0	52.0
Aid from U.S. (US$ millions) [10]	15.0	13.9	12.9
Aid from Other Countries	N/A	N/A	N/A

[1] 1997 figures estimated based on January-September data, excepting when noted
[2] GDP at market prices
[3] Percentage changes calculated in local currency

[4] At current prices; 1997 figures estimated based on January-June data
[5] INPC
[6] Merchandise trade
[7] Source: U.S. Department of Commerce and U.S. Census Bureau;exports FAS, imports customs basis; 1997 figures are estimates basedon data available through August 1996.
[8] 1997 figures are estimates based on data available through August 1996.
[9] Nonfinancial public sector (excludes Petrobras and CVRD)
[10] USAID only

1. General Policy Framework

Brazil is in the fourth year of an economic restructuring program designed to bring inflation down, dismantle state control of the economy, reduce market barriers, and encourage greater private sector (including foreign) investment to achieve sustainable long term growth. Since the introduction of a new currency, the Real, in July 1994, domestic inflation has dropped from an average monthly 50 percent in the first half of 1994 to less than one-half percent per month in 1997. Key to this achievement have been high real interest rates to attract foreign capital, a strong currency and market-opening measures which increased competition and exerted downward pressure on prices for traded goods in particular. Long term economic stabilization with improved real growth depends on continuing privatization in the medium run and, more importantly in the longer term, fiscal reforms at the federal, state and municipal levels of government. A portion of the reform package was approved in 1997, many private and state banks have been reorganized or privatized, and the federal government has embarked on an ambitious program to restructure state finances.

With the drop in inflation, the public sector has had a harder time balancing budgets. Brazil ran a deficit (including interest payments) in 1995 equal to five percent of GDP after four years of nearly balanced budgets, but was able to reduce this figure to four percent of GDP in 1996 and will likely realize a slightly lower operational deficit in 1997. To further reduce spending, the government has proposed constitutional reforms of the civil service and social security. Revenue enhancing tax reforms are also on the table. These have proved to be very controversial within the Congress.

The federal government tries to contain spending by limiting budget disbursements to cash-on-hand. Constitutionally mandated earmarks and transfers, the need to meet a large public payroll, and servicing of federal and state net debt of some $260 billion (34 percent of GDP) leave the government less than 10 percent of revenues for discretionary spending. As a result, infrastructure investment has been squeezed. The states have increasingly resorted to borrowing to pay their public employees, thus incurring the additional cost of high domestic interest rates. State-owned enterprises are running small surpluses on a primary basis (before interest payments) due to higher public tariff levels and ongoing privatization in this sector.

The stabilization plan was premised on tight monetary policy. With fiscal reforms lagging, monetary policy has had to bear most of the burden. Together with greater availability of credit, higher real incomes due to price stabilization and a hike in the minimum wage freed pent-up consumer demand and led to a consumption boom in 1994/95. Lower trade barriers and a strong currency prompted a surge in imports, which doubled their 1993 level by 1996. In contrast, exports grew only 13 percent in 1994, seven percent in 1995, and three percent in 1996. To dampen consumption and stave off a widening current account deficit, the government tightened monetary policy by imposing high bank reserve requirements and credit restrictions in 1995. High domestic real interest rates also inhibit business investment, particularly by small and medium sized businesses that cannot borrow overseas. As a result, real growth slowed from over four percent in 1995 to three percent in 1996. Concerned about a widening current account deficit, which will likely reach 4.3 percent of GDP in 1997, the government adopted a number of measures in 1997 to discourage imports and encourage exports including imposing restrictions on import finance and consumer credit and expanding the official export credit program.

In response to the import surge and resulting large monthly trade deficits in late 1994 and early 1995, in March 1995 the government significantly raised import tariffs on a range of consumer durable goods, including automobiles, toys, and shoes. The new tariff levels are as high as 63 percent on some products. Through the adoption of a special "ex-tarifario" regime, however, the tariff increases exempted most capital goods, which constitute a significant portion of U.S. exports to Brazil. The exemption was phased out for most capital goods in September 1997. In December 1995 Brazil implemented a complex automotive products import regime. The regime liberalizes imports of capital goods and inputs for domestic manufactures of vehicle parts. It also permits domestic vehicle manufacturers to import finished vehicles at a 50 percent reduction to the current 63 percent duty, but links this benefit to ex-

port performance and local content requirements which appear inconsistent with Brazil's WTO obligations. The regime expires in 1999 and will be replaced by an as-yet-undefined Mercosur regime in the year 2000.

In March 1997, Brazil imposed new import financing rules that are adversely affecting a range of U.S. exports to Brazil. The measure requires importers to purchase foreign exchange to pay for most imports upon importation or 180 days in advance, rather than when payment is due under the contract. The measure, which provides more favorable treatment for imports from Mercosur members and associate members such as Bolivia and Chile, effectively increases the cost of many imports by eliminating or reducing supplier credits of less than one year. Despite the restrictive measures—measures which the Brazilian government maintains are temporary—access to Brazilian markets in most sectors is generally good, and most markets are characterized by competition and participation by foreign firms through imports, local production and joint ventures.

Brazil and its Southern Common Market (Mercosur) partners, Argentina, Paraguay and Uruguay, implemented the Mercosur Common External Tariff (CET) on January 1, 1995. The CET currently covers approximately 85 percent of 9,000 tariff items; most of the remaining 15 percent will be covered by the CET by 2001, and all will be covered by 2006. CET levels range between zero and 23 percent. With the exception of tariffs on computers, some capital goods, and products included on Brazil's national list of exceptions to the CET (such as shoes, automobiles and consumer electronics) the maximum Brazilian tariff is now 23 percent; the most commonly applied tariff is 17 percent. Mercosur is now negotiating free trade agreements with its South American neighbors. An association agreement with Chile went into effect on October 1, 1996, an agreement with Bolivia was signed the same month, and negotiations with the Andean Pact began in November 1996.

The Brazilian Congress ratified the GATT Uruguay Round Agreements in December 1994 and Brazil became a founding member of the WTO.

2. Exchange Rate Policy

Brazil has three exchange rates: commercial, tourist (or floating), and parallel. The commercial rate is used for commercial and financial transactions registered with the Central Bank. The tourist rate is used for individual transactions, such as travel, education, and other unilateral transfers. The parallel rate is similar to the tourist rate, but is not recorded with the Central Bank. The spread between the three rates has narrowed with stabilization. Central Bank officials state that they intend to unify the commercial and tourist rates eventually.

When introduced in July 1994, the new currency, the Real, was pegged at parity with the U.S. dollar but quickly appreciated. The Central Bank established a new system of trading bands in March 1995 and has subsequently devalued very gradually, first within the bands and then by adjusting the bands upward. Since February 1997, the trading band has been 1.05 to 1.14 Reals for one U.S. dollar. Currently, the Central Bank is pursuing a "crawling peg" policy of nominal depreciation of the Real against the dollar at the rate of 0.6 percent per month. Due to slowing domestic inflation, the real effective exchange rate against the dollar has already depreciated several percentage points.

3. Structural Policies

While some administrative improvements have been made in recent years, the Brazilian legal and regulatory system is far from transparent. The government has historically exercised considerable control over private business through extensive and frequently changing regulations. As part of its efforts to keep inflation down, the government has in the past regularly frozen public utility rates. In 1995, the government stated its intention to phase in "full cost recovery" pricing for utility rates over the next two years and has made significant progress in this direction.

Brazil is accelerating its privatization program initiated in 1990 to reduce the size of the government and improve public sector fiscal balances. Steel companies and most petrochemical companies owned by the government, the main exception being Petrobras, have already been privatized. The majority of voting shares in mining conglomerate Companhia Vale do Rio Doce (CVRD) was sold to the private sector in May 1997. Several electric utilities have been privatized thus far in 1997 and telecommunications concessions auctioned. The Rio de Janeiro State bank, Banerj, was sold to the private sector and the Sao Paulo state bank, Banespa, should be ready for auction by mid-1998. Further telecom privatization plans include the break-up and sale of national monopoly Telebras. An independent regulatory agency known as Anatel was established in November 1997 to oversee this process.

Brazil's tax system is extremely complex, with a wide range of income, consumption, and payroll taxes levied at the federal, state and municipal levels. Because of difficulties in passing comprehensive tax reform through Congress, the government has focused on limited revisions by executive order. In late 1995, it passed revisions to the corporate and individual income tax regimes. In 1996, it exempted exports and capital purchases from the state-collected value added tax and announced a single tax on the gross receipts of small and medium enterprises. While the overall objective remains simplification, the government imposed an additional tax on financial transactions for a two-year period beginning in 1997 to finance the health system. The government has announced plans to transform the current system into one where a federal value-added tax, state and city sales taxes, and a selective excise tax would replace the current system of multiple taxation.

4. Debt Management Policies

Brazil's total external debt by the end of 1996 was $178 billion, of which 47 percent was owed by the public sector (excluding Petrobras and CVRD) and the remainder by the private sector. While total external debt rose 12 percent in the year, external public sector debt fell both absolutely and as a share of the total. Debt service represented 1.7 percent of Brazil's Gross Domestic Product and almost 27 percent of merchandise exports. Brazil concluded a commercial debt rescheduling agreement (without an IMF stand-by program) in April 1994 after twelve years of negotiations and has fully complied with the commitments made in this agreement. Terms have lengthened and spreads narrowed on both public and private sector external debt although the trend may have reversed after the financial market upheaval in October. Brazil's growing internal public sector debt remains a concern.

5. Significant Barriers to U.S. Exports

Import Licenses: Although Brazil requires import licenses for virtually all products, most licenses are issued automatically through the Secretariat of Foreign Trade's computerized trade documentation system, SISCOMEX. Some products however, are still subject to non-automatic licensing. The SISCOMEX system has been fully operational since January 1997, and has streamlined import documentation. Import licensing generally does not pose a barrier to U.S. exports. Import licenses are now used primarily for statistical purposes and generally are issued automatically within five days. However, obtaining an import license can occasionally still be difficult.

Agricultural Barriers: While progress has been made in the area of fruit and vegetable regulations between the United States and Brazil, sanitary and phytosanitary (SPS) measures remain significant barriers in many cases. SPS restrictions or complaints are sometimes not followed up by Brazilian authorities to clearly identify the pest of concern.

Brazil prohibits the entry of poultry and poultry products from the United States, alleging lack of reciprocity. Brazil had previously granted conditional approval for U.S. poultry exports, which was withdrawn when the United States could not grant Brazil an exception to the standard U.S. approval process. Following the lead of the European Union, Brazil prohibits the importation of beef treated with anabolic hormones; however, beef imports from the United States have been allowed on a waiver basis since 1991. In October 1995, Brazil prohibited the importation of live sheep from the United States due to scrapie (a sheep disease), although scrapie is believed to exist in Brazil.

Brazil officially adopted the harmonized phytosanitary standards of the Southern Cone Phytosanitary Committee (COSAVE—Argentina, Chile, Paraguay and Uruguay are also parties) On July 18, 1996, the U.S. Department of Agriculture and the Brazilian Ministry of Agriculture reached a bilateral agreement which enables most U.S. fruit, grain, and seed exports to meet the new phytosanitary requirements. However, U.S. horticultural products still frequently face difficulties at Brazilian ports.

Services Barriers: Restrictive investment laws, lack of administrative transparency, legal and administrative restrictions on remittances, and arbitrary application of regulations and laws limit U.S. service exports to Brazil. In some areas, such as construction engineering, foreign companies are prevented from providing technical services in government procurement contracts unless Brazilian firms are unable to perform them. Restrictions exist on the use of foreign produced advertising materials.

Many service trade possibilities, in particular services in the oilfield and mining industries, have been restricted by limitations on foreign capital under the 1988 Constitution. Unless approved under specific conditions, foreign financial institu-

tions are restricted from entering Brazil or expanding pre-1988 operations. The Brazilian Congress approved five constitutional amendments in 1995 that eliminated the constitutional distinction between national and foreign capital; opened the state telecommunications, petroleum and natural gas distribution monopolies to private (including foreign) participation; and permitted foreign participation in coastal and inland shipping. However, the degree to which these sectors are actually opened will depend on implementing legislation. Legislation permitting the licensing of private cellular phone networks to compete with existing parastatal monopolies was passed in May 1996, but it requires majority (51 percent) Brazilian ownership of eligible companies.

Foreign legal, accounting, tax preparation, management consulting, architectural, engineering, and construction industries are hindered by various barriers. These include forced local partnerships, limits on foreign directorships and non-transparent registration procedures.

Foreign participation in the insurance industry has responded positively to market-opening measures adopted in 1996. However, problems remain with market reserves for Brazilian firms in areas such as import insurance and the requirement that parastatals purchase insurance only from Brazilian-owned firms. In June 1996, the Brazilian government legally ended the state's monopoly on reinsurance but the monopoly has yet to end in practice and its persistence is keeping costs high for insurers, both domestic and foreign.

Investment Barriers: Various prohibitions restrict foreign investment in petroleum production and refining, internal transportation, public utilities, media, shipping, and other "strategic industries." In other sectors, Brazil limits foreign equity participation, imposes local content requirements and links incentives to export performance. Some of these restrictions may be reduced once the 1995 Constitutional amendments are implemented, although new restrictions were introduced in the auto sector in 1995. Foreign ownership of land in rural areas and adjacent to international borders is prohibited.

Informatics: The 1991 Informatics Law eliminated prohibitions and requirements for government prior review for informatics imports, investment, or manufacturing by foreign firms in Brazil. However, import duties remain high (up to 35 percent) on informatics products, and Brazilian firms receive preferential treatment in government procurement and have access to certain fiscal and tax benefits. For a foreign-owned firm to gain access to most of these incentives, it must commit to invest in local research and development and meet customer service and export and local training requirements. The Software Law of 1987 (Law 7646) requires that all software be "catalogued" by the Informatics Secretariat of the Ministry of Science and Technology prior to its commercialization in Brazil. Market access for U.S. software has improved. A law which precluded non-Brazilian software from the market if a "similar" Brazilian product existed has been de facto eliminated. A tax on remittances of royalties, in addition to a withholding tax, have also been eliminated. A draft law that would eliminate the "cataloguing" requirement and would extend the term of protection to 50 years was passed by the Chamber of Deputies in early 1996 and awaits action by the Senate.

Government Procurement: Brazil is not a signatory to the WTO Government Procurement Agreement. Federal, state and municipal governments, as well as related agencies and companies, follow a "buy national" policy. Brazil permits foreign companies to compete in any procurement related to multilateral development bank loans and opens selected procurements to international tenders. Given the significant influence of the state-controlled sector, discriminatory procurement policies are a relatively substantial barrier to U.S. exports in Brazil's market.

Law Number 8666 of 1993, covering most government procurement (except informatics and telecommunications), requires nondiscriminatory treatment for all bidders, regardless of nationality or origin of product or service. However, regulations introduced in late 1993 allow consideration of non-price factors, give preferences to telecommunications, computer, and digital electronics goods produced in Brazil, and condition eligibility for fiscal benefits on local content requirements. In March 1994, the government issued Decree 1070, which requires federal and parastatal entities to give preference to locally produced computer and telecommunications products and services based on a complicated and nontransparent price/technology matrix. Bidders that meet one or more of the criteria for preferential treatment are allowed a price differential of up to 12 percent over other bidders.

6. Export Subsidies Policies

In general, the Brazilian government does not provide direct subsidies to exporters, but does offer a variety of tax and tariff incentives to encourage export production and encourage the use of Brazilian inputs in exported products. Incentives include tax and tariff exemptions for equipment and materials imported for the production of goods for export, excise and sales tax exemptions on exported products, and excise tax rebates on materials used in the manufacture of export products. Exporters enjoy exemption from withholding tax for remittances overseas for loan payments and marketing, and from the financial operations tax for deposit receipts on export products. Excise and sales tax exemptions have now been extended to agricultural and semi manufactured export products as well as to manufactured products. Exporters are also eligible for a rebate on social contribution taxes paid on locally acquired production inputs.

An export credit program, known as PROEX, was established in 1991. Under the program, the government provides interest rate guarantees to commercial banks which finance export sales, thus ensuring Brazilian exporters access to financing at rates equivalent to those available internationally. Capital goods, automobiles and auto parts, and consumer goods are eligible for financing under PROEX.

7. Protection of U.S. Intellectual Property

Brazil's new Industrial Property Law took effect in May 1997. In nearly all respects, the new law brings Brazil's patent and trademark regime up to international standards specified in the Uruguay Round TRIPs agreement. The new law, however, includes compulsory licensing and local working requirements which appear to be TRIPs-inconsistent. It would permit the granting of a compulsory license if a patent owner has failed to "work" the patented invention in Brazil (manufacture locally) within three years of issuance. A product would be recognized as "worked" in cases in which local production was found to be "economically unviable." Implementation remains to fully realize the benefits of the new law.

Brazil is a signatory to the GATT Uruguay Round accords, including the TRIPS agreement, ratified by the Brazilian Congress in December 1994. Brazil is a member of the World Intellectual Property Organization and a signatory to the Berne and Universal copyright conventions, the Washington Patent Cooperation Treaty, and the Paris Convention on industrial property.

Patents: The new law provides patent protection for chemical and pharmaceutical substances, chemical compounds and processed food products, which were not patentable under Brazil's 1971 law. The law also provides for patent protection of genetically altered microorganisms. In addition, it extends the term for product patents from 15 to 20 years. The law provides "pipeline" protection for pharmaceutical products that have been patented in other countries but not yet placed on the market. A Plant Variety law, passed in April 1997, provides protection to producers of new varieties of seeds.

Trade Secrets: The new Industrial Property Law specifically allows criminal prosecution for revealing trade secrets of patented items, with a penalty of imprisonment for three months to a year or a fine. The regulations as written are somewhat narrower than TRIPS. However, the Brazilian government argues that since it incorporated TRIPS Article 39 into law when the Uruguay Round agreements were ratified, in effect a TRIPS-consistent level of protection is available.

Trademarks: The new Industrial Property Law provides for significant improvements in Brazil's trademark regime, including better protection for internationally known trademarks. Trademark licensing agreements must be registered with the National Institute of Industrial Property to be enforceable. However, failure to register licensing agreements will no longer result in cancellation of trademark registration for non-use.

Copyrights: While Brazil's copyright law generally conforms to international standards, the 25 year term of protection for computer software falls considerably short of the Berne Convention standard of the life of the author plus 50 years. A bill designed to improve protection for computer software programs was passed by the Chamber of Deputies in early 1996; the bill is pending in the Senate. The bill would extend the term of protection to 50 years, protect software programs as literary works, and recognize exclusive rental rights. In July 1997, the government redrafted a bill that would offer adequate and effective copyright protection for books, films, videocassettes, sound recordings and musical compositions in an effort to bring Brazil's copyright protection to the level of TRIPS.

U.S. private sector estimates that piracy of videocassettes, sound recordings and musical compositions, books and computer software continues at substantial levels.

The Senate passed a bill in 1990 that was reformulated in early 1997. The 1997 bill passed the Chamber of Deputies in December 1997, with amendments It returns now to the Senate. In the last two years, enforcement of Brazilian laws against video and software piracy has improved. The government has also initiated action to reduce the importation of pirated sound recordings and videocassettes.

Semiconductor Chip Layout Design: A bill to protect layout designs of integrated circuits was introduced in April 1996.

Impact on U.S. Trade: The U.S. pharmaceutical industry estimates losses of approximately $600 million due to past inadequate intellectual property protection, however the passage of the new Industrial Property Law in May 1996 has brought over $2 billion in pharmaceutical investment. Rightholders of U.S. copyright industries lost over $700 million in Brazil due to piracy in 1996. The U.S. software industry claims losses of $356 million, and estimates that 68 percent of the business software in use in Brazil was illegally obtained. The Motion Picture Association of America estimates its 1996 annual losses due to media piracy in Brazil at about $100 million.

8. Worker Rights

a. *The Right of Association.*—Brazil's Labor Code provides for union representation of all Brazilian workers (excepting military, uniformed police and firemen), but imposes a hierarchical, unitary system, funded by a mandatory "union tax" on workers and employers. Under a restriction known as "Unicidade", the code prohibits multiple unions of the same professional category in a given geographical area.

In practice, "Unicidade" has proven less restrictive in recent years as more liberal interpretations of its restrictions have permitted new unions to form. The primary source of continuing restriction is the system of labor courts, which retain the right to review the registration of new unions, and adjudicate conflicts over their formation. Otherwise, unions are independent of the government and of political parties. Approximately 20 to 30 percent of the Brazilian work force is organized, with well over half of this number affiliated with an independent labor central. Intimidation of rural labor organizers by landowners and their agents continues to be a problem.

The Constitution provides for the right to strike except in the case of military, police and firemen. Essential services must remain in operation during a strike, and workers must notify employers at least 48 hours before beginning a walkout. The Constitution prohibits government interference in labor unions but provides that "abuse" of the right to strike (such as not maintaining essential services, or failure to end a strike after a labor court decision) is punishable by law.

b. *The Right to Organize and Bargain Collectively.*—The Constitution provides for the right to organize. With government assistance, businesses and unions are working to expand and improve mechanisms of collective bargaining. The scope of issues legally susceptible to collective bargaining is narrow and the labor court system exercises normative powers with regard to the settlement of labor disputes, thereby discouraging direct negotiation. The Cardoso administration has made expansion of collective bargaining one of its major objectives in the labor sector. On June 30, 1995, the government ended the indexing of wages to inflation, reduced the role of labor courts in wage negotiations, allowed for mediation, and provided greater latitude for collective bargaining. In many cases wages are set through free negotiations; labor court decisions set them in others.

The Constitution prohibits the dismissal of employees who are candidates for or holders of union leadership positions. Nonetheless, dismissals take place, with those dismissed required to resort to a lengthy court process for relief. In general, the authorities do not effectively enforce laws protecting union members from discrimination.

c. *Prohibition of Forced or Compulsory Labor.*—The Constitution prohibits forced labor. Nevertheless, forced labor is common on farms producing charcoal for use in the sugar and steel industries. Local police admit that overseers or owners of many farms withhold pay from migrant laborers and use force to retain and intimidate them, but the jurisdiction for such violations falls to the Ministry of Labor, which has only 2,300 inspectors for all of Brazil. Labor organizations allege that in mining and the rural economy, thousands of workers, including minors, are subjected to debt bondage, with violence used to retain or punish workers who attempt to escape. The federal government has taken a number of steps to clamp down on forced labor but admits that existing enforcement resources are inadequate.

d. *Minimum Age of Employment of Children.*—The minimum working age under the Constitution is 14 years, except for apprentices; however, judges can authorize employment for children under 14 years of age when they deem it appropriate. The

law requires permission of the parents or guardians for minors to work, and they must attend school through the primary grades. The law bars minors from night work, work that constitutes a physical strain, and employment in unhealthful, dangerous, or morally harmful conditions. Legal restrictions intended to protect working minors under age 18 are rarely enforced, however. Official figures state that nearly 3 million 10- to 14-year old children (or 4.6 percent of the work force) are employed. Many children work alongside their parents in cane fields, cutting hemp, or feeding wood into charcoal ovens. Frequent accidents, unhealthy working conditions, and squalor are common in these cases.

e. *Acceptable Conditions of Work.*—The Ministry of Labor sets occupational health and safety standards, but has insufficient resources for adequate inspection and enforcement of these standards. The law requires employers to establish internal committees for accident prevention in work places, and protects employee members of these commissions from being fired from their committee activities. Such firings do occur, however, and legal recourse usually requires years for resolution.

f. *Rights in Sectors with U.S. Investment.*—U.S. investment is concentrated heavily in the transportation equipment, food, chemicals, petroleum distribution and electric/electronic equipment industries. Labor conditions in industries owned by foreign investors generally meet or exceed the minimum legal standards established under Brazil's Labor Code.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		698
Total Manufacturing		19346
Food & Kindred Products	2855	
Chemicals & Allied Products	4111	
Metals, Primary & Fabricated	961	
Machinery, except Electrical	2188	
Electric & Electronic Equipment	662	
Transportation Equipment	3437	
Other Manufacturing	5131	
Wholesale Trade		530
Banking		1164
Finance/Insurance/Real Estate		3019
Services		264
Other Industries		1146
TOTAL ALL INDUSTRIES		26166

Source: U.S. Department of Commerce, Bureau of Economic Analysis

CANADA

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997
Income, Production and Employment:			
Nominal GDP [1]	565.5	585.1	610.3
Real Growth Rate (pct)	2.3	1.5	3.6
GDP by Sector (pct):			
Goods [3]	32	34	34
Services [3]	68	66	66
Agriculture [3]	2	2	2
Government [3]	22	21	21
Per Capita GDP	19,220	19,621	20,252
Total Labor Force (000s)	14,928	15,147	15,388

Key Economic Indicators—Continued

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997
Unemployment Rate (pct)[2]	9.5	9.7	9.2
Money and Prices (annual percentage growth):			
Money Supply Growth(M1)[3]	5.0	10.7	12.1
Consumer Price Inflation[2]	2.1	1.6	1.8
Exchange Rate: (C$/US$)	1.3727	1.3635	1.3729
Balance of Payments and Trade:			
Merchandise Exports	193.0	205.8	214.1
Exports to U.S.	150.0	162.7	169.1
Merchandise Imports	168.4	175.7	189.4
Imports from U.S.	126.6	133.4	145.8
Merchandise Trade Balance	24.6	30.1	24.7
Balance with U.S.	23.4	29.3	23.3
Current Account/GDP (pct)	-1.0	0.5	-0.3
Net Public Debt[4]	418.4	435.1	N/A
Debt Service Payments/GDP (pct)[4]	6.0	5.7	N/A
Federal Deficit/GDP (pct)[4]	-3.7	-1.1	N/A
Gold and Foreign Exchange Reserves	15.2	20.6	20.1
Aid from U.S.	N/A	N/A	N/A
Aid from All Other Sources	N/A	N/A	N/A

[1] 1997 data = Embassy projections unless otherwise footnoted.
[2] 1997 = Conference Board of Canada projection.
[3] 1997 = actual as of September 30, 1997.
[4] GOC data for actual and 1997 projections.

1. General Policy Framework

Canada is the world's seventh-largest market economy. Production and services are predominantly privately owned and operated. However, the federal and provincial governments provide a broad regulatory framework and redistribute incomes among individuals and provinces. Federal government economic policies since the mid-1980s have emphasized the reduction of public sector interference in the economy and the promotion of private sector initiative and competition. Nevertheless, federal government regulatory regimes affect foreign investment, most notably U.S. firms operating in telecommunications, broadcasting, publishing and financial services.

Canadian federal and provincial governments have made great strides in reducing their respective budget deficits in a non-inflationary environment. Canada's fiscal year runs from April 1–March 31. In FY96–97, the federal deficit dropped to 1.1 percent of GDP, the lowest in over 20 years, and a marked improvement from five percent just two years earlier. Canada's credit rating remains firm and the Conference Board of Canada's Survey of Forecasters, published September 29, 1997, calls for the Canadian economy to grow by 3.6 percent in 1997 and 3.5 percent in 1998.

The United States-Canada trading relationship is the largest in the world. In 1996, total two-way trade in goods and services was US$353.5 billion. Approximately 80 percent of Canada's merchandise exports are destined for the United States, while merchandise imports from the U.S. comprise 77 percent of the total. Since the implementation of the North American Free Trade Agreement (NAFTA) in 1994, U.S. exports to Canada have increased by over 30 percent. Motor vehicles and parts account for approximately 20 percent of U.S. merchandise exports to Canada, followed by exports of machinery and equipment and industrial equipment. The stock of total foreign direct investment in Canada in 1996 was US$132.3 billion, of which US$90 billion or 68 percent was U.S.-owned. Roughly 40 percent of the assets of Canadian manufacturing companies are foreign-owned; of this total, about 75 percent belong to U.S. firms.

The Bank of Canada is the country's central bank. The Governor of the Bank is responsible for conducting monetary policy and uses such tools as management of cash balances with the chartered banks, open market operations, and adjustment of the overnight money lending rate, which is analogous to the U.S. federal funds rate.

2. Exchange Rate Policy

The Canadian dollar is a fully convertible currency, and exchange rates are determined by supply and demand conditions in the exchange market. There are no exchange control requirements imposed on export receipts, capital receipts, or payments by residents or non-residents. The Bank of Canada operates in the exchange market on almost a daily basis to try to maintain orderly trading conditions and smooth rate movements.

3. Structural Policies

Prices for most goods and services are established by the market. The most important exceptions are government services, services provided by regulated public service monopolies, most medical services, and supply-managed agricultural products (eggs, poultry and dairy products).

The principal sources of federal tax revenue are corporate and personal income taxes and the goods and services tax (GST), a multi-stage seven percent value-added tax on consumption. The personal and corporate income tax burden, combining federal and provincial taxes and surcharges, is significantly higher than in the U.S.

Federal government regulatory regimes affect foreign investment (see section 5 below). Although foreign-owned bank subsidiaries are subject to federal restraints on their operations and growth, U.S. banks have been exempted from most of these restrictions under the United States-Canada Free Trade Agreement (US-CFTA). This continues under NAFTA. However, some restrictions still apply, although the federal government has committed itself to introduce legislation by the end of 1997 to allow foreign bank branching. In mid-1992, Canada implemented financial sector reforms that largely eliminated the barriers among banks, trust companies and insurance companies.

Aviation is not included in the NAFTA. On February 24, 1995, the United States and Canada signed a new Air Transport Agreement which immediately eliminated most restrictions on air services between the two countries and will virtually deregulate the transborder market over three years.

4. Debt Management Policies

The Government of Canada has a stated goal to balance its books by FY1998-99. The federal government's net debt burden—the level of net debt relative to the size of the economy—fell to 73.1 percent in FY1996-97 from 74 percent the previous year. This marked the first significant reversal after 25 years of virtually uninterrupted increases in the debt-to-GDP ratio. While foreigners are receptive to holding Canadian securities, the federal government has launched initiatives to place more of the country's debt with Canadians and reduce international obligations. In FY1996-97, the federal government had no new net borrowing requirements.

5. Significant Barriers to U.S. Exports

On January 1, 1989, Canada and the United States began to implement the US-CFTA, a free trade agreement to eliminate over a ten year period virtually all tariff and non-tariff barriers to trade between the two countries. The US-CFTA was superseded on January 1, 1994, with the inauguration of the NAFTA, which extends the US-CFTA to Mexico and expands it in the areas of services, investment and government procurement. Canada is a member of the World Trade Organization and has passed legislation to implement the Uruguay Round agreement.

Nevertheless, a number of Canadian practices constitute barriers to U.S. exports to Canada.

Canada applies various restrictions to imports of supply-managed products (dairy, eggs and poultry), fresh fruit and vegetables, potatoes, processed horticultural products and live swine. The United States continues to pursue these issues bilaterally. With regard to Canada's milk pricing policies, the United States maintains that Canada (1) is providing export subsidies without regard to its export subsidy reduction commitments, and (2) has failed to fulfill its WTO commitment to provide access for 64,500 metric tonnes of fluid milk exports annually. The U.S. held consultations under WTO dispute settlement procedures in November 1997 to address the issue.

Provincial legislation and Liquor Board policies regulate Canadian importation and retail distribution of alcoholic beverages. U.S. exporters object to provincial minimum import price requirements, and cost-of-service and packaging size issues hinder the importation of U.S. wine.

Canadian customs regulations limit the temporary entry of specialized equipment needed to perform short-term service contracts. Certain types of equipment are

granted duty-free or reduced-duty entry into Canada only if they are unavailable from Canadian sources. Although NAFTA has broadened the range of professional equipment permitted entry, it has not provided unrestricted access.

Under Canada's Special Import Measures Act (SIMA), Canadian companies have brought antidumping and countervailing duty actions against U.S. companies. Dumping margins in successful cases constitute a significant barrier to U.S. exports. The Canadian Parliament reviewed the SIMA in 1996-97 and is expected to consider modifications to the Act in 1997-98.

Various restrictions limit U.S. access to the Canadian market for publications. In 1997, a WTO panel ruled in favor of the U.S. in a case concerning such measures, which included a ban on imports of magazines with advertising directed at Canadians, a special 80% excise tax on split-run magazines, and discriminatory postal rates on imported magazines (the Sports Illustrated case). The U.S. and Canadian governments have agreed that Canada has a 15-month period to eliminate these restrictions. The Canadian government has said they will be replaced with WTO-consistent support measures. Canadian regulations designed to promote Canadian culture result in certain content restrictions that adversely affect U.S. program suppliers.

Under the Investment Canada Act, the Broadcast Act, the Telecommunications Act, and policies affecting energy, publishing, telecommunications, transportation, broadcasting and cable television firms, Canada maintains laws and policies with respect to foreign ownership which interfere with new or expanded foreign investment in these sectors. While foreign investment in the banking and financial services sectors has been restricted under the Bank Act and related statutes, the government has committed to introduce legislation by the end of 1997 to allow foreign bank branching.

Under the Investment Canada Act of 1985, the Canadian government must be given notice of any investment by a non-Canadian to establish a new Canadian business, regardless of size, or to acquire direct control of any existing Canadian business which either has assets of C$5 million or more, or a business that is identified by regulation to be culturally sensitive or in the indirect control of any existing Canadian business with assets of C$50 million. The C$5 million threshold is increased to C$168 million in the case where the acquiring non-Canadian entity is a national of a member of the World Trade Organization (WTO), and there is no review process applicable to an indirect acquisition of a Canadian business by an entity that is a national of a member of the WTO.

In most cases, Canada prohibits acquisition of a majority share of Canadian book publishing and distributing companies by non-Canadians, and requires in these sectors that foreign-owned subsidiaries in Canada be divested to Canadians within two years if the ownership of the parent changes hands. The Investment Canada Act also has specific policies restricting foreign investment in the film distribution sector.

Under the CFTA and the NAFTA, greenfield investments by U.S. investors are not subject to screening by Investment Canada except in cultural industries. Direct takeovers of existing Canadian companies are subject to a screening threshold which was C$150 million in 1994, and adjusted for GDP growth.

Canada's Telecommunications Act allows the federal regulator, the Canadian Radio-Television and Telecommunications Commission, to forbear from regulating competitive segments of the industry, and exempts resellers from regulation. The Act and its regulations restrict foreign ownership of telecommunication firms (minority ownership/control) and the licensing of certain services. However, as a part of its WTO offer on basic telecommunications, Canada has committed itself to market opening initiatives in mobile satellite services, mobile satellite basic telecom services, and international telecommunications services.

In the banking sector, the Bank Act of 1980 made chartering of foreign-owned banking subsidiaries possible for the first time. Currently, foreign banks are still not permitted to enter Canada as direct branches. However, as stated earlier, the federal government has committed itself to introduce legislation this year to allow foreign bank branching and has committed in its WTO Financial Services offer to have this law in place by June 30, 1999. The US-CFTA eliminated other discriminatory restrictions on U.S. bank subsidiaries in Canada.

6. Export Subsidies Policies

Canada largely eliminated its export subsidies on western-grown wheat, barley, oats, canola and many other agricultural commodities in 1995. Export credit guarantees to support bulk and processed agricultural product exports are available

through the Canadian Wheat Board and the Export Development Corporation, both crown corporations. Due to lack of transparency, data on the value and/or volume of commodities exported with credit guarantee support, destination countries, and terms are very limited.

In 1995 and 1996, Canada eliminated its producer levy-funded export subsidy program for dairy products, and implemented instead a program that enables dairies to acquire milk at a discount on the condition that the resulting products are exported or incorporated into certain further processed food products. The prices farmers receive for milk delivered under this program are lower than those received for milk manufactured into dairy products for domestic sale. Canada contends that by implementing these changes it has eliminated export subsidies for dairy and is in compliance with its WTO commitments on export subsidies. The United States maintains that Canada continues to provide export subsidies, and initiated WTO dispute settlement proceedings in October 1997.

7. Protection of U.S. Intellectual Property

The Canadian government has longstanding legislation to protect intellectual property rights, and these laws are effectively enforced.

In 1993 the Canadian government amended the Patent Act to eliminate compulsory licensing for pharmaceuticals, thereby extending patent protection to the standard 20 years.

In 1993 Canada proclaimed the Integrated Circuit Topography Act, a law protecting semiconductor chip design.

1989 amendments to the Canadian Copyright Act granted explicit copyright protection for computer programs, and provided a right of payment for retransmission of broadcast programming as required by the US-CFTA. In January 1994, the Copyright Act was amended to reflect the changes required by NAFTA, e.g., rental rights for computer programs and sound recordings; protection for data bases and other compilations; and increased measures against all categories of pirated works.

Canada passed revisions to its Copyright Act in April 1997. While certain parts of the new Act are still waiting to be proclaimed into law, the revisions extend music broadcast royalty rights to producers and performers ("neighboring rights"), impose a levy on blank audio cassettes to compensate artists, and make it an offense for booksellers to obtain books from any source other than the exclusive agent for the Canadian market. The neighboring rights amendment will benefit only Rome Convention signatories. U.S. producers and performers could benefit under NAFTA only if the United States passes a similar law. The next stage of copyright reform will be a review of Bill C-32 three years from the date that the entire bill is proclaimed into law. The U.S. placed Canada on the Special 301 "Watch List" because of the provisions in the revised Copyright Act.

8. Worker Rights

a. *The Right of Association.*—Except for members of the armed forces, workers in both the public and private sectors have the right to associate freely. These rights, protected by both the federal labor code and provincial labor legislation, are freely exercised.

b. *The Right to Organize and Bargain Collectively.*—Workers in both the public and private sectors freely exercise their rights to organize and bargain collectively. Some essential public sector employees have limited collective bargaining rights which vary from province to province. 37.5 percent of Canada's non-agricultural work force is unionized.

c. *Prohibition of Forced or Compulsory Labor.*—There is no forced or compulsory labor practiced in Canada.

d. *Minimum Age Employment of Children.*—Generally, workers must be 17 years of age to work in an industry under federal jurisdiction. Provincial standards (covering more than 90 percent of the national work force) vary, but generally require parental consent for workers under 16 and prohibit young workers in dangerous or nighttime work. In all jurisdictions, a person cannot be employed in a designated trade (become an apprentice) before the age of 16. The statutory school-leaving age in all provinces is 16.

e. *Acceptable Conditions of Work.*—Federal and provincial labor codes establish labor standards governing maximum hours, minimum wages and safety standards. Those standards are respected in practice.

f. *Rights in Sectors with U.S. Investment.*—Worker rights are the same in all sectors, including those with U.S. investment.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		10997
Total Manufacturing		43817
Food & Kindred Products	5355	
Chemicals & Allied Products	7388	
Metals, Primary & Fabricated	3036	
Machinery, except Electrical	2848	
Electric & Electronic Equipment	1726	
Transportation Equipment	11224	
Other Manufacturing	12240	
Wholesale Trade		7764
Banking		974
Finance/Insurance/Real Estate		15816
Services		4729
Other Industries		7490
TOTAL ALL INDUSTRIES		91587

Source: U.S. Department of Commerce, Bureau of Economic Analysis

CHILE

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Income, Production and Employment:			
Nominal GDP	67.3	71.9	79.5
Real GDP Growth (pct)	8.5	7.2	6.5
GDP by Sector:			
Agriculture/Fishing	5.4	5.7	6.1
Mining	5.3	6.0	6.7
Manufacturing	11.3	11.7	12.5
Construction	3.7	4.0	4.5
Services	29.9	32.3	35.5
Government	1.7	1.7	1.9
Per Capita GDP (US$)	4,700	5,100	5,400
Labor Force (000s)	5,497	5,522	5,600
Unemployment Rate (pct)	5.5	5.5	5.5
Money and Prices (annual percentage growth):			
Money Supply (M2)	26.8	23.2	19.5
Consumer Price Inflation (pct)	8.2	6.6	5.9
Exchange Rate(peso/US$)	397	412	415
Balance of Payments and Trade:			
Total Exports (FOB) [2]	16.4	15.4	16.9
Exports to U.S.	1.9	2.6	2.7
Total Imports (CIF)	15.3	17.4	17.6
Imports from U.S.	3.6	4.1	4.5
Trade Balance	1.1	-2.0	-0.7
Balance with U.S.	-1.7	-1.5	-1.8
Current Account Deficit/GDP (pct)	0.2	-4.1	-3.5
External Public Debt	21.8	23.0	26.3
Debt Service Payments/Exports (pct)	23.6	27.3	25.0
Fiscal Deficit/GDP (pct)	N/A	N/A	[3] N/A
Gold and Foreign Exchange Reserves (US$ billions)	14.8	15.5	18.8
Aid from U.S. (US$ millions)	3.6	0.3	0.2

Key Economic Indicators—Continued

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Aid from All Other Sources	N/A	N/A	N/A

[1] 1997 Estimates based on monthly data available in November 1997.
[2] All figures merchandise trade. Source: Central Bank of Chile.
[3] The Government of Chile has run a fiscal surplus for more than a decade.

Sources: Central Bank of Chile

1. General Policy Framework

Chile's economy has grown rapidly for more than a decade. This growth has been fueled by steadily rising domestic savings and foreign investment. Copper remains the country's most important product, accounting for about 42 percent of export earnings in the first nine months of 1997. However, exports of fish, forestry products, fresh fruit, and manufactured products are also important. Chile's investment grade credit rating is the highest in Latin America, and Chilean firms finance investment by borrowing, issuing bonds, and selling stock abroad as well as in Chile. Many Chilean firms are also expanding abroad.

The government of Eduardo Frei (1994-present) has continued Chile's emphasis on macroeconomic stability and the economy's export orientation. The government has generated fiscal surpluses in each of the years 1988-1996, and it is projected to do so in 1997. The pace of privatization has slowed in the last few years. The independent central bank has gradually loosened foreign exchange restrictions on capital outflows. The government remains concerned about the potential effects on the exchange rate of rapid foreign currency inflows. As of late 1997, pending legislative proposals would allow banks to do business abroad and would privatize Chile's water and sewage companies.

The Central Bank's monetary policy adjusts interest rates to affect domestic spending. In this way, it aims to gradually reduce inflation while keeping the economy on a path of steady growth. It has sought to stabilize the exchange rate by buying or selling dollars to keep the exchange rate within a preannounced range.

Indicators for 1997 suggest that real GDP growth will exceed the government's target of 5.5 to 6.0 percent. Inflation will be near the Central Bank's target of 5.5 percent. Unemployment will average about 6 percent. Despite falling world copper prices since the highs achieved in 1995, increases in gross output of copper have kept the contribution of copper to export earnings relatively level. Chile will likely experience a merchandise trade deficit of some $700-800 million in 1997. The current account will be even more negative due to the country's normal services deficit. Foreign investment flows continue to more than balance the negative performance of the current account, and accumulated reserves as of November 1997 were greater than $18 billion.

2. Exchange Rate Policies

The Central Bank allows the peso-dollar exchange rate to fluctuate within a 12.5 percent band on either side of the reference rate. The reference exchange rate moves each day according to changes in the exchange rates of the dollar, mark, and yen and the difference between Chilean and foreign inflation, together with an adjustment allowing a 2% annual appreciation of the real exchange rate. The Central Bank buys or sells dollars in the official inter-bank market when the peso threatens to move more than twelve and one-half percent above or below the reference exchange rate. The Central Bank does this only to reduce what it believes are short-term fluctuations. It does not attempt to block long-term trends in the exchange rate, and it has shifted the reference exchange rate twice since 1992 to reflect long-term strengthening of the peso.

Over the last several years, the Central Bank has gradually reduced restrictions on foreign exchange outflows. In 1995, it lifted the requirement that exporters remit some of their foreign currency earnings through the inter-bank market. A legal parallel market operates with rates almost identical to the inter-bank rate. Over the last decade, the peso has appreciated in real terms against the dollar because of Chile's trade surpluses, strong inflows of foreign capital, and the dollar's weakness on international markets; this trend continued throughout most of 1997, despite the dollar's strength elsewhere. Since the Asian turmoil began October 23, the peso has depreciated steadily against the dollar, with some intervention by the Central Bank.

3. Structural Policies

Pricing policies: The government rarely sets specific prices. Exceptions are urban public transport and some public utilities and port charges. State enterprises generally purchase at the lowest possible price, regardless of the source of the material. U.S. exports enter Chile and compete freely with other imports and Chilean products. Chile's free trade agreements with Mexico, Canada and Mercosur give exporters from those countries significant competitive advantages—virtually all Mexican and Canadian exports enter the Chilean market duty free. Import decisions are typically related to price competitiveness and product availability. (Certain agricultural products are an exception. See section 5.)

Tax policies: An 18 percent value-added tax (VAT) applies to all sales transactions and accounts for over 40 percent of total tax revenue. There is an 11 percent tariff on virtually all imports originating in countries with which Chile does not have a free trade agreement. Computers enter Chile duty-free as a result of the Information Technology Agreement. Personal income taxes are levied only on income over about $6,000 per year. The top marginal rate is 45 percent on annual income over about $75,000. Profits are taxed at flat rates of 15 percent for retained earnings and 35 percent for distributed profits, with incentives for business donations to educational institutions. Tax evasion is not a serious problem.

Regulatory policies: Regulation of the Chilean economy is limited. The most heavily regulated areas are utilities, the banking sector, securities markets, and pension funds. No government regulations explicitly limit the market for U.S. exports to Chile (although other government programs, like the price band system for some agricultural commodities described below, displace U.S. exports). In recent years, the government has introduced rules permitting private investment in the construction and operation of public infrastructure projects such as toll roads. Most Chilean ports are administered by a state-owned firm, although legislation is pending to permit private concessions.

4. Debt Management Policies

Due to Chile's vigorous economic growth and careful debt management over the last decade, foreign debt is no longer a major problem. As of mid-1997, Chile's public and private foreign debt was about $23.5 billion, or around 30 percent of GDP. (In 1985, the debt-to-GDP ratio was 125 percent.) Since the mid-1980s, public sector debt has declined steadily. In 1995, the government and the Central Bank prepaid over $1.5 billion in debt to the International Monetary Fund (IMF).

5. Significant Barriers to U.S. Exports

Chile has few barriers to U.S. exports and is a member of the WTO. Nevertheless, treatment in some areas, especially agricultural commodities, diverges from international norms. Chile agreed in the GATT Uruguay Round not to raise its tariff rates above 25 percent. This is being phased in for a few agricultural products; their maximum rate is now 29 percent. The uniform Chilean tariff rate is currently 11 percent on all goods except for used goods, which are subject to a 16.5 percent tariff. Chile has free trade agreements which will lead to duty-free trade in most products by the late 1990s with Mexico, Venezuela, Colombia, Ecuador and the Mercosur bloc. Tariffs also are lower than 11 percent for certain products from member countries of the Latin American Integration Association (ALADI) and products imported by diplomats and the Chilean military.

The 18 percent VAT is applied to the CIF value of imported products plus the 11 percent import duty. Duties may be deferred for seven years for capital goods imports purchased as inputs for products to be exported. Duties may be waived on capital goods to be used solely for production of exports. (See section six.) Automobiles are subject to additional taxes based on value and engine size. The engine tax, which is scheduled to be phased out by 1999, applies to vehicles with engines of over 1,500 cc, while the value tax is 85 percent of the CIF value over a certain price level (around $10,300 in 1997). These taxes discourage sales of larger and more expensive vehicles, including most U.S.-made automobiles. Despite these taxes, sales of U.S.-made vehicles are rising.

Another tax that has the effect of discouraging U.S. exports is the 70 percent tax on whiskey, which is produced in only small volumes domestically and which competes with other domestically produced liquors taxed at lower rates. In mid-1997, the government introduced a law that would change the liquor tax system whereby whiskey would still face higher tax rates than domestically produced liquors with a lower alcohol content. Moreover, the measure would raise the taxation on virtually all other imported distilled spirits.

Import licenses: According to legislation governing the Central Bank since 1990, there are no legal restrictions on licensing. Import licenses are granted as a routine procedure. Imports of used automobiles and most used car parts are prohibited.

Investment barriers: Chile's foreign investment statute, Decree Law 600, sets the standard of treatment of foreign investors in the same manner as Chilean investors. Foreign investors using DL 600 sign a contract with the government's Foreign Investment Committee guaranteeing the terms and tax treatment of their investments. These terms include the rights to repatriate profits immediately and capital after one year, to exchange currency at the official inter-bank exchange rate, and to choose between either national tax treatment at 35% or a guaranteed rate for the first ten years of an investment at 42%. Approval by the Foreign Investment Committee is generally routine, but the committee has rejected some "speculative" investments. In late 1997, the government modified its DL 600 policy to restrict investment entering under the law's provisions to projects worth more than $1 million. In addition, projects of more than $15 million are now routinely vetted with the Central Bank to identify possible "speculative" flows. Finally, associated external loan financing in excess of the value of direct foreign investment flows cannot enter under the provisions of DL 600 (i.e., to enter free of deposit provisions, foreign loan leveraging cannot exceed a ratio of 1:1).

Investment not entering Chile through DL 600 can enter under Chapter 14 of the Central Bank Regulations. Under Chapter 14, investors must deposit 30 percent of the value of capital inflows in a non-interest bearing Central Bank account (known as the "encaje") for one year. The purpose of the policy is to limit speculative investment which seeks to take advantage of Chile's high interest rates and thereby to help stabilize the value of the Chilean peso, which has appreciated significantly in recent years. The policy has not managed to stop the local currency's revaluation. The encaje is applied to inflows of foreign capital into stocks, bonds, bank deposits, and real estate as well, which in the view of local authorities do not increase the Chilean economy's productive capacity or improve technology. There is no tax treaty between Chile and the United States, so profits of U.S. companies operating in Chile are taxed by both governments. However, U.S. firms generally can claim credits on their U.S. taxes for taxes paid in Chile.

Firms may invest without using DL 600 or registering with the foreign investment committee by bringing capital in through foreign exchange dealers or private banks under Chapter 14. Few firms use this means of investment, as it subjects funds to the encaje and it lacks the guarantees provided by the contract with the foreign investment committee.

There are some deviations, both positive and negative, from the nondiscrimination standard. Foreign investors receive better than national treatment on taxation, as they have the option of fixing the tax rate they will pay at 42 percent for ten years or paying the prevailing domestic rate, which is at present lower.

There are also examples of less than national treatment. D.L. 600 allows the Central Bank to restrict the access of foreign investors to domestic borrowing in an emergency in order to prevent distortion of local financial markets. The Central Bank has never exercised this power.

Other examples of less than national treatment are certain sectoral restrictions on foreign investment. With few exceptions, fishing in the country's 200-mile Exclusive Economic Zone is reserved for Chilean-flag vessels with majority Chilean ownership. Such vessels also are the only ones allowed to transport by river or sea between two points in Chile ("cabotage") cargo shipments of less than 900 tons or passengers. The automobile and light truck industry is the subject of trade-related investment measures, although U.S. firms are among those helped as well as those harmed. Manufacturers based in the United States and France receive import protection in the form of the taxes noted above, which protect their Chilean production. The manufacturers also receive tax benefits for the use of local inputs and for exporting auto components. Despite these measures, imports make up around 85 percent of the auto market.

Oil and gas deposits are reserved for the state. Private investors are allowed concessions, however, and foreign and domestic nationals are accorded equal treatment.

Services barriers: Full foreign ownership of radio and television stations is allowed, but the principal officers of the firm must be Chilean. A freeze in force since the early 1980s on the issuance of new bank licenses means that would-be bankers (domestic as well as foreign) must acquire existing banks. The Government of Chile hoped to promulgate banking reform legislation by the end of 1997 that would, inter alia, end the freeze.

Principal nontariff barriers: The main trade remedies available to the Chilean government are surcharges, minimum customs values, countervailing duties, antidumping duties, and import price bands. Chile's most significant nontariff barrier is the import price band system for certain agricultural commodities, which currently applies to wheat, wheat flour, vegetable oils, and sugar. When import prices are below a set threshold, surtaxes are levied on top of the across-the-board 11 percent tariff in order to bring import prices up to an average of international prices over previous years.

The Chilean government may apply country-specific duties on products that it determines to have received subsidies from exporting countries and on products that it determines to have been dumped at below-market prices. Some industry sources have claimed that surtaxes occasionally have been applied to agricultural imports without reasonable evidence of subsidies or dumping. In the past, these duties have been applied to items such as Argentine wheat flour and Chinese-made shoes. As of late 1997, none are in effect.

Animal health and phytosanitary requirements: Chile has been slow to recognize pest-free areas in the United States that would facilitate the export of many U.S. fruits and vegetables to Chile. When promulgating changes in its regulations, Chile does not allow the public a period for comment on the proposed rule. Procedures and tolerances for testing imported chicken for the presence of salmonella present such a severe commercial risk that local importers are reluctant to import such products. Chile's unique beef grading and labeling requirements deter the trade from considering the importation of beef cuts from the United States.

Government procurement practices: The government buys locally produced goods only when the conditions of sale (price, delivery times, etc.) are equal to or better than those for equivalent imports. In practice, given that many categories of products are not manufactured in Chile, purchasing decisions by most state-owned companies are made among competing imports. Requests for public and private bids are published in the local newspapers.

6. Export Subsidies Policies

With minor exceptions, the Chilean government does not provide exporters with direct or indirect support such as preferential financing or export promotion funds. It does, however, offer a few nonmarket incentives to exporters. For example, paperwork requirements are simplified for nontraditional exporters. The government also provides exporters with quicker returns of VAT paid on inputs than other producers receive. In 1997, alleged Chilean subsidies became the focus of a countervailing duty investigation by the Department of Commerce of Chilean salmon exports to the United States.

The most widely used indirect subsidy for exports is the simplified duty drawback system for nontraditional exports. This system refunds to exporters of certain products a percentage of the value of their exports, rather than refunding the actual duty paid on imported inputs to production (as is the case in Chile's standard drawback program). All Chilean exporters may also defer tariff payments on capital imports for a period of seven years. If the capital goods are used to produce exported products, deferred duties can be reduced by the ratio of export sales to total sales. If all production is exported, the exporter pays no tariff on capital imports.

Chile's forestry subsidy indirectly promotes exports, because most of Chile's forestry products are exported. The government subsidizes about 75 percent of planting costs and certain management costs for the first generation of trees in a plantation. The value of the subsidy is adjusted for inflation and treated as taxable income when the trees are harvested several years later. Forestry industry representatives say the subsidy, when allocated over the life of plantations, amounts to an interest-free loan for about 5 percent of total costs. Both foreign investors and Chileans are eligible for the subsidy. The law which established the subsidy in 1974 (DL 701) expired in 1996 but may be renewed.

7. Protection of U.S. Intellectual Property

Chile's intellectual property regime is basically compatible with international norms, and industry representatives have welcomed government enforcement efforts. Continuing deficiencies in patent protection, however, have kept Chile on the USTR Special 301 watch list since 1989. Efforts to enforce intellectual property rights in Chilean courts have been successful. Chile does not have an explicit statute for protecting the design of semiconductors nor does it have comprehensive trade-secret protection. Chile belongs to the World Intellectual Property Organization. Contracts may set fees and royalties only as a percentage of sales, and pay-

ments for the use of trade secrets and proprietary processes are usually limited to three percent.

Patents: The industrial property law promulgated in September 1991 substantially improved Chile's protection of industrial patents, but it falls short of international standards. The law provides a patent term of 15 years from the date of grant. (The Uruguay Round agreements require Chile to adopt a 20-year standard by 2003.) The law does not consider plant and animal varieties or surgical methods to be patentable. Most importantly, the law does not provide pipeline protection for pharmaceutical patents filed abroad before the law's promulgation. Because of the lack of pipeline protection and the long lead times involved in the marketing of new pharmaceutical products, the law will not prevent local companies from pirating foreign pharmaceutical patents of products introduced into the market for several more years. In addition, the registration procedures required by the Health Ministry to market new drugs are more onerous for first-to-file firms, which tend to be foreign firms. Finally, payments for the use of patents may not exceed five percent of sales.

Copyrights: Piracy of video and audio tapes has been subject to criminal penalties since 1985. Chilean authorities have taken aggressive enforcement measures against video, video game, audio, and computer software pirates in recent years, and piracy has declined in each of these areas. In the mid-1980s, the software piracy rate was believed to be around 90 percent; it is currently estimated between 65 and 70 percent, believed to be the lowest rate in Latin America. The decline is in part the result of a campaign by the U.S. and international industry, with the cooperation of Chile's courts and government, to suppress the use of pirated software. Greater access to authorized dealers and service has also helped to reduce the rate of piracy. Industry sources say that penalties remain low relative to the potential earnings from piracy and that stiffer penalties would help to deter potential pirates. Copyright protection is 50 years. U.S. recording industry officials have said that Chile's copyright law grants producers less favorable treatment vis-a-vis authors than is the international norm.

Trademarks: Chilean law provides for the protection of registered trademarks and prioritizes trademark rights according to filing date. Local use of a trademark is not required for registration. Payments for use of trademarks may not exceed one percent of sales.

Impact of Chile's intellectual property practices on U.S. trade: Although it is difficult to accurately estimate damages, most observers believe that the U.S. pharmaceutical industry has suffered most from the infringement of its intellectual property (in this case, patent) rights in Chile. The local association of U.S. research-based pharmaceutical companies assesses market loss at some $200 million annually. Chile's software developer's association has estimated that some $70-80 million worth of software was pirated in Chile in 1996.

8. Worker Rights

a. *The Right of Association.*—Most workers have a right to join unions or to form unions without prior authorization, and around 13 percent of the work force belongs to unions. Government employee associations benefited from legislation in 1995 which gave them the same rights as unions. Reforms to the labor code in 1990 removed significant restrictions on the right to strike. Those reforms require that a labor inspector or notary be present when union members vote for a strike.

b. *The Right to Organize and Bargain Collectively.*—The climate for collective bargaining has improved, and the number of contract negotiations has grown steadily. The process for negotiating a formal labor contract is heavily regulated, a vestige of the statist labor policies of the 1960's. However, the law permits (and the Aylwin and Frei governments have encouraged) informal union-management discussions to reach collective agreements outside the regulated bargaining process. These agreements have the same force as formal contracts.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is prohibited in the constitution and the labor code, and there is no evidence that it is currently practiced.

d. *Minimum Age for Employment of Children.*—Child labor is regulated by law. Children as young as 14 may be legally employed with permission of parents or guardians and in restricted types of labor. Some children are employed in the informal economy, which is more difficult to regulate. A 1997 government study estimated that about 125,000 minors worked. Most of these children worked in the countryside, and many of them worked with their parents.

e. *Acceptable Conditions of Work.*—Minimum wages, hours of work, and occupational safety and health standards are regulated by law. The legal work week is 48

hours. The minimum wage, currently around $170 per month, is set by government, management, and union representatives, or by the government if the three groups cannot reach agreement. Lower-paid workers also receive a family subsidy. The minimum wage and wages as a whole have risen steadily over the last several years. As a result, poverty rates have declined dramatically in recent years, from 46 percent of the population in 1987 to 23 percent in 1996. Currently 11 percent of salaried workers earn the minimum wage.

f. *Rights in Sectors with U.S. Investment.*—Labor rights in sectors with U.S. investment are the same as those specified above. U.S. companies are involved in virtually every sector of the Chilean economy and are subject to the same laws that apply to their counterparts from Chile and other countries. There are no special districts where different labor laws apply.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		[1]
Total Manufacturing		591
Food & Kindred Products	[1]	
Chemicals & Allied Products	195	
Metals, Primary & Fabricated	-113	
Machinery, except Electrical	5	
Electric & Electronic Equipment	9	
Transportation Equipment	[1]	
Other Manufacturing	256	
Wholesale Trade		367
Banking		565
Finance/Insurance/Real Estate		2046
Services		[1]
Other Industries		2777
TOTAL ALL INDUSTRIES		6745

[1] Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis

COLOMBIA

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated] [1]

	1995	1996	1997 [2]
Income, Production and Employment:			
Nominal GDP	80.6	88.2	98.6
Real GDP Growth (pct) [3]	5.7	2.1	2.0
GDP by Sector: (pct) [7]			
Agriculture and Fishing	20	19	19
Manufacturing	19	18	18
Commerce	12	11	11
Services (Financial and other)	29	30	29
Government	15	17	18
Per Capita GDP (US$)	2,125	2,285	2,509
Labor Force (000s)	16,456	16,639	16,822
Unemployment Rate (pct)	9.5	11.3	12.2
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	35.7	14.6	23.0
Consumer Price Inflation	19.5	21.6	18.0
Exchange Rate (peso/US$ - annual average).			
Market	[4] 926	1,037	1,090

Key Economic Indicators—Continued

[Billions of U.S. Dollars unless otherwise indicated] [1]

	1995	1996	1997 [2]
Balance of Payments and Trade:			
Total Exports FOB [5]	9.8	10.6	11.4
Exports to U.S.[5]	3.8	4.3	4.1
Total Imports CIF [5]	13.9	12.8	13.5
Imports from U.S.[6]	4.6	4.7	5.5
Trade Balance [6]	-4.1	-3.9	-3.1
Balance with U.S.[6]	-0.8	-1.1	-1.4
External Public Debt	15.1	15.9	17.1
Fiscal Deficit/GDP (pct)	-2.5	-4.1	-4.4
Current Account Deficit/GDP (pct)	-5.4	-3.9	-2.7
Debt Service Payments/GDP (pct)	2.5	2.9	0.7
Gold and Foreign Exchange Reserves	8.5	9.9	10.3
Aid from U.S. (US$ millions)	0.0	0.1	0.1
Aid from All Other Sources	N/A	N/A	N/A

[1] Sources for all figures in table: National Planning Department
[2] 1997 figures are all annualized estimates based on available data in October 1997.
[3] Percentage changes calculated in local currency
[4] Colombia has no official rate. Figures shown are annual average interbank market rates.
[5] Merchandise trade only.
[6] Source: Dept of Commerce NTDB
[7] Embassy Estimate

1. General Policy Framework

Colombia is a free market economy with major commercial and investment links to the United States. Transition from a highly regulated economic regime to an unrestricted access market has been underway since 1990. The U.S. is Colombia's largest trading partner, receiving 40 percent of Colombia's exports and providing 37 percent of Colombia's imports in 1996. The U.S. is also the dominant source of foreign investment in Colombia, holding by far the largest individual country share of foreign direct investment: $3.7 billion, or 44 percent of the estimated total direct foreign investment of $8.3 billion.

Colombia's "apertura" (economic liberalization) program, initiated during the 1990–1994 administration of Cesar Gaviria, opened the Colombian economy to international trade and capital inflows by slashing tariff duties and eliminating non-tariff barriers, by actively negotiating free trade agreements, and by reforming foreign exchange and tax legislation, labor regulations and the foreign investment regime. Apertura also led to the privatization of state enterprises, ports, railroads and banks. The privatization process practically stopped during the first two years of the Samper Administration and has improved only slightly since then with the privatization of electricity generation plants, the state coal company, Carbocol, and the nation's seventh-largest bank, Banco Popular. Each privatization project must receive prior approval from Congress, which can lead to delays. The government earned $1.7 billion in privatization revenue in 1997. Possible future privatizations include banks, the electricity grid, and the government's stake in a coal mine, Cerrejon. Revenues from privatization helped reduce the overall fiscal deficit in 1997.

The Samper Administration has not rejected apertura, but it has attempted to reduce some of the economic dislocation caused by rapid economic change. A safety net approach known as the "Salto Social" (targeting Colombia's poor, who constitute over a third of the population) was initiated in 1994. Its programs involved increased spending for infrastructure projects in the areas of health, education and housing, which aimed at job creation as well as increasing public services over the period 1994-1998. The "salto social" was undermined, however, by the failure of GDP to achieve the 6 percent growth for 1996 targeted in the plan, and has been all but abandoned in 1997. Growth in real GDP for 1996 was a mere 2.1 percent and projections for 1997 growth range between 2.0 and 3.0 percent.

Agriculture, which has been particularly hard hit by apertura policies, benefits, inter alia, from "absorption agreements," which require domestic food processors to purchase the total production of certain domestic crops at higher than "normal" prices. If processors can show domestic crops were purchased at support prices established in absorption agreements, the Colombian government then grants them reductions in import duties paid on equivalent imported commodities.

Monetary policy is aimed at the gradual reduction of inflation while remedying the steady peso revaluation of recent years. The policy has come under sharp criticism during 1996-97 from public and private sectors alike as the government did not meet the targeted inflation rate for 1996 and continues to struggle with a revaluating peso. 1996 inflation was projected to be 17 percent but actually came in at 21.6 percent. Similarly, the peso devalued only 2 percent in nominal terms, far short of the planned 13.5 percent. The strong peso, resulting from large inflows of foreign capital from direct investment, public and private borrowing, the sale of Colombia's petroleum products and the laundered proceeds of illicit drug sales, continues to adversely affect the price competitiveness of Colombia's exports.

The Colombian government has been operating with budget deficits over the last two years, caused principally by efforts to fund the National Economic Development Plan and increased by constitutionally mandated transfers of central government funds to local governments. This policy of deficit spending, along with the attempt to reduce inflation, kept interest rates high and contributed to the current economic slowdown which started mid-1996. The government fiscal deficit for 1997 is projected to be 4.4 percent.

Colombian law 170 of December 1994 adopted the World Trade Organization Treaty, which Colombia formally ratified on March 30, 1995.

2. Exchange Rate Policy

Colombia has a floating exchange rate system operating on a free-market basis and administered by the central bank. The central bank has determined a "price band" within which the daily quotation of the peso's dollar price may move; the bank may intervene in the market, buying or selling pesos, to keep the currency value within the band. Each day the Banking Superintendency reports an interbank market rate (TRM) based on commercial bank and financial corporation transactions.

The strength of the peso in recent years has improved the price competitiveness of U.S. exports to Colombia and has resulted in a significant shift in the balance of bilateral trade: according to Ministry of Foreign Trade statistics, Colombia's trade deficit with the U.S. grew from $0.7 billion in 1991 to $1.5 billion in 1996. Colombia's trade deficit in 1996 was $3.1 billion worldwide.

In an effort to reduce the revaluationary pressures on the peso, the central bank imposed a deposit requirement on most types of foreign borrowing. thirty percent of all new foreign loan proceeds must be kept in a special non-interest bearing account for 18 months. This requirement does not apply to loans of less than $5,000, less than 6 months, international credit cards, and loans for the purchase of capital goods.

The inter-bank peso exchange rate closed 1997 with a 28.36 nominal depreciation, near the ceiling of the exchange rate band. The real exchange rate depreciated against the dollar by 8% in 1997, and is expected to appreciate by 3% in 1998 on the strength of continued strong export performance in the oil and coffee sectors and inflows of FDI. Net international currency reserves were $9.96 billion as of December 5, enough to cover roughly nine months of imports. The consensus forecasts an increase in foreign currency reserves to $11.3 billion in 1998.

3. Structural Policies

Pricing policies: As a member of the Andean Community (formally known as the Andean Pact), Colombia has price regulations related to some agricultural imports. The so-called "price band" system affects products like wheat, sorghum, corn, sugar, rice, barley, milk and chicken parts. The government also regulates or establishes prices of gasoline, electricity, water, sewage and telephone services, public transportation, rents, education tuition and pharmaceutical products.

Tax policies: There is no corporate or individual tax paid on income from dividends, provided that the money stays in Colombia; if the money is subsequently transferred out of the country, a "remittance tax" of 7 percent is levied. Income derived as capital gains is taxed at 35 percent. All consumers in Colombia pay a Value-Added Tax of 16 percent on most products other than foods and basic medicines. The tax on patrimony (capital) was eliminated, encouraging stock investments. However, a "war tax" based on large amounts of patrimony is regularly discussed as a means of financing the military.

Colombia has had several tax reforms over the last few years which has created some uncertainty with investors. As an example, one reform eliminated a ten-year tax holiday for mixed cellular telephone companies, a holiday which benefited some foreign companies. To help mitigate this problem, in December 1995, the Colombian

Congress passed legislation authorizing the Colombian Government to enter into contracts with taxpayers guaranteeing the tax rate up to a maximum of ten years. In return for this guarantee, corporations pay an additional two percentage points in corporate taxes.

Regulatory policies: All foreign investment in petroleum exploration and development in Colombia must be carried out under a stringent profit-sharing association contract between the investor and the state petroleum company, Ecopetrol. U.S. oil companies have expressed interest in increasing exploration and development activities in Colombia if contract and tax requirements are made more flexible. In October 1997, Ecopetrol announced changes in the terms of its new contracts, but the impact of these changes is as yet, undetermined.

Under a recent Andean Pact automotive policy, Colombia and Venezuela have decided to impose strict regional content requirements in the automotive assembly industry and require auto assemblers to satisfy a minimum percentage foreign exchange contribution to offset foreign exchange spent on auto imports.

4. Debt Management Policies

Colombia's debt management strategy is aimed at accessing new sources of credit in the external and domestic capital markets and on improving the debt profile of the country generally, with the objective of providing priority financing for social programs and infrastructure improvements that are key elements of the national development plan.

The Colombian government has in recent years made approximately $1.8 billion in advance debt repayments. As of March 1997, total external indebtedness (public and private) was $30.5 billion, approximately 31 percent of GDP.

5. Significant Barriers to U.S. Exports

Import licenses: Prior import licenses are required for some commodities, drug precursor chemicals, armaments and munitions, donations, and some imports by government entities. Although the government abolished import licensing requirements in 1991, it has continued to use prior import licensing to restrict the importation of certain agricultural products, such as powdered milk during Colombia's high milk production season, and chicken parts.

In addition, the Ministry of Agriculture must approve import licenses for products which, if imported, would compete with domestic products purchased under "absorption agreements." Some of these products, which include important U.S. exports to Colombia, are wheat, malting barley, corn, rice, sorghum, and wheat flour.

Services barriers: Legal services: the provision of legal services is limited to those licensed under Colombian law. Foreign law firms can operate in Colombia only by forming a joint venture with a Colombian law firm and operating under the licenses of the Colombian lawyers in the firm.

Insurance: a commercial presence is required in order to sell policies other than those for international travel or reinsurance.

Mining and hydrocarbons: Colombian law requires that at least 80 percent of employees of companies in this sector be Colombian nationals.

Information processing: a commercial presence is required to provide this service.

Advertising: at least 50 percent of programmed advertising broadcast on television must have local content.

Standards, testing, labelling, and certification: The Colombian Foreign Trade Institute (INCOMEX) requires specific technical standards for a variety of products. The particular specifications are established by the Colombian Institute of Technical Standards (ICONTEC). Certificates of conformity must be obtained from the Superintendency of Industry and Commerce before importing products which are subject to standards.

Investment barriers: Foreign and national investors receive equal treatment in Colombia. One hundred percent foreign ownership is permitted in virtually all sectors of the Colombian economy. Exceptions include activities related to national security and the disposal of hazardous waste. As a measure against money laundering, foreign direct investment (FDI) in real estate is prohibited except in connection with other investment activities.

All foreign investments must be registered with the Central Bank's foreign exchange office within three months in order to assure the right to repatriate profits and remittances. All foreign investors, like domestic investors, must obtain a license from the Superintendent of Companies and register with the local Chamber of Commerce. The Ministry of Communications must approve applications in that sector.

Government procurement practices: Government procurement regulations, although guaranteeing national treatment to all investors, do require that foreign firms without an active local headquarters in Colombia certify that Colombian companies enjoy reciprocity in similar bids under their countries' procurement legislation. The U.S. Embassy in Bogota routinely provides such certification. Several road construction and airport contracts for U.S. companies have been approved with little ado; on the other hand, some U.S. companies have complained of corruption in contract processes. Colombia is not a party to the WTO Agreement on Government Procurement.

Customs Procedures: Imported merchandise inspection can be pre-arranged through pre-shipment inspection entry, and duties can be pre-paid through commercial banks. For certain items, pre-shipment inspection is mandatory.

6. Export Subsidies Policies

Colombia has sharply reduced its export subsidies, and its subsidy practices are generally compatible with WTO standards. At present the Colombian government manages only two export subsidy programs. One, the CERT ("certificado de reembolso tributario"), refunds a percentage of the FOB value of an export. Under a 1990 bilateral agreement, the CERT does not apply to goods exported to the U.S. The other export subsidy, known as the "Plan Vallejo," allows for duty exemptions on the import of capital goods and raw materials used to manufacture goods that are subsequently exported.

7. Protection of U.S. Intellectual Property

Colombia has made significant improvements in its intellectual property rights protection, but does not yet appear to provide adequate and effective protection. The country has been placed on the "watch list" under the Special 301 provision of the 1988 Omnibus Trade Act for the last five years. Colombia, which is a WTO member, has ratified its Uruguay Round implementing legislation. Colombia is a member of the World Intellectual Property Organization (WIPO), the Paris Convention for the Protection of Industrial Property, the Patent Cooperation Treaty and the Union for the Protection of New Plant Varieties. Colombia belongs to the Berne and Universal Copyright Conventions, the Buenos Aires and Washington Conventions, the Rome Convention on Copyrights and the Geneva Convention for Phonograms. It is not a member of the Brussels Convention on Satellite Signals.

Patents and trademarks: Colombia is a member of the Inter-American Convention for Trademark and Commercial Protection. Colombia requires registration and use of a trademark in Colombia to exercise trademark protection. Trademark registrations have a ten-year duration and may be renewed for successive ten-year periods. Although Colombian law provides, for example, twenty-year protection for patents and reversal of burden of proof in cases of alleged patent infringement, it is deficient in the areas of compulsory licensing provisions, working requirements, biotechnology inventions, transitional ("pipeline") protection, and protection from parallel imports. Enforcement of trademark legislation in Colombia is making some progress, although contraband and counterfeiting are widespread.

Copyrights: Colombia's 1993 copyright law significantly increased penalties for copyright piracy, and record levels of seizures of pirated material took place in 1994 and 1995. Enforcement problems arise, however, not only at the police level, but also in the judicial system, where there have been complaints about the lack of respect for preservation of evidence and frequent perjury.

New technologies: Colombia has a modern copyright law which gives protection for computer software for 50 years and defines computer software as copyrightable subject matter, but does not classify it as a literary work. Colombia's recently passed Television Broadcast Law potentially increased protection for all copyrighted programming by regulating satellite dishes, but its enforcement remains to be seen. Semiconductor design layouts are not protected under Colombian law.

U.S. industry estimates that video cassette piracy represents over 75 percent of the video market, sound recording piracy has soared to 66 percent of the market, and business software piracy represents 67 percent of the market. Satellite programmers estimate that there are about 3.6 million Colombian households that receive satellite signals, while only 220,000 are legally subscribed.

8. Worker Rights

a. *The Right of Association.*—Colombian law recognizes the rights of workers to organize unions and to strike. The labor code provides for automatic recognition of unions that obtain at least 25 signatures from the potential members and that comply with a simple registration process at the labor ministry. The law penalizes inter-

ference with freedom of association. It allows unions to freely determine internal rules, elect officials and manage activities, and forbids the dissolution of trade unions by administrative fiat. Unions are free to join international confederations without government restrictions.

b. *The Right to Organize and Bargain Collectively.*—The constitution protects the right of workers to organize and engage in collective bargaining. Workers in larger firms and public services have been most successful in organizing, but these unionized workers represent only a small portion of the economically active population. According to Labor Ministry figures, approximately seven percent of Colombia's workers are organized into 2,235 unions. High unemployment (over 12 percent as of September 1997), traditional anti union attitudes, and weak union organization and leadership limit workers' bargaining power in all sectors.

c. *Prohibition of Forced or Compulsory Labor.*—The Constitution forbids slavery and any form of forced or compulsory labor, and this prohibition is respected in practice.

d. *Minimum Age for Employment of Children.*—The Constitution bans the employment of children under the age of 14 in most jobs, and the labor code prohibits the granting of work permits to youths under the age of 18. This provision is respected in larger enterprises and in major cities. Nevertheless, Colombia's extensive and expanding informal economy remains effectively outside government control. Some 800,000 children between the ages of 12 and 17 work, according to Labor Ministry studies. These children work—often under substandard conditions—in agriculture or in the informal sector, as street vendors, in leather tanning, and in small family-operated mines.

e. *Acceptable Conditions of Work.*—The government sets a uniform minimum wage for workers every January to serve as a benchmark for wage bargaining. The minimum wage for 1997 is approximately $158 per month. Because the minimum wage is based on the government's target inflation rate, which has been exceeded during 1995 and 1996, the minimum wage has not kept up with inflation in recent years. However, in 1997, the inflation was projected to be 18 percent and as of October, appears to be on target. By government estimates, the price of the family shopping basket ("canasta fmiliar") is 2.4 times the minimum wage. Moreover, the earnings of 60 percent of all Colombian workers are equal to or less than twice the minimum wage. The law provides for a standard 8 hour workday and 48-hour work week, but does not specifically require a weekly rest period of at least 24 hours. Legislation provides comprehensive protection for workers' occupational safety and health, but these standards are difficult to enforce, in part due to the small number of labor ministry inspectors.

f. *Rights in Sectors with U.S. Investment.*—U.S. foreign direct investment is concentrated principally in the petroleum, coal mining, chemicals and manufacturing industries. Worker rights conditions in those sectors tend to be superior to those prevailing elsewhere in the economy, owing to the large size and high degree of organization of the enterprises.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		1122
Total Manufacturing		1325
Food & Kindred Products	362	
Chemicals & Allied Products	447	
Metals, Primary & Fabricated	52	
Machinery, except Electrical	2	
Electric & Electronic Equipment	1	
Transportation Equipment	1	
Other Manufacturing	324	
Wholesale Trade		131
Banking		1
Finance/Insurance/Real Estate		323
Services		1
Other Industries		397

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996—Continued

[Millions of U.S. dollars]

Category	Amount
TOTAL ALL INDUSTRIES	3468

[1] Suppressed to avoid disclosing data of individual companies.
[2] Indicates a value between $-500,000 and $500,000.
Source: U.S. Department of Commerce, Bureau of Economic Analysis

COSTA RICA

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Income, Production and Employment:			
Nominal GDP	9.0	9.0	9.5
Real GDP Growth [2]	2.5	-0.7	3.0
GDP Growth by Sector:			
Agriculture	4.0	-.6	1.0
Industry	3.0	1.5	2.4
Services	3.0	3.0	5.0
Government	2.5	2.0	2.1
Per Capita GDP	2,799	2,800	2,825
Labor Force (000s)	1,232	1,278	1,330
Unemployment (pct)	5.2	5.8	5.4
Money And Prices (annual percent growth):			
Money Supply Growth (M2)	9.9	11.0	21.0
Consumer Price Inflation	22.6	14.0	12.0
Exchange Rate (Colones/US$ - annual average			
Official	190.0	218.0	242.0
Balance of Payments and Trade:			
Total Exports (FOB) [3]	2.6	2.7	2.9
Exports to U.S. (FOB) [3]	1.0	1.0	1.1
Total Imports (CIF) [3]	3.3	3.4	3.7
Imports from U.S. (CIF) [3]	1.5	1.6	1.6
Trade Balance [3]	-0.7	-0.8	-0.8
Balance with USA [3]	-0.1	0.1	0.1
External Public Debt	3.3	2.9	3.2
Fiscal Deficit/GDP (pct)	5.7	6.3	4.0
Current Account Deficit/GDP (pct)	2.9	3.5	3.0
Debt Service Payments/GDP (pct)	5.7	6.3	6.0
Gold & Foreign Ex Reserves	1.0	0.9	0.8
Aid from U.S.	7.5	10.5	21.9
Aid from All Other Sources	N/A	N/A	N/A

[1] Central Bank projections
[2] Calculated in constant 1966 Costa Rican colones
[3] Merchandise Trade. Goods processed in free trade zones are reported at value of net exports.
Source: Min of Planning, Central Bank of Costa Rica, Min of Foreign Trade, Gen Directorate of Statistics and Census

1. General Policy Framework

As of October 1997 the Costa Rican economy is recovering gradually, but steadily, from its 1996 contraction, the worst since the aftermath of the 1979 petroleum price shocks and the country's 1980-84 foreign debt problems. Official forecasters predict 1997 Gross Domestic Product (GDP) growth of 3 percent.

After two years of public sector spending restrictions, postponed private sector investment, uncertainty with respect to fiscal problems, and slowdowns in the tourism and export sectors, 1997 has witnessed a modest renewal of construction of tourist facilities and increasing exports of traditional and nontraditional products. Invest-

ment and aggregate consumption have been hindered by interest rates that continue to exceed 30 percent while inflation is only 12 percent. Despite an 18 percentage point decline in the interest rate from a 1995 peak near 48 percent, uncertainty as to whether interest rates would persist at lower levels has inhibited the investment needed to maintain growth rates sufficient to compensate for population growth of 2.1 percent.

During 1996 government borrowing from the public sector and state owned utility companies was used to finance the fiscal deficit. Such borrowing became an important concern, owing to the resultant upward pressure on interest rates and the attendant burden imposed on private companies and consumers. Despite persistent efforts, public officials have been unable to convince public and private banks to reduce the point spread between borrowing and lending interest rates. As a result, financial institutions are having a difficult time placing loans.

Nevertheless, the Government of Costa Rica continues trade and economic policies in favor of open markets, international competition and reduced trade barriers. Active International Monetary Fund (IMF), World Bank, and Inter-American Development Bank programs have supported these policies. However, resistance to this general policy has resulted from European Community restrictions on banana exports, domestic pressure to restrict foreign competition, constitutional protection of state owned monopoly enterprises, disagreements with major trade partners within the World Trade Organization framework, and domestic political pressures. Foreign trade, while affected by the general downturn in the economy, continues to grow, particularly imports. In 1996 food imports (wheat, corn, processed foods) increased, compensating for lower production levels. Consumer durable goods and automobile imports increased as well. Costa Rica continues to have a sizable trade imbalance, particularly with the United States, from which it imported about $500 million more than it exported in 1996.

2. Exchange Rate Policy

The exchange rate policy reflects practices established in March 1993 by the Central Bank, involving daily minuscule devaluations of the currency. The Central Bank sets the single exchange rate every morning through its sale or purchase of foreign currency. Additionally, all foreign transactions by state institutions are channeled through the Central Bank. Commercial banks are free to negotiate foreign exchange prices, but they must liquidate their foreign exchange positions daily with the Central Bank.

During 1996 the exchange policy resulted in a 13.4 percent devaluation of the local currency against the U.S. dollar (18 percent devaluation in 1995) in line with the Central Bank's goal of maintaining a "neutral" exchange rate (a rate of devaluation similar to internal price increases). By this rule, the local currency is expected to depreciate 11 percent against the dollar in 1997. Freely traded dollars from tourism and capital investment continued to flow into Costa Rica, partly offsetting the impact of the trade deficit on the current account. The free and sufficient supply of foreign currency continued to be a significant factor in increasing imports during 1996 and 1997.

3. Structural Policies

Until January 19, 1995 consumer protection laws in Costa Rica regulated prices and profit margins and prohibited price speculation, although most price controls and all margin controls had been suspended by executive decree. On that date, Law Number 7472 removed most price and all profit margin controls, while imposing antitrust rules and protecting consumers against product misrepresentation and price fixing.

Other laws and regulations affecting U.S. exports to Costa Rica include the mandatory use of metric units, detailed labeling requirements, including the required use of Spanish, and strength requirements for car bumpers. Pharmaceuticals, veterinary drugs and chemicals, including chemicals that are component parts, must be registered and approved by the Ministry of Health before the chemicals or finished products can be imported. Chemicals and pesticides exported to Costa Rica must be legally available in the exporting country. The government simplified contracting laws and regulations in 1996 to enhance the ability of foreign companies to compete. The maximum value of direct purchases by public institutions was increased while the appeal process in case of a contested bid awards was shortened.

Purchasing decisions by state institutions follow detailed laws and regulations on public bidding. They generally require the institution to purchase the least costly alternative within terms of the bid. Local suppliers are not subsidized and do not enjoy any special advantages over foreign suppliers. U.S. companies have a wide

market in pharmaceuticals, machinery, electrical, and transportation equipment. No tax provisions specifically discriminate against the import of U.S. goods. Tax evasion is a criminal offense. Public officials, private companies, and individuals face more stringent capital gains reporting requirements in an effort at better control of corrupt practices.

4. Debt Management Policies

Costa Rica's foreign debt totaled $2.86 billion on December 31, 1996 (equivalent to 31.6 percent of GDP), a decrease of $600 million from year-end 1995. However, to take advantage of lower interest rates, the Government of Costa Rica is attempting to convert some of its more costly local currency denominated internal debt to dollar denominated foreign debt. Consequently, foreign official debt will increase by about $400 million by December 1997 amounting to approximately $3,26 billion, equivalent to 35.9 percent of GDP. Costa Rica will continue to experience pressure on its balance of payments, especially its trade account. Continued foreign investment and tourism income will be needed to avoid foreign exchange shortages.

At $763 million in 1996, the trade deficit was nearly matched by capital inflows and tourism income. Exports were $2.68 billion, growing by $105 million, an increase of 4.1 percent during 1996 (21.0 percent in 1995). Imports were $3.44 billion in 1996, a 5.5 percent increase from 1995. Costa Rica is current with its official foreign debt servicing, which amounts to about 6 percent of GDP. The total foreign debt is expected to reach $3.26 billion by December 31, 1997.

Costa Rica undertook adjustment programs with the IMF and the World Bank during the past decade, as well as five Paris Club arrangements and a 1989 Brady debt buy-back scheme with the United States, which reduced Costa Rica's official debt by $1.1 billion. Multilateral institutions have focused on the immediate problem of internal debt in addition to the normal dialogue on the other issues. The government spends almost a third of its budget in paying interest on outstanding bonds, more than the amount spent on salaries to public employees. Internal debt service has left little for capital improvements or imports of U.S. goods and services. High interest rates, the result of the Central Bank's counter inflation policy, boosts debt service costs for the Finance Ministry.

5. Aid

The U.S. government provided approximately $21.9 million in total assistance to Costa Rica in fiscal year 1997. Over one half of that amount was for the Screw Worm Eradication Program. Total military assistance was approximately $1.86 million. Although Costa Rica abolished its military forces in 1948, the United States provides assistance to Costa Rica's civilian security forces.

6. Significant Barriers to U.S. Exports

As of December 1994, in compliance with the General Agreement on Tariffs and Trade (GATT) Uruguay Round requirements, tariffs replaced all import licenses or permits, and the Central Bank no longer licenses imports. Imports and exports are now registered for statistical purposes only. The government regulates solvents and precursor chemicals used in the production of narcotics to prevent illegal use. Surgical and dental instruments and machinery can be sold only to licensed importers and health professionals. The Ministry of Health must register and certify all food products, medicines, toxic substances, chemicals, insecticides, pesticides and agricultural inputs prior to any sale.

Foreign companies and persons may legally own equity in Costa Rican companies, including real estate. However, several activities are reserved to the state and are accessible to private investors only through concessions granted by the government. These activities include public utilities, insurance, the production and distribution of electricity, hydrocarbon and radioactive minerals extraction and refining, and the operation of ports and airports. Financial reform legislation, approved by the legislative assembly in October 1995, allows private banks to offer demand deposits. An electricity cogeneration law enacted in 1994 allows some private sector participation in the energy sector. Recognizing the difficulty of public financing of large infrastructure projects, the legislature passed a modification to this law allowing for BOT (build-operate-transfer) and BLT (build-lease-transfer) plants. Such plants will revert to the state after an agreed-upon period. The legislature has not acted on several initiatives to modify the scope of private electricity generation as well as the telecommunications state monopoly. Modification of state participation in commercial activities remains a divisive political issue.

Many service industries are so rigorously controlled that foreign participation is practically impossible. Medical practitioners, lawyers, certified public accountants,

engineers, architects, teachers, and other professionals must be members of local guilds which stipulate residency, examination, and apprenticeship requirements that can only be met by longtime residents of Costa Rica. Investment in such private sector activities as customs brokerage firms is limited to Costa Rican citizens. In October 1994 the Constitutional Court invalidated the law limiting ownership of newspapers and radio and TV stations to Costa Rican citizens, deeming the law discriminatory.

The government encourages the development of nontraditional exports and tourism and provides incentives for U.S. investment. No restrictions exist on foreign equity participation. The share of foreign workers in an enterprise is limited by law, but the Ministry of Labor generally grants permission for foreigners to work. Permits for foreign participation in management have always been granted. No requirements exist for foreign owners to work in their own companies. No restrictions exist on the repatriation of profits and capital.

Procurement by the government and other state institutions is conducted through open public bidding, but the law allows private tenders and direct contracting of goods and services in limited quantities or, in case of emergency, with the consent of the Comptroller General. Public bidding is complicated and foreign bidders are frequently disqualified for failure to comply with the detailed procedures. The lengthy and costly appeal process often causes losses due to interim price changes, as bidders cannot alter their bids. Potential vendors may experience frustration owing to protracted contract award appeals, and bid and performance bond requirements. Nonetheless, no special requirements apply to foreign suppliers. U.S. companies regularly win public contracts. Competition is fierce among international suppliers. Frequently, the winner must propose comprehensive packages that include performance guarantees and financing. All exporters must have a legally responsible representative in Costa Rica to sell goods or services. On May 2, 1995 the legislative assembly enacted Law Number 7494 for administrative contracting. This law and its implementing regulations were designed to simplify procedures and expedite contracting with state institutions.

Customs procedures can be costly and complex. Most large enterprises must have customs specialists on the payroll, in addition to employing the services of customs brokers. Customs brokers must be bonded Costa Rican companies, which enjoy a monopoly on the handling of imports. All importers and exporters, including U.S. companies, suffer from defective customs procedures, poor administration and inadequate facilities. The government has implemented reforms to automate and streamline the system to improve efficiency.

Customs valuation has been a problem for U.S. fresh fruit exporters, as the Costa Rican government chooses to use formulas rather than invoice values to calculate duties. The result has often been that the goods are valued far above their true value at the time of the sales transaction. Another issue facing fruit imports is the imposition of a luxury tax on many fruits not grown in Costa Rica. This tax affects such U.S. exports as apples, grapes and pears. Phytosanitary restrictions on fresh produce further limit U.S. exports of fresh fruits.

In 1997 the Government of Costa Rica opened tariff rate quotas for poultry and dairy products that had been agreed to as part of Costa Rica's GATT Uruguay Round commitments. Trade has begun in these products, although sanitary barriers hinder the U.S. export of a number of meat products to Costa Rica.

The government's expropriation policy is a disincentive to U.S. investment in Costa Rica. The government has expropriated large amounts of land for national parks, and biological and indigenous reserves. Squatters have also occupied undeveloped portions of property owned by U.S. citizens. In a number of cases, some dating back over 25 years, the government has not yet provided adequate compensation. While it is possible to obtain compensation through the court system, the time, cost, and frustration of litigating against the government diminish the value of such efforts. Still, the government has made significant progress in resolving a number of expropriation cases. Claimants also have recourse to international arbitration through the International Center for the Settlement of Investment Disputes (ICSID), to which Costa Rica acceded in early 1993. Negotiations continue between the Government of Costa Rica and a group of U.S. investors to finalize submission of the first expropriation case to ICSID. In addition to international arbitration, local arbitration has been employed since 1991. In cases where land is occupied by squatters, Costa Rican land tenure laws favor the squatters. These squatters are sometimes violent, and police protection of landowners in rural areas is often inadequate. In some cases, the government has expropriated property taken over by squatters.

7. Export Subsidy Policies

Under Costa Rica's 1972 Export Promotion Law, exporters could be awarded Tax Credit Certificates (CATs) and Incremental Export Certificates, both of which were found to be countervailable subsidies by the U.S. Department of Commerce. The government subsequently terminated both programs, though negotiable CATs still circulate. Two other programs favoring exporters, the Export Contract and the Temporary Admission (drawback) regime, lapsed in 1996. What remains is the Export Processing Law of 1981, which covers eight free trade zones in the country. The law provides, among other things, for the duty-free import of inputs, an income tax holiday, and exemption from taxes on remittances abroad.

8. The Protection of U.S. Intellectual Property

Costa Rica is a signatory to most major intellectual property rights conventions and agreements, and is a member of the World Intellectual Property Rights Organization. However, significant weaknesses exist in the country's Intellectual Property Rights system, particularly in enforcement and in patent protection. Costa Rica signed, but has not yet ratified, the revised Central American Convention on Industrial Property. In May 1995 the legislative assembly ratified the Paris Convention for the Protection of Industrial Property. The government sent a draft patent law to implement the GATT Uruguay Round commitments to the legislative assembly in September 1995. The draft proposed a five-year transition period for implementation which would end in 1999.

Copyrights: Costa Rica is a signatory to the following copyright conventions: Mexico City Convention on Literary and Artistic Copyrights (1902); Rio de Janeiro Convention on Patents, Industrial Designs, Trademarks and Literary and Artistic Property (1906); Buenos Aires Convention on Literary and Artistic Copyrights (1910), and as revised at Havana (1928); Inter-American Convention on the Rights of the Author (1946); Universal Copyright Convention (Paris 1971); Rome Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations (1961); Bern Convention for the Protection of Literary and Artistic Works (Paris Act 1971); Convention for the Protection of Producers of Phonograms (Geneva 1971); and Central American Convention (1982).

Costa Rica's copyrights laws are generally adequate. The major problem for copyright holders is enforcement. On May 10, 1994 the government modified copyright law (Number 6683 of October 1, 1982) to extend protection to all forms of intellectual creations, including music scores, paintings, software programs, books, etc. The modifications also increase protection by directing the police to prevent unauthorized presentations of protected works. On May 24, 1994 the Government of Costa Rica issued regulations implementing Law Number 6683 that provide better protection and mandate police participation. The cable television industry now operates almost entirely under quitclaim agreements with foreign producers. However, a number of hotels continue to pirate satellite transmission signals. Pirated videocassettes are widely available. An authorized distributor of videocassettes has begun enforcement efforts to regularize the videocassette market.

Patents: Costa Rica is a signatory to the following patent conventions: the Convention of Paris (1883) and the Rio de Janeiro Convention on Patents, Industrial Designs, Trademarks and Literary and Artistic Property (1906). Costa Rican patent laws are deficient in several key areas. The patent protection term is far too short. Patents are granted for nonrenewable 12-year terms. In the case of products deemed "in the public interest," patents are granted only for one year. This exception applies to all pharmaceuticals, items with therapeutic applications, chemical and agricultural fertilizers, agrochemicals and all beverage and food products. However, the proposed new patent legislation is designed to meet Costa Rica's patent obligations under the GATT Uruguay Round.

No patent protection is available for plant or animal varieties or for any biological or microbiological process or products, although the government is working on a legislative proposal that would protect such products. Costa Rica also has broad compulsory licensing requirements that force patent owners to license inventions that are not produced locally. The limited patent protection available cannot be enforced until local production has begun. Costa Rican law also provides for compulsory dependent patent licensing and for expropriation of patents.

Trademarks: Costa Rica is a signatory to the following trademark conventions: Paris Convention (1883); Rio de Janeiro Convention on Patents, Industrial Designs, Trademarks, and Literary and Artistic Property (1906); and Central American Treaty on Industrial Property (1970)

Trademarks, service marks, trade names and slogans can be registered in Costa Rica. Registration is renewable for ten-year periods from the date of registration. Counterfeit goods are widely available in Costa Rica and compete with goods manufactured under trademark authorization. Speculators have sometimes registered famous trademarks, subsequently demanding compensation when the legitimate rights holders enter the market. Litigation to remove such speculative registrations can be long and expensive.

Trade secrets are protected by existing laws, and Article 24 of the constitution protects the confidentiality of communications. The penal code stipulates prison sentences for divulging trade, employment, or other secrets, with doubled punishment for public servants. Some laws stipulate criminal and civil penalties for divulging trade secrets. The burden of enforcement is on the affected party.

9. Worker Rights

a. *The Right of Association.*—The law specifies the right of workers to join labor unions of their choosing without prior authorization, although some barriers exist in practice. Unions operate independently of government control and may form federations and confederations and affiliate internationally. Costa Rica has no restrictions on the right of private sector employees to strike. The constitution and labor code formally restrict the right of public sector workers to engage in strikes, but the legislative assembly recently repealed penalties against labor leaders who initiate such strikes. Many workers in Costa Rica join solidarity associations, under which employers provide easy access to savings plans, loans, recreation centers, and other benefits in return for their agreement to employ nonconfrontational methods to settle disputes. Both solidarity associations and labor unions coexist at some work places, primarily in the public sector.

b. *The Right to Organize and Bargain Collectively.*—The constitution protects the right to organize. Reforms to the labor code enacted in 1993 provide protection from dismissal for union organizers and members during union formation and require employers found guilty of discrimination to reinstate workers fired for union activities. Unions in the private sector have the right to engage in collective bargaining. Nonetheless, workers in the public sector cannot engage in collective bargaining because the 1978 Public Administration Act makes labor law inapplicable in relations between the government and its employees.

c. *Prohibition of Forced or Compulsory Labor.*—The constitution prohibits forced or compulsory labor and requires employers to provide adequate wages to workers in accordance with minimum wage standards. Laws prohibit forced and bonded labor by children. The government enforces this prohibition effectively.

d. *Minimum Age For Employment of Children.*—The constitution provides special employment protection for women and children and establishes the minimum working age at 12 years, with special regulations in force for workers under 15. Children between 15 and 18 can work a maximum of seven hours daily and 42 hours weekly, while children between 12 and 15 can work a maximum of five hours daily and 30 hours weekly. Authorities prohibit the employment of youth under 18 in the banana industry. The National Children's Institute, in cooperation with the Labor Ministry, enforces these regulations in the formal sector, but child labor remains an integral part of the informal economy.

e. *Acceptable Conditions of Work.*—The constitution provides for a minimum wage, and a national wage council sets minimum wage and salary levels of the private and public sectors every six months. Workers may work a maximum of eight hours during the day and six at night, up to weekly totals of 48 and 36 hours, respectively. Industrial, agricultural, and commercial firms with ten or more workers must establish management-labor committees and allow government work place inspections. Work place enforcement is less effective outside the San Jose area.

f. *Rights in Sectors with U.S. Investment.*—All labor regulations apply throughout Costa Rica, including in the country's export processing zones. Companies in sectors with significant U.S. investment generally respect worker rights, especially at plants under U.S. management and ownership. Abuses occur more frequently at plants operated by investors based outside the United States.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		[1]
Total Manufacturing		353
Food & Kindred Products	64	
Chemicals & Allied Products	127	
Metals, Primary & Fabricated	32	
Machinery, except Electrical	0	
Electric & Electronic Equipment	63	
Transportation Equipment	0	
Other Manufacturing	67	
Wholesale Trade		[1]
Banking		0
Finance/Insurance/Real Estate		[1]
Services		[1]
Other Industries		-30
TOTAL ALL INDUSTRIES		1205

[1] Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis

---

DOMINICAN REPUBLIC

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Income, Production and Employment:			
Nominal GDP [2]	12.1	13.5	14.4
Real GDP Growth (pct) [3]	4.8	7.3	7.4
GDP by Sector:			
Agriculture	1.5	1.6	1.0
Manufacturing	2.1	2.1	2.4
Services	3.6	3.7	4.0
Government	1.0	1.0	1.0
Per Capita GDP (US$)	1,500	1,572	1,750
Labor Force (000s)	3,499	3,522	3,614
Unemployment Rate (pct)	16.5	16.5	15.9
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	17	18	17
Consumer Price Inflation	7.2	4.0	10.0
Exchange Rate (DR peso/US$ - annual average)			
Official	12.87	12.87	14.02
Balance of Payments and Trade:			
Total Exports FOB (US$ millions) [4]	0.7	0.8	0.9
Exports to U.S.[5]	3.4	3.6	3.7
Total Imports CIF (US$ millions) [4]	2.8	2.9	3.0
Imports from U.S.[5]	3.0	3.2	3.3
Trade Balance [4]	2.1	-2.1	-2.1
Balance with U.S.[5]	0.4	0.4	0.4
Current Account Deficit/GDP (pct) [6]	0.1	-1.7	-1.8
External Public Debt	3.8	3.6	3.6
Fiscal Surplus/GDP (pct)	-0.5	1.1	0.5
Debt Service Payments/GDP (pct)	4.8	3.0	3.0
Gold & Foreign Exchange Reserves [7]	0.3	0.5	0.5

Key Economic Indicators—Continued

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Aid from U.S. (US$ millions) [8]	13.3	13.3	13.3
Aid from All Other Sources	N/A	N/A	N/A

[1] 1997 figures are all estimates based on available monthly data through September 1997.
[2] GDP at factor cost
[3] Percentage changes calculated in local currency
[4] Central Bank figures. These statistics do not include significant trade through free trade zones.
[5] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.
[6] IMF calculations
[7] U.S. Embassy calculations of gross reserves including certain liquid assets
[8] Calculation based on U.S. fiscal year

Source: Economic Studies Department, Central Bank of the Dominican Republic, unless otherwise indicated

1. General Policy Framework

During 1997, the economy of the Dominican Republic continued to grow with the Central Bank pointing to a possible GDP growth rate of over seven percent for the second year in a row. After falling to about 4 percent in 1996, official inflation has grown in 1997 and may reach 10 percent at an annual rate. The official exchange rate was devalued from 12.87 to 14.00 Pesos to the Dollar in December 1996. After some minor fluctuations, the exchange rate has been stable in 1997.

Because of the Dominican Republic's high propensity to import, changes in the exchange rate are politically significant. With the aim of keeping the peso stable, the Central Bank maintains a high interest rate structure to retain short term capital. Foreign exchange operations also play a role in meeting money supply targets since the Central Bank's purchase of pesos for dollars tends to reduce the money in circulation within the country.

According to the Central Bank the money supply grew 19 percent from June 1996 to June 1997. The Central Bank regulates the money supply by issuance of new money through the banking system and by the purchase or issuance of debt instruments of the Central Bank itself. Since there is no secondary market for government securities and no liquid security market, the tools available to the Central Bank are limited. The Central Bank can modify bank reserve requirements but rarely does so. Banks resort to the discount window of the Central Bank only rarely. The Bank Superintendent's Office has continued to work for improved banking regulation, phasing in more rigorous prudential norms which it applies with greater consistency. Although the Dominican Republic has no deposit insurance, the Central Bank guaranteed deposits at Bancomercio, the country's third largest bank, when it failed in early 1996, and subsequently supervised its sale to another Dominican bank. The Bank Superintendent's Office has also recently acted to pay off some of the smaller depositors in a number of other failed financial institutions.

Gross foreign exchange reserves rose to about $526 million according to the Central Bank. The reserve figures include some Central Bank assets which are not actually available for use in payments. According to its latest report, the Central Bank calculates that its net liquid reserves are approximately $180 million. The GODR continued timely payments of foreign private bank debt and most payments on renegotiated Paris Club debt. The arrearage to the U.S. Dept. of Agriculture Commodity Credit Corp (CCC), however, has continued to grow and is now over $130 million. The Central Bank has continued to make some payments of interest in 1997, but the total has grown as new arrearages have accumulated. In 1997 the GODR has compensated the Central Bank for foreign debt payments carried out on its behalf. In the past, the Central Bank obtained the dollars needed for debt service by monetary expansion and compensated for this expansion by issuing "certificados de participacion" which are short term debt instruments. While this helps absorb excess liquidity, interest payments on these certificates may also be covered by net money creation.

Government cash flows are currently in surplus according to the Central Bank, demonstrating the Fernandez Government commitment to the maintenance of macroeconomic stability. On an accrual basis, however, there is probably a significant deficit. The government has accumulated large arrears to domestic suppliers and contractors. The central government has also repeatedly provided subsidies to profligate state enterprises without regard to efficiency or production targets. The exact size of this debt is unknown, but has been variously put at the peso equivalent of 150 to 600 million dollars. This domestic debt is owed to foreign firms now or pre-

viously operating in the Dominican Republic, as well as to purely local firms. Current government financial flows leave substantial doubt about the ability of the Dominican government to pay this debt. President Fernandez, however, recently announced the formation of a government commission to study the possibility of covering this debt by the issuance of bonds.

The Dominican Republic has ratified the GATT 94 and participates in WTO meetings. The Dominican government has not yet fully implemented the Uruguay Round Agreements. Agricultural products continue to be imported based on a discretionary licensing system.

2. Exchange Rate Policy

The official exchange rate continues to be set by the Central Bank. At the end of 1996, the Fernandez Administration announced unification of exchange rates based on a market determined rate. The official rate was devalued from 12.87 Pesos = 1 U.S. Dollar to 14 pesos/U.S. dollar on December 23, 1996. After some minor fluctuation, the rate has been stable at approximately 14.02 pesos = 1 U.S. dollar so far in 1997 and the unofficial rate remains relatively stable in a range of 14.30-14.50 pesos to the dollar. Traditional exporters such as sugar, cocoa, and coffee producers, credit card companies, and airlines are still required by law to sell foreign exchange to the Central Bank at the official rate, thus prejudicing their profitability, but most businesses and individuals are free to carry out foreign exchange transactions through the commercial banking system. The market rate is influenced by Central Bank activities such as dollar sales and the use of its considerable regulatory discretion to "jawbone" banks.

3. Structural Policies

Most domestic prices are determined by market forces, although distortionary government policies sometimes limit the operation of these forces. High tariff and nontariff barriers also increase the cost of doing business in the Dominican Republic. Since tariff reform enacted by presidential decree in 1990 and modified by law in 1993, no further reform has affected U.S. exporters, although President Fernandez has submitted a proposal to Congress to decrease all tariffs. The 1990 tariff regime reduced and simplified the tariff schedule to six categories with seven tariff rates ranging from 3 to 35 percent. It also replaced some quantitative import restrictions with tariffs and transformed all tariffs to ad valorem rates. While it marked an improvement over the previous tariff regime, this reform still left the Dominican Republic with high trade barriers. Few imports actually enter at the maximum 35 percent tariff rate, however, since together with other taxes and fees, it acts as an effective barrier to trade. 40 percent of government revenues come from duties, taxes and fees collected on imports.

The Dominican government has continued to implement changes in its tax system aimed at increasing revenues. The concept of taxable income has been enlarged, marginal tax rates on individuals and companies have been reduced and capital gains are no longer considered exempted income. The Fernandez Administration has submitted additional proposals for changes in the tax system to the Congress as part of an economic reform package. In May, 1992 a new labor code was promulgated with provisions which increased a variety of employee benefits. Public and private sector minimum wages have increased by approximately 25 and 20 percent respectively in 1997.

Government policy prohibits new foreign investment in a number of areas including public utilities, national defense production, forest exploitation and domestic air, surface and water transportation. Some government regulations, such as the process required to obtain the permits to open new businesses, choke economic growth and innovation. The difficulties of protecting intellectual property rights have slowed the availability of modern medicines. The failure to protect the tenure of landowners has impeded investment in modern agricultural techniques.

4. Debt Management Policies

The total external debt of the Dominican government is now approximately $3.7 billion. A significant portion of the official debt was rescheduled under the terms of Paris Club negotiations concluded in November 1991. In August 1994 the Dominican government successfully concluded debt settlement negotiations with its commercial bank creditors. The deal involved a combination of buy-back schemes and rescheduling. Payment to foreign private and public creditors in the financial sector has generally been current since then, with the exception of the CCC credits mentioned above.

Government payments to foreign non-financial institutions are notoriously slow. Some debts are ten years old. The Fernandez government formed a government committee to evaluate the public debt contracted by previous administrations. Foreign debt service for 1996 was $706 million.

5. Significant Barriers to U.S. Exports

Trade barriers: Tariffs on most products fall within the 5 to 35 percent range. In addition, the Government of the Dominican Republic imposes a 5 to 80 percent selective consumption tax on "non-essential" imports such as home appliances, alcohol, perfumes, jewelry, and automobiles.

The Dominican Republic continues to require a consular invoice and "legalization" of documents, which must be performed by a Dominican consulate in the U.S. Fees for this service vary by consulate but can be quite substantial. Some importers now pay the consular invoice fee in Santo Domingo directly to Customs. Moreover, importers are frequently required to obtain licenses from the Dominican Customs Service.

There are food and drug testing and certification requirements, but these are not burdensome.

Customs procedures: In the past bringing goods through Dominican Customs was a slow and arduous process, but there is anecdotal evidence that this situation has improved. Customs Department interpretation of exonerated materials being brought into the country still provokes complaints, however, and business persons here sometimes spend considerable time and money to get items through Customs.

Arbitrary customs clearance procedures sometimes cause problems for business. The use of "negotiated fee" practices to gain faster customs clearance continues to put some U.S. firms at a competitive disadvantage in the Dominican market. Customs officials routinely reject invoice prices as a basis for computing duties and customs fees and use their own assumed value database. This applies to virtually all non-free trade zone imports.

Government procurement practices: The Dominican Republic has a centralized Government Procurement Office, but the procurement activities of this office are basically limited to expendable supply items of the government's general office work. In practice, each public sector entity has its own procurement office, both for transactions in the domestic market and for imports. Provisions of the U.S. Foreign Corrupt Practices Act often put U.S. bidders on government contracts at a serious disadvantage in what are sometimes non-transparent bidding procedures.

Prohibitions on land ownership: Ownership by foreigners of more than approximately one-half acre (2,000 square meters) needs presidential approval.

Investment barriers: Legislation designed to improve the investment climate passed in November 1995. Its implementing regulations were issued by the Fernandez Administration in September 1996. The legislation does not contain procedures for settling disputes arising from Dominican government actions (the largest source of investment disputes). Seizures of foreign investors' property, refusal to honor customs exoneration commitments, and the previous government's refusal to consider claims for payment reduced the attractiveness of the investment climate, notwithstanding passage of the new law. The Fernandez Administration, however, has approached its commitments with a new attitude.

Foreign investment must receive approval from the Foreign Investment Directorate of the Central Bank to qualify for repatriation of profits (the new law provides for repatriation of 100 percent of profits and capital and nearly automatic approval of investments).

The electricity sector continues to be a weak link in the Dominican economy. Businesses operating in the Dominican Republic cannot depend on the public electric utility to be a reliable source of electricity. Legislation governing the privatization of the government-owned electricity company (CDE) as well as of other state enterprises, however, was passed by the Congress in June and CDE is pressing ahead with this process.

Foreign employees may not exceed 20 percent of a firm's work force. This is not applicable when foreign employees only perform managerial or administration functions.

Dominican expropriation standards (e.g., in the "public interest") do not appear to be consistent with international law standards; several investors have outstanding disputes concerning expropriated property. The Fernandez Administration wishes to resolve these issues and is currently negotiating with several investors. The

Dominican Republic does not recognize the general right of investors to binding international arbitration.

All mineral resources belong to the state, which controls all rights to explore or exploit them. Private investment has been permitted in selected sites. Currently, foreign investors are exploring for gold, natural gas, and copper. The process of choosing and contracting such areas has not been transparent.

Investors operating in the Dominican Republic's free trade zones (FTZ's) experience far fewer problems in dealing with the government than do investors working outside the zones. For example, materials coming into or being shipped out of the zones are reported to move quickly, without the kinds of bureaucratic difficulties mentioned above. Restrictions on profit remittances did not apply to free trade zone businesses even before passage of the new Foreign Investment Law.

6. Export Subsidies Policies

The Dominican Republic has two sets of legislation for export promotion: the Free Trade Zone Law (Law no. 8-90, passed in 1990) and the Export Incentive Law (Law no. 69, passed in 1979). The Free Trade Zone Law provides 100 percent exemption on all taxes, duties, and charges affecting the productive and trade operations at free trade zones. These incentives are provided to specific beneficiaries for up to 20 years, depending on the location of the zone. This legislation is managed jointly by the Foreign Trade Zone National Council and the Dominican Customs Service.

The Export Incentive Law provides for tax and duty free treatment of inputs from overseas that are to be processed and re-exported as final products. This legislation is managed by the Dominican Export Promotion Center and the Customs Service. In practice, use of the export incentive law to import raw materials for process and re-export is cumbersome and delays in clearing Customs can take anywhere from 20-60 days. This customs clearance process has made completion of production contracts with specific deadlines difficult. As a result, non-free trade zone exporters rarely take advantage of the Export Incentive Law. Most prefer to import raw materials using the normal customs procedures which, although more costly, are more rapid and predictable.

There is no preferential financing for local exporters nor is there a government fund for export promotion.

7. Protection of U.S. Intellectual Property

Although the Dominican Republic is a signatory to the Paris Convention and the Universal Copyright Convention, and in 1991 became a member of the World Intellectual Property Organization, the lack of a strong regulatory environment results in inadequate protection of intellectual property rights. The Dominican Republic was added to the Section 301 Watch List by the Office of the U.S. Trade Representative in 1997.

Patents (product and process): patents are difficult to get and to enforce against a determined intellectual property thief. In a local pharmaceutical market of approximately $110 million per year, 70 percent of the total is locally produced or packaged. A significant percent of that total is believed to be counterfeit. Resolutions issued by the government at year end 1996 and early 1997 concerning the registration process unfortunately further encourage the violation of pharmaceutical patents in the Dominican Republic.

Trademarks and copyrights: in general, copyright laws are adequate under international obligations, but, as noted above, enforcement is weak and piracy is widespread. Video, audio recordings, and software are being pirated. Apparel trademarks are also counterfeited and sold in the local market. The Dominican Government has taken some steps this year to help remedy shortcomings in this area, including seizure of pirated goods, but protection remains inadequate.

Some television and cable operators re-broadcast signals without compensating either the original broadcaster or the originator of the recording. The U.S. Motion Picture Association (MPA) had estimated that losses to its members due to theft of satellite-carried programming were more than one million dollars per year.

Impact of IPR policies on U.S. trade: non-protection of intellectual property rights is so widespread that it is virtually impossible to quantify its impact on United States-Dominican trade but we believe it to be substantial.

8. Worker Rights

a. *The Right of Association.*—The Constitution provides for the freedom to organize labor unions and also for the right of workers to strike (and for private sector employers to lock out workers). All workers, except military and police, are free to

organize, and workers in all sectors exercise this right. The government respects association rights and places no obstacles to union registration, affiliation or the ability to engage in legal strikes. Organized labor represents little more than 10 percent of the work force and is divided among three major confederations, four minor confederations and a number of independent unions.

b. *The Right to Organize and Bargain Collectively.*—Collective bargaining is lawful and may take place in firms in which a union has gained the support of an absolute majority of the workers. Only a minority of companies has collective bargaining pacts. The Labor Code stipulates that workers cannot be dismissed because of their trade union membership or activities.

The Labor Code applies in the 36 established free trade zones (FTZ's) which include 288 U.S.-owned or associated companies and employ approximately 172,000 workers, mostly women. Some FTZ companies have a history of discharging workers who attempt to organize unions.

c. *Prohibition of Forced or Compulsory Labor.*—There were numerous reports of forced overtime in factories. Employers, particularly in the FTZ's, sometimes locked the exit doors of factories after normal closing time so that workers could not leave. There have been reports of workers being fired for refusing to work overtime and both employers and workers state that new hires are not informed that overtime is optional.

d. *Minimum Age for Employment of Children.*—The Labor Code prohibits employment of youth under 14 years of age and places restrictions on the employment of youth under the age of 16. These restrictions include a limitation of no more than six hours of daily work, no employment in dangerous occupations or establishments serving alcohol and limitations on nighttime work. Dominican law requires six years of formal education.

The high level of unemployment and lack of social safety net create pressures on families to allow children to earn supplemental income. Tens of thousands of children work selling newspapers, shining shoes or cleaning cars, often during school hours. The government has proposed a fine for the parents of truant children.

e. *Acceptable Conditions of Work.*—The Constitution provides the government with legal authority to set minimum wage levels and the Labor Code assigns this task to a National Salary Committee. Congress may also enact minimum wage legislation. The Labor Code establishes a standard work period of eight hours per day and 44 hours per week. The Code also stipulates that all workers are entitled to 36 hours of uninterrupted rest each week. The Code grants workers a 35 percent differential for work over 44 hours up to 68 hours per week and double time for any hours above 68 hours per week.

The Dominican Social Security Institute (IDSS) sets work place safety and health conditions. The existing social security system does not apply to all workers and is underfunded.

Work place regulations and their enforcement in the FTZ's do not differ from those in the country at large, although working conditions are sometimes better. Conditions for agricultural workers are in general much worse, especially in the sugar industry.

f. *Rights in Sectors with U.S. Investments.*—U.S.-based multinationals active in the FTZ's represent one of the principal sources of U.S. investment in the Dominican Republic. Some companies in the FTZ's adhere to significantly higher worker safety and health standards than do non-FTZ companies. In other categories of worker rights, conditions in sectors with U.S. investment do not differ significantly from conditions in sectors lacking U.S. investment.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		[1]
Total Manufacturing		284
Food & Kindred Products	5	
Chemicals & Allied Products	[1]	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996—Continued

[Millions of U.S. dollars]

Category		Amount
Electric & Electronic Equipment	[1]	
Transportation Equipment	0	
Other Manufacturing	247	
Wholesale Trade		-3
Banking		[1]
Finance/Insurance/Real Estate		1
Services		[1]
Other Industries		13
TOTAL ALL INDUSTRIES		465

[1] Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis

ECUADOR

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Income, Production and Employment:			
Nominal GDP	17.9	19.0	19.6
Real GDP Growth (pct)	2.3	2.0	3.3
GDP by Sector:			
Agriculture, Fishing	2.1	2.3	2.4
Petroleum, Mining	1.9	2.0	1.9
Manufacturing	3.8	4.1	4.3
Commerce, Hotels	3.6	3.7	3.9
Finance, Business Services	1.0	1.0	1.0
Government, Other Services	2.1	2.3	2.4
Per Capita GDP (US$)	1,563	1,638	1,669
Labor Force (estimate - 000s)	3,670	3,220	3,380
Urban Unemployment (pct)	6.9	8.3	6.9
Money and Prices (annual percentage growth):			
Money Supply (M2) [2]	41.8	43.9	28.2
Consumer Price Inflation	22.8	26.0	32.0
Exchange Rate (sucres/US$ - annual average)			
Central Bank	2,527	3,145	4,002
Market	2,565	3,190	4,070
Balance of Payments and Trade:			
Total Exports FOB [3]	4.4	4.9	2.4
Exports to U.S. [4]	1.9	1.9	0.9
Total Imports CIF [3]	4.2	3.7	2.2
Imports from U.S. [3]	1.5	1.2	0.7
Trade Balance FOB [3]	0.3	1.4	0.3
Balance with U.S. [4]	0.4	0.7	0.2
External Public Debt	12.4	12.5	12.6
Debt Service Payments/GDP (pct)	21.9	36.0	29.2
Current Account Deficit/GDP (pct)	4.6	6.6	-4.0
Fiscal Balance/GDP (pct)	-2.0	-4.0	-2.5
Gold and Foreign Exchange Reserves	1.6	1.8	2.2
Aid from U.S. (FY - US$ mlns)	16.5	13.5	11.5
Aid from Other Sources (US$ mlns)	231	N/A	N/A

[1] 1997 figures are all estimates based on data available in October 1997.
[2] 1997 figure is for August 1996–August 1997.
[3] Merchandise trade. All figures of 1997 are for first half of year.
[4] Figures for 1997 are first quarter only.

Source: Ecuadorian Government and Central Bank of Ecuador data.

1. General Policy Framework

The Ecuadorian economy is based on petroleum production, along with exports of bananas, shrimp and other primary agricultural products. Industry is largely oriented to servicing the domestic market but is becoming more export-oriented. During the oil boom of the 1970s, the Ecuadorian government borrowed heavily from abroad, subsidized consumers and producers, and expanded the state's role in economic production. These policies led to chronic macroeconomic instability in the 1980s.

The 1992-1996 government of Sixto Duran-Ballen sought to stabilize the economy, modernize the state, and expand the role of the free market. However, privatization and other structural reforms are required to improve the investment climate and prospects for long-term growth. By 1994 a sound macroeconomic program had resulted in a balanced budget and reduced inflation. Those accomplishments were undermined by a series of shocks during 1995, including the outbreak of fighting on the border with Peru, a corruption scandal and political crisis involving the then-vice president, and several months of electricity rationing. The problems resulted in skyrocketing interest rates, a growing number of past-due loans, and the failure of a major financial institution. GDP growth slowed during 1995, increasing by only 2.3 percent instead of a projected 4 percent. The uncertainty associated with the 1996 elections, the rise of the populist Abdala Bucaram to the presidency, contradictory treatment of foreign investors, and delays in the announcement of the new government's economic program helped prevent an economic recovery. Economic reform stalled under Bucaram's six-month government (August 1996-February 1997) which was characterized by increased corruption and decreased investment. The current interim government of Fabian Alarcon (February 1997–August 1998) is faced with a number of challenges including implementing the Duran-Ballen era reforms, privatizing the state-owned telephone company, cutting the inflation rate to international levels, improving the electricity generating sector, and increasing social investment. The government projects economic growth for 1997 to be 3.3 percent.

The consolidated fiscal deficit for 1997 exceeds 2.5 percent of GDP. Significant revenue measures will be required to achieve the goal of a balanced budget for 1998. Public sector expenditures (including state enterprises but excluding the military's capital budget, which is funded by a direct off-budget allocation of oil revenues) accounted for 12.2 percent of GDP in 1996. Debt service is the largest area of government spending, followed by education, defense and agriculture. The government remains highly dependent on revenue from oil exports and domestic fuel sales.

The Central Bank attempts to smooth out fluctuations in liquidity through weekly bond auctions and interventions in the secondary market but no longer uses bank reserve requirements as a monetary tool. During periods of capital inflows, the government compensates for the inflationary effects of foreign exchange influx by increasing its sucre deposits at the Central Bank. Annual M2 Percentage growth in 1996 increased from 42 percent to 44 percent. The August 1996–August 1997 growth rate was 28 percent. The Duran-Ballen policy of depreciating the currency at a rate slower than inflation helped reduce the annual increase in consumer prices from 60 percent in 1992 to 23 percent in 1995. However, the inflation rate rose to 26 percent in 1996, and will likely reach 32 percent in 1997. The shocks of 1995, combined with the previous government's willingness to tighten liquidity in order to protect both the exchange rate and foreign reserves, kept average real interest rates on 90-day deposits above 20 percent for most of 1995 and 1996. Due to greater liquidity and a deepening recession, real interest rates on deposits dropped to slightly negative figures by October 1997.

2. Exchange Rate Policy

The monetary authorities introduced a narrow, pre-announced exchange rate band in December 1994. As a result of market pressures, the band was adjusted twice in 1995 and was substantially broadened in August 1996. The annual devaluation rate is currently projected at 21 percent.

Foreign currency is readily available on the free market, trading at 4,200 sucres to the dollar by November 1997. Although some government officials have criticized currency speculators, there are no restrictions on the movement of foreign currencies into or out of Ecuador. By the end of October 1997, foreign exchange reserves amounted to a near record $2.25 billion, enough to cover imports for nearly six months.

3. Structural Policies

The Alarcon and previous administrations have enjoyed only partial success in carrying out structural reforms designed to promote investment and economic growth. Progress has been made on budget reform, reduction of public employment levels, and elimination of some unnecessary and market-distorting regulations. With exceptions for pharmaceuticals, some foodstuffs and fuels, all prices are now set by the free market. New laws have established a basis for the development of equity capital markets, modern regulation of financial institutions, and improvement in the security of agricultural land tenure for both peasants and agribusiness. In most cases, however, implementation has lagged behind legislation.

The 1993 state modernization law allowed private sector participation in "strategic sectors" of the economy, including petroleum, electricity and telecommunications, but only on a concession basis. The National Modernization Council (CONAM) has sought to promote privatization, and the state development banks have sold much of their equity shares in commercial enterprises to the private sector. The armed forces have expressed interest in selling some shares in military-owned companies to private sector partners. The Alarcon administration is implementing the 1995 telephone privatization law and expects to sell 35 percent of the shares in state telephone company EMETEL by December 1997. Congress completed action on a similar electricity sector privatization law in September 1996, but the implementation schedule is still unclear. The Alarcon government has decided to expand the current oil pipeline that runs across the Andes by mid-1998. Steps have been taken toward granting private concessions for public works, the civil registry, airports, ports, and postal and railroad services. The Alarcon administration has not yet addressed the need for major reform of public education and the social security system's insolvent pension program.

Investment liberalization measures in 1991 and 1993 provided foreign investors with full national treatment and eliminated prior authorization requirements for investment in most industries, including finance and the media. Specific restrictions, most applicable to Ecuadorian as well as foreign investors, remain for petroleum, mining, electricity, telecommunications and fishing investments. A bilateral investment treaty with the United States that provides for free transfers and a binding arbitration dispute settlement procedure entered into force in May 1997. Income tax rates on foreign and domestic companies have been equalized at 25 percent. A value-added tax of 10 percent applies to imports and sales of goods and services in the formal sector. An excise tax on certain products continues to be applied to imports in a discriminatory manner. Although the 1993 hydrocarbons law is relatively investor-friendly, recent administrations have failed to respect many existing contracts with foreign investors in the oil sector.

4. Debt Management Policies

As of mid-1997, Ecuador's external public debt was $12.6 billion, roughly the same level as the previous year. Interest on public foreign debts in 1996 amounted to 13.3 percent of goods and services exports. While expressing a desire to reduce the debt burden, President Alarcon has promised to honor Ecuador's obligations.

In February 1995 Ecuador completed a comprehensive restructuring of its $7.1 billion external commercial bank debt and associated arrears. Service on the commercial debt should average about 1.7 percent of GDP through the year 2000 but will rise thereafter unless the government takes steps to retire some of its debt stock. Ecuador concluded bilateral rescheduling agreements with most of its official creditors under a 1994 Paris Club agreement but again ran substantial bilateral arrears in 1995-1997 and has stated its intention to seek another Paris Club rescheduling. During 1996 Ecuador failed to meet the targets of the IMF-monitored program that replaced the 1994 standby arrangement, with which Ecuador had quickly fallen out of compliance.

5. Significant Barriers to U.S. Exports

Ecuadorian trade policy was substantially liberalized during the early 1990's, resulting in a reduction of tariffs and tariff dispersion, elimination of most nontariff surcharges, and enactment of an in-bond processing industry (maquila) law. The Duran-Ballen administration continued the move towards open trade by concluding bilateral free trade agreements with its Andean Pact partners, Colombia, Bolivia and Venezuela. After two years of negotiations with its major trading partners, Ecuador joined the World Trade Organization (WTO) in January 1996. However, the government failed to meet deadlines for fulfilling all of its WTO obligations to eliminate remaining nontariff barriers. In June 1997, the government of Ecuador publicly stated that the WTO TRIPS agreement is in force in Ecuador. However, while legis-

lation to protect intellectual property rights had been introduced by December 1997, it had not yet been ratified by Ecuador's Congress.

Duties and fees for most imports into Ecuador fall in the 5 to 20 percent range. Ecuador joined with Colombia and Venezuela to establish an Andean common external tariff in February 1995. Special exemptions allow Ecuador to continue to charge higher rates for about half of the items on the common tariff schedule.

Customs procedures can be difficult but are not normally used to discriminate against U.S. products. The Alarcon administration has moved to repair damage done to customs services that occurred under the Bucaram administration by focusing on corruption and improving efficiency. The government has yet to implement its commitment not to use sanitary and phytosanitary restrictions to block the entry of certain imports of consumption products and agricultural goods from the United States, but increased the number of Ecuadorian institutions that are authorized to issue sanitary and phytosanitary permits. Import bans on used clothing, used cars and used tires have yet to be eliminated, despite Ecuador's promise in its WTO accession protocol to do so by July 1996. Andean Pact price bands that result in high effective tariffs for a variety of agricultural products are to be phased out. The government no longer sets minimum prices for assessing customs duties on certain imports.

All importers must obtain a prior import license from the Central Bank, obtainable through private banks. Licenses are usually made available for all goods. A 1976 law that prevented U.S. and other foreign suppliers, but not domestic suppliers, from terminating existing exclusive distributorship arrangements without paying compensation was repealed in September 1997. However, despite the repeal of this law, the USG is concerned that the discriminatory WTO-inconsistend Dealers's Act may continue to be applied in pending court cases or against U.S. companies that have existing contracts that were in force prior to the repeal of the Dealer's Act. Foreigners may invest in most sectors, other than public services, without prior government approval. There are no controls or limits on transfers of profits or capital, and foreign exchange is readily available.

Government procurement practices are not sufficiently transparent but do not usually discriminate against U.S. or other foreign suppliers. However, bidding for government contracts can be cumbersome and time-consuming. Bids for public contracts are often delayed or canceled. Many bidders object to the requirement for a bank-issued guarantee to ensure execution of the contract.

6. Export Subsidies Policies

Ecuador does not have any explicit export subsidy programs.

7. Protection of U.S. Intellectual Property

Ecuador's protection of intellectual property is based primarily on regional Andean Pact decisions that protect patents, trademarks, copyrights and plant varieties. These decisions are in the process of being updated to meet TRIPS standards. A November 1996 Andean Pact court decision overturned Ecuadorian regulations that provided transitional or pipeline protection for previously unpatentable products. The Bucaram government repealed its implementing regulations covering the Andean patent and trademark regime and pipeline provisions in 1996. However, the Alarcon administration reinstituted most of the regulations in September 1997.

Ecuador and the United States signed a bilateral intellectual property rights agreement (IPRA) in October 1993 that guarantees full protection for copyrights, trademarks, patents, satellite signals, computer software, integrated circuit layout designs and trade secrets. However, the Ecuadorian Congress has not yet ratified the IPRA or enacted legislation to harmonize local law with the agreement's provisions. In a positive step, Ecuador publicly announced in June 1997 that it is adhering to its WTO TRIPS obligations. It introduced comprehensive legislation in December 1997 to protect intellectual property rights. It is pending before Ecuador's Congress.

Enforcement of intellectual property rights remains a problem for Ecuador. Copyright infringement occurs, and there is widespread local trade in pirated audio and video recordings, as well as computer software. Local registration of unauthorized copies of well-known trademarks is a problem, since the government does not adequately monitor and control such registrations. Some local pharmaceutical companies produce or import patented drugs without licenses and have sought to block improvements in patent protection.

8. Worker Rights

a. *The Right of Association.*—Under the Ecuadorian constitution and labor code, most workers in the parastatal sector and private companies enjoy the right to form trade unions. Public sector workers in non-revenue earning entities, as well as security workers and military officials, are not permitted to form trade unions. Less than 12 percent of the labor force, mostly skilled workers in parastatal and medium-to-large sized industries, is organized. Except for some public servants and workers in some parastatals, workers by law have the right to strike. Sit-down strikes are allowed, but there are restrictions on solidarity strikes. Ecuador does not have a high level of labor unrest. Most strike activity involves public sector employees.

b. *The Right to Organize and Bargain Collectively.*—Private employers with more than 30 workers belonging to a union are required to engage in collective bargaining when requested by the union. The labor code prohibits discrimination against unions and requires that employers provide space for union activities. The labor code provides for resolution of conflicts through a tripartite arbitration and conciliation board process. Employers are not permitted to dismiss permanent workers without the express permission of the Ministry of Labor. The in-bond (maquila) law permits the hiring of temporary workers in maquila industries, effectively limiting unionization in the sector. Employers consider the labor code to be unfavorable to their interests.

c. *Prohibition of Forced or Compulsory Labor.*—Compulsory labor is prohibited by both the constitution and the labor code, and is not practiced.

d. *Minimum Age of Employment of Children.*—Persons less than 14 years old are prohibited by law from working, except in special circumstances such as apprenticeships. Those between the ages of 14 and 18 are required to have the permission of their parents or guardian to work. In practice, many rural children begin working as farm laborers at about 10 years of age, while poor urban children under age 14 often work for their families in the informal sector.

e. *Acceptable Conditions of Work.*—The labor code provides for a 40-hour work week, two weeks of annual vacation, a minimum wage and other variable, employer-provided benefits such as uniforms and training opportunities. The minimum wage is set by the Ministry of Labor every six months and can be adjusted by Congress. Mandated bonuses bring total monthly compensation to about $159. The Ministry of Labor also sets specific minimum wages by job and industry so that the vast majority of organized workers in state industries and large private sector enterprises earn substantially more than the general minimum wage. The labor code also provides for general protection of workers' health and safety on the job, and occupational health and safety is not a major problem in the formal sector. However, there are no enforced safety rules in the agriculture sector and informal mining.

f. *Worker Rights in Sectors with U.S. Investment.*—The economic sectors with U.S. investment include petroleum, chemicals and related products, and food and related products. U.S. investors in these sectors are primarily large, multinational companies which abide by the Ecuadorian labor code. In 1996 there were no strikes or serious labor problems in any U.S. subsidiary. U.S. companies are subject to the same rules and regulations on labor and employment practices governing basic worker rights as Ecuadorian companies.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		697
Total Manufacturing		98
Food & Kindred Products	-9	
Chemicals & Allied Products	1	
Metals, Primary & Fabricated	24	
Machinery, except Electrical	0	
Electric & Electronic Equipment	1	
Transportation Equipment	1	
Other Manufacturing	41	
Wholesale Trade		56
Banking		1

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996—Continued

[Millions of U.S. dollars]

Category	Amount
Finance/Insurance/Real Estate	[1]
Services	0
Other Industries	-5
TOTAL ALL INDUSTRIES	855

[1] Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis

EL SALVADOR

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997[1]
Income, Production and Employment:			
Nominal GDP	9.6	10.6	11.7
Real GDP Growth (pct)	6.3	3.0	4.0
GDP by Sector:			
Agriculture	1.4	1.4	1.5
Manufacturing	2.1	2.3	2.4
Services	3.9	5.2	5.6
Government	0.5	0.6	0.6
Per Capita GDP[2]	1,778.0	1,937.0	2,100.0
Labor Force (000s)[3]	2,176.0	2,219.0	2,260.0
Unemployment Rate (pct)[4]	7.6	7.6	7.7
Money And Prices (Annual Percentage Growth):			
Money Supply Growth (M2)	19.0	14.0	14.0
Consumer Price Inflation	11.4	7.8	3.5
Exchange Rate (Colon/US$)	8.75	8.75	8.75
Balance Of Payments And Trade:			
Total Exports FOB[5]	1.7	1.8	2.0
Exports to U.S. (US$ mlns)	844	955	1,080
Total Imports CIF[5]	3.3	3.2	3.5
Imports from U.S. (US$ mlns)[5]	1,700.0	1,606.0	1,800.0
Trade Balance	-1.7	-1.4	-1.5
Balance with U.S. (US$ mlns)	-856	-651	-720
External Public Debt	2.2	2.5	2.4
Debt Service Payments/GDP (pct)	3.2	4.2	3.0
Current Account Deficit/GDP (pct)	-2.8	-1.7	-1.9
Fiscal Deficit/GDP (pct)	0.9	2.3	2.0
Gold and Foreign Exchange Reserves	936.0	1,100.0	1,300.0
Aid from U.S.(US$ mlns)	120.0	57.7	60.1
Aid from All Other Sources[6]	78.0	16.0	38.0

[1] 1997 figures are central bank estimates based on August data.
[2] Per capita growth based on 1992 census data.
[3] Economically active population, i.e., all those over age 15.
[4] Figures do not include underemployment
[5] Including gross maquila.
[6] Grants only; figures do not reflect NGO assistance and bilateral loan programs.

1. General Policy Framework

The 1992-1995 post war boom, during which growth averaged 6.5 percent per year, faded in 1996 due to an abrupt shift in monetary policy, price hikes in basic services and an increase in the value-added tax. The index of economic activity (IVAE) started to fall at the end of 1995, and hit bottom in November 1996. The economy grew 3 percent in 1996.

Data from the first eight months of 1997 indicate that the economy is now experiencing a modest recovery from the 1996 slow-down. The IVAE increased from 0.4 percent in December 1996 to 4.3 percent in August 1997. Growth has been led by a strong performance in the external sector. The recovery has taken place within the context of a declining inflation rate which is expected to be 3 to 4 percent in 1997 compared to 7.8 percent in 1996. The outlook for 1998 is for more of the same—modest growth of about 4 percent with continued price stability.

The Central Bank continues to pursue a conservative monetary policy. The money supply expanded only 14 percent in 1996, versus 19 percent in 1995. Projected expansion for 1997 is again 14 percent. Interest rates on loans for less than a year, are down to 16 percent in mid-1997 compared to 19 percent two years ago. Medium and long-term interest rates also went down from 20 to 18 percent.

Delays in the privatization program, especially the sale of the state telephone company and the electricity distribution companies, a progressive reduction in import duties and the slow-down in the economic activity contributed to an increase in the fiscal deficit from 0.9 percent of the GDP in 1995, to 2.3 percent in 1996. Additionally, the Government of El Salvador increased expenditures to meet commitments derived from the 1992 Peace Accords, especially in social areas and infrastructure. The deficit has been financed with official domestic and external bonds. By law, the Central Bank is not allowed to finance government deficits. The 1996 slow-down brought a modest decrease in imports (slightly less than 1 percent), while exports showed a 7.7 percent increase. As in the previous years, the large trade deficit in El Salvador has been offset by family remittances and external aid. Remittances continue to be the second most important source of foreign exchange after exports, and a major factor in El Salvador's macroeconomic stability. Remittances are increasing at an annual rate of 6.5 percent, and an estimated 1.25 billion dollars will enter the national economy during 1997.

2. Exchange Rate Policy

The colon has been informally pegged at 8.75 per dollar since 1994. Large inflows of dollars from Salvadorans working in the United States offset a significant trade deficit. At the end of August 1997, the net international reserves at the Central Bank were 1.32 billion dollars, the highest level in history.

3. Structural Policies

The United States is El Salvador's main trade partner. Imports from the U.S. have increased an average of 27 percent per year since 1992. Imports from the U.S., which constitute about 50 percent of all El Salvador's imports, are projected to reach 1.8 billion dollars in 1997, up from 1.6 billion in 1996. Key to this trend is the multi-year program, currently under way, to radically lower tariff barriers. Under this program, tariffs for most capital goods and raw materials have been reduced to zero or one percent, and tariffs on intermediate and finished goods are scheduled to fall to a maximum rate of 15 percent by July 1999. In September 1997, the Government of El Salvador launched a new, simplified Customs Procedure system which reduces the former cumbersome 20 step import process to seven steps. Close to 80 percent of all Salvadoran imports consist of capital and intermediate products. The government of El Salvador has an open procurement policy in practice, and U.S. companies compete actively for contracts.

El Salvador has liberal legislation under which it is privatizing the state owned telephone company (ANTEL), four electricity distribution companies, sugar mills, and the administration of pension funds. All of these projects represent good opportunities for U.S. suppliers and investors. The sale of government energy generation plants is pending restructuring of the state Electricity Commission, which is scheduled for the end of 1998.

Prices, with the exception of bus fares and utilities, are set by the market. Companion legislation to the telecommunications and electric privatization bills set up a commission to monitor the telecommunications and electrical sectors, and the National Assembly is considering formulas to limit maximum utility price hikes in the future.

The 13 percent value-added tax (VAT) is applied to all goods and services, domestic and imported, with a few limited exceptions for basics like dairy products, fresh fruits and vegetables, and medicines. At the end of 1994, the government replaced a price band mechanism, introduced in 1990 to regulate the tariffs on basic grains. The government policy on basic grain tariffs is set by seasonal supply and demand conditions in the local market. Currently, yellow corn is imported duty free; while white corn enters duty free from February 1 through July 31, and is subject to a 15 percent ad-valorem rate from August 1 to January 31.

4. Debt Management Policies

El Salvador has traditionally pursued a conservative debt policy. External debt stood at $2.524 billion at December 1996, a 12.5 percent increase over the previous year. Almost 70 percent of this debt has been contracted with international financing institutions , and 30 percent with bilateral organizations and other sources. The debt service in 1996 amounted to 442 million dollars or 4.2 percent of the GDP, and is considered moderate. El Salvador's prudent debt policies have been recognized by improved risk ratings on its official debt instruments by organizations such as Moody's and Standard and Poor.

The government of El Salvador has succeeded in obtaining significant new credits from diverse international sources over the last year and a half. Some 300 million dollars have been contracted from international institutions and governments (Spain, Germany, Japan) for infrastructure works and social programs to be undertaken over the next few years.

5. Aid.

Aid grants from the U.S. totaled an estimated 60.1 million dollars in 1997. Military assistance from the U.S. totaled 450,000 dollars in 1997.

6. Significant Barriers to U.S. Exports

There are no legal barriers to U.S. exports of manufactured goods or bulk, non-agricultural products to El Salvador. Most U.S. goods face tariffs from 0 to 19 percent. Current tariffs are scheduled to fall to 15 percent for final goods, and 5 to 10 percent for intermediate products, by mid 1999. Higher tariffs are applied to automobiles, alcoholic beverages, textiles and some luxury items, but the Salvadoran government also plans to reduce these tariffs before 1999.

Generally, standards have not been a barrier for the importation of U.S. food products. Poultry is the notable exception; since 1992, the government of El Salvador has maintained a zero tolerance policy for several common avian diseases such as salmonella, effectively blocking all imports of U.S. poultry. The Ministry of Agriculture requires a Certificate of Free Salmonella showing that the product has been approved by U.S. Health Authorities for public sale. Importers may also be required to deliver samples for laboratory testing, but this requirement has not been enforced. All fresh food, agricultural commodities and live animals must be accompanied by a phytosanitary or sanitary certificate. Basic grains and dairy products also must have import licenses. Authorities have not enforced the Spanish language labeling requirement.

El Salvador is a member of the WTO and expects to implement a full range of its Uruguay Round Commitments on schedule. The government is an active participant in the Summit of the Americas/Free Trade of the Americas Process. El Salvador chairs the FTAA Market Access Group. The country is a member of the Central American Common Market, and together with Guatemala and Honduras, is negotiating a Free Trade Agreement with Mexico.

El Salvador officially promotes foreign investment in virtually all sectors of the economy. Foreign investment laws allow unlimited remittance of net profits, except for services where the law allows 50 percent. No restrictions exist on establishing foreign banks or branches of foreign banks in El Salvador.

7. Export Subsidies Policies

El Salvador does not employ direct export subsidies. It offers a six percent rebate to exporters of non-traditional goods based on the FOB value of the export, but exporters have found it very difficult to collect. Free zone operations are not eligible for the rebate but enjoy a 10-year exemption from income tax as well as duty-free import privileges.

8. Protection of U.S. Intellectual Property

El Salvador was removed from the Special 301 Watch List in July 1996 after a newly created enforcement unit began a series of raids on copyright and trademark violators. Initial busts centered on cassette and video vendors, but also included books and trademark clothing items. In 1997, enforcement efforts continued. Government officials also have begun working with local representatives of pharmaceutical manufacturers to identify and seize pirated medicines. In addition, they have identified software piracy as a priority.

El Salvador's current law protecting intellectual property rights took effect in October 1994. The 1994 law, together with El Salvador's acceptance of TRIPS disciplines, addresses several key areas of weakness. Patent terms are lengthened to

20 years and the definition of patentability is broad. Compulsory licensing applies only in cases of national emergency. Computer software is also protected, as are trade secrets. Trademarks, however, are still regulated by the Central American Convention for the Protection of Industrial Property. It is an occasional practice to license a famous trademark and then seek to profit by selling it when the legitimate owner wants to do business in El Salvador. In November 1994, El Salvador signed an amended version of the convention, which, among other things, would address this issue. The revised convention will take effect upon ratification by three of the participating Central American governments. According to Salvadoran government officials, they are working on a draft for a separate semiconductor chip law.

With international funding, the Salvadoran government is completing a two-year comprehensive reorganization of its antiquated National Registry Office. The registration process has been simplified and computerized and significant progress is being made to reduce backlogs and to adjudicate oppositions.

The government of El Salvador is currently engaged in negotiations with the U.S. on a bilateral IPR agreement. El Salvador is a signatory to the Geneva phonograms, Paris industrial property, and Berne copyright conventions. It does not belong to the International Convention for the Protection of New Varieties of Plants (UPOV) or the Washington Satellite Convention.

9. Worker Rights

a. *Right of Association.*—The Constitution prohibits the Government from engaging in anti union actions against workers trying to organize and the 1994 Labor Code streamlined the process required to form a union in the private sector. Unions and strikes are legal only in the private sector. Employees of autonomous public agencies may form unions but not strike. Nevertheless, many workers including those in the public sector form employee associations that frequently carried out strikes that, while technically illegal, were treated as legitimate. Approximately 20 percent of the workforce are members of unions, public employees associations, or peasant organizations.

b. *The Right to Organize and Bargain Collectively.*—The Constitution and the Labor Code provide for collective bargaining rights, but only to employees in the private sector and in autonomous government agencies, such as utilities (currently undergoing privatization) and the port authority. However, both private sector unions (by law) and public sector employee associations (in practice) use collective bargaining.

c. *Prohibition of Forced or Compulsory Labor.*—The Constitution prohibits forced or compulsory labor, except in the case of calamity and other instances specified by law. This provision is followed in practice.

d. *Status of Child Labor Practices and Minimum Age for Employment.*—The Constitution prohibits the employment of children under the age of 14. Children may receive special Labor Ministry permission to work, but only where such employment is absolutely indispensable to the sustenance of the minor and his family. This is most often the case with children of peasant families who traditionally work during planting and harvesting seasons. Child labor is not usually found in the industrial sector.

e. *Acceptable Conditions of Work.*—The minimum wage did not change in 1997. Effective July 1995, the minimum wage is $4.40 (38.50 colones) per day for commercial, industrial, and service employees; and $3.30 (28.60 colones), plus a food allowance, per day for agroindustrial workers. The Government of El Salvador has announced that the minimum wage will be reviewed during the first quarter of 1998. The law limits the workday to 6 hours for youths between 14 and 18 years of age and 8 hours for adults, and it mandates premium pay for longer hours. The Labor Code sets a maximum normal work week of 36 hours for youths and 44 hours for adults.

f. *Rights in Sectors with U.S. Investment.*—U.S. investment in El Salvador is distributed fairly evenly inside and outside the so-called "maquilas" or free zones. The labor laws apply equally to all sectors, including the free zones. During the last few years, most free zone companies have accepted the provisions of voluntary codes of conduct from their parent corporations or U.S. purchasers. These codes include worker rights protection clauses. In April, the Salvadoran Apparel Industry Association (ASIC) announced an industry wide code of conduct, currently being implemented, with worker rights protection. The great majority of companies in the free zones provide much better salaries and working conditions than is offered elsewhere in the private sector. Nevertheless, there were credible reports of factories dismissing union organizers. In addition, accusations persist of companies abusing their

workers. This year the Labor Ministry increased the number of inspectors and inspections, improved the professional training of the inspector corps, and made a better effort to follow up on such complaints.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		91
Total Manufacturing		32
Food & Kindred Products	[1]	
Chemicals & Allied Products	[1]	
Metals, Primary & Fabricated	[1]	
Machinery, except Electrical	0	
Electric & Electronic Equipment	-2	
Transportation Equipment	0	
Other Manufacturing	[1]	
Wholesale Trade		3
Banking		[1]
Finance/Insurance/Real Estate		[1]
Services		[1]
Other Industries		[1]
TOTAL ALL INDUSTRIES		198

[1] Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis

---

GUATEMALA

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Income, Production and Employment:			
Nominal GDP	14,735	15,803	17,633
Real GDP Growth (pct.)	3.6	3.1	4.1
GDP by Sector (pct.):			
Agriculture	24	24	24
Manufacturing	21	21	21
Services	47	47	47
Government	8	8	8
Per Capita GDP (US$)	1389	1446	1603
Labor Force (000s)	3,081	3,200	3,320
Unemployment Rate (pct) [2]	5.2	5.2	5.2
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	-3.9	5.4	N/A
Consumer Price Inflation	8.6	10.8	9.0
Exchange Rate (Quetzal/USD annual average)	5.83	6.10	6.10
Balance of Payments and Trade: [1]			
Total Exports FOB [3]	2.0	2.1	2.9
Exports to U.S.	0.6	0.8	1.0
Total Imports CIF [3]	3.2	3.1	3.3
Imports from U.S.	1.4	1.4	1.5
Trade Balance [3]	-12	-1.0	-0.4
Balance with U.S. [3]	-0.7	-0.7	-0.6
Current Account	4.8	5.0	3.0
External Public Debt [4]	2.1	2.1	2.2
Fiscal Deficit/GDP (pct) [4]	0.6	0.1	0.1
Debt Service Payments/GDP (pct) [4]	2.4	2.2	2.4

Key Economic Indicators—Continued

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Gold and Foreign Exchange Reserves (Net)	0.6	0.8	1.2
Aid from U.S.	36	29	70
Aid from Other Countries	N/A	N/A	N/A

[1] All 1997 figures are Embassy estimates based on data available as of November 1, 1997.
[2] Does not reflect estimated 40 to 50 percent underemployment.
[3] Merchandise trade data from Guatemalan Customs and Central Bank. Trade data does not include U.S. 250 million in value added by the apparel assembly industry.
[4] Data from Government of Guatemala Budget Projection.

1. General Policy Framework

Since he assumed office in January 1996, President Alvaro Arzu and the National Advancement Party (PAN), which also has a majority in the Congress, have worked to implement a program of economic liberalization and to modernize the state. The signing of the final peace accord in December 1996 which ended the country's 36-year armed internal conflict has removed a major obstacle to foreign investment. Among the government's remaining challenges, however, are the elimination of bureaucratic inefficiency, official fraud and corruption, and the establishment of internal security.

Guatemala's economy, the largest in Central America, is generally open. For the last five years real GDP growth has averaged about 4 percent and population growth about 2.9 percent annually. Infrastructure deficiencies, particularly in education, electricity service, telecommunications, and transportation, constrain more rapid development. The Guatemalan government recently has liberalized aspects of the financial services industry, decontrolled petroleum prices, and revised the commercial code. Legislation was passed in 1996 to liberalize the telecommunications and electricity sectors and these industries are in the process of demonopolization and privatization. The government has also awarded a concession for operation of the railroad and will concession elements of the civil aviation authority and the country's major sea ports. In August of 1995 Guatemala became a founding member of the WTO.

Agriculture and commerce are the dominant economic activities, each contributing approximately 25 percent of GDP; manufacturing accounts for 15 percent of GDP and government about 10 percent. The agricultural sector accounts for two thirds of exports and about half of all employment, though there is much underemployment in all sectors. Activity in the agricultural sector is concentrated in production of the traditional products of coffee, sugar, and bananas. Non-traditional agricultural exports, e.g., specialty vegetables and fruits, berries, shrimp, and ornamental plants and flowers, account for an increasing share of export revenues. Other non-traditional industries that have experienced recent growth and have favorable prospects are apparel assembly for export and tourism. Remittances from family members abroad are a significant source of foreign exchange, accounting for perhaps as much as $500 million per year.

Government tax revenues have historically been less than 8 percent of GDP. Since 1994 the Central Bank (Bank of Guatemala) has been prohibited from financing the deficit, forcing the government to issue treasury bonds, most of which were short-term. In 1996 the government was able to issue securities for longer terms (two and three years) at lower rates of interest. Guatemala in 1997 successfully placed $150 million in dollar-denominated notes in the international market. Debt service costs should decline significantly in 1998, but will increase in subsequent years as Guatemala borrows to finance social and economic development programs specified in the peace accords. Though the central bank's restrictive monetary policies have helped keep inflation at an average of about 10 percent, the result has been increasing operating losses for the central bank, high commercial bank lending rates, and a shortage of financing for real investment. Though commercial bank lending rates declined in 1997, private sector investment has not increased significantly.

2. Exchange Rate Policy

Guatemala has an open, relatively undistorted exchange regime. The quetzal-dollar exchange rate has remained relatively stable since 1994. The Bank of Guatemala intervenes only infrequently to dampen speculation. There were at least four such interventions in 1997. There are no legal or other constraints on remittances or other capital flows and there has been no parallel exchange market in Guatemala

for several years. Financial institutions' holdings must be in quetzales, though a number of local banks offer dollar denominated accounts in which the funds are actually held offshore. The holding of dollar deposits within the country has been proposed but not yet enacted.

Nominal devaluation of the quetzal for 1997 will be about two percent, resulting in a real appreciation against the dollar of approximately six to seven percent. The average exchange rate for 1997 was Q. 6.10 to the dollar. High real interest rates stimulated capital inflows during 1996, resulting in an excess of foreign exchange relative to demand. Interest rates declined in 1997 and though there has been some withdrawal of capital, net foreign exchange inflows remain positive.

3. Structural Policies

Government tax revenues are projected to be $1.76 billion in 1997, a 5 percent increase over 1996 revenues. The increase is due to an increase in the fuel tax, duties collected on a higher volume of imports, improved administration, and higher prices and incomes.

As part of the peace process the government is committed to increasing spending on social, infrastructure expansion, and economic development programs. This additional spending will be financed by $1.9 billion in foreign grants and loans and the equivalent of an additional $700 million in locally generated funds. Guatemala is committed to increasing tax collections to 12 percent of GDP by the year 2000. The GOG probably will meet its interim targets of 8.6 and 10.0 percent of GDP for 1997 and 1998, respectively, but revenue targets for 1999 and 2000 will be more difficult to attain. The government introduced a new package of taxes to take effect in January 1998, but no congressional action had been taken by November 1, 1997. A legislative proposal to create an autonomous tax collection and administration authority is expected to be approved by the congress.

4. Debt Management Policies

The Guatemalan budget projects a public debt at the end of 1997 of approximately $2 billion. Foreign debt is projected at $1.23 billion, or 7.0 percent of GDP. Most of this debt is long-term, low-interest debt with International Financial Institutions. The Guatemalan Government appropriated $425 million in the 1997 budget for debt service and amortization, or 2.4 percent of GDP, of which external debt service is budgeted at $123 million, or .7 percent of GDP.

5. Significant Barriers to U.S. Exports

Guatemala applies the Common External Tariff schedule of the Central American Common Market which has a range of from zero to 19 percent for almost all agricultural and industrial goods. Imports are not generally subject to non-tariff trade barriers, though arbitrary customs valuation and excessive bureaucracy occasionally create delays and complicate the importation process.

Guatemala has complied with virtually all of its WTO commitments, eliminating import licenses and creating tariff rate quotas (TRQs) for rice, corn, wheat and wheat flour, apples, and pears. The Ministry of Economy has implemented a new import policy for poultry that enlarges the TRQ to the level of Guatemala's final WTO commitment and reduces the in-quota tariff. However, all poultry parts are valued at a minimum of 56 cents/lb. for customs purposes, significantly increasing the effective tariff rate and the cost of imported poultry products. Guatemala's current import tariff rates for agricultural products are below the WTO tariff bindings.

Processed foods are required to be registered with the Ministry of Health by each individual importer. However, importers have the option of joining an association of importers and paying a fee for the use of other members' registrations. Processed foods must also be labeled in Spanish. Enforcement of this requirement has been lax, though compliance is increasing. Full enforcement could significantly impact imports from the United States.

Sanitary licenses are required for all imports of animal origin. Inspection of the processing plant in the country of origin, at the importers' expense, is technically required for the license, however, implementation has been uneven, limiting trade disruption.

Importers should be aware that manifests must be consularized, an administrative process that can be time consuming. Delays in obtaining consularization have resulted in some losses to shipments of perishables.

Some restrictions remain on foreign investment, but foreign investors generally receive national treatment. Subsurface minerals, petroleum, and other resources are property of the state and concessions are typically granted in the form of production-

sharing contracts. The solicitation and contracting process for energy concessions tends to be protracted and less than fully transparent. Restrictions on housing construction are so onerous they virtually exclude foreign participation.

By law, radio and television stations can be operated only by Guatemalan citizens or by corporations which are at least 75 percent Guatemalan-owned. Foreigners can own no more than 30 percent of "small mining" or forestry companies. Ground transportation is limited to companies with at least 60 percent Guatemalan ownership. Licensing requirements for fishing operations are enforced in such a way as to ensure at least minority Guatemalan participation.

Foreign firms are barred from directly selling insurance or providing legal, accounting or other licensed professional services. This hurdle can be overcome by establishing a locally incorporated subsidiary or through a correspondent relationship with a local firm. Most of the "Big Six" U.S. accounting firms are represented through one of these methods.

6. Export Subsidies Policy

There are no export subsidies.

7. Protection of U.S. Intellectual Property

Protection provided intellectual property is inadequate. Penalties are insufficient, enforcement is weak and a poorly trained judiciary is slow to provide injunctive relief. Though local cable television companies have reduced broadcasting of unauthorized programming considerably and video piracy has diminished, the U.S. industry still suffers significant losses. Guatemala has been on the Special 301 Watch list for the past several years for inadequate IPR protection. Piracy and resale of computer software programs is also common. Guatemala has acceded to the Berne Convention, but has not acceded to the Paris Convention. Computer software is not protected under copyright law.

The right to copy, publish and distribute is clearly protected and the criminal code was modified in August 1995 to include prison sentences of 4 to 6 years and fines ranging from 50,000 to 100,000 quetzales (approx. $8,300 to $16,600) for copyright violations. Control over leasing or rental of protected works is less clear. Despite membership in the Rome and Geneva Conventions, Guatemala generally does not enforce protection of sound recordings.

Guatemala's patent law is outdated and does not protect mathematical methods, living organisms, commercial plans, surgical, therapeutic or diagnostic methods, or chemical compounds or compositions. Protection is limited to 15 years (10 years for the production of food, beverages, medicines and agrochemicals), and subject to compulsory licensing provisions and local exploitation requirements. Patent rights do not extend to any action executed in the pursuit of education, research, experimentation, or investigation. Patent rights do not preclude the importation of counterfeit goods unless the product is being produced in Guatemala. Protection lapses six years from the date of the patent if the product is not being produced locally. Legislation is pending before the Congress to address these issues and bring Guatemalan law into line with international standards.

The Central American Convention for the Protection of Industrial Property (CACPIP) is the legal basis for protection of trademarks in Guatemala. It is currently under revision to bring it more into line with emerging international standards and to simplify the registration process. Guatemalan law does not provide sufficient protection against counterfeiting or misuse of trademarks, and the right to exclusive use is granted to the first to file. There is no requirement for use, nor any cancellation process for non-use. A firm wishing to market in Guatemala whose trademark has been registered by another party must either buy out that party or pay a royalty. Legislation to improve trademark protection is pending.

8. Worker Rights

a. *The Right of Association.*—The right of association is guaranteed by the Constitution. Less than eight percent of the labor force is unionized; there are more than 1000 unions, the majority of which are private sector unions. The Ministry of Labor has significantly simplified and accelerated the process of obtaining legal authorization to form a union. This procedure now takes 23 working days. Significant changes were made in 1993 to modernize the Labor Code. In addition, the process for resolving "work place" disputes has been decentralized with the opening of 21 branch offices of labor inspectors.

b. *The Right to Organize and Bargain Collectively.*—The Labor Code allows collective bargaining if at least 25 percent of a company's employees are union members.

Anti-union practices, including discharging workers for attempting to organize a union, are legally forbidden. However, despite a major increase in labor inspectors and inspections, enforcement of labor laws depends on an overloaded and inefficient labor court system. The labor movement remains fractious. A widespread, historical distrust of unions by both employers and many workers, as well high rates of unemployment and underemployment, combine to make organizing and collective bargaining difficult.

c. *Prohibition of Forced or Compulsory Labor.*—The Constitution prohibits forced labor. Labor for prisoners with sentences of more than two years is obligatory, but this labor may not be used as punishment for expression of political or other opinions, or as a method of political reeducation.

d. *Minimum Age for Employment of Children.*—By law, children under the age of 14 may work only with written permission of their parents, certified by the Ministry of Labor. However, tens of thousands of children under 14 work in both the formal sector, including agriculture, and the informal sector, generally in family enterprises. The Ministry of Labor has initiated a program to educate minors about their rights as workers.

e. *Acceptable Conditions of Work.*—The Constitution provides for a 44-hour normal work week. The average number of hours worked per week in 1995 was close to 45. Occupational safety and health regulations exist but often are not strictly enforced. The minimum wage is far below the level necessary to support an urban family of four and not all workers are paid the legally-mandated minimum wage.

f. *Rights in Sectors with U.S. Investment.*—Generally, international corporations adhere to the labor code and respect workers' rights. Though there have been some complaints about treatment of workers in garment assembly factories (maquilas), especially in some of those operated by Koreans, observation of and respect for workers' rights has improved in this sector recently, due both to increased publicity and also to cooperation between the Ministry of Labor and the Korean Ambassador.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		93
Total Manufacturing		114
Food & Kindred Products	40	
Chemicals & Allied Products	26	
Metals, Primary & Fabricated	-5	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	53	
Wholesale Trade		[1]
Banking		[1]
Finance/Insurance/Real Estate		11
Services		[2]
Other Industries		7
TOTAL ALL INDUSTRIES		217

[1] Suppressed to avoid disclosing data of individual companies.
[2] Indicates a value between $-500,000 and $500,000.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

HAITI

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Income, Production and Employment:			
Nominal GDP [2]	2,327	2,660	2,713
Real GDP Growth (pct) [3]	4.5	2.8	1.8
GDP by Sector:			
Agriculture	1,019	N/A	N/A
Manufacturing	309	N/A	N/A
Services	549	N/A	N/A
Government	450	N/A	N/A
Per Capita GDP (US$)	322	363	347
Labor Force (000s)	4,000	4,000	4,100
Unemployment Rate (pct, est.)	65	65	65
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	29.2	9.1	14.7
Consumer Price Inflation	30.2	20.5	16.2
Exchange Rate (gourde/US$ - annual average)			
Market	14.4	15.6	16.3
Balance of Payments and Trade:			
Total Exports FOB [4]	84	86	N/A
Exports to U.S. [5]	130	144	175
Total Imports FOB [4]	436	400	N/A
Imports from U.S. [5]	550	475	473
Trade Balance [4]	-352	-314	N/A
Balance with U.S. [5]	-420	-331	-298
Current Account Deficit/GDP (pct)	4.4	3.4	2.9
External Public Debt	898	912	1028
Debt Service Payments/GDP (pct)	1.6	1.1	1.0
Fiscal Deficit/GDP (pct)	4.8	3.2	1.0
Gold and Foreign Exchange Reserves (net)	169	134	159
Aid from U.S. [6]	260	115	145
Aid from All Other Sources	430	266	428

[1] 1997 figures are all estimates based on available monthly data in October 1996. Fiscal year is October-September. Fiscal year data used because calendar year data unavailable in many cases.
[2] GDP at factor cost
[3] Percentage changes calculated in local currency
[4] Merchandise trade for calendar year; does not include U.S. goods imported for processing and re-exported under the Caribbean Basin Initiative.
[5] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1997 figures are estimates based on data available through October 1997. Figures include substantial amounts of U.S. goods imported for processing and re-exported under Caribbean Basin Initiative.
[6] New commitments; USAID includes program assistance, budget support, and support for peacekeeping operations and police.

Source: IMF ESAF document, except where noted

1. General Policy Framework

Haiti has a predominantly agriculture-based, market-oriented economy. Historically, Haiti's economic performance has been strongly influenced by the United States, its principal trading partner and largest bilateral aid contributor. Following the restoration of President Jean-Bertrand Aristide on October 15, 1994, Haiti embarked on an economic program based on macroeconomic stabilization, trade liberalization, privatization, civil service reform, and decentralization. The Haitian government slashed tariffs to a maximum of 15 percent and plans to cut tariffs in FY97 to a maximum of 10 percent.

Popular opposition to "structural adjustment" caused the Aristide government to slip on its commitments to the international financial institutions. In October 1995, inadequate commitment on privatization, civil service reform, and other structural reforms tied to loans from the IMF and World Bank thwarted a scheduled signing of the Structural Adjustment Credit (SAC) and the Enhanced Structural Adjustment Facility (ESAF), and prompted the resignation of Prime Minister Smarck Michel.

The new administration under President Rene Preval took office in March 1996 and immediately moved to implement the structural adjustment program. The government proceeded to control expenditures and eliminate some 1,500 "ghost employ-

ees." By September, Parliament passed civil service reform legislation and a modernization law to enable the government to proceed with privatization through the granting of management contracts, concessions, or "recapitalizations" (the forming of joint ventures with private investors through partial divestitures of state-owned enterprises).

The government's medium term macroeconomic goal calls for 4.5 percent real GDP growth in FY 1997/98, a rate the government believes it can sustain for several years thereafter. FY 1997's twelve-month rate of inflation was 18%, but inflation is expected to decline to single digits in FYs 1998-1999. The unprecedented amount of aid ($2.4 billion over the next three years) pledged by the international community for Haiti's social and economic reconstruction will give the Haitian government a unique opportunity to fund and implement systemic changes that will permit sustained economic reform. Strong pressure for greater expenditure on wage increases, rehabilitation of political and economic infrastructures, and social programs will heighten the need to maximize revenue collection. In FY 97 the government realized a 34% increase in customs and tax revenues.

Reserve requirements (which currently stand at 30 percent for primary reserves) have been the Central Bank's primary monetary policy tool. They have been used to control the money supply and to assist in the financing of the public sector debt. Since November 1996, the Central Bank has successfully conducted bond auctions to control liquidity in the economy, which allow for lower reserve requirements. The Central Bank has a rediscount facility and a lending facility for commercial banks. Use of the rediscount facility has been limited by a lack of eligible financial paper to rediscount. Use of the lending facility has been limited by the relatively high interest rate charged (usually the legal maximum), and low legal limits relative to bank capital on the amounts commercial banks can borrow. An interbank market also exists.

Haiti's fiscal record is weak. Tax collection historically has been quite poor and fiscal restraint equally lacking. Government deficits, caused by a bloated public sector, central government support for inefficient state-owned enterprises, and significant unbudgeted expenses, were all financed through Central Bank credit and/or foreign borrowing or grants. In April 1996 the Ministry of Finance and Central Bank put the government on a day-to-day cash basis. This was discontinued in FY 97. The government showed greater cash management system restraint in fiscal disbursements, and Central Bank credit to the government sharply declined. These actions, along with a successful effort to improve tax collection in FY 96, allowed the government to meet IMF performance benchmarks and to negotiate an ESAF agreement, which was approved by the IMF board on October 18, 1996. The long delay in approving a FY 97 budget and the delay in appointing a new prime minister and government during 1997 led to the need to renegotiate of the ESAF program in FY 98.

2. Exchange Rate Policy

For decades Haiti's currency, the gourde, was officially tied to the U.S. dollar at the rate of five to one. A parallel market for foreign exchange emerged in the early 1980s, but for several years the official exchange rate continued to hold for some transactions. On September 16, 1991, the Central Bank ceased all operations at the official rate. In April 1995, the Central Bank abolished the 40 percent surrender requirement of export earnings. Haiti now has no exchange controls or restrictions on capital movements. Dollar accounts are available at local commercial banks. The gourde is allowed to float freely relative to the U.S. dollar and other currencies. The exchange rate has gently declined from 15.5 to 17 gourdes per U.S. dollar during FY 97. Some critics of tight central bank monetary policy, particularly in the banking and export sectors, feel the gourde has become overvalued and might face swifter depreciation in the future.

3. Structural Policies

The government's role in Haiti's market-oriented economy has been sharply reduced since 1986/87. In the few cases where the government has attempted to control prices or supplies, its efforts were frequently undercut by contraband or overwhelmed by the sheer number of small retailers. Consumer prices are governed by supply and demand, though the small Haitian market is imperfect for determining some prices. Gasoline pump prices and utility rates are more effectively regulated, and are probably the only exceptions to market prices. By law, gasoline pump prices are adjusted to reflect changes in world petroleum prices and exchange rate movements.

Haiti's tax system is inefficient. Direct taxes on salary and wages represent only about 25 percent of receipts. Moreover, tax evasion is widespread and taxpayers previously were not registered with the tax bureau (DGI, Direction Generale des Impots). Not surprisingly, the government has made improved revenue collection a top priority. The DGI has organized a large taxpayers' unit which focuses on identifying and collecting the tax liabilities of the 200 largest corporate and individual taxpayers in the Port au Prince area, which are estimated to represent over 80 percent of potential income tax revenue. Efforts are also being made to identify and register all taxpayers through issuance of a citizen taxpayer ID card. In addition, the value added tax has been extended to include sectors previously exempt (banking services, agribusiness, and the supply of water and electricity). Collection remains weak and inefficient, though receipts rose by 34% in 1997 (in nominal terms).

4. Debt Management Policies

Following the 1991 coup which ousted President Aristide, Haiti suspended all payments on its foreign debt. When President Aristide returned to office in October 1994, Haiti's arrears with the international financial institutions (IFIs) totalled some $84 million. The international community made it an immediate priority to clear Haiti's arrears with the IFIs so that new lending could begin.

On May 30, 1995, the Paris Club agreed to reschedule all of Haiti's bilateral debt to Paris Club members. Roughly two-thirds of this debt ($75 million) was forgiven under "Naples" terms. The balance was rescheduled over 26-40 years. An overwhelming percentage (91 percent in FY 1995, 85 percent in FY 1996) of Haiti's debt is in concessional loans from the IFIs. These loans typically have 10 year grace periods, 40 year payback periods, and negative real interest rates.

Haiti's external public debt will rise to about 40% of GDP in fiscal years 1998-1999 (from 34% at the end of FY 96). Haiti's external debt service will rise to about 19% of exports of goods and services in 1998 from 17%. With this modest debt service burden, the country should be able to meet all its obligations in a timely manner. However, debt service capacity is sensitive to unexpected changes in the rate of growth of exports and changes in import prices.

5. Significant Barriers to U.S. Exports

With the lifting of all economic sanctions against Haiti, the sharp reduction in tariffs, and the government's decision to remove all import licenses and the 40% foreign exchange surrender requirement on export earnings, there are no significant barriers to U.S. exports. The resumption of normal trade in October 1995 unleashed tremendous pent-up demand for U.S. goods. The import of firearms and other weapons into Haiti is controlled for foreign policy reasons. Haitian importers must obtain a license to purchase such goods from U.S. suppliers. Haiti, through the Presidential Commission for Growth and Modernization, is actively working to facilitate foreign trade and investment.

6. Export Subsidy Policies

Haiti has no export subsidy programs.

7. Protection of U.S. Intellectual Property

Infringement of intellectual property rights has not been a significant issue in Haiti. The economy produces a small variety of products, most of which are for export to the United States and other countries that do not tolerate open infringement. Most manufactured goods sold here are imported. The most obvious example of intellectual property rights infringement is the handful of video outlets where poor quality pirated videotapes compete with legitimate products. Pirated music cassettes are also widely available and the outside walls of many schools are brightly painted with (generally poor) representations of licensed animated characters.

Although the legal system affords protection of intellectual property rights, weak enforcement mechanisms, inefficient courts, and poor judicial knowledge of commercial law dilute the effectiveness of this statutory protection. Moreover, injunctive relief is not available in Haiti, so the only way to force compliance (should it become necessary) is to jail the offender. Efforts to reform and improve the Haitian legal system, now being undertaken with the assistance of international advisors, may prevent more extensive abuse of intellectual property rights as Haiti's economic recovery progresses.

Haiti is signatory to the Buenos Aires Convention of 1910 and the Paris Convention of 1883 with regard to patents, and to the Madrid Agreement with regard to trademarks, and is a member of the World Intellectual Property Organization. However, Haiti is not a signatory to the Berne Convention on copyright.

8. Worker Rights

a. *The Right of Association.*—The constitution and the labor code guarantee the right of association and provide workers, including those in the public sector, the right to form and join unions without prior government authorization. The law protects union activities, while prohibiting closed "union shops." The law also requires unions, which must have a minimum of ten members, to register with the Ministry of Social Affairs within 60 days of their formation.

Six principal labor federations represent about five percent of the total labor force, including about two to three percent of labor in the industrial sector. Each maintains some fraternal relations with various international labor organizations.

b. *The Right to Organize and Bargain Collectively.*—The labor code protects trade union organizing activities and stipulates fines for those who interfere with this right. Unions are theoretically free to pursue their goals, although government efforts to enforce the law are non-existent. Unions complain that employers do not allow unions access to workers, and individuals who attempt to join unions risk being fired. Organized labor activity is concentrated in the Port-au-Prince area, in state enterprises, the civil service, and the assembly sector. The high unemployment rate and anti-union sentiment among some factory workers has limited the success of union organizing efforts. Collective bargaining is nearly nonexistent, especially in the private sector. Employers can generally set wages unilaterally.

Haiti has no export processing zones, and the labor code does not distinguish between industries producing for the local market and those producing for export. Employees in the export-oriented assembly sector enjoy wages and benefits above the legal minimums. Wages appear to be somewhat higher in the more capital-intensive industries producing for the local market.

c. *Prohibition of Forced or Compulsory Labor.*—The labor code prohibits forced or compulsory labor. However, some children continue to be subjected to unremunerated labor as domestic servants. Rural families are often too large for the adult members to support, and children are sometimes sent to work for urban middle-class families in exchange for room and board. Reports of abuse are common, but the Ministry of Social Affairs rarely exercises its authority to remove children from abusive situations.

d. *Minimum Age for Employment of Children.*—The minimum employment age in all sectors is 15 years. Fierce adult competition for jobs ensures that child labor is not a factor in the industrial sector. As in other developing countries, rural families in Haiti often rely on their children's contribution of labor in subsistence agriculture. Children under 15 commonly work at informal sector jobs to supplement family income. The International Labor Organization has criticized the Ministry of Social Affairs' enforcement of child labor laws as inadequate.

e. *Acceptable Conditions of Work.*—The legal minimum daily wage is 36 gourdes (about $2.12). Annually, a minimum wage worker earns about $670, an income considerably above the per capita gross domestic product, but sufficient only to permit the family to live in very poor conditions. The majority of Haitians work in subsistence agriculture, a sector where minimum wage legislation does not apply.

The labor code governs individual employment contracts. It sets the standard workday at 8 hours, and the work week at 48 hours, with 24 hours of rest on Sunday.

The code also establishes minimum health and safety regulations. The industrial and assembly sectors largely observe these guidelines. The Ministry of Social Affairs does not, however, effectively enforce work hours or health and safety regulations.

With more than 50 percent and possibly 75% of the active population unemployed or underemployed, workers are often not able to exercise the right to remove themselves from dangerous work situations without jeopardy to continued employment.

f. *Rights in Sectors with U.S. Investment.*—U.S. direct investment in goods-producing sectors in Haiti is limited, consisting of ownership of two garment factories and a very few joint ventures in export-substitution industries. In general, conditions differ little from other sectors of the economy. Wages paid in these industries tend to be above the legal minimum, and in the case of industries producing for the local market, often a multiple of the legal minimum. Employers in these sectors frequently offer more benefits than the average Haitian worker receives, including free medical care and basic medications at cost.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		[1]
Total Manufacturing		[1]
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	[1]	
Wholesale Trade		0
Banking		2
Finance/Insurance/Real Estate		0
Services		2
Other Industries		0
TOTAL ALL INDUSTRIES		45

[1] Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis

HONDURAS

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Income, Production and Employment:			
Nominal GDP [2]	3,461	3,444	3,679
Real GDP Growth (pct):	4.3	3.0	4.5
GDP by Sector:			
Agriculture	735	665	N/A
Manufacturing	614	630	N/A
Services	1,824	1,793	N/A
Government	202	195	N/A
Per Capita GDP(U.S$) [3]	633	611	634
Labor Force (000s)	1,796	1,883	1,955
Unemployment Rate (pct) [4]	6.6	6.3	6.3
Money and Prices (annual percentage growth):			
Money Supply (M2)	21.6	37.4	N/A
Consumer Price Inflation	29.5	25.4	15.0
Exchange Rate (LP/US$ - annual average)			
Official	9.47	11.84	13.00
Balance of Payments and Trade:			
Total Exports	1,297	1,422	1,602
Exports to U.S.[6]	1,441	1,796	N/A
Total Imports CIF [5]	1,723	1,929	1,955
Imports from U.S.[6]	1,281	1,641	N/A
Trade Balance	-426	-507	-353
Trade Balance with U.S	161	155	N/A
Current Account Deficit/GDP (pct) [7]	5.5	5.0	-2.0
External Public Debt	3,946	3,762	N/A
Debt Service Payments/GDP (pct)	12.0	11.0	N/A
Fiscal Deficit/GDP (pct)	4.3	3.4	2.5
Gold and Foreign Exchange Reserves	109	283	440
Aid from U.S.[8]	42.3	43.0	28.5

Key Economic Indicators—Continued

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Aid from Other Countries [8]	119	96	116

[1] 1997 figures are all estimates based on available monthly data in October 1997.
[2] GDP at factor cost.
[3] Using GDP at factor cost results in a lower measure of per capita GDP income.
[4] Represents urban unemployment. Underemployment approaches 30 percent.
[5] Merchandise trade; does not include re-exports under the Caribbean Basin Initiative.
[6] Source: U.S. Department of Commerce and U.S. Census Bureau;exports FAS, imports customs basis.
[7] (-) indicates a surplus current account.
[8] See section (5)

1. General Policy Framework

Despite abundant natural resources and substantial U.S. and multilateral economic assistance, Honduras remains one of the poorest countries in the hemisphere with a per capita income of under $700 and low health and education indicators. In the 1980s, unfavorable terms of trade for primary exports such as bananas and coffee, high external debt levels, and flawed economic policies doomed Honduras to a decade of low growth rates and declining living standards.

From 1990 until 1993, the government of President Callejas embarked on an ambitious economic reform program, including dismantling price controls, lowering import tariff duties and removing many non-tariff barriers to trade. The Honduran government adopted a free market exchange rate regime, licensed foreign exchange trading houses, removed interest rate ceilings, and adopted modern national investment legislation. Unfortunately, in 1992 and 1993, a sharp rise in public sector investment spending reversed the progress on the fiscal front and raised the deficit to 11.2 percent of GDP for 1993. External grant inflows financed part of the fiscal gap, but the monetized fiscal deficit resulted in a resurgence in domestic inflation.

Inaugurated in January 1994, President Carlos Roberto Reina inherited an economy in the grips of stagflationary conditions due to an unprecedented energy crisis, declining output of key agricultural products (basic grains and bananas), and extravagant public investment policies of the former Callejas Administration. Over the last several years, the government of President Reina made significant advances in moving toward economic stability and structural reform. Reina has taken a series of measures to reduce the fiscal deficit including cutting current expenditures, increasing tax collections, reducing public employment, and negotiating with the IMF a series of measures that cut the fiscal deficit to 3.4 percent of GDP in 1996. On the structural side, the Reina Government's policy initiatives gathered steam allowing for the enactment of major reforms in the fourth quarter of 1995, including the passage of a modern financial sector reform law and legislation authorizing the government to privatize the national telephone company and international airports. Additional significant reforms enacted since the last quarter of 1996 include: the passage of the Law to reform the Central Bank (making it autonomous and the lender of last resort), the Public Administration Law (to streamline government), the continued increase in the consumption tax on motor fuels, the unification of the Central Bank reserve requirement and its extension to previously uncovered financial instruments, passage of tax code reform, the increase in tariffs for telephone subscribers and electricity consumers, and a decision to align (reduce) Honduran tariffs on raw material imports with those of other Central American countries. Major structural reforms pending further action include progress toward issuing bids for the sale of one-half the assets of the telephone monopoly (HONDUTEL), passage of the Mining Law, approval of a general concessions law, concessioning the country's four international airports, and the planned reduction in the corporate income tax rate from a range of 40 percent to 25 percent.

Under President Reina, the restrictive (anti-inflationary) monetary policies of the Central Bank have been further tightened. Absolute limits have been imposed on public sector borrowing. The reserve requirement (currently an effective 31 percent) remains the favored policy tool to control money supply growth and inflation, although open market operations are taking on an increasing role.

Honduras became a founding member of the World Trade Organization (WTO) on January 1, 1995. Honduras also concluded negotiations with the U.S. on a Bilateral Investment Treaty (BIT), which was signed on July 1, 1995, although this treaty has not been ratified by either nation's Congress.

2. Exchange Rate Policy

The Central Bank sets the weekly base exchange rate by calculating the difference between the expected monthly rate of domestic inflation and estimated inflation among Honduras's 12 major trading partners. The Central bank allows buyers to bid at prices up to 5 percent above or below the base rate.

The Foreign Exchange Repatriation Law passed in September 1990 requires all Honduran exporters, except those operating in free-trade zones and export processing zones, to repatriate 100 percent of their export earnings through the commercial banking system. Presently, commercial banks are required to sell 100 percent of these repatriated earnings to the Central Bank, which in turn auctions up to 65 percent of them daily in the open market.

3. Structural Policies

Trade Policy: In an effort to increase trade and maintain its competitiveness with its Central American neighbors, Honduras has cut its import duties to between 0 and 20 percent for most items. In 1995 Honduras and other Central American Common Market (CACM) members agreed to work toward the full implementation of a common external tariff ranging between 0 and 15 percent for most products but allowed each country to determine the timing of changes. In keeping with this commitment, on April 24, 1997 the Honduran Congress passed the Tariff Matching Law. This law effectively reduces tariff rates for raw materials and inputs produced outside of the Central American Region from 5 percent to 3 percent as of May 1, 1997 and to 1 percent as of December 1, 1997. Tariffs on capital goods, medicines and agricultural inputs were previously reduced to 1 percent on January 1, 1997. Honduras also intends to reduce its extra regional tariffs for other goods (intermediate and finished) over the next several years to between 10 and 17 percent.

Pricing Policy: The only products under price controls at present are coffee, medicines and petroleum products. The price of gasoline, diesel and liquid propane gas is strictly controlled by the government.

Tax Policies: Honduras has long maintained a high corporate tax rate. This rate has been generally considered a major disincentive to foreign direct investments not covered by the tax exemptions for export-oriented firms operating in free trade zones and industrial parks. The top marginal corporate tax rate is 40 percent, although the government plans to reduce the tax to 25 percent in the near future. In order to compensate for the reduction in the corporate tax rate the government is expected to significantly increase the sales tax or introduce a value-added tax. The most important sources of government revenue are the income tax, the 7 percent sales tax, taxes on fuels, and import duties.

4. Debt Management Policies

Since early 1990, the Honduran government has been working to restore the country's credit worthiness, reschedule its external debt and regain support from the multilateral development banks. Honduras's large and growing external debt represents a major constraint on growth, despite favorable Paris Club debt rescheduling agreements in July 1995 and March 1996 and over $500 million in debt forgiveness by the U.S. and other countries this decade.

The foreign debt of Honduras was $4.086 billion in 1996, of which $3.762 billion (92 percent) corresponded to the public sector and $324 million to the private sector. Sixty-one percent of Honduras's total debt was owed to multilateral lending institutions, 32 percent to bilateral lenders and 7 percent to private creditors. The foreign debt figure for 1996 was $156.7 million less than in 1995. Honduras paid approximately $376.6 million in principal and interest payments on its foreign debt in 1996. Debt service remains high, equivalent to approximately 19 percent of total exports and around 30 percent of the government budget.

In June 1992, the IMF approved a three-year (1992-95) enhanced structural adjustment facility (ESAF), allowing Honduras to obtain a second favorable Paris Club agreement in October 1992. In 1993 the Callejas government took on substantial new commercial debt obligations for public investment projects and failed to make scheduled debt service payments to the United States and other Paris Club creditors. The Paris Club agreement was technically suspended in August 1993, pending agreement with the IMF on an economic program and payment of all Paris Club arrears. In January1995, the IMF Board approved the letter-of-intent for a second year of a three year ESAF. Under the negotiated terms Honduras received $28 million in World Bank reflows and $30 million in IMF balance of payments support. In July 1995, Honduras also succeeded in obtaining favorable Paris Club rescheduling terms for its bilateral debt. In March 1996 Honduras again received favorable

Paris Club rescheduling terms from its bilateral creditors. The rescheduling, however, was contingent upon Honduras reaching agreement with the IMF on a third year ESAF, which it was unable to do because it did not comply fully with the ambitious goals of its 1995 and 1996 economic programs. It has succeeded in negotiating a staff monitored program (SMP) with the Fund for the remainder of 1997, and is meeting the benchmarks set under the SMP. Honduras hopes to negotiate a new ESAF with the Fund soon after the new government assumes office in January of 1998.

5. Aid

Over the last three fiscal years, USAID/Honduras has disbursed approximately $109.3 million, including $13.8 million in PL-480 Title II funds and $10.0 million in PL480 Title III funds. The annual distribution of these expenditures show a marked decrease over this period, falling from $40.6 and $41.4 million in 1995 and 1996, respectively, to $27.3 million in 1997. These expenditures were used for development activities in the areas of health, education, economic growth and policy, democracy, and natural resources and the environment. In 1997 Honduras received $500 thousand for IMET (International Military Education and Training). Currently there remains approximately $12.2 million in residual FMS (Foreign Military Sales) monies to support construction, maintenance, and sustainment of equipment. These monies are expected to be exhausted over the next few years. In 1997, the USG also provided Honduras with $195 thousand to support anti-narcotics efforts and $1.0 million for the Department of Justice's ICITAP (International Criminal Investigative Training Assistance Program) Program to provide technical assistance and training to professionalize civilian police institutions. Honduras also receives substantial assistance from the international financial institutions in the form of soft loans.

6. Significant Barriers to U.S. Exports

Import Policy: While reforms have gone far to open up Honduras to U.S. exports and investment, a number of protectionist policies remain. For example, although all import licensing requirements have been eliminated, Honduras has resorted to an onerous zoo sanitary system that effectively denies market access to U.S. chicken parts.

Services Barriers: Under Honduran law, special government authorization must be obtained to invest in the tourism, hotel and banking service sectors. Foreigners are not permitted majority ownership of foreign exchange trading companies. Foreigners may not hold a seat in Honduras's two stock exchanges or provide direct brokerage services in these exchanges.

Labeling and Registration of Processed Foods: Honduran law requires that all processed food products be labeled in Spanish and registered with the Ministry of Health. The laws are inconsistently enforced at present. However, these requirements may discourage some suppliers.

Investment Barriers: Several restrictions exist on foreign investment in Honduras, despite the 1992 investment law. For example, special government authorization is required for foreign investment in the following sectors: forestry, telecommunications, basic health services, air transport, fishing and aquaculture, exploration of sub-surface resources, insurance and financial services, private education services, and agriculture and agro-industrial activities exceeding land tenancy limits established by the Agricultural Modernization Law of 1992 and the Land Reform Law of 1974. The law also requires Honduran majority ownership in certain types of investment, including beneficiaries of the National Agrarian Reform Law, commercial fishing and direct exploitation of forest resources and local transportation.

Honduran law also prohibits foreigners from establishing businesses capitalized at under 150,000 lempiras (about $11,500). In all investments, at least 90 percent of a company's labor force must be national, and at least 80 percent of the payroll must be paid to Hondurans. Finally, while a one-stop investment window has been instituted in the Ministry of Industry, Trade, and Tourism to facilitate investment, the ministry has not provided complete information or assistance to the foreign investor.

Government Procurement Practices: The Government Procurement Law (Decree No. 148.5) governs the contractual and purchasing relations of Honduran state agencies. Under this law, foreign firms are given national treatment for public bids, although they are required to act through a local agent. In practice, U.S. firms complain about a mismanagement and lack of transparency of Honduran government bid processes. These deficiencies have been particularly evident in recent public tenders for energy projects, which have dragged on without conclusion.

Customs Procedures: Honduras' customs administrative procedures are burdensome. There are extensive documentary requirements and red tape involving the payment of numerous import duties, customs surcharges, selective consumption taxes, and warehouse levies.

7. Export Subsidies Policies

With the exception of free trade zones and industrial parks, almost all export subsidies have been eliminated. The Temporary Import Law (RIT), passed in 1984, allows exporters to bring raw materials and capital equipment into Honduran territory exempt from customs duties if the product is to be exported outside Central America. This law also provides a ten-year tax holiday on profits from these exports under certain conditions.

The Export Processing Zones (ZIPs) are exempted from the payment of import duties and other charges on goods and capital equipment. In addition,the production and sale of goods within the ZIPs are exempt from state and municipal taxes. Firms operating in ZIPs are exempt from income taxes for 20 years and municipal taxes for 10 years.

8. Protection of U.S. Intellectual Property

In 1997, Honduras was identified in the "Watch List" Category of the U.S. Government's annual Special 301 review due to a lack of effective protection of IPR. Since 1992, Honduras has been the subject of a continuing review under the Generalized System of Preferences (GSP) for deficiencies in its IPR regime. On September 1, 1993 the Honduran Congress approved new copyright, trademark, and patent legislation. The government also took substantial action to improve the IPR climate by curbing cable piracy (approximately 90 percent of the market is legal) and creating an office in the Ministry of Industry, Trade, and Tourism to implement and enforce its IPR laws. In 1995 the Government of Honduras drafted and submitted to the Honduran Assembly amendments intended to address shortcomings found in Honduras's 1993 copyright law, but the legislation was stalled. However, on February 8, 1997, the Government of Honduras, under decree number 191-96, passed amendments to the 1982 Honduran Penal Code which for the first time included stiff criminal penalties for violators of IPR rights. IPR violators are now subject to incarceration from three to six years. Honduras has also submitted the Central American Convention on Industrial Property to its Congress for consideration. Despite this progress, IPR protection remains problematic in Honduras. On May 28, 1997, the Office of the U.S. Trade Representative published in the Federal Register a notice informing the public that a determination has been made that Honduras fails to provide adequate and effective means under its laws for foreign nationals to secure, exercise, and enforce exclusive rights in intellectual property. The Trade Policy Staff Committee (TPSC) will recommend to the President that he withdraw $5 million in duty-free treatment accorded Honduras under the Generalized System of Preferences (GSP) program and the Caribbean Basin Initiative (CBI) unless the problems are remedied. The Notice stems from the 1992 GSP petition filed by the Motion Picture Exporters Association (now the MPAA) and is primarily concerned with the continued unauthorized broadcasting of pirated videos and rebroadcasting of U.S. satellite programming.

A report prepared by the International Intellectual Property Alliance estimates that losses in Honduras due to copyright infringements cost U.S. firms $5 million in 1996.

Patents: The patent law enacted in September 1993 provides patent protection for pharmaceuticals, although the patent term of seventeen years from the date of application must be extended by at least three years to meet international standards.

Trademarks: The illegitimate registration of well-known trademarks is a problem in Honduras, in spite of 1993 modifications to the trademark law.

Copyrights: The piracy of books, sound and video recordings, compact discs, computer software, and television programs is widespread in Honduras. Despite some progress, copyright protection remains problematic. The Government of Honduras filed a complaint with a criminal court judge in October of 1997 against the owners of two alleged pirating stations. The Government has also conducted several raids this year against suppliers of pirated audio and audio-visual products.

9. Worker Rights

a. *The Right of Association.*—Workers have the legal right to form and join labor unions; the unions are independent of government and political parties. Three large peasant organizations are affiliated directly with the labor movement. Unions frequently participate in public rallies against Government policies, and make exten-

sive use of the news media to advance their views. Since only about fourteen percent of the work force is unionized, however, the economic and political influence of organized labor has diminished in recent years. The Constitution provides for the right to strike, along with a wide range of other basic labor rights, which the authorities honor in practice. The Civil Service Code, however, denies the right to strike to all Government workers, other than employees of state-owned enterprises. There were illegal work stoppages during the year, conducted by public sector employees in health and related industries.

b. *The Right to Organize and Bargain Collectively.*—The law protects workers' rights to organize and to bargain collectively; collective bargaining agreements are the norm for companies in which workers are organized. However, although the Labor Code prohibits retribution by employers for trade union activity, it is a common occurrence. Employers actually dismiss relatively few workers for union activity, once a union is recognized; such cases, however, may discourage workers elsewhere from attempting to organize. Workers in both unionized and nonunionized companies are under the protection of the Labor Code, which gives them the right to seek redress from the Ministry of Labor. The Ministry of Labor took action in several cases, pressuring employers to observe the code. Labor or civil courts can require employers to rehire employees fired for union activity, but such rulings are uncommon. Labor leaders criticize the Ministry for not enforcing the Labor Code, for taking too long to make decisions, and for being timid and indifferent to workers' needs. Under a November 1995 Memorandum of Understanding between the Ministry of Labor and the Office of the United States Trade Representative, which called for greater enforcement of the Honduran Labor Code, the Ministry has made significant progress toward enforcing the code. The Ministry has increased its inspections of the maquiladoras and the training of its inspectors; it needs to do more, however, to adhere completely to international labor standards. Along with other Central American nations, the Government of Honduras in August agreed to carry out a program supported by the U.S. Agency for International Development to modernize the inspection and labor-management functions of its Ministry of Labor.

c. *Prohibition of Forced or Compulsory Labor.*—The Constitution and the law prohibit forced or compulsory labor. Although there were no official reports of such practices in the area of child labor, there were credible allegations of compulsory overtime at Export Processing Zone (EPZ) plants, particularly for women, who constitute an estimated eighty percent of the work force in the maquiladora sector.

d. *Status of Child Labor Practices and Minimum Age for Employment.*—The Constitution and the Labor Code prohibit the employment of minors under the age of sixteen, except that a child who is fifteen years of age is permitted to work with the permission of his parents and the Ministry of Labor. The new Children's Code prohibits a child of fourteen years of age or less from working, even with parental permission, and establishes prison sentences of three to five years for individuals who allow children to work illegally. An employer who legally hires a fifteen-year-old must certify that the child has finished or is finishing his compulsory schooling. The Ministry of Labor grants a number of work permits to fifteen-year-olds each year. It is common, however, for younger children to obtain these documents, or to purchase forged permits containing the Labor Ministry's letterhead. The Ministry of Labor cannot effectively enforce child labor laws, except in the maquiladora sector, and violations of the Labor Code occur frequently in rural areas and in small companies. Many children work on small family farms, as street vendors, or in small workshops to supplement the family income.

e. *Acceptable conditions of Work.*—In 1995, the Government decreed a 25 percent increase in the minimum wage. Daily pay rates vary by geographic zone and the sector of the economy affected; urban workers earn slightly more than workers in the countryside. The lowest minimum wage occurs in the agricultural sector, where it ranges from $1.92 to $2.31 (25 to 30 lempiras) per day, depending on whether the employer has more than fifteen employees; the highest minimum wage is $3.05 (39 lempiras) per day in the export sector. All workers are entitled to the equivalent of an additional one month's salary in June and December of each year. The law prescribes a maximum eight-hour day and a 44-hour work week. There is a requirement of at least one 24-hour rest period every eight days. The Labor Code provides for a paid vacation of ten workdays after one year, and of twenty workdays after four years. However, employers frequently ignored these regulations due to the high level of unemployment and underemployment and the lack of effective enforcement by the ministry of labor.

f. *Rights in Sectors with U.S. Investment.*—Worker rights in sectors with U.S. investment are respected more fully than those in other sectors of the economy lacking substantive U.S. participation. For example, in a number of U.S.-owned maquila

plants, workers have shown little enthusiasm for unionizing, since they consider their treatment, salary, and working conditions to be as good as, or better than, those in unionized plants. In establishing new investments in Honduras, U.S. businesses in recent years consciously have constructed their plants to meet more stringent U.S. Government laws and regulations.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		[1]
Total Manufacturing		237
Food & Kindred Products	[1]	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	2	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	[1]	
Wholesale Trade		[1]
Banking		5
Finance/Insurance/Real Estate		25
Services		0
Other Industries		-145
TOTAL ALL INDUSTRIES		145

[1] Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis

JAMAICA

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Income, Production and Employment:			
Nominal GDP	4,650.5	5,460.1	6,118.8
Real GDP Growth Rate [2]	0.5	1.7	1.0
GDP By Sector:			
Agriculture	431.0	455.7	N/A
Mining	329.5	321.8	N/A
Manufacturing	812.3	918.5	N/A
Construction and Installation	596.1	637.4	N/A
Electricity And Water	102.2	114.5	N/A
Transportation and Communication	385.2	584.1	N/A
Retail Trade	1,081.0	1,237.5	N/A
Real Estate & Business Services	211.7	255.7	N/A
Government Services	426.9	622.7	N/A
Finance	62.3	60.6	N/A
Other	212.3	251.6	N/A
Total	4,650.5	5,460.1	N/A
GDP Per Capita (US$)	1,867.7	2,166.7	2,428.1
Labor Force (000's) [3]	1,150.0	1,142.7	N/A
Unemployment Rate(pct)	16.2	16.0	N/A
Money And Prices (annual percentage growth):			
Money Supply Growth (M2)	38.5	14.4	[4] 7.4
Consumer Price Inflation	25.6	15.8	12.0
Exchange Rate(Jd/US$)	35.54	37.02	37.0

Key Economic Indicators—Continued

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Balance of Payments and Trade:			
Total Exports FOB	1.4	1.4	1.4
Exports to U.S.	520.8	510.9	440.0
Total Imports CIF	2,831.8	2,916.4	3,100.0
Imports from U.S.	1,425.3	1,513.7	1,450.0
Trade Balance	-1,395.0	-1,529.5	-1,705.0
Balance with U.S.	-904.5	-1,002.8	-1,010.0
External Public Debt [5]	3,451.9	3,231.9	3,341.0
Fiscal Surplus/Deficit/GDP (pct) [6]	3.7	-15.6	N/A
Debt Service Payments	592.6	579.5	N/A
Net Official Reserves [7]	428.0	706.6	573.8
Aid from U.S.[8]	28.9	26.4	24.4
Aid from Other Countries [9] 1	64.5	281.0	N/A

[1] 1997 Figures Are All Estimates Based On Available Monthly Data As Of October 1997.
[2] Growth Rate Is Based On Jamaican Dollars Whereas Real GDP Is Shown In U.S. Dollars.
[3] Government Reports Account For The 1996 Decline In Workforce By A Reduction Of 8,600 In The Youth Group (I.E. Under Age 25) Due To Overall Aging Of The Workforce And Departure Of Youth From The Workforce To Enter Vocational/Training Programs. The Adult Work Force Increased By 1,000 To 844,000 In 1996.
[4] Jan-July 1997
[5] Figure As Of July 97.
[6] Jamaican Fiscal Year (April-March) Deficit.
[7] Figure Based On July 97.
[8] Estimates Include Development, Food, And Military Assistance.
[9] Commitments For Development Assistance From Jamaica's Cooperation Partners.

1. General Policy Framework

Jamaica is an import-oriented economy with imports of goods and services totaling two-thirds of GDP. during the year, imports of consumer goods have increased over imports of capital goods and raw materials. Tourism (13.3 percent of GDP), bauxite/alumina (9.2 percent of GDP), and manufacturing (such as apparel, processing of sugar, beverages and tobacco, etc.—18.1 percent of GDP) are the major pillars sustaining the economy. In 1996, these three sectors accounted for 76 percent ($2.364 billion) of the country's foreign exchange earnings. Remittances are also a significant source of income and bring in over USD 700 million annually. Both GDP and foreign exchange inflows are sensitive to external economic factors, particularly with respect to commodity prices and the services/tourism sector.

According to statistics, Jamaica has an aging labor force: over half are age 35 and above. About 58 percent of Jamaica's work force is employed in the services sector, contributing about 76.7 percent of GDP. Agriculture, which contributes about 8 percent of GDP, employs 23 percent of the workforce. The primary products are sugar, bananas, coffee and cocoa. The small size of the Jamaican economy and relatively high production costs (e.g., domestic interest rates) have reduced the contribution of the manufacturing sector over the last several years to about 18.1 percent of GDP in 1996. Although apparel still accounts for nearly three-quarters of non-traditional exports and a third of total domestic merchandise exports, the industry is contracting. Several factories closed in 1997, following more than a dozen factory closures in 1996. Consequently, current employment in the industry is down to approximately 27,000, a decline of 28 percent from peak employment in 1994.

The Jamaican economy suffered negative growth of 1.7 percent in 1996, following flat growth of 0.5 percent in 1995. Contraction in economic growth is expected to continue during 1997, influenced by: losses and failures of major financial companies necessitating sector-wide government support; slow growth in the agricultural sector due to prolonged drought, low prices and high production costs of export crops such as sugar; the lack of export competitiveness in the manufacturing sector; high interest rates and internal debt burden; and low levels of investment.

To address the economic slowdown, the National Industrial Policy (NIP) was adopted by the Government of Jamaica in March 1996 as a long-term measure to achieve sustained economic growth and development. During the first year, the NIP's target was to achieve macro-economic stability by maintaining a stable exchange rate and reducing inflation and interest rates. These objectives were substantially achieved during the course of the year. The NIP's second phase (a three-year period beginning in 1997) aims at stable growth with stability by stimulating investment and export diversification.

Since the end of 1995, the banking and insurance sector has experienced serious difficulties caused by a mismatch of assets and liabilities, where many of the assets are non-performing real estate loans or real estate projects that did not work as planned. Interlocking ownership of nearly bankrupt insurance companies and banks has also complicated matters. Sectoral difficulties have been exacerbated by government policies to strictly control the money supply.

In February 1997, the Financial Institutions Structural Adjustment Company (FINSAC) was established by the Government of Jamaica to operate a support and rehabilitation program. In addition, legislation is being drafted to strengthen the sector. This includes: a deposit insurance scheme; more explicit legal definition of the functions of various financial entities; limitations on unsecured credit to persons connected with a financial institution; and a transfer of powers from the Ministry of Finance to the Central Bank which will expand its oversight authority.

Other support programs to bolster the economy include equity funding from the public sector financial institutions through the National Investment Bank of Jamaica (NIBJ). the government has provided both financial and technical assistance to the export apparel sector and the coffee industry in order to save these industries from collapse. The government is also formulating a major recovery plan for the island's failing sugar industry, a key export.

The Jamaican fiscal year (JFY) April 1997/March 98 budget calls for JDOLS 106.6 billion in outlays. This is a reduction from the revised 1996/97 budget of JDOLS 114 billion. (the revision from the original JDOLS 100 billion accounts for the GOJ financial sector rescue package and related expenses) for JFY 1997/98, recurrent expenditure is estimated at JDOLS 65.25 billion and capital expenditure at JDOLS 41.34 billion, a six percent decline over the revised 1996/97 estimates. The budget is designed to meet the government's target to limit inflation for the year to a range between six and ten percent with no more than one percent monthly inflation. debt servicing accounts for 45.7 percent of the total budget, followed by: social and community services (25.1 percent); general government services (9.3 percent); economic development (9.3 percent); defense affairs, public order and safety (6.6 percent); with the balance applied to miscellaneous, including unallocated, expenditures (4 percent).

The government hopes to finance the budget through an expected total revenue of JDOLS 75 billion through recurrent, capital revenue, and the capital development fund. The remainder will be financed from external debt (33.8 percent of total deficit, or JDOLS 14.1 billion) and internal debt (JDOLS 17.7 billion). The government continues to reduce excess liquidity by issuing "repos," reverse repurchase of treasury bills, (i.e., sale of securities with an agreement to buy back on a later date at a given rate). The Bank of Jamaica's open market operations are a means by which the Government of Jamaica funds its fiscal deficit.

The Bank of Jamaica (BOJ) continued its tight monetary policy to absorb excess liquidity by issuing long term securities (local registered stock) and short-term T-bill rate to decline from a peak of 44.8 percent in April 1996 to 17.7 percent in August 1997. however, since May 1997, the rate has fluctuated due to government intervention: the T-bill rate as of September 1997 was 23.53 percent. A further rise is predicted by the end of the year. increases in T-bill rates have affected commercial bank lending rates. In September 1997, the lending rates averaged 45 percent. Lending rates are expected to rise further as T-bill rates rise. Interest payments on the maturing securities have served to increase liquidity, necessitating additional security offerings.

Until early 1995, most funds acquired by the Bank of Jamaica through the issuance of certificates of deposit ("cds") were borrowed by the government and used to finance current expenditures. Excess liquidity is now dealt with by requiring commercial banks to place approximately 47 percent of their deposits with the Central Bank as a reserve (25 percent is a cash reserve requirement which earns no interest). Other entities such as merchant banks and trusts also have deposit and cash reserve requirements at lower levels. These restrictions have limited credit to the private sector and led to increased interest rates (currently 40-50 percent) affecting investment in the productive sectors. In addition, loan default rates at commercial banks are estimated at about 12 percent.

The Bank of Jamaica achieved a positive stock of net international reserves (NIR) in 1993 for the first time since the mid 1970's. The NIR has remained positive, reaching its peak of $715.6 million in January 1997. As of September 1997, due to Central Bank interventions to maintain the exchange rate, the NIR declined to approximately USD 585.5 million, the equivalent of 12.24 weeks of imports.

2. Exchange Rate Policy

On September 26, 1991, exchange controls were eliminated to allow for free competition in the foreign exchange market. The principal remaining restriction is that foreign exchange transactions must be done through an authorized dealer. Licenses are regulated. Any company or person required to make payments to the government by agreement or law (such as the levy and royalty due on bauxite) will continue to make such payments directly to the Bank of Jamaica. further, 5 percent (lowered from 20 percent) of foreign exchange purchases by authorized dealers (commercial banks and cambios) must be paid directly to the BOJ. in addition, according to an agreement between the Petroleum Company of Jamaica (PETROJAM) and the commercial banks, 10 percent of foreign exchange purchases go to PETROJAM.

Since April 1994, to promote an increase in the official inflows of foreign exchange, the government has allowed an increasing number of cambios (money changers) to act as authorized dealers along with banks. In 1996, total foreign exchange inflows through these dealers increased by 115.4 percent to $ 3.3 billion. From January to September 1997, foreign exchange inflows into the official trading market increased by 11.1 percent over the corresponding period in 1996 to $2.6 billion. The average weighted selling rate is slipping. On June 9, 1997, the rate was JDOLS 35.23 to$1.00; by October 15, 1997, it was JDOLS 36.09 to $1.00. The decline is the result of uncertainty and speculation arising from unfavorable economic conditions. There is a broad perception in the market that the present exchange rate is not sustainable and will not be defended by the Bank of Jamaica after the upcoming national elections. However, the exchange rate of the Jamaican dollar still remains within a targeted band through the bank of Jamaica's intervention.

3. Structural Policies

In order to create an environment of free and fair competition and to provide consumer protection, the Fair Competition Act was introduced in 1993. Prices are generally determined by free market forces with many products traditionally marketed to provide for fairly high markups. However, certain public utility items such as bus fares, water, electricity, and telecommunications are still subject to price controls. Prices of these items can be changed only after ministerial approval.

Taxation accounts for 94.5 percent of total recurrent and capital revenue. Major sources of tax revenue include: personal income tax (40.1 percent of tax revenue), value added tax (33.5 percent) and import duties (10.3 percent). Although no new taxes have been imposed in fiscal year 97/98, the government proposes to raise additional revenue through a rigorous program to enhance tax compliance.

Jamaica implemented the Caribbean Economic Community (CARICOM) Common External Tariff (CET) on February 15, 1991. Under the CET, goods produced in CARICOM states are not subject to import duty. Third-country imports are presently subject to import duties ranging between 0 percent and 30 percent, with higher rates applicable to certain agricultural items. In addition to the CET, all items (except certain basic foods) carry a 15 percent general consumption tax. Alcoholic beverages and tobacco imports carry an additional stamp duty of 25-56 percent and a special consumption tax of 5.0-39.9 percent. Non-basic, finished goods, and goods competing with those produced in CARICOM states carry higher duty rates. The tariff rate will be phased down to a range of 0 to 20 percent by January 1998. The Government of Jamaica offers incentives to approved foreign investors that eliminate or reduce taxes, including income-tax holidays and duty-free importation of capital goods and raw materials.

All monopoly rights of the state Jamaica Commodity Trading Company (JCTC) ceased December 31, 1991, but it retains responsibility for the procurement of commodities under government to government agreements such as the P.L. 480 program. The U.S. embassy is unaware of any government regulatory policy that would have a significant discriminatory or adverse impact on U.S. exports.

4. Debt Management Policies

Jamaica's stock of external (foreign) debt declined by 6.37 percent to JDOLS 3.23 billion in 1996, the lowest since 1986. For the first time since 1989, there was no instance of debt forgiveness by official bilateral creditors. About 53 percent of the external debt is owed to bilateral donors (the United States is the largest bilateral creditor), 34 percent to multilateral institutions (down due to reduced dependence on the IMF), 11 percent to private creditors (9 percent to commercial banks; 2 percent to other commercial institutions), and the remaining 2 percent towards bonds.

Actual debt-servicing during 1996 accounted for 17.98 percent ($592.56 million) of exports of goods and services, of which 5.81 percent represents interest payments.

The ratio of total outstanding external debt to exports of goods and services declined from 154 percent in 1993, to 136.24 percent in 1994, to 109.61 percent in 1995, and to 100.3 percent in 1996, mainly from debt reduction and improvement in exports. The 1996 external debt per capita was $1,282 billion, a reduction of 7.5 percent from 1995.

Debt-servicing continues to be a major burden on the government budget (46 percent). in 1995 Jamaica ended its borrowing relationship with the IMF, but continues repayment to the IMF which has contributed to the reduction of the debt burden. In 1995 Jamaica also completed its multi-year rescheduling arrangement (MYRA) with the Paris Club, negotiated in 1992. The MYRA provided for rescheduling of $281.2 million of principal and interest for the period October 1992 to September 1995. The government does not envisage future recourse to rescheduling of debt under MYRA.

Jamaica's internal debt has ballooned in recent years from JDOLS 23.4 billion in 1993 to JDOLS 49.1 billion in 1994, to JDOLS 59.5 billion in 1995, to JDOLS 77.7 billion in 1996. As of July 1997, the internal debt stood at JDOLS 95.8 billion. Main contributors to increasing internal debt were: (a) neutralizing the effect of increased domestic liquidity from the net international reserve accumulation; (b) budgetary financing; (c) liquidity support to commercial banks; and (d) intervening to absorb excess liquidity to maintain a stable exchange rate of the Jamaican dollar. Domestic debt is composed of government securities such as:T-bills (13.7 percent), local registered stock (69.6 percent), bonds (7.6 percent), and loans from commercial banks and other entities (9.1 percent).

5. Aid

Jamaica received $305.88 million of official development assistance from multilateral agencies and other countries on a bilateral basis. Bilateral sources contributed $95.4 million ($75.7 million as loans and $19.7 million as grants), while multilateral financial institutions contributed loans of $136.4 million and grants $74.08 million.

The United States is a major aid contributor. In 1997, $12.6 million was disbursed as development assistance, $10 million was provided under the P.L. 480 program, and another $1.75 million as military aid. In addition, there were 105 Peace Corps personnel who provided technical assistance in the areas of health, education, environment and small business development.

6. Significant Barriers to U.S. Exports

Import licenses: although considerable headway has been made in the area of trade liberalization, some items still require an import license, including: milk powder, refined sugar, plants and parts of plants for perfume or pharmaceutical purposes, gum-resins, vegetable saps and extracts, certain chemicals, motor vehicles and parts, arms and ammunition, certain toys, such as water pistols, and gaming machines.

Services barriers: foreign investors are now encouraged to invest in almost any area of the economy except for insurance, where foreign ownership is limited to 49 percent except for individually approved exceptions that are assessed on their merits. There are still certain restrictions in the communications field: under an agreement with the government, Telecommunications of Jamaica (TOJ), a subsidiary of the British firm cable and wireless, enjoys monopoly rights until 2013. Under the new cable T.V. policy, preference is given in granting licenses to companies that are incorporated in Jamaica and in which majority ownership and controlling interest are held by Jamaican or CARICOM nationals. in most other areas, there do not appear to be any economic or industrial strategies that have discriminatory effects on foreign-owned investments. A variety of foreign franchises, including fast foods, ice cream and dry cleaning facilities, have successfully entered the market during 1997.

Standards, testing, labeling, and certification: the Jamaican Bureau of Standards administers the Standards Act, the Processed Food Act and the Weights and Measures Act. Products imported into Jamaica must meet the requirements of these acts. These include requirements for labeling. Items sold in Jamaica must conform to recognized international quality specifications. In most cases, Jamaica follows U.S. standards. In recent years, the Bureau has become increasingly vigilant in terms of monitoring the quality of products sold on the local market. The quarantine division inspects and determines standards in the case of live animals. Meat imports may be inspected by the Ministry of Health. In 1995, an amendment to the Weights and Measures Act was passed aimed at enforcing compliance with the metric system of measurement. Imported goods are expected to conform to the metric system.

Investment barriers: The Government of Jamaica welcomes foreign investment and there are no policies or regulations reserving areas exclusively to Jamaicans. Although foreigners are not excluded from participation in privatization/divestment activities, the government appears to favor the sale of such assets to national investors. While each investment proposal is assessed on its own merits, investments are preferred in areas which may increase productive output and use of domestic raw materials, earn or save foreign exchange, generate employment, or introduce new technology. The screening mechanisms are standard and nondiscriminatory. The main criterion is the credit-worthiness of the company. Environmental impact assessments are required for new developments. Although both foreign and domestic companies have complained that "red tape" is a hindrance in doing business, foreign investors are treated the same as domestic investors before and after investment.

Government procurement practices: government procurement is generally done through open tenders. U.S. firms are eligible to bid. The range of manufactured goods produced locally is relatively small, so instances of foreign goods competing with domestic manufacturers are very few. The government has taken steps to strengthen and expand the Contractor General's office for effective monitoring and awarding of contracts.

Customs procedures: customs clearance problems remain a concern to domestic and foreign business despite some streamlining of customs procedures. In order to facilitate the movement of goods, the government has simplified documentation and clearance requirements for exporters. In addition, a preclearance system was put in place in 1995 to facilitate the processing of documentation for imports. computerization of the entire system is still underway.

7. Export Subsidies Policies

The Export Industry Encouragement Act allows approved export manufacturers access to duty-free imported raw materials and capital goods for a maximum of ten years. Other benefits are available from the Jamaican Government's Export-Import Bank, including access to preferential financing through the Export Development Fund, lines of credit, and export credit insurance.

In December 1996, the Government of Jamaica launched phase one of a Special Assistance Program (SAP) for the export apparel industry. The objective is to improve competitiveness by encouraging companies to make structural changes and implement operational efficiencies. The SAP is targeted at reducing operational costs, specifically in the areas of rent, security and financing. During phase one of the program, a grant of JDOLS 40 million ($1.1 million) was made available to cover 5 percent of the companies' costs. Phase two of the program, which came into effect in August 1997, provides an additional JDOLS 160 million ($4.4 million) to address the broader development of the industry, particularly in those areas which will enhance long-term competitiveness.

8. Protection of U.S. Intellectual Property

Jamaica is a member of the World Intellectual Property Organization (WIPO) and of the Berne Convention (copyright protection). The Jamaican constitution guarantees property rights and has enacted legislation to protect and facilitate the acquisition and disposition of all property rights, including intellectual property. Legislation is being revised to bring Jamaica into conformity with WTO requirements for the protection of intellectual property. On a bilateral basis, Jamaica and the United States signed an intellectual property rights agreement in March, 1994, though the Jamaican law has not been brought into compliance with those objectives. In addition, a bilateral investment treaty (BIT) came into force in March 1997 which also contains obligations to respect intellectual property.

Jamaican laws address major areas of intellectual property rights (IPR) protection. However, while laws on copyrights have been revised in recent years, the patent and trademark laws need substantial updating to be consistent with international agreements. In these areas, efforts to draft new laws are still underway. Remedies available include injunctions, damages, seizure and disposal/destruction of infringing goods. Penalties may include fines or imprisonment. Video and broadcast piracy is illegal but widespread. Licensing for broadcasts is required for subscription TV. In January 1997, four applicants were approved for licensing. The Broadcasting Commission is presently evaluating 43 applications for subscriber t.v. All licensees are required to receive permission from the program providers before broadcasting.

The patent and trademark laws have been under prolonged review for updating in accordance with WTO intellectual property obligations (i.e., the "TRIPS" agreement). a trademark bill is reportedly near completion; patent legislation is still being drafted. there is no statute specifically addressing new technologies.

Levels of IPR enforcement are limited by overall demands on police and overburdened courts. The government is making efforts to deal with the lack of public awareness by seminars and publications.

Litigation is a viable option in protecting intellectual property. In 1997, in individual lawsuits in jamaican courts, U.S. corporations McDonald's and K-Mart successfully defended their names and service marks against trademark infringement.

9. Worker Rights

a. *The Right of Association.*—The Jamaican constitution guarantees the rights of assembly and association, freedom of speech, and protection of private property. These rights are widely observed.

b. *The Right to Organize and Bargain Collectively.*—Article 23 of the jamaican constitution guarantees the right to form, join and belong to trade unions. This right is freely exercised. Collective bargaining is widely used as a means of settling disputes. Industrial actions (generally brief strikes) are frequently employed in both private and public sector disputes. The Labor Relations and Industrial Disputes Act (LRIDA) codifies regulations on worker rights. About 15 percent of the work force is unionized, and unions have historically played an important economic and political role in Jamaican affairs. The public sector is highly unionized. Throughout 1997, the Ministry of Finance has been negotiating new two-year agreements covering tens of thousands of public sector employees. Reduced levels of inflation have enabled government negotiators to avoid budget-busting public sector salary increases.

No free zone factory is unionized. Jamaica's largest unions claim this is because unionization is discouraged in the free zones. The ongoing contraction of the apparel industry and a lack of alternatives for its workforce (largely female heads of household, with minimal qualifications for other employment) are additional disincentives for unionization at the present time. However, in tourist areas, workers are often drawn away by more attractive employment opportunities in the local tourism sector.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is not practiced. Jamaica is a party to the relevant ILO conventions.

d. *Minimum Age for Employment of Children.*—The Juvenile Act prohibits child labor, defined as the employment of children under the age of twelve, except by parents or guardians in domestic, agricultural, or horticultural work. While children are observed peddling goods and services, child labor is not institutionalized. Both government and societal views are intolerant of the practice and the use of child labor in formal industries (e.g., textiles/apparel) is virtually non-existent.

e. *Acceptable Conditions of Work.*—A 40-hour week with 8-hour days is standard, with overtime and holiday pay at time-and-a-half and double time, respectively. The minimum wage is JDOLS 800 for a 40-hour week or JDOLS 20 per hour. There are frequently additional allowances (e.g., for transportation, meals, clothing, etc.). Unemployment compensation or "redundancy pay" is included in the negotiation of specific wage and benefit packages. Jamaican law requires all factories to be registered, inspected and approved by the Ministry of Labor. Inspections are limited by scarce resources and a narrow legal definition of "factory."

f. *Rights in Sectors with U.S. Investment.*—U.S. investment in Jamaica is concentrated in the bauxite/alumina industry, petroleum products marketing, food and related products, light manufacturing (mainly in-bond apparel assembly), banking, tourism, data processing, and office machine sales and distribution. Worker rights are respected in these sectors and most of the firms involved are unionized, with the important exception of the garment assembly firms. No garment assembly firms in the free zones are unionized; some outside the free zones are unionized. There have been no reports of U.S.-related firms abridging standards of acceptable working conditions. Wages in U.S.-owned companies generally exceed the industry average.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		[1]
Total Manufacturing		187
Food & Kindred Products	0	

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996—Continued

[Millions of U.S. dollars]

Category		Amount
Chemicals & Allied Products	175	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	12	
Wholesale Trade		[1]
Banking		[1]
Finance/Insurance/Real Estate		6
Services		[1]
Other Industries		[1]
TOTAL ALL INDUSTRIES		1675

[1] Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

MEXICO

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Income, Production and Employment:			
Nominal GDP (US$ billions) [2]	286.3	334.8	410.0
Real GDP Growth (pct) [3]	-6.2	5.1	7.1
GDP by Sector (US$ billions):			
Agriculture	16.61	20.42	23.8
Manufacturing	50.68	59.93	76.7
Services	176.36	205.23	249.4
Per Capita GDP (US$)	3,139	3,604	4,350
Labor Force (millions)	34.9	36.3	36.6
Unemployment Rate (pct)	6.3	5.5	3.8
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	17.3	25.7	31.3
Consumer Price Inflation	52.0	27.7	16.0
Exchange Rate (peso/US$)	6.42	7.60	7.92
Balance of payments and trade:			
Total Exports FOB [4]	79.5	96.0	110.4
Exports to U.S.[4]	61.7	74.2	94.2
Total Imports FOB [4]	72.5	89.5	107.4
Imports from U.S.[4]	46.3	56.8	78.8
Trade Balance [4]	7.1	6.5	3.0
Balance with U.S.[4]	12.4	13.0	15.4
External Public Debt	164.2	157.4	151.2
Fiscal Deficit/GDP (pct)	0.0	-0.1	0.5
Current Account Deficit/GDP (pct)	0.3	0.5	1.5
Debt Service Payments/GDP (pct)	22.8	21.0	N/A
Gold and Foreign Exchange Reserves	15.7	17.5	27.8
Aid from U.S.	N/A	N/A	N/A
Aid for All Other Sources	N/A	N/A	N/A

[1] 1997 figures are estimates based on the December 1997 "Consensus Forecasts" or other data available as of December 1997

[2] GDP at factor cost

[3] Percentage changes calculated in local currency

[4] Merchandise trade

1. General Policy Framework

Mexico has recovered on the macroeconomic level from the severe recession triggered by the peso crisis of December 1994. Continued tight fiscal and monetary policies in response to this crisis, coupled with gains in exports led to macroeconomic recovery. Nonetheless, at the domestic economy level many Mexicans have not yet benefited in spite of gradually increasing employment opportunities, as a substantial drop in inflation began to support consumer purchasing power only late in the year.

The real growth rate in GDP should reach 7.2 percent in 1997. Total exports, led by the maquiladora industry, will probably exceed 110 billion dollars, enabling Mexico to maintain a trade surplus of three billion dollars (15 billion with the United States). In addition, inflation will continue to fall from 52 percent in 1995 to 15.72 percent in 1997.

In June 1997 the Government of Mexico projected an average annual growth rate of five percent through 2000. Private economic observers generally agree with this positive forecast. Mexico is also aggressively seeking to expand its export markets through bilateral and multilateral trade agreement and investment protection negotiations with countries and multilateral organizations in Latin America, Europe and Asia.

The principal objectives of Mexican monetary policy have been first and foremost to combat inflation, to reduce the volatility of the peso in foreign exchange markets, and to promote capital inflows. The central bank is controlling the monetary base to achieve these objectives.

The Mexican government has pursued restrictive fiscal policies since 1995 to help reduce inflationary pressures, stabilize financial markets, temper the current account deficit, and bolster domestic savings.

2. Exchange Rate Policy

In December 1994, Mexico abandoned its exchange band mechanism, which had been in place since 1991, in favor of a free-floating exchange rate. The peso has floated freely since then with only infrequent interventions by the Bank of Mexico (Mexico's central bank). In the last two years the peso has enjoyed remarkable stability, and the Bank of Mexico has not intervened in the foreign exchange market since 1995. To accumulate foreign reserves and weaken the peso to support exporters, the Bank offers credit institutions monthly options to sell dollars to the central bank. The Bank of Mexico has purchased up to $600 to $800 million of these options from banks in a single month. The amount of these options, however, are viewed by the Bank of Mexico to be too small to have an appreciable impact on the exchange rate.

The volatility which marked the peso in the 1993 to 1995 period disappeared in the last half of 1996 and has been absent throughout 1997. In the first nine months of 1997, the peso traded from 7.72 to 7.98 pesos per U.S. dollar. The strength of the peso in this period has not hurt U.S. exports to Mexico, since, according to U.S. trade data, U.S. exports to Mexico were up 25 percent in the first eight months of 1997 compared to the first eight months of 1996.

3. Structural Policies

Regulation of the Mexican economy continues to decrease significantly. Mexico introduced legislation in 1993 to promote greater competition, limit monopolistic behavior, and prohibit practices that restrain trade. The Mexican Federal Competition Commission, established by that legislation, now has functioned successfully for more than two years. A 1993 Foreign Trade Law eliminated most nontariff trade restrictions and established remedies for unfair trade practices, such as export subsidies and dumping. The Mexican customs service has been modernized and automated, and a program to professionalize personnel is underway. The customs law reforms, implemented in 1996, have greatly assisted in the effort to weed out corruption. A project to examine all government regulations and to reduce them continues moving forward, with several federal ministries and the Federal District having completed their work. State and local deregulation is also planned for the future.

The Government of Mexico has privatized or eliminated more than 1,000 parastatal companies since 1986. State enterprises thus far privatized include commercial banks, the telephone company, a television network, airlines, steel production, and several major industrial facilities. President Zedillo is continuing the privatization trend. In 1997 the two major Mexican rail lines were concessioned and multiple contracts were let for private sector construction of power plants and for distribution of natural gas to strategically chosen communities. The Mexican gov-

ernment continues working to privatize management and some facilities at ports, airports and railroads. The government announced plans to sell up to 49 percent of its secondary petrochemical plants, despite opposition party resistance. In addition, Mexico has signed two protocols in 1997 relating to satellite transmissions. It received bids on October 17, 1997 for the privatization of SATMEX, and followed through with the opening of long-distance telephone competition in Mexico's 60 largest cities. Competition for local telephone service is also right around the corner.

4. Debt Management Policies

Mexico has largely achieved the objectives laid out in the emergency economic program developed to cope with the 1995 peso crisis. During 1996 and the first half of 1997, public sector debt declined substantially in real terms. The maturity of public debt has been extended, the debt profile has been reconfigured, the composition of external debt has been altered dramatically, and Mexico has successfully returned to international capital markets. Among the most telling indicators of the success of Mexico's debt strategy were early repayment to the U.S. Treasury of all of the economic support funds extended to Mexico during the 1995 crisis, and the placement by Mexico of over 24 billion dollars in international capital markets.

At the end of the first half of 1997, Mexico's net public sector external debt was 97.5 billion dollars, a slight decrease from 1996. Net external borrowing is limited by law to 5 billion dollars annually. In 1997 total amortization of public external debt will be 32.3 billion dollars, compared to 28.5 billion dollars in 1996.

5. Significant Barriers to U.S. Exports

Import Licenses: Mexico committed, under the General Agreement on Tariffs and Trade (GATT), and now the World Trade Organization (WTO) Agreement, as well as under NAFTA, eventually to eliminate all import licensing requirements. The Mexican government still requires import licenses for slightly under 200 product categories, many of which are in the agricultural sector. For U.S. and Canadian exporters to Mexico, NAFTA replaced agricultural import licenses with tariff rate quotas. The NAFTA agriculture sector reduces or eliminates tariffs at various rates over the maximum fifteen year span allowed under that agreement. Restrictive phytosanitary and zoo sanitary requirements impede exports of some agricultural products.

Insurance: Until 1990, the Mexican insurance market was closed to foreigners. With the introduction of NAFTA, U.S. and Canadian insurers that had joint venture operations in Mexico were allowed to increase their ownership share from 30 percent in 1994 to 51 percent in 1996 and 100 percent by the year 2000. Companies not already in Mexico may set up joint ventures and obtain majority control by 1998. U.S. insurers may also establish wholly-owned subsidiaries in Mexico, subject to aggregate market share limits which will be eliminated in 2000. Some third-country firms have entered through affiliates or subsidiaries in the United States or Canada under the NAFTA arrangement.

Telecommunications: The main restriction in the telecommunications sector is a limitation on foreign investment in telephone and value-added services to a 49-percent equity position. However, in cellular telephony, foreign investors may participate up to 100 percent, subject to approval by the National Foreign Investment Commission. Nevertheless, foreign investors may only participate through a Mexican corporation. Mexico modified its constitution in 1995 to allow for private participation and equity in Mexican telecommunication satellites, including ownership of transponders. The Government's satellite firm was scheduled to be privatized through sale of stock in late 1997. Foreign investment is limited to a 49 percent equity position. The Telmex monopoly on long distance and International telephone service ended in August 1996 for corporate accounts and for residential service in the 60 largest cities in 1997. Eight firms are authorized to provide long distance service, five of which have U.S. partners. Local, basic telephone service is already technically open to competition.

Financial Services: There are no major barriers to financial services. Mexico continued during 1995 to promote competition and diversification in the financial sector by encouraging foreign investment. New rules adopted in 1995 allow foreign banks to acquire up to 100 percent ownership in existing banks that have less than six percent of the total capital in the banking system (effectively excluding Mexico's three largest banks). Foreigners may now own up to 25 percent of the total net capital of the banking system. Also, both Mexican and foreign individuals and companies may own up to 20 percent of a Mexican financial institution. As a group, foreigners can now own up to 49 percent of a bank, stock brokerage house, or financial group.

Standards, Testing, Labeling, and Certification: Mandatory, government-enforced standards play a much greater role in Mexico than they do in the United States. The government has been the primary actor in determining product standards, labeling and certification policy, with some input from the private sector and, to a lesser extent, from consumers. However, the Mexican government has been revamping its entire system for formulating product standards, testing, labeling and certification, including revising the Federal Law on Metrology and Standardization in May 1997. These changes provide greater transparency and increased private sector participation in the standards and certification process.

Other Barriers: There have been complaints that Mexico's anti-dumping procedures are less than transparent. Furthermore, appeals for reversal of decisions have been described as cumbersome. In addition, a question has arisen about the transparency of the proceedings of the Federal Competition Commission.

Mexican law requires that Mexican standards be based on "international standards," but Mexican standards sometimes will incorporate U.S. and Canadian standards when those differ from the international benchmark. Under NAFTA, Mexico is committed to recognizing U.S. conformity assessment bodies beginning in 1998, on the same terms that it applies to Mexican laboratories.

In 1996 and 1997 the government implemented major changes in its general labeling requirements for both imported and domestic products. At the same time, in June 1997 the government announced immediate implementation of commodity-specific labeling requirements at the border. The transition process for U.S. exporters to meet the new labeling rules has been relatively smooth, and the government has demonstrated its willingness to adjust the new policies to accommodate exporter's interests.

The extensive use of mandatory standards, testing and labeling has the potential of acting as a barrier to trade and can raise the cost of exporting to Mexico. The Mexican government has displayed an increased willingness to work with U.S. industry to address U.S. concerns while continuing to protect the Mexican consumer. Problems remain with restrictions against U.S. meat grades in three Mexican states.

Investment Barriers: The National Foreign Investment Commission decides questions of foreign investment in Mexico. The country's constitution and Foreign Investment Law of 1992 reserve certain sectors to the state (such as oil and gas extraction and the transmission of electrical power) and a range of activities to Mexican nationals (for example, forestry exploitation, domestic air and maritime transportation). Despite remaining restrictions, the Foreign Investment Law greatly liberalized foreign investment, eliminating the requirement for government approval in around 95 percent of foreign investments. The constitution was amended in 1995 to allow foreign investment in railroads, telecommunications and satellite transmission. Privatization of the country's secondary petrochemical complexes also will be allowed, but will be limited to 49 percent of existing facilities. Newly built petrochemical plants may have up to 100 percent foreign investment.

NAFTA opened Mexico to greater U.S. and Canadian investment by assuring U.S. and Canadian companies' national treatment, the right to international arbitration and the right to transfer funds without restrictions. NAFTA also eliminated some barriers to investment in Mexico such as trade balancing and domestic content requirements. Mexico additionally has implemented its commitment under NAFTA to allow the private ownership and operation of electric generating plants for self-generation, co-generation, and independent power production. In 1995, Mexico issued regulations for the first time allowing private sector participation in the transportation, distribution and storage of natural gas. Contracts let in 1997 under the new regulations constitute one of the major success stories in Mexico's ongoing infrastructure development.

Investment restrictions still prohibit foreigners from acquiring title to residential real estate within 50 kilometers of the nation's coasts and 100 kilometers of the borders. However, foreigners may acquire the effective use of residential property in the restricted zones via a trust through a Mexican bank. At this time, only Mexican nationals may own gasoline stations whose gasoline is supplied by Pemex, the state-owned petroleum monopoly. These gasoline stations also only carry Pemex lubricants, although other lubricants are manufactured and sold in Mexico. Both foreigners and Mexican citizens themselves encounter problems with enforcement of property rights.

Government Procurement Practices: There is no central government procurement office in Mexico. Government agencies and public enterprises use their own purchasing offices to buy from qualified domestic or foreign suppliers, subject to guidelines

issued by the Comptroller's Secretariat. In 1991, Mexico abandoned the rule that state-owned enterprises give preference in procurement to national suppliers. Suppliers from all countries may bid on most government tenders, and requirements for participation are the same for foreign and domestic suppliers. Because NAFTA allows some smaller contracts for goods, services or construction to be let without requiring them to be open to competition from suppliers in other NAFTA countries, the procurement law enacted in 1994 distinguishes between procurement contests open to national versus international suppliers. The law, however, acknowledges Mexico's procurement obligations under NAFTA and other international trade agreements.

A specific preferential treatment in public procurement is granted to domestic drug suppliers (which includes foreign companies established in Mexico). NAFTA gradually increases U.S. suppliers' access to the Mexican government procurement market, including the state oil company, Pemex, and the Federal Electricity Commission (CFE), which are the two largest purchasing entities in the Mexican government. Under NAFTA, Mexico immediately opened 50 percent of Pemex bids to competition by foreign suppliers. U.S. firms have been active in CFE power plant bides.

Customs Procedures: In 1996 Mexico enacted a new customs law which simplifies a number of procedures, including bond-posting requirements. Traders and Mexican customs brokers agree that Mexican customs procedures have improved dramatically in recent years. Remaining complaints center on the delay in obtaining implementing regulations for various sections of the new customs law.

6. Export Subsidies Policies

The Mexican government has not had an export subsidy program. However, in October 1997 the Government announced a program to subsidize sugar exporters for the shortfall between export and domestic prices in the first nine months of that year. Otherwise, provisions for promoting exports in the Foreign Trade Law have been limited to training and assistance in finding foreign sales leads, project financing (at market rates) for export oriented business ventures, and special tax treatment for companies that have significant export sales.

7. Protection of U.S. Intellectual Property

Mexico is a party to the major international agreements regulating the protection of intellectual property rights (IPR): the World Intellectual Property Organization agreements, the Berne Convention for the Protection of Literary and Artistic Works, the Paris Convention for the Protection of Industrial Property, the Universal Copyright Convention, the Geneva Phonograms Convention, the Brussels Satellite Convention, and the Convention for the Protection of New Varieties of Plants. While Mexico was not on a Special 301 watch list in 1997, it was cited in "Other Observations" because of problems with piracy.

The Mexican government has been strengthening its domestic legal framework for protecting intellectual property. In 1997 it implemented a new copyright law and amended its penal code to strengthen penalties against copyright piracy. Regulations are still being promulgated. It also amended its 1991 Industrial Property Law, effective October 1, 1994, to create the Mexican Institute for Industrial Property (IMPI), giving this agency enhanced powers to implement Mexico's IPR laws. Mexico passed a law in 1996 providing protection to plant species. In December 1997 Mexico enacted an integrated circuits law.

Mexico is implementing regulations adopted pursuant to NAFTA providing for nondiscriminatory national treatment in IPR matters, establishing certain minimum standards for protection of sound recordings, computer programs and proprietary data, and by providing express protection for trade secrets and proprietary information. The term of patent protection was extended from 14 to 20 years from the date of filing. Trademarks are granted for 10-year renewable periods. A feature of the amended law is that it is sufficient for a company to have its mark recognized among U.S. industry to be protected in Mexico.

Although federal authorities conduct investigations and carry out raids on pirates, there have been few criminal convictions stemming from these actions. In some instances, criminal cases have been compromised by leaks and loss of evidence. The new copyright law permits IMPI to take administrative action against copyright violations. With the entry into force of the new customs law, Mexican customs authorities for the first time are authorized to seize pirated merchandise. Mexico is working with the U.S. through the Bilateral Working Group on Intellectual Property Rights to improve coordination and enforcement in the two countries.

8. Worker Rights

a. *The Right of Association.*—The Constitution and the Federal Labor Law (FLL) give workers the right to form and join trade unions of their own choosing. Mexican trade unionism is well developed with about 30 percent of the work force members in thousands of unions. Although no prior approval is required to form unions, they must register with the federal labor secretariat or state labor boards to gain legal status. Federal or state authorities reportedly use this administrative procedure to improperly withhold registration from groups considered disruptive to government policies, employers, or unions. Union registration was the subject of follow-up activities in 1996 and 1997, pursuant to a 1995 agreement reached in ministerial consultations and in follow-up activities in 1996 under the North American Agreement on Labor Cooperation (the NAFTA labor side agreement). Unions, federations, and labor centrals freely affiliate with international trade union organizations. The FLL protects labor organizations from government interference in their internal affairs. The law permits closed shop and exclusion clauses, allowing union leaders to vet and veto new hires and force dismissal of individuals the union expels. Such clauses are common in collective bargaining agreements. Again in 1997, the Committee of Experts of the International Labor Organization (ILO) found that such restrictions violate freedom of association, and asked the Mexican government to amend these provisions. A 1996 Mexican supreme court decision invalidated similar restrictions in the laws of two states.

Most labor confederations, federations and separate national unions are allied with the governing Institutional Revolutionary Party (PRI). Union officers help select, run as, and campaign for PRI candidates in federal and state elections, and support PRI government policies at crucial moments. This gives the unions influence on government policies, but limits their freedom of action. Rivalries within and between PRI-allied organizations are strong. Party and legislative reforms would emphasize individual rather than sectional (labor) membership. A few small labor federations and independent unions are not allied to the PRI.

b. *The Right to Organize and Bargain Collectively.*—The FLL strongly upholds this right. The public sector is almost totally organized. Industrial areas are also heavily organized. The law protects workers from anti-union discrimination but enforcement is uneven. Industry or sectoral agreements carry the weight of law in some sectors and apply to all sector firms, unionized or not, though this practice is becoming less common. The FLL guarantees the right to strike. On the basis of interest by a few employees, or a strike notice by a union, an employer must negotiate a collective bargaining agreement or request a union recognition election. In 1995, at union insistence, annual national pacts negotiated by the government and major trade union, employer and rural organizations ceased to limit free collective bargaining, which had been done for the past decade. While the government, major employers, and unions meet occasionally (most recently in October 1997) to reaffirm the Alliance for Economic Recovery or agree on tax breaks or minimum wage increases, the government remains committed to free collective bargaining without guidelines or interference.

c. *Prohibition of Forced or Compulsory Labor.*—The Constitution prohibits forced labor and none has been reported in many years, with the exception of abuses of refugees and illegal immigrants in the state of Chiapas (see Section 2D of the 1997 Human Rights Report).

d. *Minimum Age for Employment of Children.*—The FLL sets 14 as the minimum age for employment, but those under 16 may work only six hours a day, with prohibitions against overtime, night labor, and performing hazardous tasks. Enforcement is reasonably good at large and medium sized companies but is inadequate at small companies and in agriculture and is nearly absent in the informal sector. The ILO reports 18 percent of children aged 12 to 14 work, often for parents or relatives. Most child labor takes place in the informal sector (including myriad street vendors), in agriculture and in rural areas. Although enforcement is spotty, the Mexican government formally requires that children attend a minimum of nine years of school and has the ability to hold parents legally liable for their children's nonattendance. The government has a cooperative program with UNICEF to increase educational opportunities for youth.

e. *Acceptable Conditions of Work.*—The FLL provides for a daily minimum wage set annually effective January 1 by the tripartite (government/labor/employers) National Minimum Wage Commission. Any party may ask the Commission to reconvene to consider a special increase. In December 1996 the Commission adopted a 17 percent increase. In Mexico City and nearby industrial areas, Acapulco, southeast Veracruz state's refining and petrochemical zone and most border areas, the

minimum wage has been 22.44 pesos (3.39 dollars). However, minimum wage earners actually are paid 25.76 pesos due to a 14 percent supplemental fiscal subsidy (tax credit to employers). Approximately 12 percent of the labor force earns the minimum wage. Industrial workers tend to average three to four times the minimum wage. The law and collective agreements provide extensive additional benefits. Those benefits which are legally required include social security (IMSS), medical care and pensions, individual worker housing and retirement accounts, substantial Christmas bonuses, paid vacations, profit sharing, maternity leave, and generous severance packages. Employer costs for these benefits run from 27 percent of payroll at small enterprises to over 100 percent at major firms with strong union contracts. Eight hours is the legal workday and six days the legal work week, with pay for seven. Workers who are asked to exceed three hours of overtime per day or work overtime on three consecutive days receive triple the normal wage for that overtime. For most industrial workers, especially under union contract, the true work week is 42 hours with seven days' pay. This is why unions jealously defend the legal ban on hiring and paying wages by the hour.

Mexico's occupational safety and health (OSH) laws and rules are relatively advanced. Employers must observe "General Regulations on Safety and Health in the Work Place", which reflects close NAFTA consultation and cooperation) issued jointly by the Labor Secretariat (STPS) and the Social Security Institute (IMSS). FLL-mandated joint labor-management OSH committees at each plant and office meet at least monthly to review work place safety and health needs. Individual employees or unions may complain directly to STPS/OSH officials; workers may remove themselves from hazardous situations without reprisal and bring complaints before the federal labor board at no cost. STPS and IMSS officials report compliance is reasonably good at most large companies, though federal inspectors are stretched too thin for effective enforcement. There are special problems in construction, where unskilled, untrained, and poorly educated transient labor is common.

f. *Rights in Sectors with U.S. Investment.*—Conditions do not differ from those in other industrialized sectors of the Mexican economy.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		169
Total Manufacturing		11,408
Food & Kindred Products	3,977	
Chemicals & Allied Products	1,920	
Metals, Primary & Fabricated	419	
Machinery, except Electrical	572	
Electric & Electronic Equipment	454	
Transportation Equipment	1,842	
Other Manufacturing	2,224	
Wholesale Trade		764
Banking		443
Finance/Insurance/Real Estate		2,864
Services		515
Other Industries		2,585
TOTAL ALL INDUSTRIES		18,747

Source: U.S. Department of Commerce, Bureau of Economic Analysis

NICARAGUA

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Income, Production and Employment:			
Nominal GDP [2]	1,888	1,969	2,068
Real GDP Growth (pct) [2 3]	4.3	4.5	5.0
GDP by Sector: [2]			
Agriculture [4]	645	673	707
Manufacturing	303	308	324
Services [5]	819	877	918
Government	121	111	119
Per Capita GDP (US$) [2]	433	438	447
Labor Force (000s)	1,488	1,537	1,583
Unemployment Rate (pct)	18.2	16.1	13.9
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	17.8	26.9	46.0
Consumer Price Inflation (pct)	11.1	12.1	8.0
Exchange Rate (Cordobas/US$ - annual average)			
Official	7.53	8.44	9.47
Parallel	7.61	8.44	9.47
Balance of Payments and Trade:			
Total Exports FOB [6]	526	671	809
Exports to U.S. [7]	238	350	420
Total Imports CIF [6]	962	1,160	1,421
Imports from U.S. [7]	250	262	315
Trade Balance [6]	-435	-489	-612
Balance with U.S. [7]	-11	88	105
External Public Debt (US$ blns)	10.3	6.1	6.1
Fiscal Deficit/GDP (pct)	5.4	5.9	[8] 3.4
Current Account Deficit/GDP (pct)	30.5	25.2	30.3
Debt Service Payments/GDP (pct)	12.8	12.6	16.5
Gold and Foreign Exchange Reserves	80	104	143
Aid from U.S.	31	26	27
Aid from All Other Sources	493	357	328

[1] All 1997 figures are projections based on data available in October 1997.
[2] 1995 and 1996 GDP data revised by Central Bank in October 1997.
[3] Percentage changes calculated in local currency.
[4] Includes livestock, fisheries, and forestry.
[5] Includes construction and mining.
[6] Merchandise trade.
[7] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1997 figures are estimates based on trade data through July 1997.
[8] Combined public sector deficit after foreign donations.

1. General Policy Framework

Nicaragua's transition from a centralized to a market-oriented economy began with the 1990 election of President Violeta Chamorro. Her administration brought inflation under control, liberalized the foreign trade regime, and got the economy growing again. After a decade of decline, real GDP expanded by 3.3 percent in 1994, 4.3 percent in 1995, and 4.5 percent in 1996. With the January 1997 inauguration of President Arnoldo Aleman of the center-right Liberal Alliance, Nicaragua began to quicken the pace of its opening to foreign trade. The economy is projected to grow by 5.0 percent in 1997.

At the end of its first year in office, the Aleman administration faced important economic challenges, including: meeting the requirements of an Enhanced Structural Adjustment Facility with the International Monetary Fund; making progress on the resolution of thousands of Sandinista-era property confiscation cases; and reducing unemployment and poverty in the hemisphere's second-poorest nation.

Nicaragua remains essentially agricultural, with a small manufacturing base. It is dependent on imports for most manufactured, processed and consumer items. A member of the World Trade Organization, Nicaragua has reduced tariffs, eliminated most nontariff barriers and foreign exchange controls. The United States is Nicaragua's largest trading partner, with both exports and imports expanding in re-

cent years. Nicaragua's large current account deficit and fiscal deficit are counterbalanced by strong inflows of foreign assistance and private capital.

2. Exchange Rate Policy

Since January 1993, the Nicaraguan government has followed a crawling-peg devaluation schedule. The cordoba to dollar rate is adjusted daily, with the real exchange rate held essentially constant. A legal parallel exchange market supplies foreign currency for all types of exchange transactions. The spread between the official and parallel markets was under one percent in 1997. The government eliminated all significant restrictions on the foreign exchange system in 1996.

3. Structural Policies

Pricing Policies: The Nicaraguan government maintains price controls only on sugar, domestically produced soft drinks, certain petroleum products, and pharmaceuticals. However, in the past, the government has negotiated voluntary price restraints with domestic producers of important consumer goods.

Tax Policies: Nicaragua maintains a maximum tariff level of from 5 to 15 percent of CIF value on most imports. Intermediate goods and raw materials produced in Central America are exempt. An additional temporary protection tariff of 10 to 35 percent of CIF value is levied on almost all imported items. This tariff will drop to a maximum of 15 percent in the year 2000. Some 550 products are also assessed a specific consumption tax of from 4 to 20 CIF value. The country's 15 percent sales tax is charged (in a cascading fashion) on all imported goods that are not categorized as basic food basket items. Overall import taxation levels on so-called "fiscal" goods (e.g., tobacco, soft drinks and alcoholic beverages) are particularly high. Thus, importers of many types of consumer items confront a total import tax burden of 30 to 59 percent.

4. Debt Management Policies

The Chamorro administration inherited a $10.7 billion debt from the Sandinista regime in 1990. Over the next seven years, Nicaragua negotiated a series of deals (including a mid-1997 debt write-off by the Central American Bank for Economic Integration) that reduced its stock of debt to $6.1 billion. Despite this progress, Nicaragua's debt, at almost three times GDP, remains unsustainably high. Accordingly, the Aleman government has made debt reduction a top priority. Two promising avenues for debt reduction are with the Paris Club ($1.4 billion) and through the IMF/World Bank debt reduction initiative for the heavily indebted poor countries ($1.6 billion). However, to be eligible for those programs, Nicaragua must first show satisfactory performance under an IMF program.

5. Aid

Nicaragua is highly dependent on foreign aid to cover its trade and fiscal deficits. More than half of its assistance is provided by multilateral financial institutions like the Inter-American Development Bank and World Bank. European countries, Japan, Taiwan, and the U.S. are also major donors. Nicaragua is not believed to be getting military aid from any source.

6. Significant Barriers to U.S. Exports

Import Licenses: In most cases, the issuance of import licenses is a formality. Permits are required only for the importation of sugar, firearms and explosives. U.S. exporters of food products must meet some phytosanitary requirements.

Services Barriers: Although 10 private banks are now operating, no U.S. bank has yet re-entered the Nicaraguan financial market. Legislation passed in 1996 opened the insurance industry to private sector participation and four private insurance companies have been formed.

Investment Barriers: Remittance of 100 percent of profits and original capital three years after investment is guaranteed through the Central Bank at the official exchange rate for those investments registered under the Foreign Investment Law. Investors who do not register their capital may still make remittances through the parallel market, but the government will not guarantee that foreign exchange will be available. The U.S. Embassy is aware of no investor who has encountered remittance difficulties since the inception of the Foreign Investment Law in 1991. The fishing industry remains protected by requirements involving the nationality and composition of vessel crews, and a requirement for domestic processing of the catch.

Customs Procedures: Importers complain of steep secondary customs costs, including customs declaration form charges and consular fees. In addition, importers are required to utilize the services of licensed customs agents, adding further costs.

Private Property Rights: The need to resolve thousands of cases of homes, businesses and tracts of land confiscated without compensation by the Sandinista government during the 1980s remains a divisive issue in Nicaragua. The Nicaraguan government has made the resolution of these cases a priority. Nonetheless, potential investors must carefully verify property titles before purchase.

In 1996, Nicaragua ratified the United States-Nicaragua Bilateral Investment Treaty that is designed to improve protection for investors. The treaty has not yet been submitted to the U.S. Senate for ratification.

7. Export Subsidy Policies

Beginning in 1998, all exporters will receive tax benefit certificates equivalent to 1.5 percent of the FOB value of the exported goods. In addition, foreign inputs to export goods enter duty-free and are exempt from value-added tax. Exporters of non-traditional goods (e.g., goods other than coffee, cotton, sugar, wood, lobster and sea-harvested shrimp) receive exemptions of 65 percent of product value on income tax liabilities. Although this benefit expires after 1997, the government's Export Promotion Committee is empowered to extend exemptions beyond that date to exports of key interest to the country.

8. Protection of U.S. Intellectual Property

The Nicaraguan government has indicated a firm commitment to providing adequate and effective intellectual property right protection. Current levels of protection, however, still do not meet international standards.

Although unable to dedicate extensive resources to protecting intellectual property rights, Nicaragua is in the process of modernizing its intellectual property rights protection regime. The National Assembly is currently reviewing a proposal for a new copyright law, while the government is preparing a proposal for a new patent law (existing copyright and patent legislation date from the turn of the century). The trademark law was updated in 1994, and Nicaragua has codified the Central American Convention for the Protection of Intellectual Property. Nicaragua ratified the Convention's Protocol on Trademarks in July 1996 and, in April 1997, approved the technical portion of a proposed Central American Convention for the Protection of Industrial Property, Inventions and Industrial Designs. In December 1997, Nicaragua and the U.S. initialed a bilateral IPR agreement covering patents, trademarks, copyright, trade secrets, plant varieties, integrated circuits and encrypted satellite signals In addition, Nicaragua signed a free trade agreement with Mexico, which includes a chapter on protection of trademarks and copyrights. Nicaragua acceded to the Paris Convention for the Protection of Industrial Property in 1995. The National Assembly has not yet ratified the Berne Convention on Copyrights. Nicaragua is a signatory to the following copyright conventions:

Mexico Convention on Literary and Artistic Copyrights (1902)
Buenos Aires Convention on Literary and Artistic Copyrights (1910)
Inter-American Copyrights Convention (1946)
Universal Copyright Convention (Geneva 1952 and Paris 1971)
Brussels Convention on Satellites (1974)

Trademarks: Protection of well-known trademarks is a problem area for Nicaragua. Current procedures allow individuals to register a trademark without restriction for a renewable 10-year period at a low fee.

Copyrights/New Technology: Pirated videos are readily available in video rental stores nationwide, as are pirated audio cassettes and software. In addition, cable television operators are known to intercept and retransmit U.S. satellite signals, a practice that continues despite a trend of negotiating contracts with U.S. sports and news satellite programmers. A report prepared in 1994 by the International Intellectual Property Alliance estimated that losses in Nicaragua due to copyright infringements cost U.S. firms $5.3 million annually.

9. Worker Rights

a. *The Right of Association.*—The Constitution provides for the right of workers to organize voluntarily in unions. This right was reaffirmed in the new labor code which entered into effect in November 1996. Less than half of the formal sector workforce, including agricultural workers, is unionized, according to labor leaders. The Constitution recognizes the right to strike. Unions freely form or join federations or confederations, and affiliate with and participate in international bodies.

b. *The Right to Organize and Bargain Collectively.*—The Constitution provides for the right to bargain collectively. The right was reaffirmed in the 1996 labor code.

According to the code, companies engaged in disputes with employees must negotiate with the employees' union if they are organized.

c. *Prohibition of Forced or Compulsory Labor.*—The Constitution prohibits forced or compulsory labor. There is no evidence that it is practiced.

d. *Minimum Age for Employment of Children.*—The Constitution prohibits child labor that can affect normal childhood development or interfere with the obligatory school year. The 1996 labor code raised the age at which children may begin working with parental permission from 12 to 14. Parental permission is also required for 15 and 16 year-olds. The law limits the workday for such children to 6 hours and prohibits night work. However, because of the economic needs of many families and lack of effective government enforcement mechanisms, child labor rules are rarely enforced, except in the small, formal sector of the economy.

e. *Acceptable Conditions of Work.*—The 1996 labor code maintains the constitutionally mandated 8-hour workday. The standard legal work week is a maximum of 48 hours, with one day of rest. The 1996 code established that severance pay shall be from one to five months duration, depending on the length of employment and the circumstances of termination. The code also seeks to bring the country into compliance with international standards of work place hygiene and safety, but the Ministry of Labor lacks adequate staff and resources to enforce these provisions. Minimum wage rates were raised in November 1997, but the majority of urban workers earn well above the minimum rates.

f. *Rights in Sectors with U.S. Investment.*—Labor conditions in sectors with U.S. investment do not differ from those in other sectors of the formal economy.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		[1]
Total Manufacturing		-5
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	[1]	
Transportation Equipment	0	
Other Manufacturing	[1]	
Wholesale Trade		3
Banking		0
Finance/Insurance/Real Estate		0
Services		3
Other Industries		0
TOTAL ALL INDUSTRIES		[1]

[1] Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

PANAMA

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Income, Production and Employment:			
Nominal GDP	7906	8109	8608
Real GDP (1982 prices)	6200	6351	6579
Real GDP Growth (pct)	1.8	2.5	3.6

Key Economic Indicators—Continued

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Real GDP by Sector (1982 prices):			
Agriculture	509	512	515
Manufacturing	1143	1180	1223
Services	3644	3737	3894
Government	903	921	947
Real Per Capita GDP	2356	2376	2402
Labor Force (000s)	1008	1011	1044
Unemployment Rate (pct)	14.0	13.9	13.1
Money and Prices (annual percentage growth):			
Money Supply (M2) Growth (pct) [2]	7.3	5.8	0.8
Consumer Price Inflation	0.9	1.3	1.2
Exchange Rate (Balboa/USD - annual average)	1	1	[3] 1
Balance of Payments and Trade:			
Total Exports FOB [4]	565	569	592
Exports to U.S.	220	228	231
Total Imports CIF [4]	2510	2652	2950
Imports from U.S.	979	1246	1239
Trade Balance [4]	-1945	-2083	-2358
Balance with U.S.	-759	-1018	-1008
Colon Free Zone:[5]			
Exports	N/A	5524	6211
Imports	N/A	4661	5425
External Public Debt	5891	5070	5052
Fiscal Deficit(-)/GDP (pct) [6]	-0.1	-0.4	N/A
current Account Deficit(-)/GDP (pct)	-4.3	-0.7	N/A
Debt Service Ratio (pct)	16.4	18.2	12.2
Gold and Foreign Exchange Reserves [7]	763	849	1056
Aid from U.S.	19.1	6.3	5
Aid from all other sources	N/A	226	N/A

[1] Figures for 1997 are estimated unless otherwise indicated.
[2] Figure is based on IMF 10/97 International Financial Statistics. M2 = Deposit Money + Quasi Money. Figure for 1997 as of March 1997.
[3] The Balboa/Dollar exchange rate is fixed at 1:1. The legal tender is the U.S. Dollar, so there is no parallel exchange rate.
[4] Trade statistics do not include the Colon Free Trade Zone.
[5] The Colon Free Zone (CFZ) is the largest free trading area in the hemisphere. Historically, the United States supplies 13% of CFZ imports and takes 5% of CFZ exports.
[6] Figures indicate deficit of the nonfinancial public sector as percent of GDP.
[7] Figure is based on IMF 10/97 International Financial Statistics. Panama reports no gold holdings. Figure for 1997 as July 1997.

1. General Policy Framework

Panama's economy is based on a well developed services sector that accounts for 73 percent of GDP. Services include the Panama Canal, container port activities, flagship registry, banking, insurance, government, and the Colon Free Zone. The industrial sector, which accounts for 19 percent of GDP, is made up of manufacturing, mining, utilities, and construction. Agriculture, forestry and fisheries account for the remaining eight percent of GDP.

After three years in office, the Perez Balladares government has implemented economic policy reforms to liberalize the trade regime, privatize state-owned enterprises, lower tariffs, restructure unfunded pension programs, and attract foreign investment. A banking reform law is currently before the legislature. Panama became a member of the World Trade Organization (WTO) in June 1997, the last Latin American country to do so. Since then, the government has initiated a plan to further lower tariffs, ultimately to institute an across-the-board 10 percent tariff ceiling. When implemented, this would leave Panama with the lowest tariff ceiling in Latin America. Primary objectives of the government continue to be the development of the reverted U.S. military bases and the privatization of public enterprises.

The economy grew 2.5 percent in real terms in 1996, up from 1.8 percent in 1995. The Embassy estimates 3.6 percent growth in 1997. Principal growth sectors have been the Panama Canal, shipping and port activities, the Colon Free Zone, construction, and water and electric utilities. After growing by 4.6 percent in the first four

months of 1997, agricultural production fell by 0.2 percent in the second trimester, largely due to the harmful effects of El Nino.

The use of the U.S. dollar as Panama's currency means fiscal policy is the government"s only macroeconomic policy instrument. Therefore, government spending and investment are strictly bound by tax and non-tax revenues (including payments by the Panama Canal Commission) as well as the government"s ability to borrow. The ability to use fiscal policy as a tool has been further constrained by declining resources. Lending by international financial institutions has been slow, as Panama tries to meet the loan programs" policy reform conditionality.

2. Exchange Rate Policy

Panama"s official currency, the balboa, is pegged to the U.S. dollar at a 1:1 ratio. The balboa circulates in coins only. All paper currency in circulation is U.S. currency. The fixed parity means price and availability of U.S. products in Panama depend on transportation costs and tariff and nontariff barriers to entry. U.S. exports have no risk of foreign exchange losses on sales in Panama.

3. Structural Policies

The Government of Panama is committed to trade liberalization and reduction of structural economic distortions. With accession to the WTO and following negotiations with international financial institutions, Panama implemented significant tariff reductions. Moreover, the government initiated in August 1997 a program of further reductions, ultimately to achieve an across-the-board 10 percent tariff ceiling. When fully implemented, this would leave Panama with the lowest tariff ceiling in Latin America. Panama is close to completing a Free Trade Agreement with Chile and plans to complete one with Mexico early next year. In addition, the Panamanian Chamber of Commerce recently signed an agreement with its Taiwanese counterpart to promote and negotiate a free trade agreement.

Panama is pressing forward with large privatization initiatives. The Government privatized ports at opposite ends of the Panama Canal by signing a $22 million per year contract with Hutchison Whampoa, a Hong Kong shipping and port management company. This bid was roundly criticized as less than transparent. The telecommunications company was partially privatized in a sale to Cable & Wireless (U.K.). Conversely, this bidding action was praised as open and transparent. In addition, the government has signed contracts for construction of private toll roads, has privatized a horse racetrack, and it is nearing completion on a contract for reviving the transisthmian railroad. Plans for further privatizations include electricity generation and distribution facilities, the national sugar mills, the international airport, and a large convention center.

The restrictive Panamanian Labor Code was revised in 1995, though strong opposition allowed only marginal reform. Unions continue to oppose labor reform initiatives, on occasion violently. In 1996, a special labor regime for export processing zones was created by executive decree. The constitutionality of the decree was challenged and the question is presently pending before the Supreme Court. Notwithstanding several health and housing programs, the Government estimates that 48 percent of Panamanians live in poverty, with 9.6 percent living in severe poverty. Considering the relatively high per capita income level of over $3,000 (current dollars), Panama"s historically skewed income distribution does not appear to be abating.

4. Debt Management Policies

In September 1997, Panama issued $700 million in 30 year global bonds, using $600 million to retire Brady bonds and retaining $100 million in cash. This follows the issuance of $500 million in eurobonds in February 1997. The success of both offerings indicates the positive view of Panama"s debt in world markets. The government has reduced its public debt from a level of almost $5.9 billion in 1995 to $5 billion currently.

5. Aid

In FY 1997, aid from the United States included USAID disbursements of $4.9 million. The objectives of the USAID program in Panama are 1) to improve the management and protection of the Panama Canal watershed, and 2) to facilitate the smooth transfer of the Panama Canal and the productive use of the reverted properties in the canal area. In addition, the United States Department of Defense (DOD) provided security assistance to Panama totaling $50,000 in FY 1997. The government used this Foreign Military Sales Credit to purchase spare parts, excess

defense articles, and individual pieces of equipment for the Panamanian Public Forces.

Development aid from other sources came primarily from the International Development Bank (IDB) with $90.1 million disbursed in 1996 and a projected $1 billion loan program over the next several years. The International Monetary Fund (IMF) disbursed $78.5 million in 1996 under the stand-by facility, following disbursements of $13.7 million in 1995. The World Bank disbursed the second tranche of $30 million under an economic recovery loan approved in 1992. The World Bank also disbursed $1.95 million in loans targeted for rural health and education. Germany, Spain and Japan provided a total of approximately $23 million in commodity and technical assistance in 1996. The European Union provided funding to finance a portion of the Panama Canal Universal Congress, to establish the Panama Canal Museum, and to study future canal traffic, all totaling approximately $1.2 million.

6. Significant Barriers to U.S. Exports and Investment

The Perez Balladares government has followed through on its commitment to liberalize Panama"s trade. With its accession to the WTO and its initiative to further lower tariffs, Panama has transformed a tariff regime that just a few years ago was one of the highest in the region.

Government regulation and occasional intervention in the Panamanian economy have tended to reduce transparency, hinder competition and hamper the efficient allocation of investment. The government"s economic liberalization program has been designed to reduce these distortions and increase competition and competitiveness, but has fallen short in some areas. Bid procedures for certain privatizations and government-financed major projects have been questioned over transparency and there have been some seemingly unjustified rebids, most notably in the ports privatization.

The Panamanian judicial system also presents potential obstacles to investors. There is presently a 100,000 case backlog in criminal and civil cases, increasing at approximately 20,000 per year. In addition, questions have arisen over the potential for corruption in the judicial process. For example, the Assembly brought impeachment proceedings against a Supreme Court Justice last year over bribery allegations, but was deadlocked along party lines.

The combination of relatively high costs for both utilities and labor makes unit production costs higher than average for the region. Also, investors complain of burdensome and excessive product registration requirements. The government is trying, however, through a "one-stop shopping" concept, to make its regulations more investor-friendly for those producing for export.

As a WTO member, Panama"s customs valuation system conforms to international standards. The processing of customs documents for imports is generally fast, efficient, and reliable. However, some importers have complained of product misclassification and, in isolated cases, demands for excessive duties.

In financial services, restrictions on foreign ownership is minimal except for finance companies. U.S. banks, insurance companies and brokerages are welcome and in some cases are lenders in the local market.

7. Export Subsidies Policies

The Universalization Law, enacted in June 1995, allows any company to import raw materials or semi processed goods at a duty of three percent for domestic consumption or production, or duty free for export production. In addition, companies not receiving benefits under the "Special Incentives Law" of 1986 will be allowed a tax deduction of up to 10 percent on their profits from export operations through 2002.

The Tax Credit Certificate (CAT) program, which subsidizes production of non-traditional exports, is being phased out. The new policy allows exporters to receive CATs until 1997 equal to 20 percent of the exports" national value added. From 1997 to 2000, the percentage decreases to 15 percent of value added and the program is eliminated altogether after 2000.

8. Protection of U.S. Intellectual Property

Panama passed Law No. 15 of August 8, 1994 to modernize its copyright protection regime. It was not until October 3, 1995, however, that the Cabinet finally implemented the law via Decree 261. The Legislative Assembly passed a new Industrial Property Law, covering patents and trademarks, in May 1996. It went into effect in November 1996. These measures, if adequately enforced, would significantly improve inadequate past enforcement of intellectual property rights.

The new Copyright Law, with implementing legislation, strengthens copyright protection, facilitates prosecution of copyright violators and makes copyright infringement a felony, punishable by fine and incarceration. The bill also protects computer software as a literary work. The next major challenge for Panama in the copyright field is the creation of the judicial infrastructure necessary to enforce the law.

The Industrial Property Law establishes a standard of 20 years of protection for all patent holders, in place of the former range of 5 to 20 years for Panamanians and 5 to 15 years for foreigners. The bill also protects processes. The laws imposes a working requirement on patent holders, although the patent holder can satisfy the working requirement by importing the product. Under the law, the government is able to issue compulsory licenses only after notice to and a hearing for the patent holder. In addition, a patent holder can still preserve his rights by beginning manufacture or importation within one year of the initial notification of the compulsory licensing proceeding. The recipient of a compulsory license must have the capacity to manufacture the product himself in Panama. The Industrial Property Law also provides for protection of trademarks and trade secrets. It simplifies trademark registration, and gives protection for 10 years, renewable for an unlimited number of additional 10-year periods.

Video and sound recording piracy has long been a problem in Panama. The Recording Industry Association of America alleges that pirates reproduce and distribute cassettes and compact discs from the Colon Free Zone (CFZ) to Panama, Central America, and South America. U.S. firms have also complained about trademark infringement by firms in the CFZ and about use of the CFZ as a transshipment point for pirated products. Panamanian police authorities have raided several CFZ warehouses in response to concerns about illegal transshipments and illegal assembly activity. They also have conducted numerous raids against video clubs and illegal reproduction operations in Panama City and elsewhere in the country. American owners of IPR nevertheless complain that piracy continues on a wide scale and that the Government has not pursued the problem vigorously enough.

Pursuant to a complaint filed by Nintendo of America, the United States Trade Representative (USTR) is conducting an investigation into Panama"s enforcement of intellectual property rights. The outcome of the investigation will determine whether Panama keeps or loses benefits derived from the General System of Preferences and the Caribbean Basin Initiative.

On April 30, 1997, the USTR placed Panama on the Special 301 "Watch List," expressing concern over deficiencies in Panama"s IPR enforcement regime, especially in policing the Colon Free Zone. Panama has made encouraging progress in strengthening its enforcement capability, especially in the Attorney General"s Office. As a result, the USTR removed Panama from the "Watch List" on October 27 and mentioned it in "Other Observations", stipulating that further progress, especially in CFZ enforcement, must be made to avoid being placed on the list at the next regularly scheduled review.

In June 1997, the Legislative Assembly ratified Panama"s accession to the WTO, binding Panama to implement the WTO Agreement on Trade Related Aspects of Intellectual Property. Panama is a member of the World Intellectual Property Organization, the Geneva Phonograms Convention, the Brussels Satellite Convention, the Paris Convention for the Protection of Industrial Property, the Universal Copyright Convention, and the Berne Convention for the Protection of Literary and Artistic Works.

9. Worker Rights

a. *The Right of Association.*—Private sector workers have the right to form and join unions of their choice, subject to registration by the government. Neither the government nor the political parties control or financially support unions. There are 257 active unions, grouped under 6 confederations and 48 federations, representing approximately 10 percent of the employed labor force. Civil service workers are permitted to form public employee associations and federations, though not unions. Union organizations at every level may and do affiliate with international bodies.

b. *The Right to Organize and Bargain Collectively.*—The Labor Code provides most workers with the right to organize and bargain collectively. The law protects union workers from anti union discrimination and requires employers to reinstate workers fired for union activities. The Labor Code also establishes a conciliation board in the Ministry of Labor to resolve complaints and it provides a procedure for arbitration. The Civil Service Law allows most public employees to organize and bargain collectively and grants them a limited right to strike.

c. *Prohibition of Forced or Compulsory Labor.*—The Labor Code prohibits forced or compulsory labor, and neither practice has been reported.

d. *Minimum Age for Employment of Children.*—The Labor Code prohibits the employment of children under 14 years of age as well as those under 15 years if the child has not completed primary school; children under age 16 years cannot work overtime; those under 18 years cannot work at night. Children between the ages of 12 and 15 may perform light farm work that does not interfere with their education. The Ministry of Labor enforces these provisions in response to complaints and may order the termination of unauthorized employment. However, it has not enforced child labor provisions in rural areas due to insufficient staff.

e. *Acceptable Conditions at Work.*—The Labor Code establishes a standard work week of 48 hours and provides for at least one 24-hour rest period weekly. It also establishes minimum wage rates, though in the relatively high cost urban areas, the minimum wage is not sufficient to support a worker and family above the poverty level. The Ministry of Labor does not adequately enforce the minimum wage law due to insufficient personnel and financial resources. The government sets and enforces occupational health and safety standards. It conducts periodic inspections of particularly hazardous employment sites as well as doing so in response to complaints. Workers may remove themselves from situations that present an immediate health or safety hazard without jeopardizing their employment. Health and safety standards generally emphasize safety rather than long-term health hazards. Complaints of health problems continue in the banana, cement, and milling industries.

f. *Rights in Sectors with U.S. Investment.*—Worker rights in sectors with U.S. investment generally mirror those in other sectors. As mentioned above, the banana industry, which has significant U.S. investment, continues to produce complaints of health hazards largely due to workers exposure to pesticides. The Panama Canal operates under separate labor regulations.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		839
Total Manufacturing		150
Food & Kindred Products	2	
Chemicals & Allied Products	[1]	
Metals, Primary & Fabricated	[2]	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	[1]	
Wholesale Trade		559
Banking		80
Finance/Insurance/Real Estate		16,527
Services		108
Other Industries		-7
TOTAL ALL INDUSTRIES		18,256

[1] Suppressed to avoid disclosing data of individual companies.
[2] Indicates a value between $-500,000 and $500,000.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

PERU

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Income, Production and Employment:			
Nominal GDP [2]	47.0	48.4	50.2
Real GDP Growth (pct)	7.0	2.8	6.0
GDP by Sector (percent) [3]			
Agriculture	12.2	12.6	11.0
Fisheries	1.1	1.1	0.9
Mining and Petroleum	10.6	10.7	11.0
Manufacturing	21.9	21.9	22.9
Construction	9.3	8.6	9.3
Government	5.2	5.0	3.9
Commerce	12.4	3.2	4.9
Per Capita GDP (US$)	2,000	2,025	2,075
Labor Force (000s)	7,400	7,550	7,740
Unemployment Rate (pct) [4]	8.4	7.9	8.0
Money and prices: (annual percent change):			
Money Supply (M2)[5]	28.8	23.8	24.5
Consumer Price Inflation [4]	10.2	11.8	8.2
Exchange Rate (sol/US$ - annual average)	2.25	2.45	2.64
Balance of Payment and Trade:			
Total Exports (FOB)	5.6	5.9	7.0
Exports to U.S.[6]	1.0	1.2	1.6
Total Imports (FOB)	7.8	7.9	8.1
Imports from U.S.[6]	1.8	1.8	1.8
Merchandise Trade Balance	-2.2	-2.0	-1.1
Balance with U.S.[6]	-0.8	-0.6	-0.2
Current Account Deficit/GDP (pct)	7.3	5.9	5.0
External Public Debt	25.2	23.4	20.0
Debt Service/Exports	37.5	31.2	24.0
Fiscal Deficit/GDP (pct) [7]	2.7	1.3	0.5
Foreign Exchange Reserves	6.6	8.5	10.5
Aid from U.S. (US$ millions)	112	72	100
Aid from Other Countries (US$ mlns)	275	280	290

[1] 1996 figures are estimates
[2] Peru's GDP is the subject of considerable debate. Estimates within the Government of Peru vary widely. We have used Ministry of Economy and Finance figures here. The National Institute of Statistics is currently constructing a new GDP estimate based on 1994 as a base year.
[3] Estimates for 1996 are for the first nine months of the year.
[4] Lima Metropolitan Area only
[5] Figures are for money supply in national currency only. The majority of financial system liquidity consists of dollars.
[6] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.
[7] Excludes privatization receipts.

Source: Central Reserve Bank, National Institute of Statistics, Ministry of Labor and Embassy estimates.

1. General Policy Framework

Peru is essentially a free market economy which provides significant trade and investment opportunities for U.S. companies. This is due largely to the economic reform program launched by President Alberto Fujimori in 1990 and continued through 1997. Over the past seven years, the Peruvian government has implemented a wide-ranging privatization program, strengthened and simplified its tax system, opened the country to foreign investment, and lifted exchange controls and restrictions on remittances of profits, dividends and royalties.

Macroeconomic/Fiscal Overview: The economy rebounded sharply in 1997: real GDP will probably grow about six percent after growing only 2.8 percent in 1996. In mid-1995, the government began to tighten the monetary base, slowing the economy, over concern for the current account deficit which had risen to over 7 percent of GDP in 1995. The current account deficit will drop to around 5.1 percent of GDP for 1997 as exports pick up and imports level off. Inflation too has been brought under control since the hyperinflationary period Peru experienced in 1989 and 1990. After increasing 11.8 percent in 1996, the consumer price index for 1997 is expected

to rise less than eight percent, the lowest level in 20 years. The government is expected to run a primary budget surplus of 1.5 percent for 1997. Despite Peru's macroeconomic improvement, unemployment and low wages remain significant problems.

Trade Policy: Peru's economy is largely open to imports. As Peru's largest trading partner, the U.S. exported over $1.8 billion to Peru in 1997. Peru's average tariff rate has dropped consistently since it hit 80 percent in 1990. In early 1997, the government reduced the average tariff from about 16 percent to 13 percent, although, for selected agricultural products, the rate can reach as high as 25 percent. As a member of the Andean Community and of the Latin American Integration Association (ALADI), Peru grants duty-free access to many products originating in those countries. Peru is also in negotiations to establish free trade agreements with Chile and Mexico and participates as part of the Andean Community in trade talks with MERCOSUR.

Monetary Policy: The Central Bank manages the money supply and affects interest and exchange rates through open-market operations, rediscounts and reserve requirements on dollar and sol deposits. Dollars account for two thirds of total liquidity (the legacy of hyperinflation), which complicates the government's efforts to manage monetary policy. The Central Bank does not finance the fiscal deficit. Recurrent government expenditures have been in balance with revenues since late 1990, and the combined fiscal deficit (resulting from debt payment) has been financed by external sources. Over the last four years, a strong inflow of foreign capital, primarily from privatizations, has more than offset the merchandise trade deficit, and net foreign reserves have grown to more than $10 billion (they were negative in mid-1990). Peru reached agreement in July 1996 to reschedule its official debt (Paris Club) and closed a deal with its commercial creditors (Brady Plan) in March 1997.

2. Exchange Rate Policy

The exchange rate for the Peruvian new sol is determined by market forces, with some intervention by the Central Bank to stabilize movements. There are no multiple rates. The 1993 constitution guarantees free access to and disposition of foreign currency. There are no restrictions on the purchase, use or remittance of foreign exchange. Exporters conduct transactions freely on the open market and are not required to channel their foreign exchange transactions through the Central Bank.

Some industry groups have been pressuring the government to intervene to devalue the sol, but the government has thus far adhered to its laissez-faire policy. Given the fixation of most Peruvians on the dollar, a real devaluation of the sol will remain difficult to achieve.

3. Structural Policies

In the short span of six years, Peru has been converted from an economy dominated by a protectionist and interventionist state to a liberal economy dominated by the private sector and market forces. Several major state-owned businesses have been privatized in the past four years. Although the timetable for the privatization program has slipped over the past couple of years, the government has said it plans to sell the remaining state-owned enterprises by the end of 1998. Still to be sold are the remaining parts of the petroleum company (Petroperu), the remaining electrical utilities, the water and sewage utilities, and the remaining mining properties. In early 1997, the government announced that it would begin a new phase of the privatization program by selling concessions to build and/or operate public facilities such as airports, roads, and ports. U.S. companies have participated heavily in the privatization program, particularly in the mining, energy, and petroleum sectors.

Price controls, direct subsidies, and restrictions on foreign investment have been eliminated. A major revision of the tax code was enacted at the end of 1992, and the once corrupt and inefficient tax authority (SUNAT) was completely revamped, as was the customs authority. Tax collection has improved from 4 percent of GDP in 1990 to over 14 percent by late 1997. Customs collections have more than tripled since the early 1990s, despite the sharp cut in tariff rates. Although income tax collection has increased, the government still relies heavily on its 18 percent value-added tax (VAT). There are also sometimes high selective consumption taxes on certain items, such as automobiles.

4. Debt Management

Peru's long- and medium-term public external debt at the end of June 1997 totaled about $20 billion—roughly one third of GDP. Total service payments due on the debt for 1997 are estimated at $1.7 billion.

Peru cleared its arrears with the Interamerican Development Bank in September 1991. In March 1993 it cleared its $1.8 billion in arrears to the International Monetary Fund (IMF) and World Bank and negotiated an Extended Fund Facility with the IMF for 1993-95. The Paris Club rescheduled almost $6 billion of Peru's official bilateral debt in 1991. A second Paris Club rescheduling in May 1993 lowered payments for the period March 1993 to March 1996 from $1.1 billion to about $400 million. A third rescheduling was completed on July 20, 1996, under which the Club creditors agreed to reschedule approximately $1 billion in "official debt" payments coming due between 1996 and 1999 and to reschedule some debt originally rescheduled in 1991 in order to smooth out Peru's debt service profile.

Nearly one and one-half years after reaching a preliminary agreement with its commercial creditors, Peru closed out a $10.5 billion Brady Plan commercial debt restructuring in March 1997. The GOP estimates annual obligations under the deal at about $300 million. With the Brady closing and the July Paris Club rescheduling, Peru is now current with nearly all its international creditors.

5. Significant Barriers to U.S. Exports

Almost all non-tariff barriers to U.S. exports and obstacles to direct investment have been eliminated over the past seven years. Import licenses have been abolished for all products except firearms, munitions and explosives; chemical precursors (used in cocaine production); and ammonium nitrate fertilizer, which has been used as a blast enhancer for terrorist car bombs. The following imports are banned: fireworks, used clothing, used shoes, used tires, cars over five years old and trucks over eight years old. Peru became a founding member of WTO in January 1995.

A new tariff structure that went into effect in April 1997 lowered the average tariff rate from 16 to 13 percent but raised tariffs on agricultural products and imposed an additional "temporary" tariff on agricultural goods, in a move to try to promote domestic investment in the sector. Under the new system, a 12 percent tariff applies to more than 95 percent of the value of products imported into Peru; a 20 percent to most of the rest; while a few products are assessed rates (because of the additional "temporary" tariffs) of up to 25 percent. Peru grants duty-free access to a wide range of products originating in countries in the Andean Community and to some products from countries in the Latin American Integration Association (known by its Spanish acronym ALADI).

In addition to the "temporary" tariffs on agricultural goods, another set of import surcharges imposed in May 1991 remain in effect on 20 categories of agricultural products, covering five basic commodities: wheat, rice, corn, sugar and milk products. The surcharges are calculated monthly, according to prevailing international prices for each commodity. The Peruvian government defends the surcharges as necessary to protect Peruvian farmers from subsidized international competition and cushion the effect of an overvalued sol and structural adjustment. In 1993, the government agreed to discuss phasing out the surcharges by 1997 as a condition for disbursement of an Interamerican Development Bank trade-sector loan. The government began reducing the surcharge levels in April 1994. Because of high international prices during 1997, surcharges were practically non-existent.

Customs procedures have been simplified and the customs administration made more efficient in recent years, although some importers have reported valuations problems. As part of the reform of customs Peru implemented a system of preshipment inspections, through which private inspection firms evaluate all incoming shipments worth more than $5,000. The importer must pay up to 1 percent of the FOB value of the goods to cover the cost of the inspection. Some U.S. exporters have complained that the inspection system contributes to customs delays.

There are virtually no barriers to investing in Peru, and national treatment for investors is guaranteed in the 1993 constitution. However, a conflicting provision of law restricts the majority ownership of broadcast media to Peruvian citizens. There are no prohibitions on the repatriation of capital or profits.

6. Export Subsidies Policies

The Peruvian government provides no direct export subsidies. The Andean Development Corporation, of which Peru is a member, provides limited financing to exporters at rates lower than those available from Peruvian banks (but higher than those available to U.S. companies). Exporters can receive rebates of the import duties and a portion of the value-added tax on their inputs. In June 1995, the government approved a simplified drawback scheme for small exporters, allowing them to claim a flat 5-percent rebate, subject to certain restrictions. Exporters can also import, on a temporary basis and without paying duty, goods and machinery that will

be used to generate exports and that will themselves be reexported within 24 months.

7. Protection of U.S. Intellectual Property

Peru passed two new laws in April 1996 designed to improve its intellectual property rights protection regime and to bring its national laws into conformity with Andean Community decisions and other international obligations on intellectual property. While the new laws are an improvement, they contain several deficiencies, and the government will need to make further changes to its laws to come into conformity with the WTO's Agreement on Trade-Related Aspects of Intellectual Property (TRIPS) by the year 2000, when the transition period under the TRIPS agreement ends. The government is generally proactive in promoting and protecting intellectual property rights for domestic and foreign interests. While enforcement has been stepped up, piracy remains widespread. Peru has been on the "watch list" under the "Special 301" provision of the 1988 Trade Act since 1992.

Peru is a signatory to the Berne Convention for the Protection of Literary and Artistic Works, the Universal Copyright Convention, the Paris Convention on Industrial Property, the Geneva Convention for the Protection of Sound Recordings and the Brussels Convention on the Distribution of Satellite Signals and is a member of the World Intellectual Property Organization. In December 1994, the Peruvian Congress ratified the WTO TRIPS agreement.

Patents and Trademarks: Peru's 1996 Industrial Property Rights law provides an effective term of protection for patents and prohibits devices that decode encrypted satellite signals, along with other improvements. In June 1997, based on an agreement reached with the U.S. government, the government of Peru resolved several apparent inconsistencies with the TRIPS agreement provisions on patent protection and most-favored nation treatment for patents in the 1996 law through the issuance of an executive decree. Peruvian law does not provide for pipeline protection for patents or protection from parallel imports. Peruvian law provides for trademark protection, but counterfeiting of trademarks and imports of pirated merchandise are widespread.

Copyrights: Peru's copyright law is generally consistent with the TRIPS agreement. However, textbooks, books on technical subjects, audio cassettes, motion picture videos, and software are widely pirated. While the government, in coordination with the private sector, has conducted numerous raids over the last few years on large-scale distributors and users of pirated goods and has stepped up other types enforcement, piracy continues to be a significant problem for legitimate owners of copyrights in Peru.

9. Worker Rights

Articles 28 and 42 of the Peruvian constitution recognize the right of workers to organize, bargain collectively and strike. Out of an estimated economically active population of 8.5 million, only about five percent belong to unions. More than half the workforce is employed in the informal sector, beyond government regulation and supervision.

a. *The Right of Association.*—Peruvian law allows for multiple forms of unions across company or occupational lines. Workers in probational status or on short-term contracts are not eligible for union membership. Union leaders complain that increasing numbers of employers are hiring workers under temporary personal services contracts to prevent union affiliation. Public employees exercising supervisory responsibilities are excluded from the right to organize and strike, as are the police and military. The amount of time union officials may devote to union work with pay is limited to 30 days per year. Membership or non-membership in a union may not be required as a condition of employment. However, there is no provision in the law requiring employers to reinstate workers fired for union activities. Although some unions have been traditionally associated with political groups, unions are prohibited by law from engaging in explicitly political, religious or profit-making activities. The International Labor Organization (ILO) in June 1996 called on the Peruvian government to enhance freedom of association.

b. *The Right to Organize and Bargain Collectively.*—Bargaining agreements are considered contractual agreements, valid only for the life of the contract. Unless there is a pre-existing labor contract covering an occupation or industry as a whole, unions must negotiate with each company individually. Strikes may be called only after approval by a majority of all workers (union and non-union) voting by secret ballot. Unions in essential public services, as determined by the government, must provide sufficient workers, as determined by the employer, to maintain operations during the strike. Companies may unilaterally suspend collective bargaining agree-

ments for up to 90 days if required by force majeur or economic conditions, with 15 days notice to employees. The Peruvian Congress approved a new employment law in June 1995 that union leaders claim restricts union freedom and the freedom to bargain collectively by making it easier to fire workers. The unions filed a complaint about this new law with the ILO, and the ILO noted that the new law failed to effectively guarantee the protection of workers against acts of anti-union discrimination and to protect workers' organizations against acts of interference by employers.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is prohibited, as is imprisonment for debt. There are periodic reports of forced labor in remote mountainous and jungle areas, which the government claims is located beyond its control. In response to a complaint filed with the ILO, the government in 1994 acknowledged the existence of such practices and said it had taken measures to end them.

d. *Minimum Age of Employment.*—The minimum legal age for employment is 16. Although education through the secondary level is free and compulsory, many school-aged children must work to support their families. Much of the child labor takes place in the informal economy without government supervision of wages or conditions. A recent government study indicated that 8 percent of the workforce was between the ages of six and 14.

e. *Acceptable Conditions of Work.*—The 1993 constitution provides for a maximum eight-hour work day, a 48-hour work week, a weekly day of rest and 30 days annual paid vacation. Workers are promised a "just and sufficient wage" (to be determined by the government in consultation with labor and business representatives) and "adequate protection against arbitrary dismissal." No labor agreement may violate or adversely affect the dignity of the worker. These and other benefits are readily sacrificed by workers in exchange for regular employment, especially in the informal sector.

f. *Rights in Sectors with U.S. Investment.*—U.S. investment in Peru is concentrated primarily in the mining and petroleum sectors, and more recently in electrical generation. Labor conditions in those sectors compare favorably with other parts of the Peruvian economy. Workers are primarily unionized, and wages far exceed the legal minimum.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		194
Total Manufacturing		94
Food & Kindred Products	[1]	
Chemicals & Allied Products	58	
Metals, Primary & Fabricated	6	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	[1]	
Wholesale Trade		60
Banking		[1]
Finance/Insurance/Real Estate		[1]
Services		27
Other Industries		1,475
TOTAL ALL INDUSTRIES		2,075

[1] Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

TRINIDAD and TOBAGO

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Income, Production and Employment:			
GDP (at current prices)	5,201	5,449	5,650
Real GDP Growth (pct)	2.4	3.1	3.7
GDP by sector:			
Services	2,620	2,794	2,905
Agriculture	106	114	118
Petroleum	1,420	1,451	1,462
Manufacturing	445	447	450
Government	526	541	525
Per Capita GDP (actual)	4,116	4,288	4,346
Labor Force (000s)	526	530	545
Unemployment Rate (pct)	17.2	16.2	14.5
Money and Prices (annual percentage growth):			
Money Supply (M2) [2]	3.5	-0.8	5.8
Consumer Price Inflation	5.3	3.6	3.7
Exchange Rate (TT$/US$)	5.89	6.03	6.29
Balance of Payments and Trade:			
Total Exports FOB	2,464	2,490	2,663
Exports to U.S.	941	1,094	1,005
Total Imports CIF	1,937	2,134	2,509
Imports from U.S.	880	800	1,211
Trade Balance	493	341	154
Balance with U.S.[3]	61	294	-206
Current Account Deficit/GDP (pct)	0.8	-0.5	-0.7
External Public Debt	1,905	1,858	1,755
Debt Service Payments/GDP (pct)	8.4	6.0	11.2
Fiscal Deficit/GDP (pct)	-0.002	-0.01	-0.7
Gold and Foreign Exchange Reserves	467	564	[4] 879
Aid from U.S.[5]	0.4	1.0	3.0
Aid from Other Countries	N/A	N/A	N/A

[1] 1997 figures are all estimates based on seven months of data, except as noted. 1995 and 1996 figures have been revised. All statistics compiled by the Central Statistical Office (CSO) except BOP figures which are compiled by the Central Bank.
[2] Through August 1997.
[3] According to CSO, Trinidad and Tobago had a trade deficit with the U.S. of $203 million at the end of July 1997 due to high imports of machinery and materials in April 1997 for use in several petrochemical plants under construction. Projected year -end deficit is based on July data plus average import and export levels for the rest of 1997. U.S. Department of Commerce data available as of October 1997 does not show a U.S. surplus
[4] As of September 1997.
[5] Represents primarily security assistance and counter narcotics program funding. Includes USIA and USDA exchanges.Represents primarily security assistance and counter narcotics program funding. Includes USIA and USDA exchanges.

1. General Policy Framework

Trinidad and Tobago's substantial oil and natural gas reserves made it one of the richest countries in the Western Hemisphere during the oil booms of the seventies and early eighties. Much of the oil revenue windfall was used to subsidize state-owned companies and to fund social and infrastructure projects, which became a drain on government finances. A dramatic increase in domestic consumption contributed to over valuation of the currency with a resulting decline in non-oil exports. The collapse of oil prices in the mid-1980's, and concurrent decrease in Trinidadian oil production caused a severe recession from which Trinidad and Tobago only recovered in 1994. Although structural reforms have begun to stimulate growth in non-hydrocarbon sectors, overall economic prospects remain closely tied to oil, gas and petrochemical prices and production.

Since 1992, the government has successfully turned the state-controlled economy into a market-controlled one. In 1992, it began a large-scale divestment program and has since partially or fully privatized the majority of state-owned companies. The government has also dismantled most trade barriers, with only a small number of products remaining on a "negative list" (requiring import licenses) or subject to import surcharges.

Trinidad and Tobago aggressively courts foreign investors, and initialed a bilateral investment treaty with the United States in 1994 which came into force on December 26, 1996. New U.S. investment grew to US$646 million in 1996, and is expected to top US$1 billion in 1997. Estimates are that new U.S. direct investment over the period 1996-1998 will reach nearly US$2.5 billion.

The government uses a standard array of fiscal and monetary policies to influence the economy, including a 15 percent value-added tax (VAT) and corporate and personal income taxes of up to 35 percent. Improvements in revenue collection since 1993 have boosted VAT, income tax and customs duty revenues dramatically, contributing to small public sector budget surpluses in both 1995 and 1996 in spite of increased outlays. Simplification of the personal income tax regime in 1997, by eliminating many deductions in favor of a set standard deduction, and restructuring of the Board of Inland Revenue were designed to further boost revenue collection. Another surplus, expected to exceed the budgeted target, is likely for 1997.

The exchange rate, which was loosely managed by the Central Bank after it was floated in 1993, has remained relatively stable. It had depreciated by about 4.5 percent through early 1996. In late 1996 and the first half of 1997 supply and demand imbalances led to some volatility. The currency has now depreciated a total of 11.7 percent since flotation, with approximately half of the slide occurring in the fourth quarter of 1996 and first quarter of 1997. The Central Bank relies largely on commercial bank reserve requirements to control the money supply, raising them as high as 23 percent in 1996 (21 percent in October 1997). The Bank has begun to use open-market operations to control liquidity in an effort to reduce local interest rates and spur investment. Inflation has declined steadily since 1991, falling to 3.6 percent in 1996, and holding at 3.7 percent through September 1997.

2. Exchange Rate Policy

In April 1993 the government removed exchange controls and floated the TT dollar, which had been pegged to the U.S. dollar at the rate of TT$4.25 since 1988. After flotation, the TT dollar adjusted to an initial rate of TT$5.76 to one U.S. dollar. The Central Bank loosely manages the rate through currency market interventions and consultations with the commercial banks. The average rate in 1995 stabilized at just under TT$6.00 to US$1.00. In 1996 foreign exchange pressure mounted, and a decision by the Central Bank to allow a freer float led to a depreciation, which went as low as TT$6.23 to US$1.00 in December, 1996. In early November 1997, the rate hovered around TT$6.29 to US$1.00. Foreign exchange supply depends heavily on the quarterly tax payments and purchases of local goods and services by a small number of large multinational firms, of which the most prominent are U.S. owned. Foreign currency for imports, profit remittances, and repatriation of capital is freely available. Only a few reporting requirements have been retained to deter money laundering and tax evasion. The fall in value of the TT dollar from its previous pegged rate of TT$4.25 to US$1.00 lowered imports from the United States in 1993. However, the dismantling of tariff and trade barriers and liberalization of the investment regime led to a 36 percent growth of imports from the United States in 1995. While imports from the U.S. fell slightly in 1996, they are expected to rise sharply in 1997 to over US$ 1 billion, due largely to machinery imports for several mostly U.S.-content petrochemical plants which have begun construction.

3. Structural Policies

Pricing Policies: Generally, the market determines prices. The government maintains domestic price controls only on sugar, schoolbooks, and pharmaceuticals.

Tax Policies: With the exception of Caribbean Community (CARICOM)-origin goods, most goods entering Trinidad and Tobago have been subject to varying import charges, including customs duties, stamp taxes, import surcharges and value-added tax (VAT). Most of these charges have been reduced since 1994. The stamp tax on imports was eliminated as part of the policy of bringing import charges down to the CARICOM Common External Tariff (CET) level. In 1997 the CET ranges from zero to 40 percent. It is being reduced on a phased basis to a maximum of 20 percent by 1998. An increasing variety of raw materials and machinery in approved sectors is exempt from all customs duties. Duties on manufacturing inputs were reduced across the board in August 1995 to 2.5 percent from 5 percent and eliminated in several categories. Import surcharges (additional to CET) of from 5 to 103 percent (the latter only on a very limited range of poultry parts) are still levied on most meats, milk, and some fruits and vegetables, which were previously subject to quotas under the "negative list." The surcharge on meats (except chicken) will be eliminated in 1998. The surcharge for chicken will go from 10 to 5 percent in 1998 and to zero in 1999, and the one for vegetables will go from 30 to 15 percent in

1998 and to zero in 1999. Most of the remaining surcharges will also be phased out by 1999. As part of its tariffication program, in March 1997 the Government of Trinidad and Tobago removed sugar from the negative list, replacing the import license requirement with a 60 percent surcharge on cane and beet sugar, and a 75 percent surcharge on refined sugar. The surcharge is in addition to the 40 percent CARICOM CET on sugar.

The standard rate of VAT is 15 percent; however, many basic commodities are zero-rated. Excise tax is levied only on locally produced petroleum products, tobacco and alcoholic beverages. The corporate tax rate was lowered in 1994 from a maximum of 45 percent to 38 percent, and again in 1995 to 35 percent. While the tax code does not favor foreign investors over local investors, profits on sales to markets outside CARICOM are tax exempt, which benefits firms with non-CARICOM connections.

Regulatory Policies: All imports of food and drugs must satisfy prescribed standards. Imports of meat, live animals and plants, many of which come from the United States, are subject to specific regulations. The import of firearms, ammunition and narcotics are rigidly controlled or prohibited.

4. Debt Management Policies

Trinidad has repaid all but US$ 14.1 million 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), which by mid-1997 was disbursing US$554.1 million in loans. Total external debt has declined steadily, falling to US$1.85 billion at the end of 1996, and declining further to US$1.75 billion in the first quarter of 1997 (latest available figure). The debt to GDP ratio fell to 34 percent in 1996, but debt service as a percent of exports rose from 18.8 percent in 1995 to 19.4 percent in 1996. While total debt continued to decline in 1997, debt service will again increase to cover a large balloon payment due in 1997. Increased exports, however, should lower debt service as a percentage of exports to around 12 percent in 1997.

The lower total debt burden has allowed the government more flexibility in lowering import duties and trade barriers, benefiting U.S. exports. Responsible debt management and macroeconomic stability have led Moody's to upgrade Trinidad and Tobago's sovereign credit rating from BA2 to BA1. Another upgrade is expected after a mid-1997 Moody's review. Standard and Poor's has given Trinidad and Tobago an initial rating of BB+ (Both are among the highest in the hemisphere.)

5. Aid

USAID does not maintain a mission or any active programs in Trinidad and Tobago. The only funding that comes to Trinidad and Tobago either directly or indirectly through USAID is through provision of free condoms to the International Planned Parenthood Federation, which are then transferred to the Trinidad and Tobago Family Planning Association. USAID also approves Section 607 transfers of USG surplus property to a local charitable organization. The total value of transfers under these two programs in 1996 was just over US$ 1 million. The majority of U.S. assistance to Trinidad and Tobago is in the form of support for justice and security and counter-narcotics programs. Expenditures for all Department of Defense programs in Trinidad and Tobago in 1996 totaled US$1.9 million (including salary and transportation costs for training missions). For 1997 Individual Military Education Training (IMET) is funded at US$200,000, and Foreign Military Finance Program (FMF) at US$285,000.

6. Significant Barriers to U.S. Exports

Trinidad and Tobago is highly import-dependent, with the United States supplying about 37.5 percent of total imports in 1996 and an estimated 48.2 percent in 1997. Only a limited number of items remain on the "negative list" (requiring import licenses). These include live poultry, fresh fish and some other seafood, some oils and fats, paper for wrapping tobacco, coconut, copra, left-hand drive vehicles, used right-hand drive vehicles, pesticides, and boats under 250 tons.

Foreign ownership of service companies is permitted. Trinidad and Tobago currently has one wholly U.S.-owned bank, several U.S.-owned air courier services, and one U.S. majority-owned insurance company.

The Trinidad and Tobago Bureau of Standards (TTBS) is responsible for all trade standards except those pertaining to food, drugs and cosmetic items, which the Chemistry, Food and Drug Division of the Ministry of Health monitors. The TTBS uses the ISO 9000 series of standards and is a member of ISONET. Standards, labeling, testing and certification rarely hinder U.S. exports. However, in 1996 and

1997, importers of U.S. goods complained about overly rigid standards for used clothes and tires.

Foreign direct investment is actively encouraged by the government, and there are few if any remaining restrictions. Investment is screened only for eligibility for government incentives and assessment of its environmental impact. Both tax and nontax incentives may be negotiated. On September 26, 1994 the government signed a bilateral investment treaty with the United States, granting national treatment and other benefits to U.S. investors. The treaty came into force on December 26, 1996. The repatriation of capital, dividends, interest, and other distributions and gains on investment may be freely transacted. Several foreign firms have alleged that there are inconsistencies in the granting of long-term work permits. These generally fall into two categories, either that a permit is not granted to an official of a company which is competing with a local firm, or that the authorities threaten not to renew a permit because a foreign firm has not done enough to train and promote a Trinidadian into the position.

Government procurement practices are generally open and fair, with the government and government-owned companies adhering to an open bidding process. Some government entities request prequalification applications from firms, then notify prequalified companies in a selective tender invitation. Trinidad and Tobago signed the Uruguay Round Final Act on April 15, 1994, and became a WTO member on April 1, 1995, but is not a party to the WTO Government Procurement Agreement.

Customs operations are being restructured and streamlined with the help of U.S. government advisors. UNCTAD's ASYCUDA trade facilitation system (automated system for customs data) was adopted on January 1, 1995. Customs clearance can be time consuming because of bureaucratic delays.

7. Export Subsidies Policies

The government does not directly subsidize exports. The state-run Trinidad and Tobago Export Credit Insurance Company insures up to 85 percent of export financing at competitive rates. The government also offers incentives to manufacturers operating in free zones (export processing zones) to encourage foreign and domestic investors. Free zone manufacturers are exempt from customs duties on capital goods, spare parts and raw materials, and all corporate taxes on profits from manufacturing and international sales.

8. Protection of U.S. Intellectual Property

Trinidad and Tobago signed an Intellectual Property Rights Agreement with the United States in 1994 which, along with Trinidad's commitments under the WTO TRIPs agreement, necessitated revisions of most IPR legislation. All new pieces of legislation have been proclaimed by the President. While the government's awareness of the need for IPR protection has improved, enforcement of existing regulations remains lax.

Trinidad and Tobago is a member of the Universal Copyright Convention, the Berne Convention for the Protection of Literary and Artistic Works, the Paris Convention for the Protection of Industrial Property, the Patent Cooperation Treaty, the Classification Treaties and the Budapest Treaty. It became a member of the Brussels Convention in 1996. It has signed, but has yet to deposit its Instruments of Accession to, the Trademark Law Treaty and the 1978 Union for the Protection of New Varieties of Plants. As a member of the Caribbean Basin Initiative, the government is committed to prohibiting unauthorized broadcasts of U.S. programs.

The 1997 Copyright Act became effective as of October 1, 1997. The Act was written with the assistance of the World Intellectual Property Organization, and was forwarded to the United States for comment in compliance with the U.S./Trinidad and Tobago Bilateral Memorandum of Understanding on Intellectual Property Rights. The new Act offers protections equivalent to those available in the U.S. Enforcement of IPR laws remains a concern under the new Act. The Copyright Organization of Trinidad and Tobago has stepped up its enforcement activity since the new law came into effect, but has primarily targeted unauthorized use of locally-produced music products. Video rental outlets in Trinidad and Tobago are replete with pirated videos, and pirated audio cassettes are sold openly in the street and in some stores. Local Cable TV operators feel that they will have to increase rates or eliminate some channels to comply with the new law.

The 1997 Patent Law generally complies with the obligations of the United States-Trinidad and Tobago bilateral IPR agreement and TRIPS with the possible exception of certain compulsory licensing provisions.

The new Trademark Amendment Act came into effect in September 1997. Trademarks can be registered for a period of 10 years, with unlimited renewals. Counterfeiting of trademarks is not a widespread problem in Trinidad and Tobago.

New technologies: Larger firms in Trinidad and Tobago generally obtain legal computer software, but some smaller firms use wholly or partially pirated software or make multiple copies of legally purchased software. Licensed cable companies are faced with unlicensed cable operators and satellite owners who connect neighborhoods to private satellites for a fee. Licensed cable companies provide customers with some U.S. cable channels for which they have not obtained rights, arguing that since these services are not officially for sale in Trinidad, they are not stealing them. The HBO and Cinemax networks have now appointed agents in Trinidad to collect fees.

Given the popularity of U.S. movies and music, and the dominance of the United States in the software market, U.S. copyright holders are the most heavily affected by the lack of copyright enforcement. By signing the IPR agreement, the government has acknowledged that IPR infringement is a deterrent to investment and that it is committed to improving both legislation and enforcement.

9. Worker Rights

a. *The Right of Association.*—The 1972 Industrial Relations Act provides that all workers, including those in state-owned enterprises, may form or join unions of their own choosing without prior authorization. Union membership has declined, with an estimated 20 to 28 percent of the work force organized in 14 active unions. Most unions are independent of government or political party control, although the Sugar Workers Union is historically allied with the UNC party. (The Prime Minister was formally president of the Sugar Workers Union.) The Act prohibits anti-union activities before a union is legally registered, and the Labor Relations Act prohibits retribution against strikers. Both laws contain grievance procedures.

b. *The Right to Organize and Bargain Collectively.*—The right of workers to bargain collectively is established in the Industrial Relations Act of 1972. Anti-union discrimination is prohibited by law. The same laws apply in the export processing zones.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is not explicitly prohibited by law, but there have been no reports of its practice.

d. *Minimum Age for Employment of Children.*—The minimum legal age for workers is 12 years. Children from 12 to 14 years of age may only work in family businesses. Children under the age of 18 may legally work only during daylight hours, with the exception of 16 to 18 year olds, who may work at night in sugar factories. The probation service in the Ministry of Social Development and Family Services is responsible for enforcing child labor provisions, but enforcement is lax. There is no organized exploitation of child labor, but children are often seen begging or working as street vendors. Some are used by criminals as guards or couriers.

e. *Acceptable Conditions of Work.*—There is no national minimum wage; however, the government has set minimum wage standards in 53 job categories in five non-unionized occupational groupings ranging from US$26 to US$57 per week. The rates were to be adjusted for cost-of-living increases at regular intervals, but Parliament has never considered an adjustment since passing the laws. A minimum wage is not sufficient to support a worker and family, but most workers earn more than the minimum. The government has proposed establishing a national minimum wage at TT$7 per hour (about US$1.10/hour). The standard work week is forty hours, with no cap on overtime.

The Factories and Ordinance Bill of 1948 sets occupational health and safety standards in certain industries. State inspectors monitor conditions in work places and workers who refuse to perform work because of hazardous conditions are protected from retribution under the Industrial Relations Act of 1972. New occupational safety and health legislation is under consideration by the government.

f. *Rights in Sectors with U.S. Investment.*—Employee rights and labor laws in sectors with U.S. investment do not differ from those in other sectors.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		479
Total Manufacturing		[1]
Food & Kindred Products	[1]	
Chemicals & Allied Products	[1]	
Metals, Primary & Fabricated	[1]	
Machinery, except Electrical	[2]	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	2	
Wholesale Trade		0
Banking		[1]
Finance/Insurance/Real Estate		13
Services		2
Other Industries		[1]
TOTAL ALL INDUSTRIES		1,057

[1] Suppressed to avoid disclosing data of individual companies.
[2] Indicates a value between $-500,000 and $500,000.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

---

URUGUAY

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated] [1]

	1995	1996	1997 [2]
Income, Production and Employment:			
Nominal GDP [3]	17.7	18.9	19.6
Real GDP Growth (pct)	-2.0	4.9	5.0
GDP by Sector:			
Agriculture	1.7	1.9	2.0
Manufacturing	3.1	3.4	3.4
Services	7.9	8.5	N/A
Government	1.7	1.8	N/A
Per Capita GDP (US$)	5,551	5,918	6,240
Labor Force (000s)	1,344	1,334	1,324
Unemployment Rate (pct)	10.3	11.9	11.5
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	38.2	29.4	25.3
Consumer Price Inflation	35.4	24.3	16.0
Exchange Rate (Uruguayan Peso/US$-annual average)			
Interbank floating selling rate	6.35	7.98	9.5
Balance Of Payments And Trade:			
Total Exports FOB [4]	2.1	2.4	2.7
Exports to U.S. (US$ mlns)	123	167	190
Total Imports CIF [4]	2.9	3.3	3.9
Imports from U.S. (US$ mlns)	282	398	490
Trade Balance [4]	-0.8	-0.9	-1.2
Balance with U.S.(US$ mlns)	-159	-231	-253
External Public Debt	4.9	5.4	5.6
Fiscal Deficit/GDP (pct)	1.6	1.6	1.6
Current Account Deficit/GDP (pct)	1.2	1.6	1.6
Debt Service Payments/GDP (pct)	3.8	3.8	3.5
Gold and Foreign Exchange Reserves (net)	2.0	2.1	2.1
Aid from U.S.(US$ mlns)	1.0	0.44	0.45

Key Economic Indicators—Continued

[Billions of U.S. Dollars unless otherwise indicated] [1]

	1995	1996	1997 [2]
Aid from All Other Sources(US$ mlns)	N/A	62.5	62.5

[1] Data In Uruguayan Pesos Was Converted Into U.S. Dollars At The Average Interbank Selling Rate For Each Year.
[2] 1997 Figures Are All Estimates Based On Available Monthly Data In October 1997.
[3] GDP At Producer Price -Billions Of U.S. Dollars
[4] Merchandise Trade

Sources: Uruguayan Central Bank And National Institute Of Statistics.

1. General Policy Framework

Uruguay has a small, relatively open economy. The historical basis of the economy has been agriculture, particularly livestock production. Agriculture remains important both directly (beef, wool and rice) and indirectly for inputs to other sectors (textiles, leather and meat). Industry, which diversified beyond agro-industry into chemicals and consumer goods for local consumption, has declined in the face of greater competition, and now accounts for only 20 percent of GDP. The service sector, particularly tourism and financial services, now dominates the economy, accounting for over 60 percent of GDP. Banking benefits from Uruguay's open financial system. Per capita income of $6,000 puts Uruguay in the world bank's upper-middle income grouping.

Since the mid-1980s, Uruguay has maintained an open capital account and has allowed unrestricted currency transactions and market-determined interest rates. Liberalization has had the support of the last two administrations, and has included membership in the southern cone common market (MERCOSUR), reduced deficit spending, downsized government, and lower inflation. The government has lifted many state monopolies.

Intra-MERCOSUR harmonization is advancing rapidly, as is trade. Trade with neighboring Argentina and Brazil now accounts for almost half of Uruguay's overall trade with the world. The United States is the third largest Uruguayan trading partner, and since 1991 it has enjoyed a rapidly growing trade surplus. In 1996, the United Sates bought 7.0 percent of Uruguay's exports ($167 million) and provided 12.0 percent of the country's imports ($398 million). Tariff rates have declined to zero percent for most MERCOSUR products. On January 1, 1995, a common external tariff (CET) entered into effect on imports from non-MERCOSUR countries, ranging (with some exceptions) between zero and 20 percent.

The government of President Julio Maria Sanguinetti, which took office in March 1995, has been implementing a three-stage stabilization program consisting of: a) an immediate fiscal adjustment package focused mainly on industrial tax incentives and increased payroll and consumption taxes; b) a medium-term program for government downsizing; and, c) a long-term program for social security reform to address one of the main sources of the deficit. A fiscal adjustment law to implement the tax measures of the stabilization program went into effect in May 1995.

At the end of December 1996, the public sector deficit had decreased to 1.6 percent of GDP, and as of 1997's first-half, the budget deficit is 1.7 percent (on a 12-month basis) mostly explained by the cost of implementing structural reforms. The inflation rate decreased to 24.3 percent for 1996, and the rate for the twelve-month period ending September 1997 had further decreased to 17.0 percent. The Ministry of Finance projects eight percent inflation for 1998.

2. Exchange Rate Policy

The Uruguayan Government allows the peso to float against the dollar within a seven percent range. The band currently rises by 1.0 percent per month and will rise by 0.8 percent starting November 1997. The Central Bank regularly buys and sells dollars to keep the peso's value within the band. The gap between devaluation and inflation was 1.3 percentage points at the end of 1996, and by September 1997 grew to 1.7 percentage points (on a 12-month basis).

Uruguay has no foreign exchange controls. The peso is freely convertible into dollars for transactions and much of the economy is dollarized.

3. Structural Polices

The national government is slowly eliminating redundant functions and divesting itself on non-essential activities. Central administration reform aims to reduce the

number of central government employees by 10,000 out of a total of 40,000. Almost all levels of government are encouraging the private sector to play a greater role, and they are facilitating its access to areas formerly reserved for the state. Many formerly restricted activities have been transferred to the private sector under contract, concession or sale, and the government ended its insurance and mortgage monopolies in 1995. Social security reform is being implemented, lowering the structural government deficit in the long-run. The reform is converting the highly deficit-ridden public system into a solid bifurcated system of public and private providers.

Price controls are limited to a small set of products and services for public consumption, such as bread, milk, passenger transportation, utilities and fuels. The government relies heavily on consumption taxes (value-added and excise) for its general revenue.

4. Debt Management Policies

As of 1997's first quarter, the Uruguayan external debt was $2.7 billion, ninety percent of which is public. Since 1996, Uruguay has been extending the maturity of its debt. Debt service in 1996 was $666 million, equivalent to 18 percent of combined merchandise and service exports, and less than 4 percent of GDP. In late 1996 and 1997, Uruguay's risk classification for long-term debt issued in foreign currency improved to BBB minus (Standard & Poor's, Moody's, Duff & Phelps and Europe's IBCA), reaching investment grade status, and enabling U.S. pension funds to invest in Uruguay.

Total net foreign exchange reserves amounted to $2,100 million as of August 1997, equivalent to 7.5 months of imports, and enough to cover total external debt service for three years. An IMF stand-by program is in place.

5. Aid

Uruguay receives little non-military aid from the United States. From time to time, Uruguay receives excess U.S. defense articles (seven helicopters in 1997). During 1997 Uruguay received US$ 300,000 under the international military education and training program. Bilateral counter narcotics assistance totaled US$ 150,000 in 1997. A Peace Corp program closed in 1997. Using 6 million dollars from a debt reduction program, the United States Government and the Uruguayan Government jointly manage the Americas Fund. This fund is designed to use monies otherwise due to the United States into local environmental and child welfare programs. According to the Uruguayan Presidency's Office Of Budget and Planning, total estimated aid received from all other sources in 1996 and 1997 amounts to 125 million dollars (the Government of Uruguay keeps aid statistics on a two-year basis).

6. Significant Barriers to U.S. Exports

Certain imports require special licenses or customs documents. Among these are pharmaceuticals, some types of medical equipment and chemicals, firearms, radioactive materials, fertilizers, vegetable products, frozen embryos, livestock, bull semen, anabolics, sugar, seeds, hormones, meat and vehicles. To protect Uruguay's important livestock industry, imports of bull semen and embryos also face certain numerical limitations and must comply with animal health requirements, a process which can take years. Bureaucratic delays also add to the cost of imports, although importers report that a "debureaucratization" commission has improved matters.

Few significant restrictions exist in services. U.S. banks continue to be very active in off-shore banking. There are no serious restrictions on professional services such as law, medicine or accounting. Those from abroad wishing to practice these professions in Uruguay, must prove equivalent credentials to those required of locals. Similarly, travel and ticketing services are unrestricted. A law allowing foreign companies to offer insurance coverage in Uruguay was passed in October 1993.

There have been significant limitations on foreign equity participation in certain sectors of the economy. Investment areas regarded as strategic require government authorization. These include electricity, hydrocarbons, banking and finance, railroads, strategic minerals, telecommunications and the press. Uruguay has long owned and operated state monopolies in petroleum, rail freight, telephone service and port administration. Passage of port reform legislation in April 1992 allowed for privatization of various port services. The state-owned natural gas company was privatized in late 1994. Cellular telecommunications are operated by both private consortia and the state-owned phone company (ANTEL). Legislation to privatize ANTEL was overturned by referendum in 1992. Several state-owned firms, however, grant the concession of specific services to privately-owned companies.

Government procurement practices are well-defined, transparent and closely followed. Tenders are generally open to all bidders, foreign and domestic. However, a

government decree establishes that local products or services of equal quality to, and no more than ten percent more expensive than foreign goods or services, shall be given preference. Among foreign bidders, preference will also be given to those who offer to purchase Uruguayan products. Uruguay has not signed the GATT/WTO government procurement code.

Following a recent reduction in the top rate, Uruguay's tariff structure now varies between zero and twenty percent. Most imports from MERCOSUR member countries enter free of duty. The only exemptions to tariff regulations, in the context of anti-dumping legislation, are reference prices and minimum export prices, fixed in relation to international levels and in line with commitments assumed under the WTO. These are applied to neutralize unfair trade practices which threaten to damage national production activity or delay the development of such activities, and are primarily directed at Argentina and Brazil. Minimum export prices have been scheduled to be phased out, but a number are still in effect.

7. Export Subsidies Policies

The government provides a nine percent subsidy to wool fabric and apparel producers using funds from a tax on greasy and washed wool exports. Uruguay is a signatory of the GATT/WTO subsidies code.

8. Protection Of U.S. Intellectual Property

Uruguay's intellectual property rights (IPR) regime does not yet meet international standards. The most serious lack of IPR protection is the specific exclusion of pharmaceuticals and chemical products from patent protection. Uruguay's copyright law dates to 1937; the extent to which it protects computer software is subject to judicial interpretation each time a case is presented. Uruguay is a member of the World Intellectual Property Organization (WIPO) and a party to the Berne Convention, the Universal Copyright Convention (UCC) and the Paris Convention for the protection of industrial property. Registering a foreign trademark without proving a legal commercial connection with the trademark is no longer a possibility; enforcement of trademark rights is adequate. Public/private sector commissions have been drafting IPR legislation on patents, copyrights and trademarks to bring Uruguay up to international standards. None of the bills had been approved by Parliament as of the end of 1997. Uruguay was mentioned in the "Other Observations" section during the 1997 Special 301 review due to difficulties in copyright and patent protection.

The government does not discriminate between foreign and domestic patent holders. Owners and assignees of foreign patents may register patents in Uruguay, provided application is made within three years of registration in the country of origin. Registered patents are protected for ten years, less the period of protection already enjoyed in the country of origin. Licensing is not mandatory. Pharmaceuticals and chemical products are not patentable. The lack of patent protection for pharmaceuticals has had a marked negative effect on U.S. trade and investment in the sector.

Foreign trademarks may be registered in Uruguay and receive the same protection as domestic trademarks. Protection is afforded for ten years initially and is renewable.

Uruguay affords copyright protection to, inter alia, books, records, videos, and software. Despite legal protection, enforcement of copyrights for software is still weak and pirating of software is estimated at 80 percent. Software suppliers have estimated that losses due to pirating are in excess of $10 million. There is also considerable pirating of videotapes and music cassettes. The international intellectual property rights alliance estimates trade losses from copyright piracy of books, motion pictures, sound recordings and musical compositions at over $9 million.

9. Worker Rights

a. *The Right of Association.*—The constitution guarantees the right of workers to organize freely and encourages the formation of unions. Labor unions are independent of government or political party control.

b. *The Right to Organize and Bargain Collectively.*—Collective bargaining takes place on a plant-wide or sector-wide basis, with or without government mediation, as the parties wish.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is prohibited by law and in practice.

d. *Minimum Age for Employment of Children.*—Children as young as 12 may be employed if they have a work permit. Children under the age of 18 may not perform dangerous, fatiguing, or night work, apart from domestic employment.

e. *Acceptable Conditions of Work.*—There is a legislated minimum wage. The standard work week is 48 hours for six days, with overtime compensation. Workers are protected by health and safety standards, which appear to be adhered to in practice.

f. *Rights in Sectors with U.S. Investment.*—Workers in sectors in which there is U.S. investment are provided the same protection as other workers. In many cases, the wages and working conditions for those in U.S.-affiliated industries appear to be better than average.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		[1]
Total Manufacturing		162
Food & Kindred Products	134	
Chemicals & Allied Products	[1]	
Metals, Primary & Fabricated	2	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	[1]	
Wholesale Trade		45
Banking		167
Finance/Insurance/Real Estate		[1]
Services		3
Other Industries		0
TOTAL ALL INDUSTRIES		431

[1] Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis

---

VENEZUELA

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Income, Production and Employment:			
Nominal GDP [2]	76.4	67.0	80.4
Real GDP Growth (pct) [3]	3.4	-1.6	5.0
GDP by Sector:			
Agriculture	3.7	3.3	4.0
Manufacturing	16.5	14.1	16.9
Services	27.3	23.4	26.0
Government	6.4	5.6	6.7
Per Capita GDP (US$)	3,496	3,002	3,525
Labor Force (000s)	8,609	9,025	9,224
Unemployment Rate (pct)	10.2	12.4	11.5
Money and prices (annual percentage growth):			
Money Supply Growth (M2)	36.2	51.9	41.9
Consumer Price Inflation	56.6	103.2	40.0
Exchange Rate (Bs/US$-annual average)			
Official	176.8	[4] 419.4	489.0
Balance of Payments and Trade:			
Total Exports FOB [5]	18.6	22.8	23.9

Key Economic Indicators—Continued

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Exports to U.S.	9.7	12.9	14.9
Total Imports FOB [5]	11.4	10.6	12.5
Imports from U.S.	4.6	4.7	5.9
Trade Balance [5]	7.2	12.2	11.4
Balance with U.S.	5.1	8.2	9.0
External Public Debt	26.9	24.7	23.2
Fiscal Surplus/GDP (pct)	-4.8	6.5	0.1
Current Account Surplus/GDP (pct)	3.0	11.0	8.0
Debt Service Payments/GDP (pct)	7.7	8.2	6.8
Gold and Foreign Exchange Reserves	9.7	15.2	18.3
Aid from U.S. (US$ thousands) [6]	750	800	950
Aid from All Other Sources	N/A	N/A	N/A

[1] 1997 figures are all estimates based on available monthly data in November 1997.
[2] GDP at market value
[3] Percentage changes calculated in local currency
[4] On April 22, 1996, the government abandoned the fixed rate of 290 bolivars to the dollar, eliminated exchange controls, and allowed the currency to float. For the remainder of 1996, the bolivar hovered around 470 bolivars to the dollar. During the period of exchange controls, the parallel rate was the effective exchange rate resulting from the trading of Brady Bonds on the Caracas Stock Exchange.
[5] Merchandise trade
[6] Counternarcotics assistance and aid under the International Military Education and Training Program

1. General Policy Framework

Venezuela is back on a free market footing and experiencing strong economic growth following President Rafael Caldera's decision in April 1996 to abandon a two-year experiment with foreign exchange and price controls. The elimination of the controls, which were put in place to deal with a severe financial crisis in the banking sector, essentially revived the economic liberalization program begun by former President Carlos Andres Perez in 1989. In 1997, most of the banks and insurance companies taken over by the state during the 1994-95 financial crisis were re-privatized. The government also successfully privatized the state steel company SIDOR, selling 60% of the company for $1.72 billion in cash plus assumed debt. President Caldera signed landmark legislation in June 1997 to reform the country's 60-year-old severance pay system, which both business and labor agreed had become an obstacle to competitiveness, job creation and economic growth. Under the old system, departing employees received up to two months pay based on their most recent salary; the new system does away with "retroactivity" (i.e., basing the entire benefit on the most recent salary) and allows employers to calculate their severance benefits annually and to make monthly deposits into a pension fund or similar account.

Venezuela is rich in natural resources, including petroleum, natural gas, hydroelectric power, bauxite, iron ore, coal, gold, and diamonds. The petroleum industry dominates Venezuela's economy, accounting in 1996 for roughly 27 percent of the country's GDP, 61 percent of central government revenues, and 78 percent of export earnings. The role of petroleum is likely to become even more important as the state petroleum company (PDVSA) continues to open the sector to private capital with the goal of doubling production over the next 10 years, from its current level of 3.4 million barrels per day (b/d) to more than 6 million b/d by 2007. At the same time, however, the government has begun efforts to diversify the Venezuelan economy by expanding non-oil exports. Toward that end, the government created a new Ministry of Industry and Commerce in January 1997, which merged the former Ministry of Development with the Foreign Trade Institute. A new Foreign Trade Bank (BANCOEX) also began operations in October 1997 with a charter to promote as well as finance exports. The idea is to make trade policy one of the main instruments of economic development.

Real GDP contracted in 1996 as a result of macroeconomic adjustments, but grew by an estimated five percent in 1997, led by the oil sector (which expanded nine percent). Overall GDP growth is expected to remain strong through 1998. The lifting of exchange controls and the corresponding devaluation caused an inflationary burst in 1996, which pushed the consumer price index to more than 100 percent, the highest level ever recorded in Venezuela. The government cut inflation to 38 percent in 1997 and has announced its goal of reducing inflation to 20 percent in 1998. But those plans may be de-railed by the new labor reforms, continued high public spending, and large inflows of foreign investment, all of which have increased monetary

liquidity. Under the labor reforms, employers had to pay, within six months, a quarter of the severance pay accrued under the old system plus a quarter of the transfer bonus given to workers for making the switch. Public spending continues to be a paramount concern because rather than fulfilling plans to reduce public employees (roughly 15 percent of the labor force), the government has allowed the public bureaucracy to grow at the state and local level. The inflow of foreign capital increased significantly in 1997 as the country's investment climate improved.

2. Exchange Rate Policy

The Central Bank of Venezuela (BCV) has maintained an almost fixed bolivar/dollar exchange rate as an anchor against inflation since the elimination of exchange controls and the large devaluation in April 1996. The BCV's official policy is to manage the bolivar within a 15-percent band of fluctuation and to devalue the central parity of the band at about 1 percent per month, but the actual rate of depreciation of the bolivar has been much less. The bolivar/dollar exchange rate was 470 in May 1996 and only reached the 500 level at the end of 1997. The BCV sells short-term monetary notes (known as TEMS), government bonds (known as DPNS) and dollar reserves to support the bolivar. The BCV can exert considerable influence over the exchange rate because it receives around 80 percent of the country's supply of dollars. PDVSA, the chief earner of foreign exchange, is required by law to sell its dollar proceeds to the BCV, which in turn supplies these dollars to the local market.

At the end of the 1997, there was concern that the bolivar was again overvalued since the exchange rate had remained essentially unchanged in the face of continuing high domestic inflation. Non-traditional and agricultural exports have been hurt and import demand has increased, which in turn has dampened economic growth in the non-oil sector. Nonetheless, the BCV is expected to continue using the bolivar as an anchor against inflation through 1998. The Finance Ministry still retains the right to intervene in the foreign exchange market without consulting the BCV under the 1995 Foreign Exchange Law. Nevertheless, the government is unlikely to resort to foreign exchange controls given its large amount of international reserves and the failure of the controls to stem capital flight during the 1994-95 financial crisis.

3. Structural Policies

Pricing policies: The government lifted price controls on all basic goods and services in April 1996, with the exception of pharmaceuticals, as part of its economic reform program. Price labeling rules were relaxed in 1996. There is no longer a requirement to stamp an unalterable maximum price on items leaving the factory. The government eliminated the remaining subsidy on gasoline in 1997, bringing domestic retail prices up to export prices.

Tax policies: Income received from any economic activity carried out in Venezuela is subject to taxation. The maximum income tax rate for individuals and corporations is 34 percent. Venezuelan law does not differentiate between foreign and Venezuelan-owned companies, except in the petroleum sector. Hydrocarbon revenues of PDVSA are subject to a 67.7 percent income tax, in addition to a 16.7 percent royalty payment on production. Most joint ventures with PDVSA are liable for the same level of income tax, except for those involved in the development and refining of heavy and extra-heavy crudes and off-shore natural gas, which are subject to a reduced rate of 34 percent. The government in September 1996 announced that future projects involving extra-heavy crude oil would also be entitled, on a case-by-case basis, to reductions in the 16.7 percent royalty payment to as low as 1.5 percent.

Since 1993, the government has imposed a one percent corporate assets tax, assessed on the gross value of assets (with no deduction for liabilities) after adjustment for depreciation and inflation. On August 1, 1996, the government raised its wholesale tax, which is also applied against imports, from 12.5 to 16.5 percent. Venezuela also applies a luxury tax, at a rate of 10 or 20 percent, on certain items such as jewelry, yachts, high-priced automobiles and cable television.

4. Debt Management Policies

Venezuela's public sector external debt stood at $24.7 billion at the end of 1996 and was expected to decrease by $1.5 billion during 1997. The 1996 stock of external debt included $17.7 billion in commercial bank debt rescheduled in 1990 and $7.0 billion in nonrestructured debt (including commercial bank debt and military promissory notes). External debt represents about 30 percent of GDP. In 1996, Venezuela's debt service totaled about $5.5 billion, or approximately 24 percent of export earnings. Venezuela also continues to carry a heavy domestic debt burden

largely incurred during the 1994-95 financial crisis and as a result of the 1997 labor reforms. Internal debt service represented 43 percent of total debt service in 1996.

In September 1997, the government carried out a controversial debt swap, in which it issued $4 billion of uncollateralized "global" bonds to replace $4.44 billion worth of Brady bonds. Finance Minister Matos Azocar argued that the swap reduced the government's stock of debt by $440 million, but the Congress countered that the plan would ultimately end up costing the government more as a result of higher annual interest payments and a longer period of repayment. Matos was censured by Congress for failing to seek its authorization before going forward with the bond issue. Soon after, in December 1997, he was forced to resign under Congressional pressure on an unrelated issue.

At the end of 1997, Venezuela was trying to negotiate a new stand-by arrangement with the IMF, which would cover the remaining period left in the current government (i.e., until December 1998). The previous 12-month stand-by agreement expired at the end of June 1997. Venezuela does not expect to draw on the IMF facility, but wants a stand-by arrangement to lend credibility to its reform program.

5. Aid

The United States provides Venezuela counternarcotics assistance as well as aid under the International Military Education and Training Program (IMET). In fiscal year 1997, the United States provided an estimated $600,000 in counternarcotics assistance and $350,000 in IMET training assistance.

6. Significant Barriers to U.S. Exports

General: After many years of following an economic policy based on import substitution, Venezuela began to liberalize its trade regime with its accession to the General Agreement on Tariffs and Trade (GATT) in 1990. Venezuela became a founding member of GATT's successor, the World Trade Organization (WTO), in 1995 following completion of the Uruguay Round negotiations. Venezuela implemented the Andean Pact's Common External Tariff (CET) in 1995, along with Colombia and Ecuador. The CET, with a five-tier tariff structure of 0, 5, 10, 15, and 20 percent, reflects old import substitution ideas as it imposes the highest tariff rates on finished goods and the lowest rates on raw materials and inter mediate products. The country's average import tariff on a trade-weighted basis is roughly 10 percent. Under the Andean Pact's Common Automotive Policy (CAP), assembled passenger vehicles are an exception to the 20-percent maximum tariff and are subject to 35-percent import duties. Imports of used automobiles, used clothing and used tires remain prohibited, even though Venezuela agreed to eliminate all GATT-inconsistent quantitative restrictions by the end of 1993 as part of its accession to the GATT.

Venezuela implemented the Andean Pact price band system in 1995 for certain agricultural products, including feed grains, oil seeds, oiled products, sugar, rice, wheat, milk, pork and poultry. In 1996, yellow corn was added to the price band system. Under the system, ad valorem tariff rates for these products are adjusted according to the relationship between market commodity reference prices and established floor and ceiling prices. When the reference price for a particular market commodity falls below the established floor price, the tariff for that commodity and related products is adjusted upward. Conversely, when the reference price exceeds the established ceiling, the tariff is reduced. Floor and ceiling prices are set once a year based on average CIF prices during the past five years.

Import Licenses: Venezuela does not have an import licensing regime, but sanitary and phytosanitary certificates from the Ministries of Health and Agriculture are required for most pharmaceutical and agricultural imports. The government uses these measures to restrict agricultural and food imports. The import of U.S. poultry has been banned since 1993 on the basis that there is a history of avian influenza in the United States. Agricultural authorities, however, have failed to establish that this disease does not already exist in Venezuela. The government had a similar ban in place against U.S. pork and swine, but that ban was lifted in April 1997 after the Ministry of Agriculture was presented with evidence that porcine reproductive and respiratory syndrome (PRRS) already exists in Venezuela.

The Ministry of Agriculture implemented a yellow corn import licensing system in February 1997, ostensibly to administer its WTO tariff rate quota for sorghum and yellow corn, but in actuality, to enforce domestic sorghum absorption requirements. Under this system, feed manufacturers must purchase a government assigned amount of domestic sorghum, at the official price, in order to obtain import licenses for yellow corn. The Ministry of Agriculture has announced that it may establish similar import license requirements for white corn, rice and powdered milk.

Service Barriers: Professionals working in disciplines covered by national licensing legislation (e.g., law, architecture, engineering, medicine, veterinary practice, economics, business administration/management, accounting, and security services) must re-validate their qualifications at a Venezuelan university and pass the associated professional exam. Foreign journalists who want to work in the domestic Spanish-language media face similar re-validation requirements.

Standards, Testing, Labelling and Certification: The Venezuelan Commission of Industrial Standards (COVENIN) requires certification from COVENIN-approved laboratories for imports of over 300 agricultural and industrial products. U.S. exporters have experienced difficulties in complying with the documentary requirements for issuance of COVENIN certificates. Some Venezuelan importers of U.S. products have alleged that the COVENIN applies these standards more strictly to imports than to domestic products. The government in March 1996 introduced a new requirement for certificates of origin for imports that are "similar to goods which currently have anti dumping or compensatory measures applied to them." Importers complained that the new requirement, which primarily affects textile and garment goods, would be burdensome and time-consuming.

Investment Barriers: Foreign investment is restricted in the petroleum sector, with the exploration, production, refining, transportation, storage, and foreign and domestic sale of hydro-carbons reserved to the government and its entities under the 1975 Hydrocarbons Law. However, private companies may engage in hydrocarbons-related activities through operating contracts, or through equity joint ventures as long as the joint ventures guarantee state control of the operation, are of limited duration, and have the prior authorization of Congress. Since 1993, PDVSA has been opening the oil sector to increasing amounts of foreign investment through operating contracts and joint ventures.

The exploitation of iron ore is also reserved to the state and not open to foreign investment. While there are no formal barriers to foreign investment in the rest of the mining sector (including the processing of iron), the long, drawn-out process for obtaining mining concessions effectively inhibits it. Venezuela limits foreign equity participation (except that from other Andean Community countries) to 19.9 percent in enterprises engaged in television and radio broadcasting; Spanish language press; and professional services subjected to national licensing legislation.

Under the Common Automotive Policy, all automotive assemblers in Venezuela are required to incorporate a minimum amount of regional content. The local content requirement for passenger cars was 32 percent in 1997 and is scheduled to rise to 33 percent for 1998. The government enforces a "one-for-one" policy which requires foreign performers giving concerts in Venezuela to give stage time to national performers. There is also an annual quota regarding the distribution and exhibition of Venezuelan films; a requirement that at least half of the television programming must be dedicated to national programs; and a requirement that a least half of the FM radio broadcasting from 7 a.m. to 10 p.m. be dedicated to Venezuelan music.

Venezuela's Organic Labor Law places quantitative and financial restrictions on the employment decisions made by foreign investors. Article 20 of the law requires that industrial relations managers, personnel managers, captains of ships and air planes, and foremen be Venezuelan. Article 27 limits foreign employment in companies with ten or more employees to 10 percent of the work force, and restricts remuneration for foreign workers to 20 percent of the payroll. The shortage of skilled Venezuelan workers in the booming oil sector makes it difficult for foreign oil companies to meet this requirement. Article 28 allows for temporary exceptions to Article 27 and outlines the requirements to hire technical experts when equivalent Venezuelan personnel are not available.

Government Procurement Practices: The 1990 Law of Tenders states that for general and selective tenders within a "reasonable range," preference will be given to those which score highest on national content, labor impact, national value-added, local participation, and technology transfer. The government also applies an unwritten policy that local goods be purchased unless the price of such goods is 25 percent more than the landed cost of competing foreign products. PDVSA is permitted to make foreign purchases if domestic firms cannot meet quantity, quality or delivery requirements. In addition, imported material supplied by local representatives of foreign manufacturers are classified as "domestic purchases." Companies wanting to sell to a Venezuelan governmental agency must be registered in the National Register of Contractors, which is maintained by the Central Office of Statistics. Venezuela is not a signatory of the WTO Agreement on Government Procurement.

Customs Procedures: Venezuelan customs is plagued by corruption and antiquated procedures which frequently delay the clearance of incoming goods. In Octo-

ber 1996, however, the government took the first step in modernizing customs procedures by initiating a new computerized operation at La Guaira, one of the country's main ports. The computer system, known as SAVIA, automatically classifies incoming shipments and charges the appropriate customs duties based on information supplied by importers. SAVIA increases efficiency and reduces the potential for corruption by choosing at random those containers which need to be inspected. Traditionally, all incoming shipments have been individually opened and appraised by assigned customs agents.

7. Export Subsidies Policies

Venezuela has a duty drawback system that provides exporters with a rebate of customs duties paid on imported inputs. Exporters can also get a rebate of the 16.5 percent wholesale tax that is levied on imported inputs. Foreign as well as domestic companies are eligible for these rebates, which are given in the form of tax refund certificates (CERTs) denominated in bolivars. Exporters of selected agricultural products—coffee, cocoa, some fruits and certain seafood products—receive a tax credit equal to 10 percent of the export's FOB value. President Caldera issued a decree in March 1997 allowing industrial projects (including tourism) that are designed to either generate foreign exchange or to produce goods for the export market to receive an exoneration from the 16.5 percent wholesale tax during their "pre-operative" stage of development. The exoneration is good for up to five years.

8. Protection of Intellectual Property

Intellectual property rights protection in Venezuela has improved significantly over the last few years, but U.S. companies continue to express concern about inadequacies in the enforcement of patents, trademarks and copyrights. The Venezuelan court system has proven to be an unreliable means for pursuing IPR claims. As a result, Venezuela remains on the Special 301 Watch List.

Venezuela is a member of the World Industrial Property Organization (WIPO) and is a signatory to the Berne Convention for the Protection of Literary and Artistic Works, the Geneva Phonograms Convention, the Paris Convention for the Protection of Industrial Property and the Universal Copyright Convention. It has yet to accede to the Patent Cooperation Treaty or the Brussels Convention Relating to the Distribution of Program-Carrying Signals Transmitted by Satellite. Venezuela has ratified, but not yet fully implemented, the WTO Agreement on Trade-Related Aspects of Intellectual Property (TRIPS).

The government took a significant step forward in improving enforcement by forming a special anti-piracy unit (COMANPI) in July 1996 to enforce copyright law. In its first several months of existence, COMANPI had notable success in combating video piracy, while more recently it has concentrated on countering the wide-spread piracy of satellite signals and cable television. The government plans to expand the mandate of COMANPI in 1998 to include enforcement of patents and trademarks as well as copyrights. In March 1997, the government created a new Intellectual Property Office (SAPI), which merges the existing Industrial Property Office (SARPI) with the National Copyright Office. SAPI, which is expected to focus and improve enforcement efforts, is scheduled to become operational in January 1998. A new customs law, which includes measures to impede the importation of pirated goods, has been approved by the Chamber of Deputies and is expected to win full approval of the Congress in early 1998.

Patents: Andean Pact Decisions 344 and 345, which came into effect in 1994, are comprehensive and offer a significant improvement over previous standards of protection for patents and trademarks provided by Venezuela's 1955 Industrial Property Law. The Decisions are faulty, however, since they include compulsory licensing provisions, working requirements, and restrictions on biotechnical inventions. In addition, the Decisions deny pharmaceutical patent protection for medicines listed on the World Health Organization' List of Essential Drugs, and they lack provisions concerning transitional ("pipeline") protection and protection from parallel imports. The Decisions also lack provisions for enforcing intellectual property rights. Venezuela has been pressing to begin the process of modifying Decision 344 to make it consistent with TRIPS, but other Andean Community members prefer to wait until closer to the TRIPS implementation deadline of January 1, 2000. The government has proposed legislation to update the 1955 Industrial Property Law, but it is still awaiting action by Congress.

Trademarks: Decision 344 improves protection for famous trademarks, prohibits the co-existence of similar marks, and provides for cancellation of trademark registrations based on "bad faith." However, problems remain with Venezuela's trademark application process. Current procedures enable local pirates to produce and

sell counterfeit products, despite their involvement in lengthy opposition proceedings. Trademark piracy is common in the clothing, toy and sporting goods sector and enforcement remains inadequate.

Copyrights: Andean Pact Decision 351 and Venezuela's 1993 Copyright Law are modern and comprehensive and have substantially improved protection of copyright products in Venezuela. The Copyright Law extended copyright protection to all creative works, including computer software. Despite the arrival of COMANPI, computer software and video piracy is still common. Unauthorized reception and retransmission of U.S. satellite signals and services is also widespread.

New Technologies: Decision 351 and Venezuela's Copyright Law protect computer software, satellite signals and cable television, but enforcement is still inadequate. Decision 344 excludes from patent protection diagnostic procedures, animals, genetic material obtained from humans and many natural products but includes provisions for the protection of industrial secrets.

9. Worker Rights

a. *The Right of Association.*—Both the Constitution and labor law recognize and encourage the right of unions to organize. The comprehensive 1990 Labor Code extends to all private sector and public sector employees (except members of the armed forces) the right to form and join unions of their choosing. One major union confederation, the Venezuelan Confederation of Workers (CTV), and three smaller ones, as well as a number of independent unions, operate freely. About 25 percent of the national labor force is unionized.

b. *The Right to Organize and Bargain Collectively.*—The Labor Code protects and encourages collective bargaining, which is freely practiced. Employers must negotiate a collective contract with the union that represents the majority of their workers. The code also contains a provision stating that wages may be raised by administrative decree, provided that the Congress approves the decree. The law prohibits employers from interfering with the formation of unions or with their activities and from stipulating as a condition of employment that new workers must abstain from union activity or must join a specified union.

c. *Prohibition of Forced or Compulsory Labor.*—The Labor Code states that no one may "obligate others to work against their will."

d. *Minimum Age for Employment of Children.*—The Labor Code allows children between the ages of 12 and 14 years to work only if the National Institute for Minors or the Labor Ministry grants special permission. Children between the ages of 14 and 16, however, need only the permission of their legal guardians. Minors may not work in mines or smelters, in occupations "that risk life or health" or could damage intellectual or moral development, or in "public spectacles." Those under 16 years of age cannot work more than six hours a day or 30 hours a week. Minors under the age of 18 years may work only during the hours between 6 a.m. and 7 p.m.

e. *Acceptable Conditions of Work.*—Effective May 1997, the monthly minimum wage for the private sector is $151 (74,640 bolivars) for urban workers and $137 (67,940 bolivars) for rural workers. The law excludes only domestic workers and concierges from coverage under the minimum wage decrees. The Ministry of Labor enforces minimum wage rates effectively in the formal sector of the economy, but generally does not enforce them in the informal sector. The 1990 Labor Code reduced the standard work week to a maximum of 44 hours, and requires "two complete days of rest each week." The Code also states that employers are obligated to pay specific amounts (up to a maximum of 25 times the minimum monthly salary) to workers for accidents or occupational illnesses, regardless of who is responsible for the injury.

f. *Rights in Sectors with U.S. Investment.*—Workers in sectors in which there is U.S. investment are provided the same protection as other workers. The wages and working conditions for those in U.S.-affiliated industries are better than average in the majority of cases.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category	Amount
Petroleum	489

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996—Continued

[Millions of U.S. dollars]

Category		Amount
Total Manufacturing		1597
Food & Kindred Products	430	
Chemicals & Allied Products	190	
Metals, Primary & Fabricated	62	
Machinery, except Electrical	75	
Electric & Electronic Equipment	17	
Transportation Equipment	285	
Other Manufacturing	539	
Wholesale Trade		325
Banking		[1]
Finance/Insurance/Real Estate		139
Services		[1]
Other Industries		952
TOTAL ALL INDUSTRIES		3,592

[1] Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

NEAR EAST AND NORTH AFRICA

ALGERIA

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Income, Production and Employment:			
Nominal GDP [2]	41,578	45,741	45,996
GDP by sectors:[2]			
Agriculture	4,295	4,971	3,866
Manufacturing	4,379	4,245	4,077
Construction	4,225	4,399	4,493
Hydrocarbons	10,615	13,404	14,144
Services	9,571	10,071	10,288
Government	8,493	8,651	9,128
Real GDP Growth [3]	3.2	4.1	-1.5
Real per capital GDP	1,459	1,493	1,444
Labor force (millions)	7.56	7.81	7.95
Unemployment rate (pct)	28.1	27.9	28.5
Fiscal deficit/GDP (pct)	-1.5	3.0	1.4
Money and prices (annual percentage):			
Money supply (M2)	10.5	14.4	17.9
Consumer price index	29.8	18.7	5.0
Exch. rate (annual avg)			
Official [4]	47.3	54.7	57.3
Balance of Payments and Trade:			
Total exports	10,940	13,960	13,870
Oil/gas	9,730	12,640	12,390
Total imports CIF	12,110	11,240	9,760
Trade balance	-1,170	2,720	4,110
Exports to U.S.[6]	1,810	2,270	2,730
Imports from U.S.[6]	775	632	685
Balance with U.S	1,040	1,640	2,050
Current account deficit/GDP (pct)	-5.4	2.8	5.6
External public debt	31,573	33,651	34,000
Debt service/GDP (pct)	11.2	8.9	10.0
Gold and foreign exchance reserves	4,110	6,230	7,520
Aid from U.S.[7]	165	165	156
Aid from all sources [8]	349	420	312

[1] U.S. Embassy estimates based on partial data furnished by Algeria's Central Bank and its National Economic and Social Council
[2] GDP at current market price
[3] Percentage changes calculated in local currency
[4] Bank of Algeria and U.S. Embassy estimate
[5] U.S. Embassy estimates
[6] 1997 Data, nine months USDOC data projected
[7] In thousand dollars, IMET and USIA exchanges
[8] OECD DAC data for 1993, 1994, 1995; net ODA disbursements including rom multilateral institutions

1. General Policy Framework

The Algerian market presents significant commercial opportunities to U.S. exporters. Algeria has major oil and gas reserves being readied for nearby export markets, and U.S. technology and know-how are highly prized. While the hydrocarbon sector is already a large market for U.S. exports, there are other markets for U.S. goods

and services in Algeria. The government has deregulated the trade sector. Higher export earnings and debt payment rescheduling have provided banks with foreign exchange to finance imports. Algeria has a growing population, and its infrastructure is in desperate need of renovation. Many of its industrial firms have equipment that was purchased 20 to 30 years ago. Over the medium and long term, Algeria should thus be a large and expanding market for U.S. exports of food, machinery, modern services and investment capital.

U.S. exports to Algeria rose about 8.4 percent in 1997.This is still about 12.0 percent below that of 1995. Despite Algeria's extremely poor agricultural harvest in 1996-1997, U.S. food exports to Algeria fell short of peak levels attained previously. Lack of USG-guaranteed medium-term credits placed U.S. exporters at a disadvantage in competition with European firms. In addition, in 1997 Sonatrach and its partners initiated fewer new hydrocarbon capital investment projects than during the previous two years. This development led to a reduced demand for imports of equipment of U.S. origin for the sector in which United States-Algerian commercial ties are strongest.

During the next two years, Algeria's domestic consumption and investment is expected to rise as the government will loosen slightly the tight fiscal and monetary policies that it has been pursuing these last three years in conjunction with an IMF-backed reform program. The government believes that it can prudently pursue a growth-oriented policy, given the budget surpluses it had in 1996 and 1997. These were 3.0 percent and 1.4 percent of gross domestic product, respectively. The government achieved these surpluses largely because of unusually firm oil prices and consequent larger-than-expected hydrocarbon tax revenues and because of a cap on budgetary expenditures, in particular those associated with various public investment projects. This year's surplus again enabled the government to pay off a part of Algeria's domestic public debt.

The instruments of monetary policy in Algeria remain limited. The Bank of Algeria controls monetary growth primarily via bank lending limits. Interest rates are set by the government. In late 1997 the Central Bank rediscount rate stood at 11.0 percent, and commercial bank lending rates ranged between 13.0 and 17.5 percent. Although the government has sold bonds to help finance its deficit, total sales remain relatively small.

High interest rates restrict private investment in Algeria, as have lower real government capital expenditures. In addition, the unstable security environment raises investment risk. As a result, private businessmen in Algeria rarely undertake projects which do not promise payback within a few years.

2. Exchange Rate Policy

The dinar is convertible for all current account transactions, and may be fully convertible by the end of 1998. Meanwhile, private and public importers may buy foreign exchange from five commercial banks for commercial transactions. Since the end of 1995, banks can obtain foreign exchange in a full-fledged interbank foreign exchange market. Although commercial banks may buy foreign exchange from the Bank of Algeria at regular weekly auctions, at which is set the price of the dinar, they are no longer required to surrender to the Bank of Algeria the foreign exchange they acquire elsewhere and may trade these resources among themselves. However, since the Central Bank buys the hydrocarbon export proceeds of the national oil company, Sonatrach, the Bank plays the dominant role in the foreign exchange market. The primary objective of its intervention policy is to avoid sharp fluctuations of the exchange rate.

3. Structural Policy

The government has changed major aspects of its regulatory, pricing, and tax policies as part of its overall structural adjustment program during the past four years. It has loosened its tight hold on state-owned company purchase, production, and pricing decisions in order to give their managers greater autonomy. During late spring 1997 the government suspended its program of emergency financing for state-owned firms that had recourse to such funding to cover overdrafts and otherwise pay off outstanding debt. The government also pursued its policy of eliminating subsidies and partially removed those on energy products at the end of the year.

The government transformed its ordinary budget deficits of 1994 and 1995 into surpluses in 1996 and 1997 largely because of increases in revenues related to hydrocarbon exports, which accounted for about 60 percent of fiscal revenues during the last two years. It derived nearly all of its remaining budgetary revenues from indirect taxes and customs duties. In 1996, the government modified its import duty schedule so that eight different rates cover all foodstuffs, semi-finished, and finished

products, the top rate being 45 percent in 1997. The IMF has recommended that the government at least double its income tax collection as a percent of gross national product. It accounted for only 1.6 percent in 1995, fell to 1.3 percent in 1996, and may not have exceeded the latter percentage in 1997. Members of the World Trade Organization are actively considering Algeria's request for membership in the organization.

4. Debt Management

Algeria rescheduled much of its $32 billion foreign debt following the conclusion of an IMF Standby Agreement in April 1994 and a subsequent three-year extended fund facility in April 1995. The most important accord reached in 1995 was the rescheduling of $7.5 billion due to the Paris Club countries between 1995 and 1998. It was then agreed that Algeria could reschedule some of its interest payments. The government also concluded a $3.2 billion rescheduling agreement with London Club bankers in May 1995 which allows the Bank of Algeria to delay payments until 2000.

Algeria's Central Bank estimated the 1995 rescheduling deferred the payment of debt totaling $3.6 billion, which then enabled Algeria to finance a 9.4 percent hike in imports from 1994 levels. Although the government projected at that time that imports would continue to rise about six percent annually for the remainder of the decade, imports declined 7.2 percent in 1996 and again by 13.2 percent in 1997. Meanwhile, Algeria's foreign exchange reserves rose from $4.1 billion in 1995 to $7.5 billion in 1997.

Algeria continued to meet its IMF-backed Extended Fund Facility obligations throughout 1997. Since the expected payment of principal and interest on the debt that has been rescheduled calls for disbursements of $5.21, $5.81, $5.63, and $5.51 billion during the next four years, respectively, the Central Bank believes it can limit to under fifty percent the share of export earnings that will be used for debt service during the next four years. As a result of the rescheduling and a rise in exports, the share of export earnings spent on debt service payments fell from 49 percent in 1994 to 33 percent in 1997. The Central Bank forecasts that debt service as a proportion of exports will be 36.8 percent, 37.8 percent, 33.5 percent, and 30.3 percent during 1998-2001.

In order to meet this debt service and support an increase in the real output of goods and services, the government is counting on hydrocarbon export revenues remaining at least at the current level and on a substantial rise in non-hydrocarbon export revenues between now and the end of this decade. While the former is feasible if crude oil continues to sell at $18.00 a barrel or more, the latter is less likely. Petroleum and gas export earnings rose from $9.7 billion in 1995 to $12.4 billion in 1997. However, non-hydrocarbon exports totaled only $280 million in 1994. While these exports rose to $750 million in 1996, $180 million of this then represented exports to Russia that were accepted as reimbursement of bilateral debt. Algeria's non-hydrocarbon exports totaled $570 million in 1997.

The Central Bank is estimating that the growth of Algeria's gross domestic product (GDP) in value terms will be about 6.5 percent per annum during the next four years (1997-2001). The Central Bank assumes that Algeria's balance of payments will be such during this period that its stock of outstanding debt will decline by more than $4.0 billion between 1997 and 2001 (from $34.0 billion to $29.7 billion). Under these assumptions, outstanding debt as a proportion of GDP will decline from 69.7 percent to 47.8 percent by the end of the period.

5. Barriers to U.S. Exports

Algeria has largely deregulated its merchandise trade regime. Import licenses are no longer required. The only imports which are prohibited for security or religious reasons are firearms, explosives, narcotics, and pork products. The government insists on particular testing, labeling, or certification requirements being met, however. The Ministry of Health requires distributors to obtain authorizations to sell imported drugs, which must have been marketed in their country of origin before they may be imported. Government regulations stipulate that imported products, particularly consumer goods, must be labeled in Arabic and French. This regulation is being enforced. Algeria's customs administration has simplified import clearance procedures, but the process remains time-consuming.

The government has deregulated some service sectors, notably insurance and banking. Air couriers are allowed to operate in Algeria subject to approval of the Algerian Ministry of Post and Telecommunications (PTT). DHL offers service in several Algerian cities. Although the PTT has a monopoly on all telecommunications

services, it permits the local production, importation, and distribution of telecommunications equipment.

There are no absolute barriers to or limitations on foreign investment in Algeria. The 1991 Hydrocarbons Sector Law and the 1991 Mining Law govern investments in these two sectors. Production sharing agreements are routine. A 1993 investment code broadly deregulated the investment regime in other sectors.

The Algerian government's procurement practices do not adversely affect U.S. exports. Algeria participates officially in the Arab League Boycott against Israel, but we know of no instance in which U.S. firms have been disadvantaged by Algeria's policy in this regard. The government occasionally uses counter trade practices to encourage the sale of goods locally produced.

6. Export Subsidy Policies

About 90 percent of Algeria's export revenues are derived from oil and natural gas exports. The government does not provide direct subsidies for hydrocarbon or non-hydrocarbon exports. The government reactivated a Non-Hydrocarbon Exports Insurance and Guarantee Program in 1996, but it has had little effect. Electric power remains subsidized despite recent rate hikes, which confers an implicit subsidy to Algerian exporters and final consumers. The benefit of this subsidy is offset by the cost effect of an overvalued dinar (its official rate is slightly above the parallel rate), the effect of which is an implicit tax on Algerian exporters. Almost all export restrictions have been removed, the exceptions being palm seedlings, sheep, and artifacts of historical and archaeological significance.

7. Protection of U.S. Intellectual Property

Algeria is a member of the Paris Industrial Property Convention and the 1952 Convention on Copyrights. Algerian legislation protects intellectual property and its enforcement is adequate. We know of no reports of cases of infringement, counterfeiting, or piracy.

Patents: Patents are protected by the Law of December 7, 1993 and administered by the Institut Algerien de Normalisation et de Propriete Industrielle (INAPI). Patents are granted for 20 years from the date the patent request is filed and are available for all areas of technology.

Trademarks: Trademark protection is afforded by the laws of March 19, 1966 and of July 16, 1976. In 1986, authority for the granting and enforcement of trademark protection was transferred from INAPI to the Centre National du Registre du Commerce (CNRC). INAPI sources indicate that a new law is under consideration which would transfer trademark authority back to INAPI.

Copyrights: An April 1973 Algerian law provides copyright protection for books, plays, musical compositions, films, paintings, sculpture and photographs. The law also grants the author the right to control the commercial exploitation or marketing of the above products. The 1973 law is being amended to include protection for (among other things) videos and radio programs.

Algeria's intellectual property practices have had no adverse affect on U.S. trade. We have received no reports from U.S. firms of losses of export or investment opportunities due to imported or locally-produced counterfeit or pirated goods.

8. Worker Rights

a. *The Right of Association.*—Workers may form and be represented by trade unions of their choice. Government approval for the creation of a union is required. Unions may not affiliate with political parties or receive funds from abroad, and the government may suspend a union's activities if it violates the law. Unions may form and join federations or confederations, and they have affiliations with international labor bodies.

b. *The Right to Organize and Bargain Collectively.*—A 1990 law permits all unions to engage in collective bargaining. This right has been freely practiced. While the law prohibits discrimination by employers against union members and organizers, there have been instances of retaliation against strike organizers. Unions may recruit members at the workplace.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor has not been practiced in Algeria and is incompatible with the constitution.

d. *Minimum Age of Employment of Children.*—The minimum employment age is 16 years and inspectors can enforce this regulation. In practice, many children work part- or full-time in small private workshops and in informal sector trade.

e. *Acceptable Conditions of Work.*—The 1990 Law on Work Relations defines the overall framework for acceptable conditions of work. The law mandates a 40-hour work week. A guaranteed monthly minimum wage of 6,000 Algerian dinars ($100) has been set by the government. A decree regulates occupational and health standards. Work practices that are not contrary to the regulations regarding hours, salaries, and other work conditions are left to the discretion of employers in consultation with employees.

f. *Worker Rights in Sectors with U.S. Investment.*—Nearly all of the U.S. investment in Algeria is in the hydrocarbon sector. Algerian workers in this sector enjoy all the rights defined above. These workers at American firms enjoy better pay and safety than do fellow workers elsewhere in the economy.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		[1]
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
Banking		0
Finance/Insurance/Real Estate		0
Services		0
Other Industries		[1]
TOTAL ALL INDUSTRIES		600

[1] Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis

BAHRAIN

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Income, Production and Employment:			
Nominal GDP Growth (percent)	4.0	6.1	5.0
GDP By Sector:			
Agriculture	52	58	58
Manufacturing	1,108	1,043	1,050
Services	1,157	1,157	1,157
Government	979	991	991
GDP Per Capita	8,720	8,941	8,900
Labor Force (000)	258	231	235
Unemployment Rate (percent)	15	15	15
Money and prices (annual percentage growth):			
Money Supply (M2)	6.1	2.9	2.1
Exchange Rate (US$/BD)	2.65	2.65	2.65
Balance of Payments and Trade:			
Total Exports [2] (FOB)	4,102	4,590	4,500
Exports to U.S.	130.5	106.5	100
Total Imports (CIF)	3,706	4,082	4,100
Imports from U.S	271.2	301.5	300.0

Key Economic Indicators—Continued

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Trade Balance	396.0	508.5	400.0
Trade Balance with U.S.[3]	-141	-195	-200.0
External Public Debt	N/A	N/A	N/A
Current Account Deficit/GDP (percent)	3	0	0
Debt Service Payments/GDP (percent)	N/A	N/A	N/A
Gold And Foreign Exchange Reserves	959	1,037	1,000
Aid from U.S.	0	0	0
Aid from All Other Sources	50.0	50.0	50.0

[1] 1997 Figures are all estimates based on availablemonthly data in October 1997.
[2] Exports include transhipment which accounts for 14 percent of non-oil exports from Bahrain.
[3] Figures reflect merchandise trade.

1. General Policy Framework

Although the government of Bahrain has controlling interest in many of the island's major industrial establishments, its overall approach to economic policy, especially those policies which affect demand for U.S. exports, can best be described as laissez faire. Except for certain basic foodstuffs, the price of goods in Bahrain is determined by market forces, and the importation and distribution of foreign commodities and manufactured products is carried out by the private sector. Owing to its historical position as a regional trading center, Bahrain has a well developed and highly competitive mercantile sector in which products from the entire world are represented. Import duties are primarily a revenue device for the government and are assessed at a ten percent rate on most products. The Bahraini Dinar (BD) is freely convertible, and there are no restrictions on the remittance of capital or profits. With the exception of the petroleum sector, Bahrain does not tax either corporate or individual earnings. Bahrain is a member of the WTO.

Over the past two decades, the Government of Bahrain has encouraged economic diversification by investing directly in such basic industries as aluminum smelting, petrochemicals, and ship repair, and by creating a regulatory framework which has fostered Bahrain's development as a regional financial and commercial center. Despite diversification efforts, the oil and gas sector remains the cornerstone of the economy. Oil and gas revenues constitute over 55 percent of governmental revenues, and oil and related products account for about 80 percent of the island's exports. Bahrain's oil production amounts to about 40,000 barrels a day and it receives oil revenues from the 140,000 b/d produced from Saudi Arabia's Abu Sa'fa off-shore oilfield.

The budgetary accounts for the central government are prepared on a biennial basis. The budget for 1997 and 1998 was approved in December 1996. Budgetary revenues consist primarily of receipts from oil and gas, supplemented by fees and charges for services, customs duties, and investment income. Bahrain has no income taxes and thus does not use its tax system to implement social or investment policies. In 1996, revenue was $1.63 billion and expenditures were $1.83 billion. The resulting $198 million shortfall is being financed through the issuance of three-month and six-month treasury bills to domestic banks according to the normal practice of recent years. Budget figures for 1998 project an additional $198 million deficit which also will be financed through the issuance of treasury bills.

The instruments of monetary policy available to the Bahrain Monetary Agency (BMA) are limited. Treasury bills are used to regulate dinar liquidity positions of the commercial banks. Liquidity to the banks is provided now through secondary operations in treasury bills, including: (a) discounting treasury bills; and (b) sales by banks of bills to the BMA with a simultaneous agreement to repurchase at a later date ("repos") starting in 1985, the BMA imposed a reserve requirement on commercial banks equal to five percent of dinar liabilities. Although the BMA has no legal authority to fix interest rates, it has published recommended rates for bahraini dinar deposits since 1975. In 1982, the BMA instructed the commercial banks to observe a maximum margin of one percent over their cost of funds, as determined by the recommended deposit rates, for loans to prime customers. In August 1988, special interest rate ceilings for consumer loans were introduced. In May 1989, the maximum prime rate was abolished, and in February 1990, new guidelines permitting the issuance of dinar Certificates of Deposit (CD's) at freely negotiated rates for any maturity from six months to five years were published.

2. Exchange Rate Policies

Since December 1980, Bahrain has maintained a fixed relationship between the bahraini dinar and the U.S. dollar at the rate of one U.S. dollar equals 0.377 BD. Bahrain maintains a fully open exchange system free of restrictions on payments and transfers. There is no black market or parallel exchange rate.

3. Structural Policies

As a member of the six-nation Gulf Cooperation Council (GCC), Bahrain participates fully in GCC efforts to achieve greater economic integration among its member states (Kuwait, Oman, Qatar, Saudi Arabia, the United Arab Emirates, and Bahrain). In addition to according duty-free treatment to imports from other GCC states, Bahrain has adopted GCC food product labeling and automobile standards. Efforts are underway within the GCC to enlarge the scope of cooperation in fields such as product standards and industrial investment coordination. In recent years, the GCC has focused its attention on negotiations on a trade agreement with the European Union. If these negotiations are successfully concluded, such an agreement could have a long-term adverse impact on the competitiveness of U.S. products within the GCC, including Bahrain. Bahrain is an active participant in the ongoing U.S.-GCC economic dialogue. For the present, U.S. products and services compete on an equal footing with those of other non-GCC foreign suppliers. Bahrain participates officially in the primary Arab league economic boycott against Israel, but does not observe secondary and tertiary boycott policies against third-country firms having economic relationships with Israel.

With the exception of a few basic foodstuffs and petroleum product prices, the Government of Bahrain does not attempt to control prices on the local market. Because most manufactured products sold in Bahrain are imported, prices are basically dependent upon the source of supply, shipping costs, and agents' mark-ups. Since the opening of the Saudi Arabia-Bahrain causeway in 1985, local merchants are less able to maintain excessive margins, and as a consequence, prices have tended to fall toward the levels prevailing in other GCC countries.

Bahrain is essentially tax-free. The only corporate income tax in Bahrain is levied on oil, gas, and petroleum companies. there is no individual income tax, nor does the island have any value added tax, property tax, or production tax. Bahrain has customs duties and a few indirect and excise taxes, which include a tax on gasoline, a ten percent levy on rents paid by residential tenants, a 12.5 percent tax on office rents, and a 15 percent tax on hotel room rates are imposed.

4. Debt Management Policies

The Government of Bahrain follows a policy of strictly limiting its official indebtedness to foreign financial institutions. To date, it has financed its budget deficit through local banks. Bahrain has no International Monetary Fund or World Bank programs.

5. Aid

Bahrain receives budgetary support and project grants from Saudi Arabia, Kuwait, and the United Arab Emirates. On April 1, 1996, Saudi Arabia began giving Bahrain 100 percent of the revenue from the 140,000 barrels per day of oil produced from the offshore Abu Sa'fa field.

6. Significant Barriers to U.S. Exports

Standards: Processed food items imported into Bahrain are subject to strict shelf life and labeling requirements. Pharmaceutical products must be imported directly from a manufacturer which has a research department and must be licensed in at least two other GCC countries, one of which must be Saudi Arabia.

Investment: The government actively promotes foreign investment and in recent years promulgated regulations permitting 100 percent foreign ownership of new industrial enterprises and the establishment of representative offices or branches of foreign companies without local sponsors. Most other commercial investments are subject to government approval and generally must be made in partnership with a Bahraini national controlling 51 percent of the equity. except for citizens of Kuwait, Saudi Arabia, and the United Arab Emirates, Foreign Nationals are not permitted to purchase land in Bahrain. The government encourages the employment of local nationals by setting local national employment targets in each sector and by restricting the issuance of expatriate labor permits.

Government procurement practices: The government makes major purchasing decisions through the tendering process. For major projects, the ministries of works

and agriculture, and of power and water, extend invitations to selected, prequalified firms. Likewise, construction companies bidding on government construction projects must be registered with the Ministry of Works and Agriculture. Smaller contracts are handled by individual Ministries and Departments and are not subject to prequalification.

Customs procedures: The customs clearance process is used to enforce the primary boycott of Israel. While goods produced by formerly blacklisted firms may be subjected to minor delays, the secondary and tertiary boycotts are no longer used as the basis for denying customs clearance, and the process of removing firms from the blacklist has become routine, upon application by the subject firm. Bahraini customs also enforces the commercial agencies law. Goods manufactured by a firm with a registered agent in Bahrain may only be imported by that agent, or, if by a third party, upon payment of a commission to the registered agent.

7. Export Subsidies Policies

The Government of Bahrain provides indirect export subsidies in the form of preferential rates for electricity, water, and natural gas to selected industrial establishments. The government also permits the duty-free importation of raw material inputs for incorporation into products for export and the duty-free importation of equipment and machinery for newly established export industries. The government does not specifically target subsidies to small businesses. Bahrain is a member of the World Trade Organization.

8. Protection of U.S. Intellectual Property

Bahrain has a good patent and trademark law; there are few, if any, reports of violations of U.S. Patents and Trademarks in Bahrain, and pharmaceutical companies in particular have expressed satisfaction with the law. However, the country's 1993 copyright protection law is deficient and, until recently, the gob was not actively involved in enforcement. Bahrain, recently, has stepped up enforcement of copyright piracy, however, it was retained on the special 301 watch list following the April 1997 review. In February 1995, Bahrain joined the World Intellectual Property Organization (WIPO), and it signed the Bern Convention for the Protection of Literary and Artistic Works and the Paris Convention for the Protection of Industrial Property on October 29, 1996. Moreover, government officials responsible for IPR enforcement have opened a dialogue with embassy officials concerning Bahrain's 301 watch list status.

The 1993 Copyright Law does not give explicit protection to sound recordings although the Bahrain government has said that its protection of musical works includes sound recordings. Similarly, it explicitly protects only those foreign works "first published in Bahrain" and works of Arab authors who are citizens of states that have ratified the Arab Convention for the Protection of authors. The law does, however, explicitly extend copyright protection to computer programs, and it includes a definition of such programs.

Piracy of U.S. intellectual property, including audio and video cassettes and computer software, is a serious problem. Copies of newly released films appear in Bahrain soon after they are released to theaters in the U.S. Some of these originate as hand-held videocamera recordings made during theater performances; others are copied from promotional cassettes or from pay-tv programs. Legitimate video or laser disc copies of films also are used as originals to produce high quality pirated copies, but normally without payment of additional royalties.

The Copyright Protection Office (CPO), under the jurisdiction of the Ministry of Cabinet Affairs and Information, registers intellectual property works and provides verification of registration. The CPO, however, has no active role in actually enforcing copyrights. Copyright holders are responsible for filing and pursuing private lawsuits against any copyright infringements. In its first nine months of existence, the CPO registered only five copyrights (movies, computer programs, and books combined, but no sound recordings).

9. Worker Rights

a. *The Right of Association.*—The partially suspended 1973 constitution recognizes the right of workers to organize, but western-style trade unions do not exist in Bahrain, and the government does not encourage their formation. Article 27 of Bahrain's Constitution states: "freedom to form associations and trade unions on national bases and for lawful objectives and by peaceful means shall be guaranteed in accordance with the conditions and in the manner prescribed by the law. No person shall be compelled to join or remain in any association or union."

In response to labor unrest in the mid-1950's and in 1965 and 1974, the government passed a series of labor regulations which, among other things, allow the formation of elected workers' committees in larger Bahraini companies. Worker representation in Bahrain today is based on a system of Joint Labor-management Committees (JLC's) established by Ministerial decree. Between 1981 and 1984, 12 JLC's were established in the major state-owned industries. In 1994, four new JLC's were established in the private sector, including one in a major hotel.

b. *The Right to Organize and Bargain Collectively.*—Bahraini labor law neither grants nor denies workers the right to organize and bargain collectively. While the JLC's described above are empowered to discuss labor disputes, organize workers' services, and discuss wages, working conditions, and productivity, the workers have no independent, recognized vehicle for representing their interests on these or other labor-related issues.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is prohibited in Bahrain, and the Labor Ministry is charged with enforcing the law. The press often performs an ombudsman function on labor problems, reporting instances in which private sector employers occasionally compelled foreign workers from developing countries to perform work not specified in their contracts, as well as Labor Ministry responses. Once a complaint has been lodged by a worker, the Labor Ministry opens an investigation and takes action.

d. *Minimum Age for Employment of Children.*—The minimum age for employment is 14. Juveniles between the ages of 14 and 16 may not be employed in hazardous conditions or at night, and may not work over six hours per day or on a piecework basis. Child labor laws are effectively enforced by Labor Ministry inspectors in the industrial sector; child labor outside that sector is less well monitored, but it is not believed to be significant outside family-operated businesses.

e. *Acceptable Conditions of Work.*—Minimum wage scales, set by government decree, exist for public sector employees and generally afford a decent standard of living for workers and their families. Current minimum wage for the public sector is 236.60 dollars (91 dinars) a month. wages in the private sector are determined on a contract basis. For foreign workers, employers consider benefits such as annual trips home and housing and education bonuses part of the salary.

Bahrain's labor law mandates acceptable working conditions for all adult workers, including adequate standards regarding hours of work (maximum 48 hours per week) and occupational safety and health. Complaints brought before the Labor Ministry which cannot be settled through arbitration must, by law, be referred to the fourth high court (labor) within 15 days. In practice, most employers prefer to settle such disputes through arbitration, particularly since the court and labor law are generally considered to favor the worker.

f. *Rights in Sectors with U.S. Investment.*—U.S. capital investment in Bahrain is concentrated in the petroleum sector. It primarily consists of minority share interests in the Bahrain Petroleum Company, the Bahrain National Gas Company, and the Bahrain Aviation Fuelling Company. There are also joint venture factories producing plastic bottle caps, tissues, and pipes. Workers at all these companies enjoy the same rights and conditions as other workers in Bahrain.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		-59
Total Manufacturing		[1]
Food & Kindred Products	[1]	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	-5	
Other Manufacturing		
Wholesale Trade		[1]
Banking		-46
Finance/Insurance/Real Estate		[1]

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996—Continued

[Millions of U.S. dollars]

Category	Amount
Services	5
Other Industries	0
TOTAL ALL INDUSTRIES	-30

[1] Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis

EGYPT

Key Economic Indicators [1]

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997
Income, Production and Employment:			
GDP (at current factor cost)	56.3	63.1	72
Real GDP Growth (pct)	4.7	5.0	5.3
GDP by Sector:			
Agriculture	7.0	7.3	N/A
Industry/Mining	7.3	7.9	N/A
Of Which: Petroleum	4.3	4.3	N/A
Services	20.5	26.1	N/A
Government	3.1	3.3	N/A
Per Capita GDP (US$)	730	738	1233
Labor Force (in millions)	16.5	17.4	N/A
Unemployment Rate (pct)	9.6	9.4	N/A
Money and prices:			
Money Supply (M2)	11.1	10.5	5.1
Consumer Price Inflation	9.4	7.3	6.2
Exchange Rate (LE/US$-annual average)			
Market Rate	3.39	3.39	3.39
Balance of Payments and Trade:			
Total Exports FOB	5.0	4.6	4.9
Exports to U.S.	0.6	0.7	N/A
Total Imports CIF	12.8	13.8	14.4
Imports from U.S.	3.0	3.0	N/A
Trade Balance	-7.9	-9.2	-9.5
Balance with U.S.	-2.4	-2.4	N/A
Current Account Balance/GDP (pct)	0.7	-0.2	0.8
External Public Debt	33.0	31.4	28.8
Debt Service Payments/GDP (pct)	3.4	3.2	2.5
Fiscal Deficit/GDP (pct)	1.5	1.3	0.8
Gold and Foreign Exchange Reserves	16.7	17.5	20.3
Aid from U.S.	1.9	2.3	N/A
Aid from All Other Sources	N/A	N/A	N/A

[1] Except as noted, all figures are for Egyptian fiscal years 1994/5; 1995/6 and 1996/7 running from July through June. Primary sources are Egyptian and U.S. government data and IMF international financial statistics.
[2] Bilateral trade figures are based on calendar years.
[3] Aid figures are based on calendar years.

1. General Policy Framework

Egypt continues to institute reforms to reduce the State's role and increase reliance on market mechanisms. In 1991, Egypt lifted most foreign exchange controls, unified the exchange rate, instituted a sales tax, reduced the budget deficit, freed interest rates and began financing the deficit through Treasury bill auctions. In the last five years, a stable Egyptian pound (LE) exchange rate against the dollar and high interest rates have prompted dedollarization and fed a steady growth in the

money supply. In early 1996, following the creation of a new government, Egypt entered a critical new phase of economic reform. The new Cabinet is focusing on improving Egypt's export competitiveness, liberalizing its trading regime, encouraging the private sector, eliminating obstacles to doing business in Egypt and improving Egypt's investment climate. The Cabinet continues to enjoy broad-based support among Egyptian businessmen and positive reviews from international observers.

In 1993, the 314 public sector enterprises were organized into 17 holding companies, which are permitted to sell, lease or liquidate company assets and to sell government-owned shares. According to government estimates, the state enterprise sector's book value amounts to LE 90 billion ($27 billion). Egypt's commitment to privatization is repeatedly affirmed by government top officials who seem to be convinced that reform is the right policy and committed to push the process through. Nevertheless, its international credibility as a willing seller could be weakened by the significant slow down in the privatization program in 1997. In January 1997, the government announced its plan for the year: to privatize 33 companies through anchor investor sales and 12 companies in initial public offerings (IPOs). Only 28 companies were sold in 1997.

A sluggish stock market through much of 1997 contributed to the slowdown in IPO sales. For example, three second tranche offerings of previous IPOs failed in the third quarter of 1997. It was only when the downward trend of the stock market had bottomed out later in the year that the GOE was able to proceed with IPO sales. The fourth quarter saw the pace of privatization speed up, perhaps fueled by GOE keenness to maintain the international credibility of the economy in the aftermath of Luxor incident. Out of the 28 companies privatized in 1997, 16 companies have been privatized in the fourth quarter. This brings the number of firms that have been privatized up to 70 out of 314 public enterprises and the balance of sales proceeds to LE12.6bn.

To date only 10 companies have been sold to anchor investors (AI). Problems encountered with AI sales seem to have inspired the GOE to proceed further with privatizations, even when the possibility of a successful IPO is remote. The GOE should be encouraged to continue to consider the ai option, where appropriate, as it can yield the benefit of a rapid transfer of technical and managerial expertise. Better information and a more transparent privatization process could help alleviate the public's unease with AI sales, as well as boost international investor confidence.

The GOE has made recent progress in removing some of the hurdles to the privatization program, such as in the areas of valuation and pricing of public enterprises. The GOE has been keen on raising disclosure and reporting standards to international levels. Plans to restructure 80 troublesome public enterprises have been announced. International firms will be called to acquire stakes in public enterprises and take over management. Late in 1997 the GOE announced that Egypt Telecom will be changed into a joint stake company as a step toward its privatization. The same approach will be applied to electricity generation companies which are set for merger and then privatization. The 1998 program includes the sale of 50 public enterprises. The GOE is also opening to the private sector key areas to the private sector key areas long owned by the public sector as a matter of national interest. These include sectors like maritime services, telecommunications and major infrastructure projects. Meeting these ambitious targets will be a real challenge for the GOE.

While these policies are encouraging, considerable work still needs to be done to foster the growth of private sector. For example, local and overseas businessmen continue to site pervasive red tape as a barrier to investment and economic growth. Although most commodity import bans were eliminated in 1993, key areas of domestic industry remain protected by relatively high tariff rates. With some exceptions, Egypt's maximum tariff stands at 50 percent, with a trade weighted average of 17 percent in 1996.

The United States is Egypt's largest supplier, with 1995 exports to Egypt nearing $2.9 billion. Approximately $200 million worth of exports are financed annually through USAID's Commodity Import Program, $800 million through various USAID projects and about $165 million under Department of Agriculture programs (GSM 102). A substantial portion of the $1.3 billion in U.S. military assistance finances U.S. exports to Egypt.

2. Exchange Rate Policy

In November 1991 Egypt adopted a free market exchange system subject only to Central Bank buying and selling intervention. High interest rates and stable exchange rates have stimulated large capital inflows and dedollarization of the econ-

omy. Central Bank foreign exchange reserves stand at a substantial $20.4 billion. New inflows are concentrated in short-term deposits and Treasury bills, but medium-term corporate issues and Treasury bonds are now also being offered. In June 1996, the Parliament passed a bill amending the banking law that allows foreign ownership in joint venture banks to exceed 49 percent, thus encouraging greater competition. In July 1996, another bill eliminated one of the articles of Foreign Exchange Law 39/1994 that placed a restriction of five years on the repatriation of Egyptian real estate sale proceeds owned by foreigners residing outside Egypt.

Exchange rate stability and the sharp increase in the availability of hard currency should increase opportunities for U.S. exports to Egypt.

3. Structural Policies

The Egyptian government freed all industrial prices with the exception of pharmaceuticals, cigarettes, rationed sugar, and rationed edible oil. It still subsidizes mass-consumption of bread, which stimulates demand for U.S. wheat. The government has shown no sign of relaxing price controls on pharmaceutical products, which are administered inflexibly and hinder U.S. and other foreign pharmaceutical sales. While energy, transportation and water prices are expected to remain administered, price increases have brought domestic petroleum product prices to about 88 percent of international prices and electricity prices to about 77 percent of long-run marginal costs. (the exact figure remains in dispute between the World Bank and the government.) The government is also in the process of deregulating the cotton sector and reactivating the cotton exchange.

Effective October 1, 1996, Egypt again reduced tariffs across the board by 10 to 15 percent, lowering the maximum tariff from 70 percent to 55 percent. the maximum tariff was further reduced to 50 percent in July 1997. Another round of cuts in august 1997 lowered rates on a number of selected capital and consumer goods. rates went from 30 percent to 5 percent on computer software, from 30 percent to 15 percent on various processed foods, and from 35 percent to 10 percent on gold jewelry.

Egypt instituted a general sales tax (GST) in May 1991, but the tax is currently applied to importers and manufacturers only. Fear of social unrest has made the government reluctant to develop the GST into a full value-added tax. Taxes on certain consumer goods (alcoholic and soft drinks, tobacco and petroleum products) not integrated in the GST were raised and progressively converted to ad valorem taxes. A unified income tax has been adopted which reduces marginal tax rates, simplifies the tax rate structure, and aims to improve administration of tax policy.

4. Debt Management Policies

In early 1991, official creditors in the Paris Club agreed to reduce by 50 percent the net present value of Egypt's official debt, phased in three tranches of 15, 15 and 20 percent. Release of the three tranches was conditioned on successful review of Egypt's reform program by the IMF. At about the same time, the United States forgave $6.8 billion of high-interest military debt. As a result, Egypt's total outstanding medium- and long-term debt has declined to about USD 31 billion, and debt service payments have been reduced from 46 percent of export earnings to around 10 percent. Egypt has cleared up its arrearages to Paris Club creditor countries and is committed to remaining current on its Paris Club payments. The reduction in Egypt's debt service bill has helped it reduce dramatically the budget deficit, create macroeconomic stability and build a high level of reserves.

In 1996, Egypt began a new round of discussions with the IMF. In October 1996, the two sides agreed to an ambitious package of structural reform measures through 1998, and the IMF approved a USD 291 million Precautionary Stand-By Agreement for Egypt. Given the success of its economic policies, Egypt has not had to draw on this facility. The arrangement with the IMF paved the way for the release of the final $4.2 billion tranche of Paris Club relief, reducing Egypt's annual debt servicing burden by $350 million.

5. Significant Barriers to U.S. Exports

Egypt participated in the Uruguay Round negotiations and became a member of the World Trade Organization in June 1995.

Import barriers: U.S. exports face a number of import barriers, such as high tariffs and quality control requirements that discriminate against imports. In 1996, Egypt's new prime minister reaffirmed the country's commitment to an economic reform program, supported by the IMF and the World Bank, to liberalize Egypt's highly centralized and regulated economy. Egypt does not require import licenses. For food and non-food imports that have a limited shelf-life, the government mandates

that they should not exceed half the shelf-life at time of entry into Egypt. The importation of commodities manufactured using ozone-depleting chemicals is prohibited.

Services barriers: The Egyptian government runs many service industries either partially or entirely, including airports and ports. However, private firms dominate advertising, accounting, car rental and a wide range of consulting services. Egypt participated in the December 1997 WTO financial services negotiations and is currently modifying laws and regulations in accordance with its commitments.

Banking: Since March 1993, Egypt has allowed existing foreign bank branches to conduct local currency operations. Two U.S. bank branches have received licenses to do so. Foreign brokers are permitted to operate in the Egyptian stock exchange. In June 1996, the parliament passed a bill amending the banking law and allowing foreign ownership in joint venture banks to exceed 49 percent, thus encouraging greater competition. While committee to privatizing one of the nation's four national banks (which dominate the market with more than 70 percent of deposits), the GOE missed its objective of identifying by the end of 1997 which bank is to be privatized. An amendment to the banking law must be passed in order to allow the privatization of a national bank.

Securities: international investors are permitted to operate in the Egyptian stock market largely without restriction. Several new entrants, including U.S. and European firms, have established or purchased stakes in brokerage firms in 1997.

Insurance: A law passed in 1995 permits foreign companies to hold a minority stake in Egyptian insurance companies. Foreign firms may also operate as majority share holders in the free trade zones and in reinsurance, neither of which is likely to prove attractive to foreign investors. Four public-sector companies (one of which is a reinsurance company) dominate the market. There are five private sector insurance companies, three of which are joint ventures with U.S. firms. Two of the joint ventures are operating in the free zones. Effective January 1, 1998, foreign insurance companies can operate in Egypt with up to 100 percent ownership. In the WTO financial services negotiations, the U.S. asked Egypt to eliminate the economic needs test in life, health, and personal accident insurance in the year 2000, and non-life insurance in the year 2002. the U.S. also asked Egypt to delete a proposed limitation on market access for life, health, and person accident insurance: The U.S. further requested Egypt to consider making insurance brokerage commitments, at least on a phased-in basis, by 2002 or 2003.

Telecommunications: Egypt has begun to open its telecommunications market to international participation by negotiating large build-own-operate-transfer (BOOT) contracts with U.S. and other foreign companies. These contracts include fixed line and equivalent services as well as pay telephones. The former ARENTO (Arab Republic of Egypt National Telecommunications Organization), which became known as telecom Egypt in 1997, is also preparing to spin off mobile telephone operations to a new company or companies with some private ownership. Mobile telephone became available in Egypt in November 1996 and demand is high. Egypt was not a signatory to the WTO Basic Telecommunications Agreement concluded in February 1997 and was not involved in the negotiations. Improvement in telecom Egypt procurement procedures and the overall regulatory framework of the multi-billion dollar Egyptian telecommunications market would help ensure that U.S. firms can compete fairly.

Maritime transportation: maritime transport lines have in recent history been operated as a government monopoly. As of January 6, 1998, this changed when the Egyptian parliament passed a law allowing private ownership of maritime transportation companies. Inefficient state run ports and airports have imposed heavy costs on the Egyptian economy, constituting a barrier to increased trade and investment.

Standards, testing, labeling and certification: Many items removed from the ban list, including meat, fruits, vegetables, household appliance, and transformers, were added to the list of commodities requiring inspection for quality control before importation. Agricultural commodities have been increasingly subject to quarantine inspection, so much so that some importers have begun scheduling pre-inspection visits to the U.S. to facilitate import procedures upon arrival in Egypt. In August 1994, five more items were added to the list, which now consists of 131 items, including foodstuffs, spare parts, construction products, electronic devices, appliances, and many consumer goods.

Although Egyptian authorities stress that standards applied to imports are the same as those applied to domestically-produced goods, importers report that testing procedures for imports differ, and that tests are carried out with faulty equipment by testers who often make arbitrary judgments. Five Egyptian ministries or agen-

cies make rules for agricultural imports and issue permits: Agriculture, Health, Economy, Industry, and Scientific Research. The rules conflict with international practice. For example, the Ministry of Health's regulations for labeling processed food conflict with those of the ministry of industry.

Further, Egypt sets the shelf life of processed foods by regulation, as opposed to the standard international practice of allowing producers to determine the life of their product. Early in 1994, the government decreed that (mainly food) products entering Egyptian ports must have 50 percent or more of their shelf life remaining. Egyptian shelf life standards ignore quality differences between producers and often have been established without scientific basis. An August 1994 decree extended shelf life standards to certain non food imports, such as syringes and catheters.

Product specification also can be a barrier to trade. For example, Egyptian standard no. 1522 of 1991 concerning inspection of imported frozen meat requires that meat imported for direct consumption contain no more than seven percent fat, a level virtually never reached in premium beef exports. Sales of up to $2 million of high quality U.S. beef annually have been jeopardized. Egypt has not yet developed clear standards for determining if imported poultry parts are derived from poultry slaughtered according to Islamic rules. Once these standards are in place, Egypt will lift the ban on imports of poultry parts. The U.S. is currently challenging these standards in the WTO committee on agriculture.

Decrees recently issued by the Ministries of Trade and Supply and Agriculture are expected to have an immediate and detrimental effect on U.S. exports of meat and poultry to Egypt, unless current efforts to have them modified or rescinded are successful. For example, the decree issued by the Ministry of Trade and Supply requires, inter alia, that the name and address of the Egyptian importer be included on the label which must be inserted in each package. That information often is not available at the time the product is packed. The decree signed by the Minister of Agriculture, but not yet in effect, would require Egyptian importers to cover the cost of pre-inspection at site of all consignments destined for the Egyptian market, a cost that importers who deal in small quantities will not be able to afford.

All imported goods are required to be marked and labeled on each package in Arabic with the brand and type of the product, country of origin, date of production and expiry date, and any special requirements for transportation and handling of the product. An Arabic-language catalog must accompany imported tools, machines and equipment. Although standards for vehicles are still lacking, the government mandates that cars imported for commercial purposes must be accompanied by a certificate from the manufacturer stating that they are suited for tropical climates.

Investment barriers: under the 1992 U.S.—Egypt Bilateral Investment Treaty (BIT), Egypt is obliged to maintain critical elements of an open investment regime, including national and MFN treatment of foreign investment (with exceptions limited by the treaty), free financial transfers, and international law standards for expropriation and compensation. Moreover, the BIT establishes procedures for U.S. investors in Egypt to enforce the treaty's obligations directly including through international arbitration. Generally, current Egyptian law meets or surpasses BIT standards in all categories.

In principle, investors are now assured of automatic approval for projects in sectors which do not appear on a "negative list". This "negative list" includes the following: military and related products; tobacco and tobacco products; and investment in the Sinai (except for exploration of oil, gas and mineral resources). Amendments in 1995 permit majority Egyptian investments in the Sinai in any sector.

In May 1997, President Mubarak signed a new law reaffirming basic guarantees for investors and modifying the framework for investment incentives. It offers automatic approval for most new-to-market companies and particular advantages for investors in 16 sectors including agriculture, maritime transportation, and computer software development. The new law still permits the General Authority for Free Zones and Investment (GAFI), now a unit of the Ministry of Economy, substantial discretion in granting investment incentives. In general, incentives are geographically based to encourage investment outside Cairo, with tax holidays up to 20 years available to companies located in parts of upper Egypt. As a result, grandfathering of pre-existing incentives has been denied to some recently established U.S. companies for planned expansions of operations in major cities.

Government procurement practices: Egypt by law gives national bidders a 15 percent price advantage on government tenders. Closed bidding is rare, as national law requires tendering for all significant projects. The tender process is subject to frequent complaints of lack of transparency, poor enforcement of rules, and rigged outcomes. As in other markets, U.S. companies claim that European and Asian com-

petitors make payments to win tenders that are forbidden under the U.S. law. Such claims are difficult to assess. Egypt is not a signatory of the WTO Government Procurement Agreement.

The government recently proposed amendments to its 1983 procurement law to the Egyptian parliament, but withdrew them for further study before the last session ended in June 1997. However, changes to the 1994 statute governing arbitration approved in 1997 allow the parties to agree to appoint any accepted legal body to arbitrate disputes between public enterprises and private domestic and international suppliers. In the past, the only recourse was the state council, which took years, in some cases, to settle disputes.

Customs procedures: in 1993, Egypt adopted the harmonized system of customs classification. Exporters and importers claim, however, that customs duty assessment is often arbitrary, and rates charged are often higher than prescribed in the tariff code. Tariff valuation is calculated from the so-called "Egyptian selling price" which is based on the commercial invoice that accompanies a product the first time it is imported. Customs authorities retain information from the original commercial invoice and expect subsequent imports of the same product (regardless of the supplier) to have a value no lower than that noted on the invoice from the first shipment. As a result of this presumption of increasing prices, and the belief that underinvoicing is widely practiced, customs officials routinely increase invoice values from 10-30 percent for customs valuation purposes.

6. Export Subsidies Policies

Direct export subsidies do not exist in Egypt. Exporting industries, including investment law 8 projects, may benefit from duty exemptions on imported inputs (if released under the temporary release system) or receive rebates on duties paid on imported inputs at the time of export of the final product (if released under the drawback system). Under its commitments to the world bank, the Egyptian government has increased energy and cotton procurement prices, and has abolished privileges enjoyed by public sector enterprises (subsidized inputs, credit facilities, reduced energy prices and preferential custom rates), thus reducing the indirect subsidization of exports.

7. Protection of U.S. Intellectual Property

Egypt, as a party to the Berne Convention for the protection of literacy and artistic works and the Paris Convention for the protection of industrial property, bears a commitment to protect U.S. inventions, trademarks, and artistic works. The government passed an improved copyright law in 1992 and added software protection in early 1994.

In April 1994, the U.S. Trade Representative (USTR) lowered Egypt from the Special 301 "Priority Watch List" to the "Watch List" due to improvements in copyright protection, and in 1995, the USTR placed Egypt on the list of countries "to be monitored for progress achieved." The United States is working closely with Egypt to improve intellectual property rights protection. However, due to lack of progress in this area, Egypt was placed again on the "Watch List" in 1996 and then the "Priority Watch List" in 1997.

Copyright piracy, while still an issue, has been greatly reduced since 1993. It still affects most categories of works, including motion pictures (in video cassette format), sound recordings, printed matter (notably medical textbooks) and computer software. The People's Assembly passed amendments to Egypt's 1954 copyright law in June 1992. Penalties against piracy were increased substantially and computer software was afforded specific protection. In March 1994, the People's Assembly passed additional amendments which treat computer software as a literary work, thus ensuring a fifty year term of protection consistent with the Berne convention. The government initially made considerable progress in enforcing the new regulations, but suspended enforcement for a one year period beginning in June 1996 to allow more time for the local business community to adjust. The U.S. government and U.S. firms have worked closely with Egypt in this area, and effective steps resumed in August 1997 to combat software piracy.

The existing Egyptian patent law dates from 1949 and provides protection far below international standards. It contains overly broad compulsory licensing provisions and excludes from patentability substances prepared or produced by chemical processes if such products are intended to be used as food or medicine. Moreover, the patent term is only 15 years from the application filing date, compared with the international standard of 20 years. A 5-year renewal may be obtained only if the invention is of special importance and has not been adequately worked to compensate patent holders for their efforts and expenses.

Compulsory licensing limits the effectiveness of patent protection. a compulsory license may be granted if the patent is not worked or is inadequately worked within three years following the patent grant. The law does not provide for the alternative period of four years from the date of filing, as the Stockholm act of the Paris Convention requires. a patent may be forfeited for non-working two years after issuance of the first compulsory license. The Egyptian law's definition of infringement does not include the use, sale, or importation of a product made using a process patented in Egypt.

Since 1993, U.S. experts have met regularly with Egyptian experts responsible for revising the patent law. However, this legislation has never been finalized and submitted to the People's Assembly. The United States remains very concerned that Egypt has not yet passed a new, modern patent law. In addition, the U.S. is concerned about a delay in implementation of pharmaceutical product protection until the year 2005. The value of U.S. export sales to Egypt lost due to deficient patent protection is unknown. Egypt has indicated that it is likely to submit an improved, new patent law to the People's Assembly soon, although the government did not do so during 1997.

Allegations of trademark infringement are made periodically by U.S. and other foreign firms operating in Egypt. The Egyptian trademark law is not enforced strenuously and the courts have only limited experience in adjudicating infringement cases. Fines amount to less than $100 per seizure, not per infringement, although criminal penalties are theoretically available. Egypt is currently considering completely revising its laws in order to enhance significantly legal protection for trademarks and industrial designs.

New technologies: There is no separate legislation protecting semiconductor chip layout design, although Egypt signed the Washington semiconductor convention. Plant and animal varieties do not receive protection under current law.

Estimated trade losses due to piracy in 1993 (the most recent figures available) were $84 million, of which approximately $11 million were due to video piracy (a significant drop from the 1992 level of $37 million prior to passage of copyright law 38/92), and $52 million due to computer software piracy. U.S. officials continue to stress the need for better enforcement efforts by Egyptian authorities and underscore the importance of police activity being followed by prosecutions and court decisions.

8. Worker Rights

a. *The Right of Association.*—Egyptian workers may, but are not required to, join trade unions. A union local or worker's committee can be formed if 50 employees express a desire to organize. Most members (about 25 percent of the labor force) are employed by state-owned enterprises. There are 23 industrial unions, all required to belong to the Egyptian Trade Union Federation (ETUR), the sole legally recognized labor federation. However, the International Labor Organization (ILO) has long noted that a law requiring all unions to belong to a single federation infringes on a worker's freedom of association. The government has shown no sign that it intends to accept more than one federation. ETUF leadership asserts that it actively promotes worker interests and that there is no need for another federation. the ETUF leadership is elected freely and speaks vigorously on behalf of workers' concerns, but public confrontations between ETUF and the government are rare.

b. *The Right to Organize and Bargain Collectively.*—The proposed new labor law provides statutory authorization for collective bargaining and the right to strike, rights which are not now adequately guaranteed. Under the current law, unions may negotiate work contracts with public sector enterprises if the latter agree to such negotiations, but unions otherwise lack collective bargaining power in the state sector. Under current circumstances, collective bargaining does not exist in any meaningful sense because the government sets wages, benefits, and job classifications by law. Larger firms in the private sector generally adhere to such government-mandated standards.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is illegal and not practiced.

d. *Minimum Age for Employment of Children.*—In march 1996, the Egyptian parliament adopted a new "comprehensive child law" which had been drafted by the national council for childhood and motherhood. The minimum age for employment was raised from 12 to 14. Provincial governors may authorize "seasonal work" for children between 12 and 14. Education is compulsory until age 15. An employee must be at least 15 to join a labor union. The labor law of 1981 states that children 14 to 15 may work six hours a day, but not after 7 p.m. and not in dangerous activi-

ties or activities requiring heavy work. Child workers must obtain medical certificates and work permits before they are employed. Recent estimates by the Egyptian government and local non-governmental organizations put the number of children working at 2 million, although verification is impossible. While an estimated 720,000 children, work on farms, children also work as apprentices in repair and craft shops, in heavier industries such as brick making and textiles, and as workers in leather factories and in carpet-making, which largely supply the export market. Enforcement of child labor laws is minimal at best; violations abound, as the laws lack penalties severe enough to deter child labor. Economic pressures, rural tradition, the inadequacy of the education system, and lack of government control in remote areas will make it difficult to improve the conditions of Egypt's working children in the near future.

e. *Acceptable Conditions of Work.*—The government and public sector minimum wage is approximately usd 20 a month for a six-day, 48-hour work week. Base pay is supplemented by a complex system of fringe benefits and bonuses that may double or triple a worker's take-home pay. The average family can survive on a worker's base pay at the minimum wage rate. The minimum wage is also legally binding on the private sector, and larger private companies generally observe the requirement and pay bonuses as well. The Ministry of Manpower sets worker health and safety standards, which also apply in the free trade zones, but enforcement and inspection are uneven.

f. *Rights in Sectors with U.S. Investment.*—The worker rights described in the foregoing sections also apply to workers in the following industries: petroleum, food and related products, metal, non-electric machinery, electric and electronic equipment, and transportation equipment.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		1189
Total Manufacturing		215
Food & Kindred Products	[1]	
Chemicals & Allied Products	-34	
Metals, Primary & Fabricated	[1]	
Machinery, except Electrical	[1]	
Electric & Electronic Equipment	1	
Transportation Equipment	[1]	
Other Manufacturing	1	
Wholesale Trade		29
Banking		151
Finance/Insurance/Real Estate		[1]
Services		51
Other Industries		[1]
TOTAL ALL INDUSTRIES		1647

[1] Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

ISRAEL

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Income, Production and Employment:			
Nominal GDP	86.7	95.2	97.9
Real GDP growth (pct)	7.1	4.4	2.0

Key Economic Indicators—Continued

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997[1]
GDP by sector:			
Agriculture	2.5	2.7	2.8
Manufacturing	16.4	18.0	18.5
Services	49.2	54.1	55.6
Public sector[2]	18.6	20.3	20.9
Per capita GDP (dollars)	15,635	16,740	16,750
Labor force (000s)[3]	2,110	2,160	2,210
Unemployment rate (pct)[3]	6.9	6.7	7.7
Money and prices			
Money growth (M2) (pct)[4]	35	26	22
Consumer inflation (pct)[4]	8.1	10.6	9.0
Exchange rate (NIS/$)[3]	3.0	3.2	3.5
Balance of Payments and Trade:			
Total exports (FOB)	19.0	20.5	22.1
Exports to U.S.	5.7	6.3	6.9
Total imports (CIF)[5]	28.3	29.9	29.0
Imports from U.S.[5]	5.3	6.0	5.6
Trade balance[5]	-9.3	-9.4	-6.9
Balance with U.S.[5]	0.4	0.3	1.3
External public debt (gross)	23.8	25.5	26.0
Fiscal deficit/GDP (pct)	4.2	3.6	2.8
Current acct deficit/GDP (pct)	5.5	5.6	3.5
Debt service/GDP (pct)[6]	6.1	6.5	6.6
Gold and FX reserves[4]	8.1	11.4	18.0
Aid from U.S.	3.1	3.1	3.1
Aid from other countries	N/A	N/A	N/A

[1] Projected on basis of preliminary data
[2] Includes public nonprofit institutions
[3] Annual average
[4] End of period
[5] Non-military trade only
[6] Includes private sector debt service

1. General Policy Framework

After a remarkable economic boom in the first half of the 1990s, when real GDP grew by an average six percent per year and the economy expanded by a cumulative 40 percent, Israel entered a period of slower growth in 1996 that is expected to persist well into 1998. Israel's growth rate, which hit 7.1 percent in 1995, fell to 4.4 percent in 1996 and an estimated 2.0 percent in 1997. Only a modest upturn is expected for 1998.

The slowdown in economic growth results from such factors as a waning of the stimulative effects of the mass immigration wave of the early 1990s, high interest rates, fiscal retrenchment, and an increase in political uncertainty following setbacks in the Middle East peace process. The slowdown has been reflected in an estimated five percent decline in gross domestic investment in 1997, and an roughly three percent drop, in dollar terms, in total imports. Imports from the United States also fell in 1997, by an estimated seven percent, after several consecutive years of rapid growth.

In 1996, Israel adopted a multi year program of budget deficit reduction intended to reduce the deficit from 2.8 percent of GDP in 1997 to 1.5 percent by 2001. Public debt, at 90 percent of GDP in 1996, remains high, although well below the peak of 170 percent reached in 1985. While the economy has grown rapidly in the 1990s, only limited progress has been made in reducing the ratio of government spending to GDP, which was 47 percent in 1997. Spending for education, health, and transfer payments has grown rapidly in recent years, while the defense budget, which consumed some 10 percent of GDP in 1996, has remained virtually flat in real terms.

Monetary policy aims to reduce Israeli inflation, which has averaged 10 percent in recent years, to the OECD average level by 2001. The central bank's principal policy tool is its interest rate on "monetary loans" to the commercial banks. High domestic interest rates have led Israelis to increase substantially their use of foreign currency-denominated credit, which rose by 30 percent in the first six months of

1997. To keep the shekel within its target zone, the central bank was forced to absorb the resulting inflow of foreign exchange, sterilizing the effect on domestic liquidity of such purchases through increased borrowings from the public.

Despite the current economic slowdown, Israel appears well positioned to return to its potential growth rate of perhaps four to five percent due to the rapid development of such high-tech sectors as software, telecommunications, biomedical equipment, and semiconductors. Such fields represent attractive and growing markets for U.S. suppliers.

2. Exchange Rate Policy Framework

Under the crawling-peg "diagonal" exchange rate system introduced in 1991, the shekel floats within a target zone against a five-currency basket composed of the dollar, yen, mark, pound, and French franc. In June 1997, the zone was broadened from the previous plus or minus seven percent from the midpoint to plus or minus fourteen percent. In addition, the preplanned rate of depreciation of the lower edge of the zone was changed from six to four percent annually, while the slope of the upper bound was left at six percent. This change will result in a further two percent widening of the band, to plus or minus fifteen percent, on the model of the European monetary system. During most of 1997, high interest rates kept the shekel at or near the lower, or most appreciated, edge of the zone.

Israel ended all foreign exchange restrictions for current account transactions in 1993 and is progressively reducing its remaining capital controls. A target date of May 1998, the fiftieth anniversary of Israel's independence, has been set for the full convertibility of the shekel.

3. Structural Policies

Over the past decade, Israel has gradually reduced the degree of government control over the economy while increasing the influence of domestic and international competition. Significant reforms, with important commercial implications, are being implemented in the telecommunications sector. In 1997, two private consortia, each with a U.S. firm as a participant, began offering international telephone service in competition with the established government-owned company; prices for international calls fell by as much as 80 percent. In addition, a tender was announced for a third cellular telephone company. Further liberalization is planned for 1999, when the domestic telecommunications market is to be opened to competition.

Israel's long-stalled privatization program came to life in 1997, when the government raised almost $3 billion from the sale of shares in government-owned companies and banks, more than twice its planned target for the year. The most important transaction was the sale to an American-Israeli investor group of a controlling 43-percent stake in Bank Hapoalim, Israel's largest bank, which controls an estimated eight percent of the Israeli economy through its extensive holdings in Israeli industry. Other noteworthy transactions included the sale of additional portions of Israel Chemicals Ltd, the telecommunications company Bezeq, and Banks Leumi and Discount, Israel's second and third largest, respectively. Israel plans to sell off its national airline, El Al, on the local stock market in 1998, if the issues of Saturday flight service and the cost of El Al's extraordinary security precautions can be resolved.

In the energy sector, a U.S.-based company has been awarded the first contract for the construction of a privately-operated independent electric power generating plant. In the future, up to 10 percent of Israel's electricity will be generated by such independent producers; another 10 percent may be imported. Israel is also designing its first natural gas importation and distribution system and is considering a variety of mechanisms to maximize competition in this sector as well.

4. Debt Management Policies

In the 11 years after its 1985 stabilization program, Israel's net external debt fell from 73 to 21 percent of GDP. Its policies of demand restraint, notably the tightening of fiscal policy undertaken in 1997, were adopted in part to curb a growing external deficit and a possible rebound in the debt ratio. Israel is taking advantage of the five-year, $10 billion U.S. loan guarantee program to finance the additional investments required for immigrant absorption and to refinance existing debt on more favorable terms. Preparing for the expiration of the loan guarantee program, Israel has begun to tap the international markets under its own name, and has made several successful offerings in the U.S., European, and Japanese bond markets.

5. Aid

Annual U.S. assistance to Israel includes $1.8 billion in military aid, of which $1.325 billion is for procurement from the United States. U.S. aid also includes a $1.2 billion cash grant, $55 million to assist with the absorption of new immigrants, and various forms of military R&D, notably for missile defense.

6. Significant Barriers to U.S. Exports

With the exception of some categories of agricultural produce and processed foods, all duties on products from the United States were eliminated under the 1985 United States-Israel Free Trade Area Agreement (FTAA) by January 1, 1995. The FTAA liberalized and expanded the trade of goods between the United States and Israel, and spurred discussions on freer trade in services, including tourism, telecommunications, and insurance.

Israel ratified the Uruguay Round Agreement on January 15, 1995. Israel became a member of the World Trade Organization on April 21, 1995 and implemented the WTO regime on January 1, 1996.

The United States-Israel FTAA allows the two countries to protect sensitive agricultural subsectors with nontariff barriers including import bans, quotas, and fees. These limitations have been carried forward into the WTO regime. Most quantitative limits have been translated into tariff rate quotas, while items previously banned now bear prohibitively high tariffs or fees that make imports of such goods uncompetitive with domestic production. The principal U.S. goods affected by these measures include poultry and dairy products, fish, and most fresh produce.

In late 1996, the United States and Israel agreed on a five-year program of agricultural market liberalization. The agreement covers all agricultural products and provides for increased access during each year of the agreement via tariff rate quotas and reductions in tariff levels for a significant number of U.S. goods.

Israel has two unique forms of protection for locally produced goods. The first is Harama, meaning "uplift," which is applied at the pre-duty stage to the CIF value of goods to bring the value of the products to an acceptable level for customs valuation. Israel calculates import value according to the Brussels Definition of Value (BDV), a method which tolerates uplifts of invoice prices. For purposes of calculating duty and other taxes, the Israeli Customs Service arbitrarily uplifts by two to five percent the value of most products which exclusive agents import, and by 10 percent or more the value of other products. Israel is not a signatory to the GATT Valuation Code, although it has expressed its intention to become one.

The second uniquely Israeli form of protection is TAMA, a Hebrew acronym standing for additional quota percentage. TAMA is a post-duty uplift designed to convert the CIF value plus duty to an equivalent wholesale price for purposes of imposing purchase tax. Coefficients for calculation of the TAMA vary from industry to industry and from product to product.

In addition, purchase taxes that range from 25 to 95 percent are applied on goods ranging from automobiles to some agriculture and food items. Israel has eliminated or reduced purchase taxes on many products including consumer electronics, building inputs, and office equipment. Where remaining, purchase taxes apply to both local and foreign products. However, when there is no local production, the purchase tax becomes a duty equivalent charge.

Israel has reduced the burden of some discriminatory measures against imports. Although Israel agreed in 1990 to harmonize standards treatment, either dropping health and safety standards applied only to imports or making them mandatory for all products, implementation of this promise has been slow. Enforcement of mandatory standards on domestic producers can be spotty, and in some cases (e.g., refrigerators, auto headlights, plywood, carpets, and packaging/labelling for food items) standards are written so that domestic goods meet requirements more easily than imports. Israel is in the process of amending its law on standards which should facilitate entry of some standard U.S. units. Israel has agreed to notify the United States of proposed new, mandatory standards to be recorded under the GATT. However, packaging and labelling standards continue to prevent the importation of a broad range of U.S. foods.

The Standards Institution of Israel is proposing a bilateral Mutual Recognition Agreement of Laboratory Accreditation with the United States that could result in the acceptance of U.S.-developed test data in Israel. The proposed program would eliminate the need for redundant testing of U.S. products in Israel to ensure compliance with mandatory product requirements.

The Israeli government actively solicits foreign private investment, including joint ventures, especially in industries based on exports, tourism, and high technology. Foreign firms are accorded national treatment in terms of taxation and labor relations, and are eligible for incentives for designated "approved" investments in priority development zones. There are generally no ownership restrictions, but the foreign entity must be registered in Israel. Profits, dividends, and rents can generally be repatriated without difficulty through a licensed bank. About 100 major U.S. companies have subsidiaries in Israel and some 170 Israeli companies have subsidiaries in the United States. Investment in regulated sectors, including banking, insurance, and defense industries, requires prior government approval.

Israel has one free trade zone, the Red Sea port city of Eilat. In addition to the Eilat Free Trade Zone, there are three free ports: Haifa Port (including Kishon); Port of Ashdod; and the Port of Eilat. Enterprises in these areas may qualify for special tax benefits, and are exempt from indirect taxation.

Israel is a party to the Uruguay Round Government Procurement Agreement, which provides wide coverage of Israeli government entities and enables more open and transparent international tendering procedures. While the Israeli government provides information to the U.S. government on existing and proposed tenders issued by government entities valued at over $50,000, some U.S. companies report problems in receiving timely notice of Israeli government tenders. Moreover, U.S. suppliers are totally locked out of Ministry of Defense food tenders for the army and other security forces. Complex technical specifications and kashrut requirements discourage foreign participation.

The Government of Israel frequently seeks offsets (subcontracts to Israeli firms) of up to 35 percent of total contract value for purchases by ministries, state-owned enterprises, and municipal authorities. Failure to enter or fulfill such industrial cooperation agreements (investment, co-development, co-production, subcontracting, purchase from Israeli industry) may disadvantage a foreign company in government awards. Although Israel pledged to relax offset requests on civilian purchases under the FTAA, U.S. firms may still encounter requests to enter into offset arrangements. Israeli government agencies and state-owned corporations not covered by the Uruguay Round Government Procurement Agreement follow this "Buy Israel" policy to promote national manufacturers.

Recent legislation codified and strengthened a 15 percent cost preference given domestic suppliers in many Israeli public procurement purchases, although the legislation recognized the primacy of Israel's bilateral and multilateral procurement commitments. This preference can reach as high as 30 percent for domestic suppliers located in priority development areas.

In addition to its WTO multilateral trade commitments and its FTAA with the United States, Israel also has free trade agreements (FTAs) with the European Union (EU), Canada, Turkey, Slovakia, the Czech Republic, Hungary, and the EFTA states. It also has a preferential trade agreement with Jordan. With respect to all other countries, Israel substituted steep tariffs for nontariff barriers previously applied to trade, and is gradually reducing these tariffs. Israel's import liberalization program and negotiation of new free trade agreements have diluted U.S. advantages under the bilateral FTAA.

As part of the Middle East peace process, Israel has granted duty free access to its market for 50,000 metric tons of fresh and processed agricultural products from Jordan; it has also committed itself to allowing unlimited access for agricultural produce from the Palestinian Authority after 1997. This preferential access reduces the competitiveness of U.S. products in the Israeli market.

7. Export Subsidies Policies

The United States-Israeli FTAA included an agreement to phase out the subsidy element of export enhancement programs and not to institute new export subsidies. Israel has already eliminated grants, except in the case of agricultural export and import substitution crops. In 1993, Israel eliminated the major remaining export subsidy, an exchange rate risk insurance scheme which paid exporters five percent on the FOB value of merchandise. Israel still retains a mechanism to extend long-term export credits, but the volumes involved are small, roughly $250 million. Israeli export subsidies have resulted in past U.S. antidumping or countervailing duty cases. Israel has been a member of the GATT Subsidies Code since 1985.

The Knesset passed legislation in 1994 authorizing creation of free processing zones (FPZs). Qualifying companies operating in the FPZs are exempt from direct taxation for a twenty-year period, and imported inputs are not subject to import duties or tariff or most health and safety regulations generally in effect throughout

Israel. Companies are also exempt from collective bargaining and minimum-wage requirements, although subject to other labor requirements. The legislation was originally intended to promote investment in export-related industries, but the wording of the legislation as passed does not limit applicant companies to exporters or providers of services to overseas clients. Accordingly, the FPZs do not appear to violate the United States-Israeli FTAA export subsidies commitment.

8. Protection of U.S. Intellectual Property

Cable television, video, and software piracy is common in Israel. Israel currently has an antiquated copyright law which, together with the low priority given to IPR enforcement by the authorities, has allowed an upsurge in piracy. Concern over the increase in illegal copying and sale of video and audio recordings was a factor behind Israel's inclusion in the Special 301 watch list in 1997. A revised copyright law, with updated IPR requirements, is under review. The proposed legislation includes enhanced rights of distribution in connection with rental rights and imports of copyrighted materials. Rental rights will cover all protected works, including sound recordings, cinematographic works, and computer programs. A cable broadcast law is also under consideration. Israel is a member of the International Center for the Settlement of Investment Disputes (ICSID) and the New York Convention of 1958 on the recognition and enforcement of foreign arbitral awards.

Current Israeli patent law contains overly broad licensing provisions concerning compulsory issuance for dependent and non-working patents. A draft revision of Israel's patent law is under review; the revised law would upgrade IPR patent protection and would eliminate compulsory licensing. In addition, revised laws are under consideration for protection of industrial designs, trademarks, and integrated circuits.

Israel is also considering an amendment to the patent law which would allow non-patent holders to produce patented pharmaceutical products prior to the expiration of patent rights in order to submit data to foreign and Israeli health authorities to gain marketing approval. The United States has urged Israel to model its legislation as closely as possible on the comparable provision of U.S. law.

Israel is a party to the Paris Convention for the Protection of Industrial Property, the Universal Copyright convention, and the Berne Copyright Convention. In addition, as a signatory of the GATT Uruguay Round and World Trade Organization (WTO) agreements, including Trade in Intellectual Property and Services (TRIPS), and Israel is in the process of making all revisions necessary to meet all GATT TRIPS requirements.

9. Worker Rights

a. *The Right of Association.*—Israeli workers may join freely established organizations of their choosing. Most unions belong to the General Federation of Labor (Histadrut) and are independent of the government. In 1995, membership in the Histadrut dropped sharply after the federation's links with the nation's largest health maintenance organization were severed. A majority of the workforce still was covered by Histadrut's collective bargaining agreements. Non-Israeli workers, including nonresident Palestinians from the West Bank and Gaza who work legally in Israel, may not be members of Israeli trade unions, but are entitled to some protection in organized workplaces. The right to strike is exercised regularly. Unions freely exercise their right to form federations and affiliate internationally.

b. *The Right to Organize and Bargain Collectively.*—Israelis fully exercise their legal right to organize and bargain collectively. While there is no law specifically prohibiting antiunion discrimination, the Basic Law against discrimination could be cited to contest discrimination based on union membership. There are currently no export processing zones, although the Knesset has passed legislation authorizing creation of free processing zones, as discussed in section 6.

c. *Prohibition of Forced or Compulsory Labor.*—The law prohibits forced or compulsory labor, and neither Israeli citizens nor nonresident Palestinians working in Israel are subject to such practices.

d. *Minimum Age for Employment of Children.*—Children who have attained the age of 15 years, and who are liable to compulsory education under the compulsory education law, may not be employed unless they work as apprentices under the apprenticeship law. Notwithstanding these provisions, children who have completed their 14th year may be employed during a period of official school holidays. Employment of those aged 16 to 18 is restricted to ensure time for rest and education. Ministry of Labor inspectors enforce these laws, but advocates of children's rights charge that enforcement is inadequate, especially in smaller, unorganized work-

places. Illegal employment of children does exist, probably concentrated in urban light-industrial areas.

e. *Acceptable Conditions of Work.*—Legislation in 1987 established a minimum wage at 45 percent of the average wage, calculated periodically and adjusted for cost of living increases. Union officials have expressed concern over enforcement of minimum wage regulations, particularly with respect to employers of illegal nonresident workers. Along with union representatives, the Labor Inspection Service enforces labor, health, and safety standards in the workplace. By law, maximum hours of work at regular pay are 47 hours per week (eight hours per day and seven hours the day before the weekly rest). The weekly rest must be at least 36 consecutive hours and include the Sabbath. Palestinians working in Israel are technically covered by the law and collective bargaining agreements that cover Israeli workers.

f. *Rights in Sectors with U.S. Investment.*—Worker rights in sectors of the economy in which U.S. companies have invested are as described above.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		[1]
Total Manufacturing		1329
Food & Kindred Products	[1]	
Chemicals & Allied Products	[1]	
Metals, Primary & Fabricated	[1]	
Machinery, except Electrical	[1]	
Electric & Electronic Equipment	852	
Transportation Equipment	2	
Other Manufacturing	290	
Wholesale Trade		[1]
Banking		0
Finance/Insurance/Real Estate		167
Services		216
Other Industries		109
TOTAL ALL INDUSTRIES		1886

[1] Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis

---

JORDAN

Key Economic Indicators [1]

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [2]
Income, Production and Employment:			
Nominal GDP [3]	6,642	7,257	7,800
Real GDP Growth (pct.) [4]	6.9	5.2	5.0
GDP by Sector:			
Agriculture	305	329	335
Manufacturing	883	971	981
Services	1,090	1,171	1,210
Government	1,046	1,118	1,196
Per Capita GDP (US$)	1,548	1,635	1,700
Labor Force (000s)	1,042	1,072	1,150
Unemployment Rate (pct) [5]	15.0	13.0	15.0
Money and prices (annual percentage growth):			
Money Supply Growth(M2)	6.6	0.3	9.7
Consumer Price Inflation	2.4	6.5	4.0

Key Economic Indicators [1]—Continued

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [2]
Exchange Rate (JD/US$ - annual average)			
Official	0.701	0.709	0.709
Balance of Payments and Trade:			
Total Exports FOB [6]	1,434	1,466	1,520
Exports to U.S.[6]	21	20	25
Total Imports CIF [6]	3,696	4,292	3,700
Imports from U.S.[6]	343	416	430
Trade Balance [6]	-2,263	-2,825	-2,180
Balance with U.S.[6]	-321	-397	-405
Current Account Deficit/GDP(pct)	3.7	3.1	2.9
External Public Debt	6,373	6,659	6,700
Debt Service Payments/GDP(pct)	7.1	7.9	8.4
Fiscal Deficit/GDP	2.5	4.9	3.1
Gold and Foreign Exchange Reserves [7]	611	817	850
Aid from U.S.[8]	468	154	282
Aid from All Other Sources	261	270	280

[1] Source: Central Bank of Jordan's (CBJ) Monthly Bulletin, July 1997 and CBJ's Annual Report, 1996.
[2] 1997 figures are estimates based on data available from the Ministry of Finance, and an official report of the Minister of Finance on October 11.
[3] GDP at current market prices.
[4] Percentage changes calculated in local currency.
[5] Unemployment rate for 1997 is based on GOJ estimates.
[6] Merchandise trade; exports and imports customs basis.
[7] Represents net foreign exchange reserves plus gold.
[8] US assistance in 1995 and 1997 includes 417.2 and 63.5 million dollars in U.S. debt forgiveness in 1995 and 1997 respectively. U.S. military aid to Jordan amounted to 31.6 million dollars in FY 1997.

1. General Policy Framework

In early 1997, the Government of Jordan (GOJ) announced four major goals for its economic programs for the year. They were: real annual economic growth of 6.5 percent; consumer price inflation of four percent; current account deficit/GDP ratio of 2.9 percent; and a budget deficit/GDP ratio of 3.9 percent. The Government's economic agenda also seeks to: reduce the external debt, build reserves, close the deficit in the current account of the balance of payments, increase productivity, promote greater savings and investment, reduce the fiscal deficit, boost employment, and maintain low inflation.

The government announced that it will begin a "national economic structural adjustment program" upon completion of the current IMF-managed program that expires in 1998. The government continues its policies of economic liberalization and privatization of state-owned enterprises. State ownership of or investment in business was valued at 900 million dollars as of October 1997.

Jordan's Minister of Finance reported to the Council of Ministers on October 11 that growth during 1997 would not reach its target of 6.5 percent. It will likely be around 5.0 percent. Growth was dampened by high interest rates and less-than-expected growth in the construction and manufacturing sectors. The official rate of unemployment is 15 percent. However, private sources report the real rate to be closer to 19-20 percent.

Jordan's budget for 1997 called for a 7.4 percent increase in domestic revenue and a 4.9 percent increase in public expenditure over 1996. Accordingly, domestic revenues are expected to reach 2.3 billion dollars (28.6 percent of GDP) and public expenditures 2.7 billion dollars (33.6 percent of GDP). Government officials have said they hope to reduce the budget deficit to one percent in 1998. The Minister of Finance reported on October 11 that the 1997 budget deficit may drop below the 3.9 percent target to 3.1 percent of GDP. Although the government has been successful in containing public expenditures and reducing the budget deficit since 1995, gross national consumption continues to increase. It rose by 590 million dollars in 1996 despite an increase of 360 million dollars in gross national investment and an increase of 74 million dollars in domestic savings.

The Minister of Finance announced that the Government's budgetary plans for 1998 and onwards include expanding the tax base, allocating funds for regular annual increases in wages for government employees, and raising prices of government services. The 1998 budget will also include increases in some salary differentials or premiums endorsed by the Council of Ministers.

Jordan continues to face a very high public debt burden. The GOJ has said it will seek to keep the balance of outstanding external debts below 87 percent of GDP during 1997. External debt will reach 6.7 billion during 1997, according to the Minister of Finance. Jordan will resume international borrowing for development purposes as soon as the current IMF Economic Adjustment Program (1992-1998) is completed. Although the new economic adjustment program will be national rather than IMF-run, the government is expected to seek IMF credit arrangements to cover economic needs for the period 1998-2002, i.e., during implementation of the new social and economic development plan now being drafted by the Ministry of Planning.

The Central Bank of Jordan (CBJ) continues to auction certificates of deposit (CDs) with three- and six-month maturities, to contain domestic credit and control the prime rate in the banking system. In the summer of 1997, the CBJ lowered the rate of interest paid on three- and six-month CDs by nearly two percent. These rates currently stand at 7.55 and 7.50 percent, respectively. GOJ monetary policy of high interest rates, in place since 1995, has succeeded in maintaining a stable dinar and building forex reserves.

2. Exchange Rate Policy

The Central Bank of Jordan regulates foreign currency transactions in Jordan and sets the exchange rate. It also restricts money changers' currency transactions to a specified range of buying and selling rates. The dinar-dollar fixed rate was instituted on October 23, 1995 at 0.708 (buy) and 0.710 (sell) dinar to the dollar (approximately $1.40 to the dinar). The dinar fluctuates against other currencies according to market forces.

In July 1997, the CBJ issued new measures to further liberalize the foreign exchange system. New regulations are intended to facilitate the inflow and outflow of all means of payment and gold. Under the new measures, a licensed bank in the Kingdom may: open non-resident accounts in dinars and/or in foreign currencies; open foreign currency accounts for residents without limits; allow resident account holders to maintain up to one million dollars in foreign currency accounts (including any accrued interest, provided that any excess is sold to the banking system or to the CBJ); transfer the value of imports to foreign beneficiaries without CBJ approval; and transfer foreign currency to foreign beneficiaries to cover the value of imports based on valid letters of credits (L/C's), bills for collection, accepted discounts, or customs declarations.

The new regulations allow residents to take Jordanian dinar-denominated banknotes and payment instruments in and out of the Kingdom without restrictions, receive foreign currency transfers in dinars or foreign currencies, and take out or transfer cash notes in foreign currencies up to the equivalent of JD 35,000 (approximately USD 50,000) to cover payments. The CBJ approves amounts of more than JD 35,000 on a case-by-case basis. Furthermore, banks may now execute foreign currency transfer transactions to cover payments to residents and bring gold into the Kingdom. Commercial quantities of gold may be taken out of the Kingdom upon presentation of evidence that it originally was imported into the Kingdom. The CBJ clears transfers to cover the value of investments outside Jordan.

3. Structural Policies

Pricing Policies: The Government continues to subsidize bread prices for all Jordanian citizens. In August 1996, it removed the direct price subsidy and introduced a cash subsidy for bread. In September, 1997 the GOJ stopped issuing food coupons for sugar, rice and powdered milk and replaced the coupons with a cash subsidy. To be eligible for the new subsidy, citizens' monthly income must be less than 500 dinars (approximately 720 dollars) per month. The monthly cash subsidy per person is 720 fils (USD 1.02) for sugar, rice and powdered milk and JD 1.280 (USD 1.80) for bread.

Increasingly, market forces set prices in Jordan. The government may end its role in importing most basic foodstuffs such as cereals, sugar, milk and frozen meat, by the end of 1997. However, it will continue to import wheat and some rice at least through 1998. According to official statements, anti-monopoly legislation will be presented to the Parliament in March 1998, at which time the Ministry of Supply may be phased out, and the government will end a 22-year regime of price-setting and price controls. Jordan's price controls and subsidy regime did not have a major impact on Jordanian imports of agricultural goods from the United States.

Tax Policies: Most imports into Jordan are subject to tariffs and duties. As of April 1997, however, all industrial raw material and capital equipment imported by licensed industrial concerns are exempt from import duties. The system of import tariffs has changed in Jordan. According to the "Law on Unifying Import Fees and

Taxes, No. 7 of 1997," effective since March 1, the ceiling on all duties is 40 percent, and all additional customs taxes, fees and duties on most regular imports have been abolished. However, certain luxury goods and automobiles carry additional import taxes, fees and duties. The reduction in the basic tariff on automobiles was offset by imposing additional sales taxes.

The Kingdom's income tax law, in effect since January 1, 1996, imposes a 35 percent maximum marginal rate. Taxes on individual incomes vary between 5 percent (for annual incomes less than $3,000) and 30 percent (for annual incomes exceeding $22,500). Corporate taxes are set at 35 percent for banks and financial institutions and 25 percent for companies engaged in brokerage and agency activities. The law exempts re-invested profits and profits earned on exports from income tax. This reflects the government's desire to encourage new projects and the re-capitalization of net returns from existing investments, as well as to promote export-oriented enterprise. The capital gains tax was abolished with the passage of Jordan's new Securities Law on June 15, 1997.

Current law imposes an across-the-board 10 percent sales tax. However, the sales tax may reach 20 percent on certain luxury items, such as cigarettes and alcohol. The law exempts exports from the sales tax and empowers the Council of Ministers to impose additional sales taxes to compensate for revenue losses from reduced customs duties on goods and services subject to the sales tax. Upon reducing the duties on all imports, including automobiles, to no more than 40 percent, the Council of Ministers imposed an additional sales tax on imported automobiles ranging from 39 to 141 percent. The result is that there has been no positive change in Jordan's tax regime with regard to U.S. automobile imports. Almost all types of professional, business and legal services are also subject to the ten percent sales tax.

Regulatory Policies: Jordan's new Companies Act, which went into effect on June 15, 1997, resolved a seven-year regulatory conflict between the Companies Act and the Financial Market Law (now called the Securities Law). The new customs law has not been passed yet, although the Lower House of Parliament endorsed 240 of its 280 articles before recessing. The new Securities Law went into effect on June 15, 1997. According to government officials, the Council of Ministers intends to send the new Parliament, which is expected to convene the third week of November, a number of laws relating to monopolies, the National Product Protection Law, and intellectual property rights protection. The July 19 amendment to the current investment law introduced significant changes in Jordan's investment regime, including removal of foreign investment ceilings on all sectors, except the media, small trade/commerce, mining and construction. Foreign investment in the latter three sectors is limited to no more than 50 percent. Regardless, Jordan's investment promotion legislation does not address cumbersome procedures delaying registration and approval of projects carried out by foreign investors.

4. Debt Management Policies

Jordan's outstanding external public debt as of December 1996 was $6.7 billion, an increase of $286 million over 1995. However, external debt as a percentage of GDP declined from 95.9 percent of GDP in 1995 to under 92 percent in 1996. These figures do not take into consideration contracted but undisbursed loans, which stood at $1.28 billion at the end of 1996. With the addition of these undisbursed loans, the total external debt is $7.9 billion, or 109 percent of GDP (compared to 118 percent in 1995).

IMF reports indicate that the ratio of debt service to exports of goods and nonfactor services has been decreasing since 1993, dropping from 35.9 percent in 1993 to 26.3 percent in 1995 and 25.7 percent in 1996. Jordan rescheduled $400 million in debt to Paris Club creditors in May, 1997, easing repayment pressure. However, Jordan had external payment arrears of $330 million to non-Paris Club bilateral creditors at the end of 1996. Jordan's debts to the IMF are a small portion of its overall debt. According to June 1997 IMF report, Jordan is in a "strong position to meet its obligations to the Fund."

According to government records, 93.3 percent of Jordan's outstanding external debt is in long-term loans, with 65.5 percent of such debt owed to foreign governments. Total loans contracted in 1996 amounted to 660.4 million dollars. Out of this total, 36 percent supported the Economic Adjustment Program, while the energy sector accounted for 32 percent. Also, about 72 million dollars were contracted to finance imports during 1996.

5. Significant Barriers to U.S. Exports

Import Licenses: According to the Import/Export Regulation No. 1 of 1997, an import license is not required except in certain cases. Effective April 7, 1997, the Min-

istry of Industry and Trade waived the licensing requirement for a large number of imported goods. About 43 items require prior clearance, which is considered to be an import license. They are: strategic food commodities, telecommunications products, certain electronics, and medical materials. Moreover, imports from countries with trade protocols with Jordan continue to require a license. For other imported goods, the regulation eases the process of obtaining a license. The business obtains an importer's card, which is issued by the municipal authority. The municipality will not issue a card until the importer is registered with the Ministry of Industry and Trade and local Chamber of Commerce, and has a lease or sales contract. The ceiling on small imports exempt from licensing was raised to JD 2,000 (approximately USD 2,820). Except where an import license is required, licensing fees have been abolished completely. Jordan is not yet a member of the WTO, but has applied for membership and begun accession negotiations

Services Barriers. Foreign suppliers of services do not receive Most Favored Nation (MFN) or national treatment. Almost all service industries are affected by barriers.

Standards, Testing, Labeling, and Certification: All imports to Jordan are subject to approval by the Standards and Measures Corporation. Foodstuffs and medicines must undergo laboratory testing and certification. Jordanian testing standards for consumer and durable items are becoming increasingly flexible for importers of U.S. products. However, they often lack transparency. Until the new customs law with internationally accepted rules of origin is passed, importers of U.S. products containing parts made outside the United States will continue to be penalized.

Investment Barriers: The United States and Jordan signed a Bilateral Investment Treaty (BIT) in July 1997. The current Investment Promotion Law is designed to promote both local and foreign investment and to encourage the formation of joint ventures and multinational enterprises in Jordan. Most important to U.S. business, the law provides for equal treatment between foreign and Jordanian investors. Most restrictions on foreign investment were removed in July, but remain in four sectors: media, construction contracting, trade and commercial services and mining. The minimum amount of foreign investment in any sector in Jordan is 71,000 dollars. However, under the United States-Jordan BIT, the minimum for U.S. investors is only 50,000 dollars. The Investment Promotion Department of the Ministry of Industry, Trade and Supply is responsible for carrying out procedures granting foreign investors national treatment under the prevailing investment law and the BIT.

Government Procurement Practices: With few exceptions, government purchases are made by the General Supplies Department of the Ministry of Finance. Foreign bidders are permitted to compete directly with local counterparts in international tenders financed by the World Bank. However, local tenders are not directly open to foreign suppliers. By law, foreign companies must submit bids through agents. While Jordan's procurement law does not allow non-competitive bidding, it does permit a government agency to pursue a selective tendering process. The law gives the tender-issuing department, as well as review committees at the Central Tenders and General Supplies Departments, the right to accept or reject any bid while withholding information on its decisions. Foreign bidders may seek recourse only through the Jordanian legal system. The Higher Procurement Commission has not yet been organized, leaving a wide gray area of ad-hoc decision-making in Jordan's procurement system.

Customs Procedures: Cumbersome customs procedures continue to undermine Jordan's business and investment climate. Overlapping areas of authority and difficult clearance procedures remain in place. Actual appraisal and tariff assessment practices are frequently arbitrary and may even differ from written regulations. Customs officers often make discretionary decisions about tariff and tax applications when regulations and instructions conflict or lack specificity. Delays in clearing customs are routine.

6. Export Subsidies Policies

The Central Bank runs a low interest financing facility to support eligible exports, including all agricultural and manufactured exports with domestic value-added of not less than 25 percent. The facilities are extended to local banks and financial institutions against bills, letters of credit and drafts, with interest rates set at one percent below the prevailing discount rate.

The Jordan Loan Guarantee Corporation offers soft loans to small scale, export-oriented projects in industry, handicrafts and agriculture. The corporation's primary objective is to provide guarantees to cover the risk of credits extended by the Jordanian banking system to small and medium-scale enterprises. The Export and Fi-

nance Bank, a public share holding corporation, was set up in 1994 to provide commercial financing and loan guarantees to Jordanian exporters. The bank offers commercial loans and export advances on a case by case basis.

7. Protection of U.S. Intellectual Property

Copyrights: A 1992 law provides a framework for protection of foreign copyrights. The law deals with all aspects relating to exclusive rights to (1) copy or reproduce works, (2) translate, revise, or otherwise adapt or prepare program derivatives work, and (3) distribute or publicly communicate copies of the work. Royalties may be remitted abroad under licensing agreements approved by the Ministry of Industry and Trade. However, only works of Jordanian and foreign authors who formally register their works inside the Kingdom are protected. The amendment to the Copyrights Law, which reportedly would bring Jordan into compliance with the Berne Convention, was not passed by the previous Lower House of Parliament, although its legal committee has approved and recommended an expedient endorsement of the amendment. The current law of 1992 does not have strong enforcement provisions; the amendment is said to improve enforcement. The practice of pirating audio and video tapes for commercial purposes is widespread, and the government makes no effort to intervene. Pirated books are sold in Jordan, though few, if any, are published within the country. However, unauthorized copying and distribution of textbooks is common. Despite promises, the government has not taken any significant measures to improve copyright protection. To date, it has issued only procedural notes for existing regulations.

Trademarks and Patents Laws: Trademark and patent laws have not been amended since the early 1960s. The promised amendment to the Trademark Law is overdue and its status in the legislative process is unclear. Jordan has no other legislation for protection of domestic or foreign service marks. The government has not clarified whether it will amend the Patent Law or introduce a new law. In either case, there has been no concrete action by the government towards reforming Jordan's patent protection regime. Protection under the current law is available only to domestic and foreign patents that are registered in Jordan. A foreign company may register a patent by sending a power of attorney to a local patent agent or lawyer. Initial registration may be renewed once for a total period of protection of 14 years. Jordan's current patent law does not respect product patents in any fashion. Process patents must be registered with the Ministry of Industry and Trade to receive protection. Infringement of a foreign patent, such as a manufacturing process for a chemical compound, is considered to be a violation by Jordanian courts only if it is proven to be an exact duplication. More than 50 U.S. pharmaceutical products are currently pirated in Jordan, and the Jordanian industry has steadfastly resisted efforts to strengthen pharmaceutical patent protection in the country.

New Technologies: Computer software piracy is rampant in Jordan's small but growing computer market. There is no Jordanian legislation that protects domestic or foreign-developed technologies; nor is there legislation providing for the registration of imported technology.

Jordan needs to move quickly to improve its copyright, patents and trademarks laws and protect foreign and domestic intellectual property rights (IPR). In April 1997, the U.S. Trade Representative placed Jordan on the "Special 301 Watch List" for its failure to provide adequate and effective protection to IPR. The government has indicated it may seek to negotiate IPR protection for certain industries first, such as software and video/audio products, and leave the pharmaceutical patent issue until later.

8. Worker Rights

a. *The Right of Association.*—Less than 15 percent of the Jordanian work force is unionized. Unions represent their membership in dealing with issues such as wages, working conditions and worker layoffs. Seventeen unions make up the General Federation of Jordanian Trade Unions (GFJTU). The GFJTU actively participates in the International Labor Organization.

b. *The Right to Organize and Bargain Collectively.*—GJFTU member unions regularly engage in collective bargaining with employers. Negotiations cover a wide range of issues, including salaries, safety standards, working conditions and health and life insurance. If a union is unable to reach agreement with an employer, the dispute is referred to the Ministry of Labor for arbitration. If the Ministry fails to act within two weeks, the union may strike. Arbitration is the usual means of resolving disputes, and labor actions are generally low-key and do not lead to strikes.

c. *Prohibition of Forced or Compulsory Labor.*—Compulsory labor is forbidden by the Jordanian constitution.

d. *Minimum Age for Employment of Children.*—Children under age 16 are not permitted to work except in the case of professional apprentices. Under an apprentice program, students may leave the standard educational track and begin part-time training (up to 6 hours a day) at age 13.

e. *Acceptable Conditions of Work.*—Jordan's workers are protected by a comprehensive labor code, enforced by 30 full-time Ministry of Labor inspectors. There is no comprehensive minimum wage in Jordan, but the new labor law, in effect since June 1996, contains a mandate to this effect. The government maintains and periodically adjusts a minimum wage schedule of various trades, based on recommendations of an advisory panel consisting of representatives of workers, employers and the government. Maximum working hours are 48 per week, with the exception of hotel, bar, restaurant and movie theater employees, who may work up to 54 hours. Working conditions and minimum wage for foreign workers are stipulated in bilateral treaties but are not strictly enforced nor consistently adhered to. Jordan also has a workers' compensation law and a social security system which cover companies with more than five employees.

Jordan's labor code protects workers from arbitrary or politically motivated dismissals, establishes a minimum wage mandate, provides for maternity leave for women, and calls for a new social security system and law. Though the labor law provides for stronger protection of worker rights, it does not provide for flexible treatment of skilled or unskilled foreign workers, unless they are licensed to work by the Ministry of Labor and permitted to stay in Jordan by the Ministry of Interior. Jordan is an active member of the ILO and complies with international protocols and agreements.

A major shortcoming in the Jordanian labor code is Article 20, which grants employees the right to own the intellectual property rights of works developed on the job even if their job requires that they research and develop for their employers. This provision is inconsistent with conventional international labor laws and treaties and discourages local and foreign investment in industries such as software development, audio and video recording and pharmaceutical development.

f. *Rights in Sectors with U.S. Investment.*—Worker rights in sectors with U.S. investment do not differ from those in other sectors of the Jordanian economy.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		0
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
Banking		[1]
Finance/Insurance/Real Estate		[1]
Services		0
Other Industries		0
TOTAL ALL INDUSTRIES		[1]

[1] Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

KUWAIT

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Income, Production and Employment:			
Nominal GDP [2]	26.6	31.0	32.0
Real GDP Growth (pct) [3]	1.2	4.0	11.0
GDP by Sector:			
Manufacturing	1.0	1.1	1.1
Services	3.0	3.2	3.3
Government	6.4	6.5	6.7
Petroleum (Includes Refining)	12.4	15.9	16.4
Per Capita GDP	5,712	17,689	17,667
Labor Force (000s)	1,047	1,100	1,133
Unemployment Rate (pct)	1.4	1.4	1.5
Money and prices (annual percentage growth):			
Money Supply Growth (M2)	9.4	-0.6	3.1
Consumer Price Inflation	0.8	2.5	2.0
Exchange Rate (KD/US$ - annual average)			
Official	0.299	0.299	0.304
Balance of Payments and Trade:			
Total Exports FOB	12.6	14.7	14.8
Exports to U.S.[4]	1.3	1.8	2.0
Total Imports CIF	7.1	7.8	8.1
Imports from U.S.[4]	1.4	2.0	1.7
Trade Balance	5.5	6.9	7.1
Balance with U.S.[4]	-0.1	-.2	+.3
Current Account Surplus/GDP	17.2	21.9	21.5
External Public Debt [5]	3.9	0.6	0.3
Debt Service Payments/GDP (pct)	8.8	10.6	0.9
Fiscal Deficit/GDP (pct) [6]	7.3	N/A	13.1
Gold and Foreign Exchange Reserves	3.9	3.5	3.5
Aid from U.S.	0	0	0
Aid from All Other Sources	0	0	0

[1] 1997 figures are Embassy projections based on data through September 1997.
[2] GDP at factor cost
[3] Percentage changes calculated in local currency
[4] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1997 figures are estimates based on data available through November 1997.
[5] Based on Kuwait government figures as of June 30, 1997
[6] Kuwait recorded a budget surplus of $1.3 billion in FY 96/97. U.S. Embassy believes projected FY 97/98 budget deficit of $4.2 billion will lower by at least half.

1. General Policy Framework

Kuwait is a politically stable state where rule of law prevails. The press is largely free and commercial advertising is available. Arabic is the official language but English is widely spoken. Kuwait has a small and relatively open, oil-rich economy which has created an affluent citizenry who benefit from a generous welfare state.

Kuwait still faces structural problems in its budget, primarily excessive dependence on oil revenue, and growing government expenditures due to the need for continued high defense spending and to growing social expenditures resulting from high levels of government employment and provision of heavily subsidized social services and utilities. Primarily because of stronger oil revenues, Kuwait's budget achieved a surplus in FY 96/97 and will achieve a near balance or surplus for the FY 1997/98 if oil prices remain strong. Efforts to privatize government entities remain stalled due to resistance in Parliament and the general public because of fears of job loss and higher prices for currently heavily subsidized public utilities.

Domestic investment is encouraged by provision of low cost land, subsidized utilities and waivers of duties and fees. These are offset by lengthy bureaucratic procedures, and for foreigners, high tax rates and complex procedures to secure work visas. The Kuwait Central Bank uses interest rates as its primary means to control money supply. This is accomplished through adjustments to the discount rate and through market operations of government securities. A lower budget deficit and repayment of government obligations to domestic banks resulted in a small reduction

of money supply through June 30, 1996, but had grown by three percent through June 30, 1997 money supply.

2. Exchange Rate Policy

There are no restrictions on current or capital account transactions in Kuwait, beyond a requirement that all foreign exchange purchases be made through a bank or licensed foreign exchange dealer. Equity, loan capital, interest, dividends, profits, royalties, fees and personal savings can all be transferred in or out of Kuwait without hindrance.

The Kuwaiti dinar itself is freely convertible at an exchange rate calculated daily on the basis of a basket of currencies which is weighted to reflect Kuwait's trade and capital flows. Since the dollar makes up over half of the basket, the Kuwaiti dinar has closely followed the exchange rate fluctuations of the U.S. dollar over the past year.

3. Structural Policies

Kuwait's government plays a dominant role in the local economy, which may diminish if moves toward privatization and rationalization of the economy are implemented. Kuwait's economy is heavily regulated, which restricts participation and competition in a number of sectors and strictly controls the roles of foreign capital and expatriate labor. Policies favor Kuwaiti citizens and Kuwaiti-owned companies. Income taxes, for instance, are only levied on foreign corporations and foreign interests in Kuwaiti corporations, at maximum rates of 55 percent of taxable income. Individuals are not subject to income taxes, but the Kuwait government is considering possible changes to its current income tax structure.

Foreign investment is welcome in Kuwait for minority partnership in select sectors. Foreign nationals are prohibited from having majority ownership in virtually every business other than certain small service oriented businesses and may not own property (excepting some other GCC citizens). Non-GCC nationals are forbidden to trade in Kuwait stocks on the Kuwait stock exchange except through the medium of unit trusts (mutual funds). The government of Kuwait is reviewing current legislation affecting foreign investment and it is thought the recommendations from the study will allow increased foreign ownership in Kuwaiti firms.

Government procurement policies specify local products, when available, and prescribe a 10 percent price advantage for local companies on government tenders. There is also a blanket agency requirement for all foreign companies trading in Kuwait to either engage a Kuwaiti agent or establish a Kuwaiti company with majority Kuwaiti ownership and management.

4. Debt Management Policies

Prior to the Gulf War, Kuwait was a significant creditor to the world economy, having amassed a foreign investment portfolio that was variously valued at $80 to $100 billion. Current estimates of the value of Kuwait's foreign assets, concentrated primarily in the Future Generations Fund, range between $45 and $50 billion. Kuwait made the final payment on its $5.5 billion jumbo loan in December 1996. Scheduled debt service payments for 1997 total $282 million owed primarily to foreign export credit agencies, including the U.S. Eximbank.

5. Significant Barriers to U.S. Exports

There are no customs duties on food, agricultural items and essential consumer goods. Imports of some machinery, most spare parts and all raw materials are exempt from customs duties. Oil companies may apply for tariff exemptions for drilling equipment and certain other machinery, including that for new plants. Kuwait is a member of the WTO.

On July 1, 1992, Kuwait began collecting a four percent tariff on many imports. This flat rate is applied to the cost, insurance and freight (CIF) value of imported goods. Where imports compete with domestic "infant industries," the Ministry of Commerce and Industry may impose protective tariffs of up to 25 percent. In such cases, tariff reviews and determinations are done on a case by case basis.

Kuwait, like other GCC member states, maintains restrictive standards which impede the marketing of U.S. exports. For example, shelf-life requirements for processed foods are often far shorter than necessary to preserve freshness and result in U.S. goods being uncompetitive with products shipped from countries closer to Kuwait. Standards for many electrical products are based on those of the U.K., which restrict access of competitive U.S. products. Standards for medical, telecommunications and computer equipment tend to lag behind technological developments,

with the result that Kuwait government tenders often specify the purchase of obsolete, more costly items.

The Kuwait government views its offset program as a major vehicle for motivating foreign investment in Kuwait. The U.S. government opposes this type of program and has recommended that the government of Kuwait carefully weigh all the potential costs to itself of an offset program. Interested U.S. firms should familiarize themselves with the terms of this program to ensure that the offset program does not become an undue obstacle to their business.

In June 1993, Kuwait announced that it would no longer apply the secondary boycott to firms that do business with Israel and the tertiary boycott with firms that do business with firms subject to the secondary boycott, but would continue to apply the primary boycott to goods and services produced in Israel itself. Kuwait has also taken steps to revise its commercial documentation to eliminate all direct references to the boycott of Israel. U.S. firms still occasionally receive requests for boycott-related information from private Kuwaiti firms or uninformed Kuwaiti public officials. In such cases, U.S. firms should advise the Embassy of the request, report the request as required by law to the U.S. Department of Commerce, and take care to comply with all other requirements of the U.S. anti boycott laws. Kuwait, along with many other Middle East countries, has received three one-year waivers of the 1996 "Brown Amendment" requirements. The current waiver expires in May, 1998. The "Brown Amendment" prohibits defense sales to those countries that have not eliminated all vestiges of the enforcement of the secondary and tertiary boycott of Israel, unless waived by the President.

For perishable imports arriving via air, land or sea, customs clearance is prompt and takes about three hours. To complete clearance, the importer presents its import license and quality test certificate. Recurring perishable imports can be cleared and taken to the importer's premises after a sample has been submitted to the municipality for quality testing.

Usually, customs assesses duty on imported goods based on commercial invoices. If the customs officials believe the declared value unrealistic, they may make their own assessment.

Importers do not need a separate import license for each product or each shipment. An importer does, however, need an annual import license issued by the ministry of commerce and industry; to be eligible, the company must be registered both in the commercial register at the Ministry of Commerce and Industry, as well as at the Kuwait Chamber of Commerce and Industry. Kuwaiti share holding in the capital of the company must be at least 51 percent.

A special import license is required to import certain kinds of goods, i.e., firearms, explosives, drugs and wild animals. Some drugs require a special import license from the Ministry of Public Health. Imports of firearms and explosives require a special import license form the Ministry of Interior.

6. Export Subsidies Policies

Kuwait does not directly subsidize any of its exports, which consist almost exclusively of crude oil, refined petroleum products, fertilizer and other petrochemical products. Almost 98 percent of Kuwait's food is imported. Small amounts of local vegetables are grown by farmers receiving government subsidies, and small amounts of these vegetables are sold to neighboring countries. However, not enough of these vegetables are grown or sold to make any significant impact on local or foreign agricultural markets. Periodically, Kuwait cracks down on the re-export of subsidized imports such as food and medicine.

7. Protection of U.S. Intellectual Property

Kuwait has made progress toward improved Intellectual Property Rights (IPR) protection; however, the level of protection remains inadequate by international standards. In 1995, the Ministry of Information issued ministerial decrees protecting U.S. and British-origin audio and video products, and the Kuwait Institute for Scientific Research hosted a regional conference of the World Intellectual Property Organization (WIPO) on industrial property.

Kuwait's Parliament has approved Kuwaiti membership in WIPO, but the GOK has yet to deposit its instrument of ratification with WIPO. Draft legislation for a copyright law, which would extend copyright terms, ease conditionality for protection and provide stiffer penalties for violators, is expected to be submitted to Kuwait's Parliament soon. It is reported to address shortcomings identified in previous versions of the Draft Law.

Kuwait was "watch listed" in 1995 both for lack of progress in passing copyright legislation and for its lack of patent coverage for pharmaceuticals. It has not yet established a "mailbox" as required under the WTO TRIPS accord. Currently, Kuwait's Patent Office serves only as a registration center, with no means of enforcing patent protection. Discussion has begun on amending Kuwait's existing patent law, to establish a confirmation-based system to register new patents.

Computer software piracy, in particular, continues to be a problem. Annual retail losses resulting from software piracy in Kuwait are estimated by industry sources at $45-50 million.

8. Worker Rights

a. *The Right of Association.*—Both Kuwaiti and non-Kuwaiti workers have the right to establish and join unions; latest figures indicate 50,000 workers are union members. The government restricts the free establishment of trade unions: workers may establish only one union in any occupational trade, and unions may establish only one federation. New unions must have at least 100 members, 15 of whom must be Kuwaiti. Expatriate workers, about 80 percent of the labor force, may join unions after five years residence, but only as nonvoting members; in practice, they can join after one year.

b. *The Right to Organize and Bargain Collectively.*—While unions are legally independent organizations, 90 percent of their budgets derive from government subsidies and the government oversees their financial records. This extends to prescription of internal rules and constitutions, including prohibition of involvement in domestic political, religious or sectarian issues; unions nevertheless engage in a wide range of activities. Unions can be dissolved by court ruling or Amiri decree, although this has never happened; were this to happen, union assets would revert to the Ministry of Social Affairs and Labor. Kuwaiti citizen, but not foreign, union members have the right within the union to vote and be elected. The law limits the right to strike; all labor disputes must be referred to compulsory arbitration if labor and management cannot reach a solution, and strikers are not guaranteed immunity from state legal or administrative action against them. Foreign workers, regardless of union status, may submit any grievance to the Kuwait Trade Union Federation, which is authorized to investigate their complaints and offer free legal advice. Most grievances are related to non-payment of wages and/or non-compliance of the employer with the labor contract.

c. *Prohibition of Forced or Compulsory Labor.*—The Constitution prohibits forced labor "except in the cases specified by law for national emergencies and with just remuneration." Foreign nationals must obtain a Kuwaiti sponsor to obtain a residence permit, and cannot change employment without permission of the original sponsors. Domestic servants, not protected by Kuwait's labor law, are vulnerable to abuses of this rule. While a draft private sector labor law, currently under review by the Council of Ministers, does not encompass domestic workers, it would allow the Minister of Social Affairs and Labor authority to regulate their conditions. Sponsors frequently hesitate to grant permission to change employment because of the various expenses they covered to bring the servants into the country, often ranging from $700 to $1,000. "Run away" maids can be treated as criminals under law for violations of their work and residence permits, especially if they attempt to work for someone else without the required permits. Sponsors often hold their servants' passports, a practice which the government prohibits but enforcement is inconsistent. Credible reports continue that foreign nationals employed as domestic servants have been denied exit visas if they seek them without their employer's consent.

d. *Minimum Age for Employment of Children.*—Minimum legal age is 18 years for all forms of work, both full and part-time. Employers may obtain permits from the ministry to employ juveniles between the ages of 14 and 18 in certain trades, for a maximum of six hours per day, on condition that they work no more than four consecutive hours followed by a rest period of at least one hour. Compulsory education laws exist for children between the ages of 6 and 15. These laws are not fully observed in the nonindustrial sector, and there have been confirmed reports of some South Asian and Filipino domestic servants under 18 who falsified their age in order to enter Kuwait.

e. *Acceptable Conditions of Work.*—In the public sector, the 1996 minimum monthly wage was approximately $74 for Kuwaiti citizens and $15 for non-Kuwaitis; there is no private sector minimum wage. Labor law sets general conditions of work for both public and private sectors, with the oil industry treated separately. Civil Service law, which also pertains to the public sector, limits the standard work week to 48 hours with one full day of rest per week, and provides for a minimum of 14 workdays of leave per year and a compensation schedule for industrial accidents. The law

also provides for employer-provided medical care, periodic medical exams to workers exposed to environmental hazards on the job, and compensation to workers disabled by injury of disease due to job-related causes. Legal protections exist for workers who file complaints about dangerous work situations. Laws establishing work conditions are not always applied uniformly to foreign workers and foreign laborers frequently face contractual disputes, poor working conditions and, in some cases, physical abuse.

f. *Rights in Sectors with U.S. Investment.*—Two significant U.S. investments in the oil industry, one in the partitioned neutral zone shared by Kuwait and Saudi Arabia and the other in Kuwait proper, operate under and in full compliance with the Kuwaiti labor law.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		[1]
Total Manufacturing		[1]
Food & Kindred Products	0	
Chemicals & Allied Products	[1]	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	[1]	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
Banking		0
Finance/Insurance/Real Estate		-1
Services		[1]
Other Industries		3
TOTAL ALL INDUSTRIES		288

[1] Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis

MOROCCO

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Income, Production and Employment:			
Nominal GDP [2]	32,535	36,929	37,000
Real GDP Growth (pct) [3]	-7.6	12	-2.5
GDP by Sector:			
Agriculture	4,668	7,535	5,530
Manufacturing	6,067	6,258	6,446
Services	6,378	6,928	6,997
Government	4,393	4,528	4,709
Per Capita GDP (000s)	1,223	1,284	1,280
Labor Force (urban 000s)	4,536	4,863	4,905
Unemployment Rate (pct)	16.0	16.0	16.0
Money and prices (annual percentage growth):			
Money Supply Growth (M2)	7	6.6	6.0
Consumer Price Inflation	6.1	3.0	2.5
Exchange Rate (DH/US$ - annual average)			
Official	8.51	8.69	9.60
Balance of Payments and Trade:			
Total Exports FOB [4]	4,729	4,758	5,599

Key Economic Indicators—Continued

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Exports to U.S.[4]	160	165	180
Total Imports CIF [4]	8,563	8,276	8,773
Imports from U.S.[4]	561	614	580
Trade Balance [4]	-3,834	-3,518	-3,174
Balance with U.S.[4]	-401	-449	-400
External Public Debt	22,300	21,500	21,000
Fiscal Deficit/GDP (pct)	5.3	3.0	1.9
Current Account Deficit/GDP (pct)	-4.8	-1.8	-2.0
Debt Service Payments/GDP (pct)	10.9	8.8	8.5
Gold and Foreign Exchange Reserves	4,011	4,179	4,300
Aid from U.S.	43	40	40
Aid from all other sources	1,737	1,750	1,750

[1] 1997 figures are all estimates based on available monthly data in October 1997.
[2] GDP at factor cost.
[3] Percentage changes calculated in local currency.
[4] Merchandise trade.

1. General Policy Framework

Morocco boasts the largest phosphate reserves in the world, a diverse agricultural (including fishing) sector, a large tourist industry, a growing manufacturing sector (especially clothing), and considerable inflows of funds from Moroccans working abroad. Most of Morocco's trade is with Europe, France alone accounts for about a quarter of Morocco's imports and a third of its exports. Morocco is a member of the WTO.

The Moroccan government has pursued an economic reform program since the early 1980s. It has restrained government spending, revised the tax system, reformed the banking system, pursued appropriate monetary policies, eased import restrictions, lowered tariffs, launched a privatization program and liberalized the foreign exchange regime. These reforms have helped restore macroeconomic equilibria: the current account deficit, fiscal deficit and inflation rates are well below their early 1980s levels. Economic growth has been modest, with wide year-to-year fluctuations due largely to variations in rainfall.

The reform program continues to move forward although slowly and unevenly. An anti-corruption campaign in early 1996 considerably slowed customs clearances, and put a damper on some economic activity. The privatization program has progressed slower than expected, but trading privatized companies has given a huge boost to the Casablanca stock exchange. The Moroccan government has embraced private financing, construction and operation of some highways, a new Atlantic Ocean port for Tangier and other large infrastructure projects, including a $1.5 billion electric power project awarded to a joint venture between an American and a European firm.

GDP growth topped twelve percent in 1996 following heavy rains that nourished a record harvest. Erratic rains in 1997 led to a 25 percent drop in agriculture GDP. The economy as a whole is expected to contract by 2.5 percent in 1997. Foreign exchange reserves have bounced back after falling during the 1994-1995 drought. The government has recently announced an easing of exchange controls for Moroccan tourists. Morocco's chronic merchandise trade deficit narrowed slightly in 1996. This trend has continued into 1997. Receipts from remittances, tourism and foreign investment recovered in 1996, and have increased sharply in 1997, led by a significant increase in foreign investment.

2. Exchange Rate Policies

The Moroccan dirham is convertible for all current transactions (as defined by the International Monetary Fund's Article VIII) as well as for some capital transactions, notably capital repatriation by foreign investors. Foreign exchange is routinely available through commercial banks for such transactions on presentation of documents. Moroccan companies may borrow abroad without prior government approval. Investment abroad by Moroccan individuals or corporations is subject to approval by the Foreign Exchange Board. Approval is routinely denied for projects that do not directly benefit Morocco.

The Central Bank sets the exchange rate for the dirham against a basket of currencies of its principal trading partners, particularly the French franc and other European currencies. The rate against the basket has remained steady since a nine percent devaluation in May 1990, with changes in the rates of individual currencies reflecting changes in cross rates. The large weight given to European currencies in the basket results in a greater volatility of the dollar than the European currencies against the dirham. This increases the foreign exchange risk of importing from the United States as compared to importing from Europe.

3. Structural Policies

The 1992 Foreign Trade Law committed Morocco to the principles of free trade, reversing the legal presumption of import protection. It replaced quantitative restrictions with tariffs (both ad valorem and variable) on the importation of politically sensitive items.

Interest rate policy has also changed in recent years. In 1994 the Government revised the interest rate ceilings on bank loans. The new ceiling is set as a three to four percent markup over the rate received on deposits, including the below-market-rates on required deposits. The effect of the change is to lower the interest rate ceilings, although real rates remain high.

Morocco has a three-part tax structure consisting of a value added tax, a corporate income tax, and an individual income tax. The new investment code passed by the Parliament in October 1995 calls for reductions in corporate and individual income taxes, and the reduction of import duties and elimination of the value added tax on certain capital goods and equipment. A plethora of minor taxes can significantly raise the cost of certain imported goods.

4. Debt Management Policies

Morocco's foreign debt burden has declined steadily in recent years. Foreign debt fell from 128 percent of GDP in 1985 to about 58 percent of GDP in 1996. Similarly, debt service payments before rescheduling, as a share of goods and services exports, fell from over 58 percent in 1985 to about 32 percent in 1996. The Moroccan government does not foresee the need for further Paris Club rescheduling, although it is pursuing other forms of debt relief with major official creditors.

5. Aid

Less than two percent of the aid listed in the economic indicators section of the report is military assistance.

6. Significant Barriers to U.S. Exports and Investment

Import Licenses: Morocco has eliminated import licensing requirements on a number of items in recent years. Licensing requirements remain for motor vehicles, used clothing and explosives.

Tariffs: Tariffs have been gradually reduced in recent years. By 1993 the maximum tariff was 35 percent and the (trade-weighted) average tariff was about 13 percent. Despite the downward trend, tariffs on some products have increased as quantitative restrictions were replaced with higher tariffs. For example, following the elimination of licensing requirements, tariffs on dairy products, cereals, vegetable oils and sugar have increased. There is also a 10 to 15 percent surtax on imports of most goods.

Services Barriers: In November 1989 Parliament abrogated a 1973 law requiring majority Moroccan ownership of firms in a wide range of industries, thus eliminating what had been a barrier to U.S. investment in Morocco. In 1993 the Moroccan government repealed a 1974 decree limiting foreign ownership in the petroleum refining and distribution sector, which allowed Mobil Oil to buy back the Moroccan government's 50 percent share of Mobil's Moroccan subsidiary in 1994.

Standards, Testing, Labeling and Certification: Morocco applies approximately 500 industrial standards based on international norms. These apply primarily to packaging, metallurgy and construction. Sanitary regulations apply to virtually all food imports. Meat should be slaughtered according to Islamic law.

Investment Barriers: The Moroccan government actively encourages foreign investment. The Parliament passed a new investment code in 1995 which applies equally to foreign and Moroccan investors, except for the foreign exchange provisions which favor foreign investors. Unlike the previous sectoral investment codes, the advantages offered under the new code are to be granted automatically. There are no foreign investor performance requirements, although the new code provides

income tax breaks for investments in certain regions, and in crafts and export industries.

Government Procurement Practices: While Moroccan government procurement regulations allow for preferences for Moroccan bidders, the effect of the preference on U.S. companies is limited. Virtually all of the government procurement contracts that interest U.S. companies are large projects for which the competition is non-Moroccan (mainly European) companies. Many of these projects are financed by multilateral development banks which impose their own nondiscriminatory procurement regulations. U.S. companies sometimes have difficulty with the requirement that bids for government procurement be in French.

Customs Procedures: In principle, customs procedures are simple and straightforward, but in practice they are sometimes marked by delays. A commercial invoice is required, but no special invoice form is necessary. Certification as to country of origin of the goods is required.

7. Export Subsidies Policies

There are no direct export subsidies, although the 1995 investment code provides a five-year corporate income tax holiday for export industries. Morocco has a temporary admission scheme which allows for suspension of duties and licensing requirements on imported inputs for export production. This scheme includes indirect exporters (local suppliers to exporters). In addition, a "prior export" program exists, whereby exporters can claim a refund on duties paid on imports which were subsequently transformed and exported. Morocco is not a signatory of the GATT Subsidies Code.

8. Protection of U.S. Intellectual Property

Morocco is a member of the World Intellectual Property Organization and is a party to the Bern Copyright, Paris Industrial Property, and Universal Copyright Conventions, the Brussels Satellite Convention, and the Madrid, Nice, and the Hague agreements for the protection of intellectual property.

Copyright: Computer software is not specifically covered by Morocco's copyright law and violations of software copyrights are widespread. Moroccan officials have announced the imminent introduction of legislation to offer protection for computer software.

Patents: Morocco has a relatively complete regulatory and legislative system for the protection of intellectual property. A quirk dating from the era of the French and Spanish protectorates requires patent applications for industrial property to be filed in both Casablanca and Tangier for complete protection. The proposed 1996 industrial property code will amend this provision and require that applications be filed only in Casablanca.

Trademarks: Counterfeiting of clothing, luggage, and other consumer goods is not uncommon; however, anticounterfeiting has been increasingly enforced. Counterfeiting is primarily for local sales rather than for export. Trademarks must be filed in both Casablanca and Tangier, though this too will be amended in the new law.

9. Workers Rights

a. *The Right of Association.*—Workers are free to form and join unions throughout the country. The right is exercised widely but not universally. About ten percent of Morocco's 4.9 million urban workers is unionized, mostly in the public sector. The selection of union officers and the carrying out of their duties are subject to government pressure. More narrowly focused strikes continue to occur, although strikers have encountered police harassment and arrest. Work stoppages are normally intended to advertise grievances and last 24-48 hours.

b. *The Right to Organize and Bargain Collectively.*—While the protection of the right to organize and bargain collectively exists in the Constitution and labor law, the government does not always enforce the protections fully. The laws governing collective bargaining are inadequate. Collective bargaining has been a long standing tradition in some parts of the economy, but the practice is not spreading. A 1996 social dialogue between labor, government and management resulted in an agreement for a 10 percent pay raise, increased money for housing construction and an understanding to continue such tri-partite discussions. Some of the provisions of this agreement have yet to be implemented, and there remains some dissatisfaction among workers.

The multiplicity of trade union federations creates competition to organize workers. As a result, a single factory may contain several independent locals. However, this also tends to weaken the unions' negotiating position with management. Labor

laws are observed most often in the corporate and parastatal sectors of the economy. In the informal economy, labor regulations are routinely ignored. As a practical matter, the unions in Morocco have no judicial recourse to oblige the Government to act when it has not met its obligations under the law.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is prohibited in Morocco.

d. *Minimum Age for Employment of Children.*—The law prohibits the employment or apprenticeship of any child under 12 years of age. Special regulations cover the employment of children between the ages of 12 and 16. In practice, however, children are often apprenticed before age 12, particularly in the handicraft industry. The use of minors is common in the rug-making, textile, and tanning industries. Children are also employed informally as domestics and usually receive little or no wages. Child labor laws are generally well-observed in the industrialized, unionized sector of the economy.

e. *Acceptable Conditions of Work.*—The minimum wage is about $165 a month and is not considered adequate to provide a decent standard of living for a worker and his or her family. The minimum wage is not enforced effectively in the informal sector of the economy. It is enforced fairly effectively throughout the industrialized, unionized sectors where most workers earn more than the minimum wage. They are generally paid between 13 and 16 months salary, including bonuses, each year.

The law provides for a 48-hour maximum work week with not more than 10 hours any single day, premium pay for overtime, paid public and annual holidays, and minimum conditions for health and safety, including the prohibition of night work for women and minors. As with other regulations and laws, these are not universally observed in the informal sector.

f. *Rights in Sections with U.S. Investment.*—Worker rights in sectors with U.S. investment do not differ from those described above, all of which is in the formal, industrial sector of the Moroccan economy.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		[1]
Total Manufacturing		92
Food & Kindred Products	37	
Chemicals & Allied Products	22	
Metals, Primary & Fabricated	[1]	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	[1]	
Wholesale Trade		0
Banking		[1]
Finance/Insurance/Real Estate		0
Services		0
Other Industries		0
TOTAL ALL INDUSTRIES		122

[1] Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

OMAN

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Income, Production and Employment:			
Nominal GDP [1]	13.8	15.3	16.0
Real GDP Growth (pct)	4.8	4.2	4.7
GDP by Sector:			
Agriculture & Fisheries	0.4	0.4	0.4
Petroleum	5.2	6.4	6.4
Manufacturing	0.6	0.6	0.3
Services [2]	7.2	7.6	6.0
Government Services	1.8	1.8	1.9
Per capita GDP (US$)	6,405	6,526	6,477
Labor Force (000s)	747.7	780.5	780.5
Unemployment Rate (pct)	N/A	N/A	N/A
Money and prices (annual percentage growth)::			
Money Supply Growth (M2 Jan-Aug)	7.7	9.6	18.1
Consumer Price Inflation [3]	-1.3	0.2	0.0
Exchange Rate (Omani Rial/US$)	2.6	2.6	2.6
Balance of Payments and Trade:			
Total Exports (FOB)	6.1	7.3	7.6
Exports to U.S. (US$ mlns) [4]	320.7	447.4	251.8
Total Imports (CIF)	4.4	4.6	4.8
Imports from U.S. (US$ mlns) [4]	215.3	201.9	274.6
Trade Balance	1.7	2.7	2.8
Balance with US$ mlns) [4]	1,054	245.5	-22.8
External Public Debt	3.1	2.9	3.0
Fiscal Deficit/GDP (pct)	9.0	4.5	N/A
Current Account Deficit/GDP (pct)	5.1	0.7	N/A
Debt Service Payments/GDP (pct)	2.2	2.1	2.0
Gold and Foreign Exchange Reserves [5]	1.9	2.0	2.3
Aid from U.S. (US$ mlns) [6]	0.1	0.1	0.2
Aid from other sources	N/A	N/A	N/A

[1] All 1996 GDP data is provisional. 1997 estimates are annualized based on Jan.-June data: petroleum activities are doubled for 1997 estimate, other sectors are annualized based on comparable Jan.-June 1996 percentage of annual sector product.; balance of payments and trade table, public finance, and CPI are annualized based on data through Sept. 1997.

[2] Health and Education are included in Services although mostly government-provided. Government services shown are current (not capital) expenditures for public administration and defense.

[3] Muscat Governate CPI.

[4] 1997 data is through Sept. 30. The trade balance with the U.S. does not include Omani oil purchased by the U.S. on the spot market. Trade data does not necessarily include all U.S. exports subsequently reexported to Oman from Dubai, U.A.E., primary entrance point for most U.S. goods to the southern Gulf.

[5] Data represents Central Bank assets. 1997 datum is June 30 balance. The State General Reserve Fund does not publish its holdings.

[6] Aid: U.S. military assistance is International Military Education and Training (IMET) funding. Data is not available on the value of Japanese technical assistance provided Oman.

Sources: Annual Report 1996, and the June 1997 Quarterly Statistical Bulletin, Central Bank of Oman; Statistical Year Book, 1996 and "Monthly Statistical Bulletin" (Oct. 31, 1997), Ministry of Development. Bilateral trade date is from U.S. Department of Commerce, Nov. 1997. N/A indicates not available.

1. General Policy Framework

The Sultanate of Oman is a nation of 2.5 million people (including as many as 750,000 expatriates) living in the arid mountains and desert plain of the southeastern Arabian Peninsula. Oman is a small oil producer. Oman exported an average of 894 thousand barrels of oil daily—93 percent of its output—in the first three quarters of 1997 at an average price of $18.81/barrel. Oil revenue accounts up to 78 percent of government revenues. As an artifact of rising oil prices, Oman's per capita GDP rose from about $6,400 in 1995 to $6,525 in 1996 (including expatriates in the population). A significant proportion of its rural population lives in poverty. An annual population growth of no less than 3.7 percent for Omani nationals surpassesgrowth in non-petroleum domestic production and presents ever greater demand on infrastructure. The Sultanate seeks to lessen its dependence on oil export revenues by diversifying, primarily to natural gas-based industry.

The Omani government links developmental priorities and budgetary plans in five year planning exercises. Oman's Fifth Five Year Plan, 1996-2000, laid out a program designed to shift economic development from governmental to private initiative; diversify national economy from dependence on crude oil revenue, primarily through future natural gas sales andlight industry; and educate a productive national work force for private employment. Aiming at a zero deficit by the year 2000, stringent annual budgets were planned on the basis of revenue from $15 per barrel petroleum. In 1995, the government financed a $1.25 billion fiscal shortfall as usual by drawing down on reserves and issuing development bonds, which had been first sold in August 1991. The government trimmed the 1996 deficit to $684.6 million, and showed a surplus on Sept. 30, 1997. While the Government considered cost trimming measures, including gradual implementation of user fees and privatization of certain government utilities, Omanis continued to enjoy free medical care and free education through post-secondary school vocational or higher education.

Among major public expenditure categories in 1996, defense and security accounted for 34 percent of current expenditures (military capital expenditures are not published), and current and capital expenditures for Petroleum Development Oman (PDO) accounted for 13.5 percent of current expenditures.

Oman's economy is too small to require a complicated monetary policy. The Central Bank of Oman directly regulates the flow of currency into the economy. The most important instruments which the bank uses are reserve requirements, loan to deposit ratios, treasury bills, rediscount policies, currency swaps and interest rate ceilings on deposits and loans. Such tools are used to regulate the commercial banks, provide foreign exchange and raise revenue, not as a means to control the money supply. The large amounts of money repatriated from Oman by foreign workers and by foreign companies in Oman help ease monetary pressures. Outward workers remittances increased 11 percent in 1996, for 11 percent of GDP.

2. Exchange Rate Policies

The rial has been pegged to the U.S. dollar since 1973. Since a 10.2 percent devaluation in 1986, it has remained steady at about $2.60 to 1 rial.

3. Structural Policies

Oman operates a free market economy, but the government is at present the most important economic actor, both in terms of employment and as a purchaser of goods and services. Contracts to provide goods and services to the government, including the two largest purchasers, Petroleum Development Oman and the Defense Ministry, are on the basis of tenders overseen by a Tender Board. Oman promotes private investment through a variety of soft loans (currently through the Ministry of Commerce and Industry and, for projects under 250,000 R.O., the Oman Development Bank, reorganized in 1997), tax incentives, modest procurement preferences, and subsidies, mostly to industrial and agricultural ventures. The government grants five year tax holidays to newly-established industries or expansion projects; a one time renewal is possible. Oman has fairly rigorous health, safety and environmental standards, and is attempting to upgrade its enforcement capabilities.

Oman revised its corporate tax structure in October 1996 to encourage foreign investment in joint ventures. It extended national treatment to certain joint ventures; i.e., the 7.5 percent maximum rate of corporate income tax applicable to wholly Omani-owned firms now also applies to public joint venture companies (SAOG) with no more than 49 percent direct foreign ownership and at least 40 percent of shares publicly traded on the Muscat Securities Market. A graduated system of taxes, with a new ceiling reduced to a 30 percent rate, applies to Omani/foreign joint venture companies with up to 90 percent direct foreign ownership. The tax rate for foreign petroleum companies is set in concession agreements. Most import duties are at the five percent level, none for essentials, higher for some few protected local products. There are no personal income taxes or property taxes. Employers pay 7 percent of a foreign workers basic salary to a vocational training fund for Omanis, and 8 percent of an Omanis basic salary to a social security fund. The government imposes substantial fees for labor cards and companies are liable for fines if they do not reach government-specified levels of 'Omanization' by the end of target deadlines.

With a 90 MW power project near Nizwa, the Sultanate became the first Gulf Arab nation to turn exclusively to the private sector to finance, build and operate a utility, with title reverting to the government after 20 years. Although Sultan Qaboos has proclaimed 1998 to be the "Year of Private Enterprise," the government may back away from plans for further privatization of electricity and instead opt for expansion of existing facilities or contracting for new facilities and, separately, for operations. It pushed back due dates several times on the rebidding of the

redrawn Salalah Power Project, with bids currently due in March 1998. However, the government delayed approving other electrical utility projects in 1996 and 1997 as it tried to retool its approach to privatization to avoid subsidizing rates. The government has joined with Sea-Land Services (U.S.), Maersk Lines (Denmark), and Omani investors as partners in readying Salalah's Port Raysut to be the major container transshipment port for the Indian Ocean Rim area, with operations commencing in late 1998. Five years after the discovery of natural gas reserves, a mixed enterprise with majority Government holding, Oman Liquefied Natural Gas, concluded all agreements allowing construction start up on a 6.6 million ton/year LNG plant in Sur. Deliveries on two long-term contracts totaling 4.7 million tons are to start in 2000; other purchasers are being sought. Financing on the downstream plant is on a limited recourse basis, with upstream facilities and a 360 km pipeline financed through the corporate developers, principally Royal Dutch Shell. A fertilizer plant is among the spin-off industries expected to cluster around the LNG plant. Governmental allocation of gas in October 1996 has also advanced private sector developers' proposals to establish a major aluminum smelter complex and a $900 million polyethylene plant at Sohar. Oman's modern, state-owned General Telecommunications Organization (GTO) will upgrade its fiber-optic backbone expansion to include Salalah. Customer demand exceeding GTO's expectations greeted its introduction of GSM service in late 1996 and Internet service in early 1997. GTO may open itself or various services to mixed ownership. For 1997 and beyond, Oman is reviewing port and other transportation requirements associated with industries planned for Sur and Sohar, examining many coastal and inland sites for potential tourist facilities, undertaking technical and business management training, studying water and waste water requirements, and addressing arid land agriculture and fisheries management. Oman has not tapped major coal deposits inland from Sur.

4. Debt Management Policies

Oman's sovereign debt is estimated at $3 billion. The debt is easily managed and is owed to a consortium of international banks. Oman has a reputation for solid credit worthiness. There are no International Monetary Fund or World Bank adjustment programs. The Omani government gives little publicity to the occasional modest foreign aid that it donates. Sultan Qaboos also makes occasional personal donations to Arab causes, Muslim institutions, or worthy foreign organizations. Although Oman does not publish figures on the level of its external debt or its fund to meet future contingencies, the State General Reserve Fund, it is known that this fund was drawn down and development bonds issued starting in 1991. Robust crude oil prices and fiscal restraint late in 1995 through 1997 reduced the fiscal deficit and enabled some replenishment of the SGRF.

5. Significant Barriers to U.S. Exports

A license is required for all imports. Special licenses are required to import pharmaceutical, liquor and defense equipment. Some foreign suppliers have previously complained that exclusive agency agreements are difficult to break. In September 1996, Oman amended its agency law to allow non-exclusive representational agreements. Although currently not a member of the WTO, in 1996 Oman decided to apply for accession.

Service barriers consist of simple prohibitions on entering the market. For example, entry by new foreign firms in the areas of banking, accountancy, law and insurance is not permitted (except as contracted for specialized services required by the government), although joint ventures for professional services are encouraged between Omanis and foreign firms. The Central Bank seeks the strengthening and further consolidation of existing banks. It has placed limits on the percentage of the consumer loan portfolio and is pressing for the BIS 12percent capital adequacy standard. Citibank has a wholly-owned branch in Muscat. Major U.S. engineering and accounting firms are well represented. Omani firms appear quite open to an affiliation with U.S. firms. No major U.S. legal firm has as yet entered into a partnership with an Omani firm.

Tax policy discourages wholly foreign-owned firms. Oman attempts to attract foreign firms and investors to participate in joint ventures with Omani majority ownership. It has a case-by-case approach towards major projects by wholly or largely foreign owned firms. For very large strategic projects, Oman may offer foreign investors control commensurate with their investment and risk. The Oman Centre for Investment Promotion and Export Development (OCIPED) opened early in 1997 to simplify and expedite investment project realization.

Oman uses a mix of standards and specifications systems. Generally, GCC standards are adopted and used. However, because of the long history of trade relations

with the U.K., British standards have also been adopted for many items, including electrical specifications. Oman is a member of the International Standards Organization and applies standards recommended by that organization. U.S. exporters sometimes run afoul of dual language labeling requirements or, because of long shipping periods, have trouble complying with shelf-life requirements. U.S. export brokers and Omani trading firms are prone to trade difficulties when deliveries are not made within demanding government tender delivery dates.

Despite requirements to "Omanize" the work force, the private sector depends on an increasing number of expatriates for managerial, technical, and physical labor.

Oman continues to promote "Buy Oman" laws; this is a slow process as very few locally made goods meeting international standards are available. The Tender Board evaluates the bids of Omani companies for products and services at 10 percent less than the actual bid price, but goods and services bid by Omani agents are said to receive the same national preference. Because of short lead times on open tenders, it is often difficult to notify U.S. firms of trade and investment possibilities, and thereafter difficult for those firms to obtain a local agent and prepare tender documents. Foreign firms seeking to compete for open and unpublished tenders find it advantageous to develop relationships with local firms.

Oman's customs procedures are complex. There are complaints of sudden changes in the enforcement of regulations. Until superior officers can be contacted, an occasional customs officer can cause temporary delays and confusion by insisting that documentation or shipments comply with suspended boycott regulations. As part of "Omanization," as of late 1996 only Omani nationals are permitted to clear shipments. Processing of shipments at Omani ports and airports can add significantly to the amount of time that it takes to get goods to the market or inputs to a project. Overland shipments from the U.A.E. seldom encounter problems.

In 1995 Oman substantially eased visa requirements by offering two year multiple entry visas to attract American tourists and business representatives, and since late 1996 has tried to issue visas expeditiously. In general, these visas are only issued at Oman's Washington embassy, and are not offered to U.S. citizen business applicants residing outside the United States. Visa denials are not unusual for unaccompanied women tourists and young adult males. In late 1996, the Royal Oman Police reduced non-resident stays from two months to one month per entry, thereby hampering business visits of longer duration by U.S. and by non-U.S. citizens employees of U.S. firms. These visas can only be extended outside Oman, so visitors whose activities keep them here longer than a month face the added expense of a trip, usually to Dubai, for a visa renewal.

Finally, despite various rate reductions, the costs of international calls from the Sultanate remain exceedingly high by world standards: $2.60 per minute to most non-GCC countries. International access cards are not allowed.

6. Export Subsidies Policies

Oman's policies on development of light industry, fisheries, and agriculture aim to make those sectors competitive internationally. Investors in these three sectors receive a full range of tax exemptions, utility discounts, soft loans and, in some cases, tariff protection. The government has also set up an export guarantee program which both subsidizes the cost of export loans and offers a discounted factoring service.

7. Protection of U.S. Intellectual Property

Oman has a trademark law it enforces. It does not, however, protect well-known marks unless they are registered in Oman. Application for trademark protection also requires a local agent. Oman failed in 1997 to enforce a copyright decree issued in mid-1996. Oman joined the World Intellectual Property Organization (WIPO), but it has not acceded to the Paris Convention (on patents and related industrial property), the Berne Convention (on copyrights) or any of the other substantive intellectual property conventions administered by WIPO.

There is now express copyright protection for U.S. or other foreign works in Oman. Audio and video cassette retailers have been selling pirated copies, mostly imported, alongside some legitimate imports. Although some government offices and major users--including government offices, the university, and consumers--acquire pirated software. There is a similar problem with pirated Cds. While Oman's internal market is too small to attract major producers of pirated products, Oman risks attracting pirate producers seeking a back door into U.A.E. markets.

Oman affords little or no patent protection in critical areas such as pharmaceutical products. Oman has said it would recognize patents issued by the GCC pat-

ent office, but that offer will be of little value until the GCC patent office is up and running effectively.

8. Worker Rights

Sultan Qaboos issued a Basic Law November 6, 1996 that serves as Oman's first written basic framework, akin to a constitution but consistent with Islamic Sharia law. The Sultanate will issue legislation implementing the Basic Law's provisions within two years of its issuance. It is unclear whether or how any of the expected implementing measures will affect worker rights.

a. *The Right of Association.*—Articles 33 and 34 of the Basic Law allow the right to assemble and freedom of association when consistent with legal limitations and objectives. Currently, Omanis and resident foreigners alike are free to join only the relatively few officially sanctioned associations.

b. *The Right to Organize and Bargain Collectively.*—Since 1994, the Sultanate has indicated that it is reviewing a new labor law drafted by the Ministry of Social Affairs and Labor. Sultanate officials have characterized its provisions as consistent with international labor standards. It will reportedly contain a provision for the establishment of worker committees in the work place and remove the current prohibition against strikes. Oman is a member of the International Labor Organization.

c. *Prohibition of Forced or Compulsory Labor.*—Compulsory or forced labor is illegal. That said, foreign workers are typically unaware of their right to take disputes over contract enforcement to the Labor Welfare Board or are afraid that questions regarding their employment status will result in deportation.

d. *Minimum Age for Employment of Children.*—The Ministry of Social Affairs and Labor enforces 13 as the minimum employment age. Employers require the Ministry's approval to engage children between 13 and 16 years of age in overtime, night, weekend or holiday, or strenuous work. Nonetheless, small family businesses in practice may employ underage children, particularly in the agricultural and fisheries sectors.

e. *Acceptable Conditions of Work.*—The minimum wage for nonprofessional workers is about $156 month, less any charges by Omani sponsors for the workers' visas, but does not cover domestic workers, farm hands, government employees, and workers in small businesses. Omani nationals tend to be well protected. Most employed Omanis work for the government, with a 35 hour work week and generous leave of from 42–60 days annually plus 9 days emergency leave and Omani holidays. Skilled foreign workers predominate in private sector employment and enjoy regionally competitive wages and benefits. Whether covered by the law or not, many unskilled foreign workers work for less than the minimum wage and for hours exceeding the 40–45 hour private sector work week. The temperature during Omans hot summer has never been officially recorded at the 50 degree C. mark which, adhering to an International Labor Organization standard, would mandate the stoppage of outside labor. Non-Moslem workers are expected to respect the Ramadan month of daytime fasting by not publicly drinking or eating. Foreign workers find Oman very attractive for its employment opportunities and general living conditions.

f. *Rights in Sectors with U.S. Investment.*—To date, U.S. firms have little direct investment in Oman. The one U.S. petroleum firm with significant in-country activities in 1997 is favorably known for its relations with its employees while complying fully with provisions of Omani law.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		[1]
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996—Continued

[Millions of U.S. dollars]

Category	Amount
Wholesale Trade	0
Banking	[1]
Finance/Insurance/Real Estate	4
Services	[1]
Other Industries	0
TOTAL ALL INDUSTRIES	191

[1] Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis

---

SAUDI ARABIA

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Income, Production and Employment:			
Nominal GDP [2]	128.7	136.0	140.0
Real GDP Growth (pct) [3]	0.0	2.0	3.0
GDP By Sector:			
Agriculture	6.7	N/A	N/A
Manufacturing (Incl. Oil)	N/A	N/A	N/A
Services	N/A	N/A	N/A
Government	N/A	N/A	N/A
Per Capita Gdp (US$)	6,700	6,900	7,000
Labor Force (millions)	5.3	5.4	5.6
Unemployment Rate (pct)	N/A	N/A	N/A
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	5.6	9.8	N/A
Consumer Price Inflation	5.0	1.5	N/A
Exchange Rate (Sr/US$ - annual average)			
Official	3.75	3.75	3.75
Balance of Payments and Trade:			
Total Exports FOB [4]	50.0	56.7	N/A
Exports to U.S.[5]	7.7	8.9	9.4
Total Imports CIF [4]	25.6	25.4	N/A
Imports from U.S.[5]	6.0	6.1	7.3
Trade Balance [5]	24.4	31.3	N/A
Balance with U.S.[5]	1.7	2.0	1.2
Current Account Deficit/GDP (pct)	6.2	0	0
External Public Debt	0	0	4.3
Debt Service Payments/GDP (pct)	N/A	N/A	N/A
Fiscal Deficit/GDP (pct)	3.9	3.3	N/A
Gold And Foreign Exchange Reserves	13.5	11.9	13.7
Aid From U.S.	0	0	0
Aid From All Other Sources	0	0	0

[1] 1997 figures are all estimates based on available data in October 1997.
[2] GDP at factor cost
[3] Percentage change calculated in local currency
[4] Merchandise Trade
[5] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1997 figures are estimates based on data available through November 1997.

1. General Policy Framework

Saudi Arabia prides itself on being a free market economy. Government policies tend to encourage commercial enterprise, but a strict interpretation of Islamic mores limits the range of policy options as well as that of commercial endeavors. Since about 1970, Saudi Arabia has published a series of five-year development plans, focusing on infrastructure and industrialization. Development plans, however, are presented as planning tools, not as centralized controls, and the government takes pains to exhort that its development plans rely on heavy private sector involvement.

The oil and government sectors are the engines of the economy. Parastatal enterprises (e.g., Saudi Aramco, Saudi Basic Industries Corporation (SABIC), Saudi Arabian Airlines (SAUDIA)) tend to dominate the corporate economy, and spending decisions taken by these few large companies reverberate throughout the economy. Concerned with the security challenges posed by neighbors such as Iran and Iraq, Saudi Arabia seeks sufficient military and security resources to protect its territory and the pilgrims who visit the two Islamic holy cities of Mecca and Medina. These requirements have made the kingdom a large buyer of advanced military technology, as manpower resources are limited.

In 1996, oil sector revenues comprised an estimated 40% of GDP, and an estimated 75% of budget revenues. Other government revenues, including items such as customs duties, investment income, and fees for services, are to a large degree indirectly tied to oil, as capital available for consumption and investment is generally derived from oil receipts. In addition, the manufacturing and services sectors are largely dependent on petroleum and petrochemical activities.

Starting with the oil boom of the early 1970s, Saudi Arabia maintained annual budget surpluses until 1983, when the decline in oil prices led to the first budget deficit. These deficits have continued for the past 14 years. Initially, the deficits were financed by a draw down of foreign exchange reserves. Starting in 1987, the government began financing deficits by issuing government bonds, and taking loans from domestic banks. The government has also accrued substantial arrearages to the private sector over the past decade, though these were paid down substantially in 1996 with unanticipated oil revenues.

After this run of budget deficits, Saudi Arabia experienced an increase in oil revenues in 1996. Spending in 1996 exceeded the budget by $12 billion, but because of high oil revenues, the government achieved its deficit target of 4.5 billion. Oil revenues appear higher than anticipated for 1997 as well.

Money supply is regulated through the Saudi Arabian Monetary Agency (SAMA), which has statutory authority to set monetary reserve requirements for Saudi Arabian banks, impose limits on their total loan portfolio, and regulate the minimum ratio of domestic assets to their total assets. It also manages the bond market, and can repurchase development bonds and treasury bills on a modest scale to provide liquidity. SAMA oversees a financial sector consisting of eleven commercial banks. The Ministry of Finance oversees five specialized credit banking institutions.

2. Exchange Rate Policy

The exchange rate for the Saudi Arabian riyal (sr) is sr 3.75 = $1.00. This rate has been consistent since 1986. Officially, the riyal is pegged to the IMF's special drawing rights (SDR) at sr 4.28255 = sdr 1. There are no taxes on the purchase or sale of foreign exchange.

Generally speaking, there are few foreign exchange controls for either residents or nonresidents, in keeping with the government policy to encourage an open economy of the few restrictions, the most noteworthy are: Commercial transactions with Israel and Israeli-registered corporations are prohibited, as are transactions with Iraq; local banks are prohibited from inviting foreign banks to participate in riyal-dominated transactions without prior SAMA approval; gold is freely traded, held, and shipped, except that gold of 14 karats or less is prohibited.

3. Structural Policies

The government maintains price controls for basic utilities, energy, and many agricultural products. Water and electricity, for most consumers, are believed to be subsidized, with consumer prices often below the cost of production (especially for potable water). Petroleum products and feed stocks for petrochemical industries are provided at below world pricing, reflecting discounts for efficiencies in production and transport. The government maintains that local petroleum prices that are below world average (e.g., a gallon of gasoline sells for $.67 at the pump) reflect the low costs of production. Nonetheless, the effect of these low prices is that petroleum products, including many petrochemicals, are sold in Saudi Arabia at prices that ef-

fectively eliminate competing imports. Agricultural subsidies were dramatically curtailed in the early 1990's and have been reduced in the two most recent budgets, in line with the government's deficit reduction plans.

The Saudi Arabian Government imposes few taxes, relying on oil revenues, customs duties, and licensing fees for most government revenue. Saudi Arabian nationals pay no income tax, but are obliged to pay "zakat," a 2.5% Islamic assessment based on wealth (not income). Zakat is designed to support the Islamic community (e.g., to pay for hospitals, schools, support for the indigent). Foreign companies and self-employed foreigners pay an income tax, but do not pay zakat. Business income tax rates range from 25% on profits of less than $26,667 to a maximum rate of 45% for profits of more than $266,667. Some foreign investors avoid taxation either in part or totally, by taking advantage of various investment incentives, such as 10-year tax holidays for investments in approved projects meeting specified requirements. Import tariffs range around 12% ad valorem (CIF), with the exception of products imported from other member states of the Gulf Cooperation Council, which pay no tariff. Certain specified essential commodities (e.g., defense purchases) are not subject to custom duties. Saudi Arabia also levies a maximum 20% tariff on products that compete with local "infant" industries.

4. Debt Management Policies

Saudi Arabia is a net creditor in world financial markets. SAMA manages a portfolio of foreign investments of over $50 billion in its issues and banking departments, and an estimated $15 billion for autonomous government institutions, i.e., the Saudi Pension Fund, the Saudi Fund for Development, and the General Organization for Social Insurance. Under SAMA's definitions, about $10-15 billion of the $50 billion investment portfolio is available, with the remainder designated to guarantee the Saudi riyal or letters of credit. In addition to overseas assets managed by SAMA, the commercial banking system has an estimated net foreign asset position of $14.0 billion.

Foreign debt, which stood at a level of $1.8 billion at the beginning of 1995, was retired in May of that year. The government of Saudi Arabia borrowed $4.3 billion in December 1997 to finance the purchase of aircraft. Domestic banks, Saudi Aramco, and other state-owned enterprises, however, have overseas liabilities.

Government borrowing has a short history in Saudi Arabia. The government began borrowing to finance budget deficits in 1987, by selling government development bonds having two-to-five year maturities. After the massive defense expenditures of the 1991 Gulf War, the government expanded its borrowing by signing loan syndications with international and domestic banks, and by introducing treasury bills. This debt, owed mainly to domestic creditors, such as autonomous government institutions, commercial banks, and individuals, ballooned to about $100 billion in early 1997. In addition, the government issued a series of bonds to farmers and some other private sector creditors (mainly contractors) for past due amounts. Paying down this debt is now a focus of government concern.

5. Significant Barriers to U.S. Trade

Saudi Arabia is currently in the process of accession to the World Trade Organization (WTO). A number of regulations have the potential to restrict entry of U.S. non-defense exports and investments.

Import licensing requirements protect Saudi Arabian industries or enhance Saudi Arabian businesses. In most cases, foreign companies must operate through a Saudi Arabian agent. Contractors for public projects must purchase equipment and most supplies through Saudi agents. (This agency requirement does not apply to defense-related imports.) Saudi Arabia requires licenses to import agricultural products.

The recently implemented preshipment inspection regime, known as the International Conformity Certification Program (ICCP), is designed to protect Saudi Arabian consumers from shoddy foreign products. The ICCP has elements which can be viewed as barriers to free trade—such as an ad valorem-based fee schedule—and remains controversial. It adds inspection costs to imported civilian products, may delay shipments to Saudi Arabia, and can increase exporter overhead.

Restrictions on shelf life standards in Saudi Arabia may make it difficult for some U.S. food producers to compete in the Saudi market.

Saudi Arabia gives preference to imports from other members of the Gulf Cooperation Council (GCC) in government purchasing, with a 10% price preference over non-GCC products for government procurement.

Saudi Arabia requires foreign civilian contractors to subcontract 30% of the value of government non-military contracts, including support services, to firms having

Saudi-majority ownership. Some U.S. businessmen have complained that this is a barrier to the export of U.S. engineering and construction services. Other service industries are restricted to Saudi Arabian Government-owned companies, e.g., certain insurance and transportation services.

The "investment of foreign capital regulation" establishes the following conditions for a non-Saudi national to obtain a license for a business and for investment of foreign capital:

a. foreign capital must be invested in a development project, or in projects within the framework of the development plan in effect at the time of the investment. Investments in oil and mineral sectors are subject to special resolutions of the ministry of petroleum and mineral resources.

b. foreign capital investment must be accompanied by foreign technical expertise. In addition, the "foreign capital investment committee," established by the "investment of foreign capital regulation," reviews license applications. The committee's screening of foreign investments is general; the criteria for screening, other than the two conditions listed above, appear to be limited to:

1. ensuring that an investment does not violate the social or religious mores of Saudi Arabia.

2. regulating the number of establishments in any one sector, to the level that the market will sustain.

There is no requirement that a non-Saudi investor have a Saudi partner. At the same time, businesses having a minimum of 25% Saudi ownership are eligible for soft government loans, which are generally unavailable to firms lacking Saudi ownership.

Saudi labor law requires companies to employ Saudi nationals. Small companies are supposed to be exempt from the requirement, and larger companies are required to increase their percentage of Saudi employees by a certain percentage annually or face restrictions. This emphasis on "Saudiization" is increasing as the number of unemployed/underemployed Saudis increases.

6. Export Subsidies Policies

Saudi Arabian planners say that there is no export subsidy program for industrial projects. Because feed stock prices are relatively low in Saudi Arabia, industrial production in petroleum and related downstream products is comparatively attractive. The government argues that this is simply a reflection of the low cost of domestic oil production. In October 1997, the Minister of Petroleum and Mineral Resources announced a 50% across-the-board increase in natural gas prices from $.50/million btu to $.75/million btu. The government has reduced subsidies to agriculture, which has resulted in reduced agricultural production available for export.

7. Protection of U.S. Intellectual Property

The concept of intellectual property protection is relatively new to Saudi Arabia. The government has enacted adequate regulations and has joined the universal copyright convention, but efforts to protect intellectual property rights are uneven. Measures to protect against audio and video piracy have been the most successful. In particular, software companies see a need for greater protection of software products in the Kingdom. As of late 1997, Saudi Arabia remains on the USTR's "watch list", having moved in 1996 from the priority watch list, under the Special 301 program, in recognition of progress made in intellectual property rights protection over the previous year.

Saudi Arabia has enacted a patent regulation and established a patent office. The regulation was patterned along the lines of the U.S. patent law, but does not reproduce it. The requirements for and scope of patent protection are generally adequate, but the term of protection is fifteen years—less than the 20 years from filing international standard. The regulation permits compulsory licensing if the patent holder refuses to use the patent, or for other public policy reasons. Saudi Arabia yet lacks a fully functioning patent office. The office has received several thousand patent applications, but has completed action on only about ten. The patent office lacks trained manpower to process the backlog of applications.

The embassy noted a significant increase in trademark infringements complaints in 1997, particularly involving consumer products. Registration is relatively uncomplicated. Although some companies have complained that registration and search fees are high. although legal remedies for infringement of a trademark exist, enforcement of trademark protection is inconsistent.

The embassy has received no verifiable reports of book piracy, and only one report of the unlicensed use of a published photograph. Piracy of U.S.-produced audio and video cassettes, once a major problem, has seen significant reduction due to government enforcement polices. Estimates of losses to computer software companies due to illegal copying vary widely, but are generally considered significant. In 1997, the government permitted the establishment of a branch of the Business Software Alliance in Saudi Arabia.

8. Worker Rights

a. *The right of association.*—Saudi regulations prohibit labor associations.

b. *The right to organize and bargain collectively.*—Much skilled and almost all unskilled labor is performed by expatriates. Non-Saudi workers who seek to organize may be deported.

c. *Prohibition of forced or compulsory labor.*—Forced labor is prohibited. However, as most unskilled labor is performed by expatriates, and as Saudi employees have legal authority over the movement of their contracted laborers, implicit forced labor may occur, especially in the case of domestic servants and in remote areas. In 1997, the government expelled those without proper work permits. One result of this may be to reduce the potential for abuse.

d. *Minimum age for employment of children.*—The labor law states that "a juvenile who has not completed thirteen years of age shall not be employed." The minimum age for employment, therefore, is fourteen hijri years. This restriction may be waived by application to the Ministry of Labor with the consent of the juvenile's parent or guardian. Children under 18 and women may not be employed in hazardous or unhealthy occupations. Wholly-owned family businesses and family-run farms are exempt from these rules. Women play a very small role in the education and health sectors, as long as they are segregated from men.

e. *Acceptable conditions of work.*—Saudi Arabian authorities consider that provisions of Islamic law (the Shariah) provide more than adequate protection for laborers, and therefore additional regulation is unnecessary. Conditions of labor, while far from perfect, may in some ways be better than those found in countries from which most expatriates come. Although Saudi Arabia has no minimum wage, generally speaking, expatriate laborers come to Saudi Arabia because they can earn more than they could at home. They receive time-and-one-half for hours (up to 12) over that limit. The labor law requires employers to provide health insurance and to protect workers from job-related hazards and diseases.

f. *Rights in sectors with U.S. investment.*—Worker rights in sectors with U.S. investment do not differ from those elsewhere. Conditions of work at major U.S. firms and joint-venture enterprises are generally better than elsewhere in the Saudi economy. Workers in U.S. firms normally work a five to five-and-one-half day week (i.e., 44 hours) with paid overtime. Overall compensation tends to be at levels that make employment with U.S. firms attractive.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		[1]
Total Manufacturing		906
Food & Kindred Products	[1]	
Chemicals & Allied Products	[1]	
Metals, Primary & Fabricated	10	
Machinery, except Electrical	1	
Electric & Electronic Equipment	6	
Transportation Equipment	1	
Other Manufacturing	29	
Wholesale Trade		69
Banking		[1]
Finance/Insurance/Real Estate		[1]
Services		[1]
Other Industries		212

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996—Continued

[Millions of U.S. dollars]

Category	Amount
TOTAL ALL INDUSTRIES	3098

[1] Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis

SYRIA

Key Economic Indicators [1]

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997Est
Income, Production and Employment: [2]			
Real GDP (1985 prices)	2,802	2,970	3,148
Real GDP growth (pct) [3]	10	6	6
GDP (at current prices)	12,261	12,997	14,777
By sector:			
Agriculture	3,473	3,681	3,902
Manufacturing	1,702	1,804	1,912
Services	239	253	268
Government	1,258	1,333	1,413
Per capita GDP (US$)	861	884	973
Labor Force (000s)	4,200	4,400	4,500
Unemployment Rate (est.)	N/A	N/A	12
Money and Prices			
Money supply Growth (M2)	N/A	N/A	N/A
Consumer Price Inflation	10	10	10
Exchange Rate (US$/SP)			
Official	11.20	11.20	11.20
Balance of Payments and Trade (USD million): [4]			
Total Exports FOB	3,858	4,298	4,500
Exports to U.S. [5]	65.0	16.2	30
Total Imports CIF	4,001	4,516	5,000
Imports from U.S. [5]	223.3	226.3	190
Trade Balance	-143	-218	-500
Balance with U.S. [5]	-158.3	-210.1	-160
External Public Debt	20,000	20,000	20,000
Debt Service Payments	N/A	N/A	N/A
Gold and foreign exchange	N/A	N/A	N/A
Aid from U.S.	0	0	0
Aid from Other Countries	1,000	1,500	1,100

[1] The Syrian government has not published its 1996 statistics as of the completion of this report. Further, the government's 1995 economic statistics remain estimates. All figures in the preceding tables are estimates based on the government's 1995 estimates, other sources in the public domain, and this Embassy's own calculations.
[2] Neighboring Country rate is calculated at 45 Syrian Pounds (SP) per USD.
[3] Published estimates of Syrian GDP growth vary widely. Embassy estimates that GDP growth during the past three years has varied between 4 to 6 percent.
[4] Official exchange rate of 11.2 SP/USD is used to calculate balance of payments and trade.
[5] Source: U.S. Department of Commerce, U.S. Census Bureau, and the Central Bank of Syria.

1. General Policy Framework

In 997, the Syrian government continued to reduce administrative barriers to imports. The private sector, responding to these and other reforms, has increased its imports beyond those of the public sector; however, increases of U.S. exports to Syria have lagged behind those of other countries due to continued USG economic sanctions.

Prospects for Syrian private sector investment and imports continue to improve, spurred by economic reforms. Liberalization actions of the Syrian government per-

mit private exporters to retain foreign exchange export earnings to finance permitted imports. Although retaining a monopoly on some "strategic" imports such as wheat and flour, the government continued to expand the list of permitted imports during 1997, including a wide range of raw materials previously permitted to manufacturers only.

The United States imposed trade controls in 1979 as a response to Syria's involvement with terrorism. The U.S. government expanded sanctions against Syria in 1986, following Syria's implication in the attempted bombing of an Israeli airliner at London Heathrow Airport. Among the affected items are aircraft, aircraft parts, and computers of U.S. origin or containing U.S.-origin components and technology. The Syrians have sought alternate suppliers of these products. Under the 1986 sanctions, Syria is ineligible for the U.S. AID program, the Export Enhancement Program (EEP), and the Commodity Credit Corporation (CCC) program for all agricultural products. The Syrian-U.S. bilateral aviation agreement expired in 1987 and has not been renewed. Finally, the EXIM Bank and OPIC suspended their programs in Syria, further disadvantaging U.S. exporters in meeting competition from other suppliers.

The Syrian government uses its annual budget as its principle tool for managing the economy. Through 1992, the Syrian government's ability to raise official prices on many consumer items (effectively reducing subsidies), improve tax collections, and increase transfers from state enterprises, while reducing commitment of Syrian resources to capital expenditures, enabled it to reduce budget deficits, leading to a balanced budget in 1992. However, the last five budgets have been in deficit ($310.8 million in 1994, $294.4 million in 1995, $201 million in 1996, and $194.2 million in 1997), due to Syria's maintenance of its large military establishment, both here and in Lebanon, and its continued heavy (but currently much reduced) subsidization of basic commodities and social services.

Given Syria's anachronistic and nationalized financial system and inability to access international capital markets, monetary policy remains a passive tool used almost exclusively to cover fiscal deficits. All five of the country's banks are nationalized. Interest rates are fixed by law. Most rates have not changed in the last several years. Current real interest rates are negative.

2. Exchange Rate Policies

The Syrian government continues to maintain a multiple exchange rate system. The official exchange rate remains fixed at 11.20 Syrian pounds/USD for certain government and public sector transactions, and for valuations of some customs tariff rates. A second rate, the "Neighboring Country" rate, currently pegged at 45 SP/USD, applies to most state enterprise imports except certain basic commodities and military/security items. Outside Syria, a thriving offshore market for Syrian pounds operates in Lebanon, Jordan, and the Arab Gulf countries. During 1997, the value of the pound fluctuated between 50 SP and 52 SP to the dollar in these locations. The government plans to devalue the Neighboring Country rate again by the end of the year in a further step to unify the exchange rates.

Exchange controls are strict. Syrian currency may not be exported, although it may be imported. Outward private capital transfers are prohibited, unless approved by the Prime Minister or transacted under the investment law noted below. Prior to 1987, Syrian law required private exporters to surrender 100 percent of foreign exchange earnings to the Central Bank at the official rate. Now, private exporters may retain 75 to 100 percent of their export earnings in foreign exchange to finance imports of inputs and other items designated on a short list of basic commodities, surrendering the balance to the Commercial Bank of Syria at the "Neighboring Country" rate. Since 1991, the Commercial Bank of Syria may convert cash, travelers checks, and personal remittances at the "Neighboring Country" rate. Recently, Syrian citizens were permitted to open bank accounts in foreign currencies at the Commercial Bank of Syria.

3. Structural Policies

By law, the Ministry of Supply and Internal Trade controls prices on virtually all products imported or locally produced, although enforcement in most sectors is spotty. The ministry sets profit margin ceilings, generally up to 20 percent, on private sector imports. Local prices are computed at the 45 SP/USD rate. In the agricultural sector, production of strategic crops (cotton, wheat) is controlled through a system of procurement prices and subsidies for many inputs, including seeds, fuel, and electricity. Farmers may retain a portion of production, but the balance must be sold to the government at official procurement prices. Since 1989, the government has continued to increase farm gate prices to encourage production and to enable state

marketing boards to purchase larger quantities of locally-produced commodities. For the past years, the Syrian government's price of wheat has been significantly above the world price.

Contracts are awarded through the official tender system. These are open to international competition with no restrictions, other than language pertaining to the Arab League boycott of Israel and the requirement to post a bid bond. Syrian public sector entities will accept positive statements of origin to deal with the boycott issue.

Syrian tariffs are very high for finished products, exceeding 200 percent for passenger cars. Income taxes are highly progressive. Marginal rates in upper brackets are 64 percent. Salaried employees also pay a graduated wage tax, reaching 17 percent. Tax evasion is widespread.

4. Debt Management Policies

Syrian authorities have been unwilling to provide data on non-civilian debt, as well as accumulated obligations under bilateral clearing arrangements. Guaranteed civilian debt is officially estimated at approximately 3.4 billion U.S. dollars. International financial institutions estimate Syria's total external public debt at about 20 billion dollars. Very little Syrian commercial debt is held by U.S. companies, but sovereign debt is about 250 million U.S. dollars. Syria has been in violation of the Brook Amendment since 1985.

In 1996, Syria reached a bilateral debt arrangement with France and Switzerland, and is currently negotiating with other EU creditor nations for bilateral solutions. In June 1997, Syria paid off its outstanding principal arrears to the World Bank and rescheduled its remaining debt over 5 years. Debt to the former Soviet Union and Iran is estimated to be more than 12 billion U.S. dollars. Syria suspended payments to the Russian Republic in 1992, but is negotiating a settlement.

5. Significant Barriers to U.S. Exports

Any product legally imported into Syria requires an import license, which is issued by the Ministry of Economy and Foreign Trade according to a policy aimed at conserving foreign exchange and promoting local production. Strict standards on labeling and product specifications are non-discriminatory and fairly enforced. Customs procedures are cumbersome and tedious. Syria is not a member of the WTO.

Government procurement procedures pose special problems. Although foreign exchange constraints have eased, some public sector companies continue to favor barter arrangements which can be unattractive to U.S. suppliers.

In government tenders, a temporary bank guarantee should be submitted and afterwards substituted with a performance bond for the successful bidder. Current bid bond forms stipulate that the guarantee becomes null and void if the tender is not awarded upon its expire date. Some government tenders include a clause allowing the bidder to cancel his bid at six-month intervals, provided a written notice is received within a stipulated time frame. If such a clause is not included in the tender, it can often be negotiated. In addition, problems remain in the prompt return of performance bonds.

Syria participates in the Arab League boycott of Israel. Many Syrian government tenders contain language unacceptable under U.S. anti-boycott law. Public sector agencies accept positive certification from U.S. companies in response to tender application questions. Once interested parties obtain tender documents, they would be well advised to obtain competent advice regarding the anti-boycott regulations before proceeding. One source of such advice is the U.S. Department of Commerce, Office of Anti-boycott Compliance (telephone advice line (/202/ 482-2381).

Given the centralized structure of the economy, specific "buy national" laws do not exist. Some strategic goods, military equipment, and items not produced locally or in sufficient quantities, are still procured by public sector importing agencies on the international market, provided foreign exchange is allocated by the Supreme Economic Council. The Private sector also contributes significantly to Syrian imports.

All investment projects are carefully screened by the "Higher Council for Investment" before approval. Joint ventures with government agencies are encouraged. Petroleum exploration and oil service companies operating in Syria now are able to convert their local currency expenditures at the favorable "Neighboring Country" rate of 45 SP/USD. Contracts for oil exploration concessions and service require arduous negotiations. The number and position of foreign employees in a company are usually negotiated when the contract or agreement is signed. Land ownership laws are complex. The investment law of 1991 provides for tax holidays and exemptions on duties, as well as guarantees for the repatriation of profits. However, the law

requires that repatriated foreign exchange be generated from export company operations. Despite the new legislation, Syria's poor infrastructure, the lack of financial services, complex foreign exchange regulations, Law No. 24 which criminalizes unauthorized foreign exchange transactions, and fine constraints, continue to pose serious commercial barriers.

Government monopolies in banking, insurance, telecommunications and other public sector service industries preclude foreign investment in those sectors. Motion pictures are distributed by a government agency and subject to censorship.

6. Export Subsidy Policies

Export financing and subsidies are not available to either the public or the private sectors. In fact, some exports are subject to special taxes. Recent government decisions allowing private firms to transact exports and imports at the "Neighboring Country" rate, instead of the unfavorable official rate, have encouraged private trade through official channels. Similar concessions to public sector companies to complete export transactions have enhanced the foreign exchange position of these companies. The SARG is exporting barley and wheat at the prevailing international prices. The export prices are still below the cost to the SARG at the "Neighboring Country" rate of exchange.

7. Protection of U.S. Intellectual Property

Syria's legal system recognizes and facilitates the transfer of property rights, including intellectual property rights. There is, however, no copyright protection. Due to the unsophisticated industrial structure and existing limits on private industry, there are few major infringement problems. Local courts would likely give plaintiffs fair hearings, but any financial awards would be in Syrian pounds. Requests for payment in foreign exchange would probably be delayed indefinitely.

Most books printed in Syria are in Arabic and by Arab authors. Despite the lack of legal protection, major commercial infringements do not appear to be a problem. There are, however, individual entrepreneurs who copy records, cassettes, and videos, and sell them. In any event, enforcement and the associated litigation would be, if not impossible, extremely costly compared to any positive benefits that might result.

The U.S. motion picture industry estimates the home video market in Syria is 100 percent pirated, and is also concerned with unauthorized hotel video performances, which are said to be common. However, only a few hotels have internal video systems.

8. Worker Rights

a. *The Right of Association.*—The 1973 Constitution provides for the right of the "popular sectors" of society to form trade unions. Although the General Federation of Trade Unions (GFTU) is purportedly an independent popular organization, in practice the government uses it as a framework for controlling nearly all aspects of union activity. According to GFTU officials, the secretaries general of the eight professional unions, some of whom are not Ba'th Party members, are each elected by their respective union's membership.

The Syrian government contends that there is in practice trade union pluralism. However, workers are not free to form labor unions independent of the government-prescribed structure. Legislation granting the right of any trade union to be governed by its own by-laws without those rules having to correspond to those of the GFTU remains pending.

Strikes are not prohibited (except in the agricultural sector), but in practice they are effectively discouraged. There were no reported strikes in 1996, as was also the case in 1995 and 1994. As with other organizations dominated by the Ba'th Party, the GFTU is charged with providing opinions on legislation, devising rules for workers, and organizing labor. The elected president of the GFTU is a senior member of the ruling Ba'th Party and a member of the party's highest body, its regional command. With his deputy, he participates in all meetings of the cabinet's ministerial committees on economic affairs. While the unions are used primarily to transmit instructions and information to the labor force from the Syrian leadership, elected union leaders also act as a conduit through which workers' dissatisfaction is transmitted to the leadership. The GFTU is affiliated with the International Confederation of Arab Trade Unions.

Since the U.S. trade representative suspended Syria's Generalized System of Preferences (GSP) privileges in June 1992, the Syrian government has not made suffi-

cient legislative and practical changes regarding worker rights to prompt a reconsideration of the suspension.

b. *The Right to Organize and Bargain Collectively.*—In the public sector, unions do not normally bargain collectively on wage issues, but union representatives participate with the representatives of the employers and the respective ministry to establish sectoral minimum wages according to legally prescribed cost-of-living levels. Workers serve on the board of directors of public enterprises, and union representation is always included on the boards. Unions also monitor and enforce compliance with the labor law.

In the private sector, unions are active in monitoring compliance with the laws and ensuring workers' health and safety. Under the law, unions may engage in negotiations for collective contracts with employers. The International Labor Organization's exports committee noted Syria's continuing resistance to changing a section of the labor code which allows the Minister of Labor and Social Affairs to refuse to approve a collective bargaining agreement and to annul any clause likely to harm the economic interests of the country. Unions have the right to litigate contracts with employers and the right to litigate in defense of their own interests or those of their members (individually or collectively) in cases involving labor relations. Union organizations may also claim a right to arbitration. In practice, due to the relatively small size of Syrian private sector enterprises, labor disputes are generally settled informally.

Workers are protected by law from anti-union discrimination, and there were no reports of discrimination against union members (see also section 6.E).

There is no union representation in Syria's seven free trade zones, and firms in the zones are exempt from Syrian laws and regulations governing the hiring and firing of workers, though some provisions concerning occupational health and safety, work hours, and sick and annual leave do apply.

c. *Prohibition of Forced or Compulsory Labor.*—There is no Syrian law banning forced or compulsory labor. Such practices may be imposed in punishment, usually in connection with prison sentences for criminal offenses, under the economic penal code, the penal code, the agricultural labor code, and the press act. There were no reports of forced or compulsory labor involving children or foreign or domestic workers.

d. *Minimum Age for Employment of Children.*—The minimum age for workers in the public sector is fifteen, though it is higher in certain industries. The minimum age varies widely in the private sector depending on the job. The absolute minimum age is 12, with parental permission required for children under age 16 to work. Children are forbidden to work at night. The Ministry of Social Affairs and Labor is responsible for enforcing minimum age requirements, but the number of labor investigators is not adequate. Enforcement tends to be less effective in rural areas and tends not to question minimum age violations within small family businesses where, for example, sons take up their fathers' crafts.

e. *Acceptable Conditions of Work.*—As mandated in the constitution, the government legislatively establishes minimum and maximum wage limits in the public sector and sets limits on maximum allowable overtime for public sector employees. The minimum wage is not sufficient to allow a worker and his family to survive, so many workers take additional jobs, open businesses, or rely on extended families for support. According to the 1959 Labor Act, minimum wage levels in the private sector are set by the Minister of Social Affairs and Labor. His decision is based on recommendations from a committee including government officials, employer representatives, and employee representatives.

Syrian labor law extensively regulates conditions of work. This includes rules and regulations which severely limit the ability of an employer to fire an employee without due cause. One exception to the heavily regulated labor field relates to day laborers. They are not subject to minimum wage regulations and receive compensation only for job-related injuries. They are commonly employed in small private firms and businesses in order to avoid the costs of permanent employees who are well protected, even against firing.

The statutory work week consists of six 6-hour days, although in certain fields in which workers are not continuously busy, a 9-hour day is permitted. Labor laws also mandate a full 24-hour rest day per week. Public laws mandate safety standards in all sectors, and managers are expected to implement them fully. The ILO has also noted that a provision of the Labor Code allowing workers to be kept at the workplace for up to 11 hours per day could lead to abuse. In practice, the public sector is in conformity with the schedule noted above. There are no reports of private sector employees having to work as many as 11 hours per day. A special de-

partment of the Social Security Establishment works at the provincial level with inspectors at the ministries of Health and Labor to ensure compliance with safety standards. In practice, workers have occasionally taken employees to judicially-empowered labor committees to win improvements in working conditions that affect their health.

Foreign workers theoretically receive the same benefits but are often reluctant to press claims because employees' work and residence permits may be withdrawn at any time. Moreover, many work illegally and are not covered by the government system. Some foreigners are employed illegally as domestic servants in Syria. Residence permits are legally granted only to diplomats who employ servants, but some senior officials are also able to acquire the necessary permits.

f. *Rights in sectors with U.S. Investment.*—In addition to direct U.S. investment in oil exploration and development in Syria, one U.S. company, Mobil, managed to obtain a license for the establishment of a lubricant manufacturing plant in Syria in a joint venture project along with a group of Syrian investors. Mobil's share in this investment is 49%. U.S. firms are required to comply with Syrian labor law.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		[1]
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
Banking		0
Finance/Insurance/Real Estate		[1]
Services		0
Other Industries		[1]
TOTAL ALL INDUSTRIES		634

[1] Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

SOUTH ASIA

BANGLADESH

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Income, Production and Employment:			
Nominal GDP	29,112	31,814	32,847
Real GDP Growth (percent)	4.4	5.3	5.7
GDP by Sector:			
Agriculture	8,989	9,535	9,796
Manufacturing	2,804	3,042	3,039
Services	15,002	16,667	17,353
Government	N/A	N/A	N/A
Per Capita GDP	242	260	263
Labor Force (000s)	4,800	4,800	5,600
Unemployment Rate (percent) [2]	35.9	35.9	36.5
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	16.0	8.2	10.8
Consumer Price Inflation [3]	5.2	4.1	3.9
Consumer Price Inflation [4]	8.9	6.6	2.6
Exchange Rate (taka/USD - annual average)			
Official	40.2	40.9	42.7
Balance of Payments and Trade:			
Total Exports FOB	3,473	3,882	4,418
Exports to U.S.[5]	1,257	1,343	N/A
Total Imports CIF	5,834	6,881	7,120
Imports from U.S.[5]	325	210	N/A
Trade Balance	-2,361	-2,999	-2,702
Balance with U.S.[5]	932	1,133	N/A
External Public Debt	16,370	17,070	N/A
Fiscal Deficit/GDP (percent)	6.8	5.7	5.3
Current Account Deficit/GDP (percent)	3.5	5.1	2.8
Debt Service Payments/GDP (percent)	10.0	9.8	8.5
Gold and Foreign Exchange Reserves	3,085	2,037	1,719
Aid from U.S.[6]	98.5	65.0	73.6
Aid from All Other Sources [7]	1,605.5	1,378	1,544

[1] The Bangladesh fiscal year is July 1-June 30. Data for FY97 is mostly provisional.
[2] Includes estimated under-employment (34%).
[3] Calculated on old CPI, base year 1973-74
[4] Calculated on new CPI, base year 1985-6
[5] Figures are for the calendar year
[6] Figures are for the U.S. fiscal year (October 1-September 30).
[7] Disbursements.

1. General Policy Framework

Bangladesh is one of the world's poorest, most densely populated, and least developed countries; its per capita income for 1997 is estimated at $263. Most of its population of 125 million is tied directly or indirectly to agriculture, which accounts for 32 percent of Gross Domestic Product (GDP) and employs nearly three out of four Bangladeshis. Economic growth in fiscal years (FY) 1996 and 1997 was above five percent, based in large part on above average agricultural sector growth. The historical average growth rate over the last ten years has been closer to 4 to 4.5 percent. This rate, though positive on a per capita basis, is inadequate to relieve the poverty

faced by over half the population. GDP growth historically has been slowed by a number of factors: low growth in the agricultural sector (the long-run trend is about two percent, although the last two years had record production and the outlook is good for FY98), together with a legacy of government control of productive resources, political and policy instability, poor infrastructure, corruption, poverty, special-interest lobbying, and low domestic savings and investment. The state's presence in the economy continues to be large, and money-losing state enterprises have been a chronic drain on the treasury. Nonetheless, over the past six years Bangladesh has steadily opened its economy to greater influence of the free market and private sector activity. The winning party in June 1996 elections, the Awami League, has to a large degree continued the market based economic policies of its predecessor, the Bangladesh Nationalist Party. The Awami League government has placed a high priority on increasing the amount of foreign investment in the economy by improving the investment climate, and has made some regulatory and policy changes designed to attract more foreign direct and portfolio investment. However, implementation of new policy directives by the bureaucracy outside of the energy, gas and telecommunications sectors has been slow. Those sectors are being opened up to private investors, and U.S. firms are making proposals for many projects being tendered. Bangladesh had a trade surplus with the U.S. of $1.133 billion in 1996, due mostly to large U.S. imports of Bangladesh garments.

Real GDP growth for fiscal year 1997 (July 1-June 30) was 5.7 percent, up 0.4 percent from FY96, mainly due to good agricultural production. Inflation dipped slightly, from 4.1 percent in FY96 to 3.9 percent in FY97, aided by good rice crops (rice has a large weight in the consumer price index. According to a price index based on 1985/86, inflation was even lower in FY97, at 2.6 percent; the older, more established index still more widely quoted, was based on 1973/74). Foreign exchange reserves have stabilized since mid-1996 at around $1.7 billion, worth about 2.6 months of imports. The fall in foreign exchange earnings from $3.4 billion in April of 1995 to $1.7 billion in October 1997 permitted an increase in public and private credit without increasing the money supply, which grew by 10.8 percent in FY97 after increasing by 8.2 percent in FY96. Bangladesh has devalued its currency, the taka, six times in 1997, to support its foreign exchange reserves and to help the country's export competitiveness. The taka was devalued by 8.69 percent against the U.S. dollar between June 1996 and October 1997. However, in view of devaluations in neighboring countries with whom Bangladesh must compete in export markets, many observers, especially those in the export sector, believe the extent of the devaluations to date has not been sufficient. The government's primary monetary policy tools are the discount rate and the sale of Bangladesh Bank bills, though central bank influence over bank lending practices also plays an important role.

Current government expenditures exceeded the budgeted amount by 3.6 percent in FY97 in part due to larger than expected domestic interest payments and subsidies. However, spending on the annual development budget did not increase as planned, because of slow foreign aid disbursements, so that the overall budget deficit for FY97 is estimated to be about 5.3 percent of GDP, versus a deficit of 5.7 percent in FY96. Net foreign financing accounted for 3.4 percent, with the remaining 1.9 percent funded domestically; two-thirds of domestic financing came from the banking system. Some causes of the FY97 deficit include increased domestic interest payments and food grain purchases, defense spending and fertilizer subsidies. Domestic revenues for FY97 fell short of budgeted levels by five percent but exceeded current expenditures by $890 million, or 2.8 percent of GDP. This surplus provided the government contribution to the country's development budget, termed the "Annual Development Program" (ADP), estimated at a total of $2.5 billion in FY 1997. While most funding for the ADP comes from donors, the Finance Ministry claimed to have maintained Bangladesh's contribution at about 36 percent in FY97; for FY98 the percentage of Bangladesh's ADP contribution is forecast to be 47 percent. The domestic portion of government debt is financed through the sale of government bonds. Tax revenues reached a level of $3.1 billion in FY97, more than double the amount collected in 1991, but stagnant over the last several years as a percentage of GDP. The Government in its FY98 budget lowered the maximum tariff by 2.5 percent and added some services to the VAT system, but also implemented a 2.5 percent import surcharge, designed to support infrastructure development. The average unweighted tariff actually increased from 21.5 percent in FY97 to 23 percent in FY98.

Although some liberal investment measures were taken by the government to foster private sector involvement in the energy, power, and telecommunications sectors, poor infrastructure (power shortages, port bottlenecks, etc.), bureaucratic inertia, corruption, labor militancy, a weak financial system which keeps the cost of cap-

ital high, political unrest and a deteriorating law and order situation continued to discourage some domestic and foreign investors in FY97. The first half of FY98 has shown mixed results, with some indicators pointing to increased commercial and manufacturing growth. Investment, which stagnated at 12 to 13 percent of GDP in the 1985-1992 period, increased slightly from 17 percent in FY96 to 17.4 percent in FY97. It is generally held that only an investment/GDP ratio of 20 to 22 percent and a GDP growth rate over seven percent can begin to alleviate poverty on a large scale.

2. Exchange Rate Policies

At present, the Bangladesh central bank follows a semi-flexible exchange rate policy, revaluing the currency on the basis of the real effective exchange rate, taking account of the nominal exchange rates and inflation rates of major trading partners. A level of reserves equal to 2.6 months of imports and a black market rate close to the official rate suggest the central bank has fixed the exchange rate close to the equilibrium level in the short term, although the country's loss of $1.7 billion in foreign exchange reserves between April 1995 and October 1997 highlights Bangladesh's vulnerable foreign exchange position. The World Bank and exporters have called for the taka to be devalued further. Foreign reserves have stabilized at around $1.7 billion through most of the last half of FY97 and through four months of FY98. The taka's market value, however, is bolstered by the large sums of foreign exchange Bangladesh receives every year through aid transfers and by foreign exchange received as remittances from overseas workers. The taka is nearly fully convertible on the current account. The official exchange rate on October 28, 1997 was taka 44.85 to 1 USD.

Most foreign firms are able to repatriate profits, dividends, royalty payments and technical fees without difficulty, provided the appropriate documentation is presented to the Bangladesh Bank, the country's central bank. Outbound foreign investment by Bangladeshi nationals requires government approval and must be in support of export activities. Bangladeshi travelers are limited by law to taking no more than $3,000 out of the country per year. Dollars are bought and sold in the black market, fueled by the informal economy. U.S. exports do not appear to have been negatively affected by the taka devaluations in 1997.

3. Structural Policies

In 1993, Bangladesh successfully completed a three-year International Monetary Fund (IMF) Enhanced Structural Adjustment Facility (ESAF) program, meeting all fiscal and monetary targets. IMF teams visited Bangladesh in 1997 to discuss a new ESAF but to date have not reached an agreement with the Government. Broad money supply growth has been about 10.8 percent in FY 1997, 8.2 percent in FY 1996, and 16.0 percent in FY95. The value added tax (VAT) collections have increased steadily in recent years; the Government added some services under VAT for FY98 to boost revenues but hopes that improved collection and administration practices will enhance overall tax receipts. Government current spending was higher in FY97 compared to the planned level, but was offset by lower than planned development spending. A combination of food imports, lower foreign aid disbursements and slow export growth resulted in a fall in foreign exchange reserves from a peak of $3.4 billion in April 1995 to around $1.7 billion in October 1997.

While Bangladesh has managed to maintain a measure of macroeconomic stability since 1993, despite political instability in 1995 and early 1996, its macroeconomic position in 1997 has remained vulnerable, with relatively high fiscal deficits, increased public sector borrowing from the banking system, and a fall in foreign exchange reserves and stagnant tax revenues. Progress on other important economic reforms has been halting, though the new government has instituted reforms of the capital market and taken some market-friendly decisions to encourage foreign investment. Overall, however, efforts at reform often are successfully opposed by vested interest groups, such as the bureaucracy, public sector labor unions or highly protected domestic producers in import-competing industries. The public sector still exercises a dominant influence on industry and the economy; non-financial state-owned enterprises (SOEs) lost an estimated $364 million in 1997. Most public sector industries, including textiles, jute processing, and sugar refining, are perennial money losers, which drain the treasury. Their militant unions have succeeded in setting high wages which their private sector counterparts often feel compelled to meet out of fear of union action. The Government failed to implement jute sector reforms under a World Bank adjustment credit program in 1997, despite pledges for action; the credit program has been ended. Privatization of state owned enterprises

has been advocated by the Awami League government, although little concrete action has been taken as of late 1997.

Private sector productivity is further stunted by the state's poor management of crucial infrastructure (power, railroads, ports, telecommunications, and the national airline), most of which is under government monopolies. Recognizing this shortcoming, and in order to increase foreign investment in the power sector, the Government formalized in October 1996 its private power policy, which grants tax holidays and duty-free imports of plant and equipment for private sector power producers. In October 1997 the Government signed two contracts with International Power Producers, and other international tenders for sizable projects are being evaluated. Private investment is also being allowed in the telecommunications sector for cellular communications, and in the hydrocarbons sectors, where international companies have expressed a high level of interest in a second round of bidding for remaining exploration rights. Four international companies are currently preparing for natural gas production in 1998 or are starting exploration activities. The Government is also trying to attract foreign portfolio investment in domestic capital markets, but a stock market crash in late 1996 appears to have kept many international investors out of the market for most of 1997. Long an easy source of funds for loss-making government corporations and preferred private sector borrowers who did not feel obliged to repay loans, the dysfunctional banking sector continues to be the subject of reform programs. The banking sector is dominated by four large nationalized commercial banks (NCBs). The privatization of one of the four NCBs is still pending as of November 1997. However, entry of foreign and domestic private banks has been permitted, and several new banks have entered the market in 1995, 1996 and 1997.

4. Debt Management Policies

Assessed on the basis of disbursed outstanding principal, Bangladesh's external public debt was $15.8 billion as of December 1996, down 3.1 percent from $16.3 billion in December 1995. Because virtually all of the debt was provided on highly concessional terms by bilateral and multilateral donors (i.e. one or two percent interest, 30-year maturity, 20-year grace period), the net present value of the total outstanding debt is significantly lower than its face value. Bangladesh as of late 1997 owes approximately $518 million to the United States government, primarily incurred under the old PL-480 Title I program. Debt servicing (principal and interest) for 1996 was $670 million. Debt service as a percentage of current receipts has fallen from 20 percent in FY 1991 to an estimated 8.5 percent in FY 1997. Debt service as a share of GDP was 2.0 percent in 1997, while the debt service to export ratio was 15.1 percent. In late 1996 Bangladesh began talks with the IMF over a possible new Enhanced Structural Adjustment Program; these talks continued in 1997 but no agreement has been reached as of late 1997. It maintains good relationships with the World Bank, Asian Development Bank, the International Monetary Fund and the donor community. While Bangladesh's total external debt has increased as a share of GDP in the last decade, its ratio of debt service to exports has been falling, due to high export growth and the highly concessional nature of most of its debt.

5. Aid

No military aid is included in the figures in the tables.

6. Significant Barriers to U.S. Exports

Since 1991, the government has made significant progress in liberalizing what had been one of the most restrictive trade regimes in Asia, although Bangladesh continues to raise relatively high shares of its government revenues—nearly 60 percent—from import-based taxes (custom duties, VAT and supplementary duties on imports). Tariff reform was accelerated significantly in 1994 and 1995 by the compression of customs duty rates into a range of 7.5 to 15 percent for most products and the maximum rate being set at 50 percent (with the exception of certain luxury goods, for which duties remained in excess of 100 percent). The trade-weighted average import tariff rate was 28 percent in FY94, compared to 40 percent in FY92. Changes in the FY97 budget reduced the maximum tariff rate to 45 percent, with duty on some items falling to 2.5 percent. In FY98 the maximum tariff was reduced to 42.5 percent; this decrease was offset by a 2.5 percent import surcharge slated to go towards infrastructure development. In addition, some supplemental duties were also increased in the FY98 budget. Government estimates indicate that the weighted average tariff rate was brought down to below 25 percent by the FY97 tariff reductions. The World Bank estimated the average unweighted tariff increased to 23 percent in FY98 from 21.5 percent in FY97.

In July 1992 the government replaced an import sales tax with a trade-neutral VAT, leaving only the 2.5 percent "advance income tax" to be removed to make customs duty the only protective instrument for most imports. The number of products subject to an import ban or restriction was further reduced in 1996 and import procedures have been streamlined. The formerly cumbersome procedure for opening letters of credit also has been simplified. Bangladesh is a founding member of the World Trade Organization (WTO). It is not a signatory to WTO plurilateral agreements on government procurement or civil aircraft.

Some barriers to U.S. exports or direct investment exist. The Government monopoly controls basic services and long-distance service in the telecommunications market, although the Government granted three licenses to private cellular companies in late 1996 to end a private company's monopoly. Some lack of national treatment exists in the pharmaceutical sector, where manufacturing and import controls imposed by the national drug policy and the Drugs (Control) Ordinance of 1982 discriminate against foreign drug companies. Policy instability, where policies are altered at the behest of special interests, also creates difficulties for foreign companies.

Government procurement generally takes place through a tendering process, which is not always perceived as a transparent process by foreign companies. Bangladesh has some counter trade arrangements with countries in Central and Eastern Europe, Central Asia, China and North Korea.

Customs procedures are lengthy and burdensome, and further complicated by corruption. The systems of customs valuation has been supplemented by the acceptance of pre-shipment inspections (PSI) certificates from four international inspection companies, but customs' acceptance of these certificates is not yet mandatory and some products have been removed from PSI eligibility. The Government removed more items from PSI eligibility in its FY98 budget. Customs duty revenues are scheduled to be higher in absolute terms in the FY98 budget, although they have been falling as a share of total revenue over the last several years. Reform attempts of customs practices are ongoing.

Other drawbacks to investment in Bangladesh include low labor productivity, poor infrastructure, excessive regulations, and uncertain law and order. The lack of effective commercial laws makes enforcement of business contracts difficult. Officially, private industrial investment, whether domestic or foreign, is completely deregulated, and the government has significantly streamlined the investment registration process. However, while registration has been simplified, domestic and foreign investors typically must obtain a series of approvals from various government agencies in order to implement their projects. Bureaucratic red tape, compounded by corruption, slows and distorts decision-making and procurement. Existing export processing zones (see below) have successfully facilitated investment but are still too small to have changed significantly the overall investment picture in the country.

U.S. investment stock in Bangladesh until recently was very small, totaling around $25 million, primarily in the assets of service companies and a few manufacturing operations. This total has now risen significantly due to investment in natural gas exploration and production. As work begins in late 1997 or 1998 based on earlier agreements between the Government and U.S. companies in gas exploration, lubricants and energy production, the amount of U.S. investment will rise significantly. Many other opportunities for significant investment in gas exploration and power generation could further swell U.S. investment and trade, if U.S. companies do well in negotiations underway in October 1997.

7. Export Subsidies Policies

The Bangladesh government encourages export growth through measures such as ensuring duty-free status for some imported inputs, including capital machinery, and providing easy access to financing for exporters. Ready-made garments producers are assisted by bonded warehousing and back-to-back letter of credit facilities for imported cloth and accessories. The central bank offers a 25 percent rebate to domestic manufacturers of fabric for ready-made garment exports. Exporters are allowed to exchange 100 percent of their foreign currency earnings through any authorized dealer. Government financed interest rate subsidies to exporters have been reduced in stages over the last five years. Bangladesh has established export processing zones (EPZs) in Chittagong and Dhaka, and has plans to open two more. The government in late 1996 gave the private sector the authority to build and operate private export processing zones; Korean investors have come forward with a plan for the first private EPZ.

8. Protection of U.S. Intellectual Property

Bangladesh has outdated intellectual property rights (IPR) laws, and an unwieldy system of registering and enforcing intellectual property rights. Intellectual property infringement is common, particularly of computer software, motion pictures, pharmaceutical products and audio and video cassettes. Despite the difficulties, U.S. firms have successfully pursued their IPR rights in Bangladeshi courts.

Bangladesh has been a member of the World Intellectual Property Organization (WIPO) in Geneva since 1985. The WIPO and the United Nations Development Program (UNDP) in 1995/6 funded a small project providing automation and training for the Bangladesh government's patent office. The Government and WIPO hosted a seminar on IPR issues in April 1997. Bangladesh has begun reforms to increase the level of IPR protection in order to meet its obligations under the WTO TRIPS (Trade-related Aspects of Intellectual Property Rights) Agreement. In consultation with WIPO, the Bangladesh government began drawing up IPR reforms laws in 1992 and has hired consultants to review the IPR draft laws in view of WTO TRIPS provisions. The completion of the review and subsequent modification and vetting of the drafts are expected to take at least a year, with parliamentary passage taking further time. As a result, Bangladesh is unlikely to have effective IPR laws before mid-1998. Bangladesh is not on either the Special 301 watch list or the priority watch list.

Piracy, especially of computer software, reduces the number of legitimate sales of U.S. products. It is difficult to estimate a dollar value.

9. Worker Rights

a. *The Right of Association.*—The Bangladesh constitution guarantees freedom of association, the right to join unions, and, with government approval, the right to form a union. With the exception of workers in the railway, postal, telegraph, and telephone sectors, government civil servants are forbidden to join unions. However, some workers covered by this ban have formed unregistered unions. The ban also applies to security-related government employees, such as in the military and police. Bangladesh civil servants forbidden to join unions, such as teachers and nurses, have joined associations which perform functions similar to labor unions.

b. *The Right to Organize and Bargain Collectively.*—Unions in Bangladesh are highly politicized. Virtually all the National Trade Union centers are affiliated with political parties, including one with the ruling party. Pitched battles between members of rival labor unions occur regularly. Some unions are militant and engage in intimidation and vandalism. General strikes were used successfully by the political opposition in early 1996 to pressure the government to call elections and step down. Rising political tensions again led to several general strikes during 1997. General strikes cause economic and social disruption through lost production and, more significantly, transportation delays causing missed shipping dates for exports. Strikes motivated by labor issues increased from 1996. A nationwide industrial strike was called on July 30 by a confederation of labor organizations to support demands for a minimum wage and increased investment in state-owned industries.

The Essential Services Ordinance permits the Government to bar strikes for three months in any sector deemed "essential." Mechanisms for conciliation, arbitration and labor court dispute resolution were established under the Industrial Relations Ordinance of 1969.

There have been numerous complaints of garment workers being harassed and fired in some factories for trying to organize workers. Workers in Bangladesh's two export processing zones (EPZs) are prohibited from forming unions, though some workers have skirted the ban by setting up associations. The government has not fulfilled promises that labor law restrictions on freedom of association and formation of unions in the EPZs will be lifted in 1997.

c. *Prohibition of Forced or Compulsory Labor.*—The constitution prohibits forced or compulsory labor. The Factories Act and the Shops and Establishments Act, both passed in 1965, set up inspection mechanisms to guard against forced labor, but resources for enforcement are scarce. Nevertheless, there is believed to be little use of forced labor, though conditions for some domestic servants resemble servitude, and some trafficked women and children work as prostitutes.

d. *Minimum Age for Employment of Children.*—Bangladesh has laws that prohibit labor by children. The Factories Act bars children under the age of 14 from working in factories. In reality, enforcement of these rules is inadequate. According to United Nations estimates, about one third of Bangladesh's population under the age of 18 is working. In a society as poor as Bangladesh's, the extra income obtained by children, however meager, is sought after by many families.

In July 1995, Bangladesh garment exporters signed a memorandum of understanding that has sharply reduced child labor in the garment sector. Under the MOU, schools and a stipend program were established for displaced child workers. By September 1997, more than 300 schools serving some 8,000 former child workers were in operation. A system of fines and possible suspension of import/export privileges exists, and a monitoring system has been set up by the International Labor Organization.

e. *Acceptable Conditions of Work.*—Regulations regarding minimum wages, hours of work and occupational safety and health are not strictly enforced. The legal minimum wage varies depending on occupation and industry. It is generally not enforced. The law sets a standard 48-hour work week with one mandated day off. A 60-hour work week, inclusive of a maximum 12 hours of overtime, is allowed. Relative to the average standard of living in Bangladesh, the average monthly wage could be described as sufficient for minimal, basic needs. The Factories Act of 1965 nominally sets occupational health and safety standards. The law is comprehensive but appears to be largely ignored by many Bangladeshi employers.

f. *Rights in Sectors with U.S. Investment.*—Manufacturing firms with U.S. investment have unions and bargain collectively. Worker layoffs or the threat of reductions-in-force can cause serious management-labor disputes. As far as can be determined, firms with U.S. capital investment abide by the labor laws. Similarly, these firms respect the minimum age for the employment of children. According to both the Bangladesh government and representatives of the firms, workers in firms with U.S. capital investment generally earn a much higher salary than the minimum wage set for each specific industry. In some cases, workers in these firms enjoy shorter working hours than those working in comparable indigenous firms.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		[1]
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
Banking		[1]
Finance/Insurance/Real Estate		1
Services		0
Other Industries		0
TOTAL ALL INDUSTRIES		[1]

[1] Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

INDIA

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Income, Production and Employment:			
Nominal GDP [2]	396.0	372.0	427.0
Real GDP Growth (pct) [3]	7.1	6.8	6.0

Key Economic Indicators—Continued

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
GDP by Sector (percent estimated):			
Agriculture	28.8	27.9	N/A
Manufacturing	29.2	29.8	N/A
Services	41.3	42.3	N/A
Government	N/A	N/A	N/A
Per Capita GDP (US$)	354.0	397.0	449.0
Labor Force (millions)	348.0	378.0	390.0
Unemployment Rate (percent)	22.5	22.5	22.5
Money and Prices (annual pct growth):			
Money Supply Growth (M2)	13.7	15.9	15.7
Consumer Price Inflation	10.1	9.4	9.0
Exchange Rate (rupee/US$ - annual average)			
Official	31.40	33.45	35.80
Balance of Payments and Trade:			
Total Exports FOB [4]	31.8	33.1	38.1
Exports to U.S.[5]	5.8	6.2	7.2
Total Imports CIF [4]	36.4	38.5	42.4
Imports from U.S.[5]	3.2	3.4	3.8
Trade Balance [4]	-4.6	-5.4	-4.3
Balance with U.S.[5]	2.6	2.8	3.4
Current Account Deficit/GDP (pct)	1.8	1.0	1.5
External Public Debt [6]	91.2	90.8	90.0
Debt Service Payments/GDP (pct)	3.0	3.9	2.9
Fiscal Deficit/GDP (pct)	5.4	5.5	4.5
Gold and Foreign Exchange Reserves	18.0	23.9	30.0
Aid from U.S. (US$ million)	190.1	139.0	136.3
Aid from Other Countries	2.7	2.5	N/A

[1] Data are for Indian fiscal year (April 1 to March 31) unless otherwise noted. 1997-98 figures are all embassy estimates based on data available in October 1997.
[2] GDP at factor cost
[3] Percentage changes calculated in local currency
[4] Merchandise trade
[5] Source: U.S. Department of Commerce and U.S. Census Bureau; calendar year, exports FAS, imports customs basis; 1997 figures are estimates based on data available through November 1997.
[6] Includes rupee debt of $10 billion to the former USSR

Sources: GOI Economic Survey, GOI budgets, Reserve Bank of India Bulletins, World Bank, and private research agencies

1. General Policy Framework

Six years after launching a concerted drive to modernize its economy, India has begun to attract sustained attention from the international investment community. With an estimated 200-300 million consumers, a vast pool of labor and a developing financial system, India possesses the potential to become a rich market and to develop tremendous productive capacity. The U.S. continues to be the largest investor in India and its biggest trading partner. While the post-1991 economic reform program has set in motion the process of liberalizing India's trade and investment regime, momentum has slowed in the last three years. With the advent of the multiparty United Front government in June 1996, all major parties have declared their support for the overall necessity of continued economic reform. Differences remain however, on the pace and emphasis of that reform.

The Indian economy continues to perform well in most respects and long-term prospects remain encouraging, despite continuing concern by overseas investors about inadequate infrastructure, non-transparent government decisionmaking, large sectors of economic deregulation yet to be initiated, and chronic large budget deficits. Foreign portfolio and direct investment has increased dramatically since 1991, albeit from a small base, and will contribute in FY 1997-98 to industrial growth of 8 percent and GDP growth of 6 percent, down from the previous year. The central government deficit has hovered around 5-6 percent of GDP, with a consolidated public sector deficit (including states) remaining high level of 9 percent of GDP, of great concern to the World Bank.

During the first six months of FY 1997-98, money supply (M3) rose by an estimated 16.3 percent. The Reserve Bank of India (RBI) hopes to peg M3 growth at 15.0 to 15.5 percent for the year. The credit policy for the second half of 1997-98,

announced by the RBI in October 1997, aims at both accelerating the flow of credit into industry at lower cost by enlarging the lendable resources of banks, and also at ensuring that money supply growth remains within the targeted band. Government and private forecasters now predict an average inflation rate (as measured by the Consumer Price Index) of about 9 percent during fiscal year 1997-98, following inflation of 9.4 percent in the previous year.

2. Exchange Rate Policy

India has used exchange rate policy to improve its export competitiveness. On March 1, 1993, the exchange rate was unified and the rupee was made fully convertible on the trade account. On August 20, 1994, the rupee was made fully convertible on the current account. Controls remain on capital account transactions, with the exception of non-resident Indians (NRIs) and foreign institutional investors (FIIs), but their gradual removal is expected as foreign exchange reserves grow and India's capital markets merge more completely with international financial markets. In June 1997, the Tarapore Committee on capital account convertibility recommended a three year (1998-2000) period for complete capital account convertibility of the rupee. However, private sector economist's published reports are skptical of the government's ability to achieve full convertibility by the end of the three year period.

The RBI intervenes in the foreign exchange market to maintain a stable rupee. The rupee is tied to a basket of currencies with the U.S. dollar playing a predominant role. The exchange rate moved in a narrow range of rupees 35-35.80 per dollar in Indian fiscal year 1996-97. The Reserve Bank of India intervened in the market to keep the rupee from appreciating against the dollar, but was not able to check the rupee's rise against other currencies. Since mid November 1997, the rupee has fallen moderately against the dollar, and has been trading in the range of 39 to 40 per dollar.

3. Structural Policies

Pricing policies: Central and state governments still regulate the prices of most essential products, including food grains, sugar, edible oils, basic medicines, energy, fertilizers, water, and many industrial inputs. Agricultural commodity procurement prices have risen substantially during the past six years, while prices for nitrogenous fertilizer, rural electricity and irrigation remain well below market levels. However, acute power shortages are forcing several states to arrest the financial decline of state electricity boards by raising tariffs. The federal government has also begun to scrutinize more carefully the cost of its subsidies. The government recently announced its plan to reduce subsidy rates on food and fertilizers from 90 percent to 25 percent over the next five years. Many basic food products are under a dual pricing system: some output is supplied at fixed prices through government distribution outlets ("fair price shops"), with the remainder sold by producers on the free market. Prices in government outlets are usually regulated according to a cost-plus formula; some formulas have not been adjusted in more than a decade. Regulation of basic drug prices has been a particular problem for U.S. pharmaceutical firms operating in India, although changes in national drug policy sharply reduced the number of price-controlled formulations in late-1994 from 142 to 76.

Tax policies: Public finances remain highly dependent on indirect taxes, particularly import tariffs. Between 1990 and 1996, indirect taxes accounted for about 75 percent of central government tax revenue. India's direct tax base is very narrow, with only 12 million taxpayers out of a total population of about 953 million. Marginal corporate rates are high by international standards, although the FY 1996/97 budget lowered the corporate income tax rate for foreign companies from 55 percent to 48 percent. Tax evasion is widespread, and the government has stated that future rate cuts will depend on the success of efforts to improve tax compliance. Over the last five years, the government has begun streamlining the nation's tax regime along the lines recommended by a government-appointed committee: increasing the revenue share from direct taxes, introducing a value-added tax (VAT), and replacing India's complex tax code with one that is more simple and transparent. The Indian government also provides tax incentives for specific sectors, such as a 5-year tax holiday for infrastructural projects. Akey factor in improving the equity and the efficiency of the tax system will be the government's ability to establish vol comp system to tax the income of India's growing middle class.

Regulatory policies: The "new industrial policy" announced in July 1991 considerably relaxed the government's regulatory hold on investment and production decisions. Under the new policies, industrial licenses are only required for 6 sectors defined as strategic. Some restrictions also remain for manufacturing in sectors which are reserved for the public sector or small-scale industry. Additionally, the Indian

government announced in 1994 and 1995 liberal policies for the pharmaceutical and telecommunications industries. Nevertheless, Indian industry remains highly regulated by a powerful bureaucracy armed with excessive rules and broad discretion. For example, India recently established a Telecommunication Regulatory Authority which despite its goal to operate independently of the GOI, still receives its budget funds from the Ministry of Communications. As economic reforms take root at the federal level, the focus of liberalization is gradually shifting to state governments which, under India's federal system of government, enjoy broad regulatory powers. The speed and quality of regulatory decisions governing important issues such as zoning, land-use and environment can vary dramatically from one state to another. Political opposition has slowed or halted important regulatory reforms governing areas like labor, bankruptcy, and company law that would enhance the efficiency of foreign and domestic investment.

4. Debt Management Policies

External debt management: India's reliance during the 1980's on debt-financed deficit spending to boost economic growth meant that commercial debt and non-resident Indian (NRI) deposits provided a growing share of the financing for India's mounting trade deficit. The result was a hefty increase in external debt, compounded by rising real interest rates and a declining term structure that reflected India's falling credit worthiness. Total external debt rose from $20 billion in FY 1980-81 to about $84 billion in FY 1990-91. Fueled by rising debt service payments, foreign exchange reserves fell to $1.1 billion (excluding gold and SDRs) during the FY 1990-91 balance of payments crisis, the equivalent of only two weeks of imports. By September 1997, India's reform program had succeeded in boosting reserves to $26.2 billion (excluding gold and SDRs).

External debt structure: India's total external debt was $90.8 billion in March 1997. Debt service payments of $14.1 billion in 1996/97 are expected to decline to $12.6 billion in 1997-98. Roughly two-thirds of the country's foreign currency debt is composed of multilateral and bilateral debt, much of it on highly-concessional terms. The share of concessional debt in total debt is about 43 percent. The addition of new debt has slowed substantially, as the government has maintained a tight rein on foreign commercial borrowing and defense-related debt and has encouraged foreign equity investment rather than debt financing. As a result, the ratio of total external debt to GDP fell from 39.8 percent in fiscal year 1992-93 to 25.4 percent in fiscal year 1996/97.

Relationship with creditors: India has an excellent debt servicing record. The sharp growth in official reserves over the past three years and the enthusiastic response of institutional and foreign direct investors to India's economic reforms are restoring creditor confidence. However, Standard and Poor's (S&P) recently revised its outlook on India from positive to stable. S&P continues to rate India's foreign currency debt at BB+, one notch below investment grade. Citing its growing foreign exchange reserves and ample food stocks, India chose not to negotiate an extended financing facility with the IMF when its standby arrangement expired in May 1993

5. Significant Barriers to U.S. Exports

Import licensing: U.S. exports have benefited from significant reductions in India's import-licensing requirements. However, barriers to more than 2700 tariff lines remain an impediment to U.S. exporters. Since 1992, the government has eliminated licensing requirements for imports of intermediate and capital goods, and has steadily reduced the import-weighted tariff from 87 percent to 20.3 percent. However, in September 1997, in order to contain the fiscal deficit, the Indian government announced an additional three percent special customs levy on most non-petroleum imports. This is in addition to the two percent import levy on most imported products imposed since 1996. U.S. exports to India rose from $2.0 billion in 1991 to $3.4 billion in 1996, according to U.S. trade data. Some commodity imports must be channeled ("canalized") through government companies, although many "canalized" items are now decontrolled. The main canalized items currently are petroleum products, bulk agricultural products, such as grains and vegetable oils, and some pharmaceutical products. India maintains a negative list of items which cannot be imported, covering roughly one-third of all tariff lines. Tariff levels are still very high by international standards. India has proposed a six year phase-out to the WTO for removing quantitative restrictions on imports of some 2,700 items, including consumer goods, which have been maintained since the 1950's on balance of payments grounds. Import licenses are still required for pesticides and insecticides, fruits, vegetables and processed consumer food products, breeding stock, most phar-

maceuticals and chemicals, and products reserved in India for small-scale industry. This licensing requirement serves in many cases as an effective ban on importation.

Services barriers: The Indian government runs many major service industries but private sector participants are increasingly being allowed to compete in the market. Entry of foreign banks remains highly regulated, but approval has been granted for the operation of 25 new foreign banks or bank branches since June 1993 when the RBI issued guidelines under which new private banks may be established. Furthermore, financial authorities have permitted sweeping changes in non-bank financial services since then. India does not allow foreign nationals to practice law in its courts, but some foreign law firms maintain liaison offices in India. Although the Government of India excluded from its WTO services offer any liberalization of its insurance sector, the government is now reviewing its monopoly on life and general insurance with a view to future liberalization and reform of the industry. Foreign and domestic joint ventures participate in telecommunications, advertising, accounting, car rentals and a wide range of consultancy services. There is a growing awareness of India's potential as a major service exporter and increasing demand for a more open service market.

Standards, testing, labeling and certification: Indian standards generally follow international norms and do not constitute a significant barrier to trade. However, India's food safety laws are often outdated or more stringent than international norms. Where differences exist, India is seeking to harmonize national standards with international norms. No distinctions are made between imported and domestically-produced goods, except in the case of some bulk grains.

Investment barriers: The new industrial policy introduced in July 1991 achieved a dramatic overhaul of regulations restricting foreign investment. Government approval for equity investments of up to 51 percent in 35 industries covering the bulk of manufacturing activities has been entirely eliminated, although the government reserves the right to deny requests for increased equity stakes. In December 1996, thirteen industries were added to the 35 already eligible for automatic approval of FDI up to 51 percent of equity. In addition, automatic approval up to 74 percent of FDI was introduced for the first time for nine categories including mining services, electricity generation and transmission, and construction and maintenance of roads, bridges, ports, harbors and runways. All sectors of the Indian economy are now open to foreign investors, except those which raise security concerns such as defense, railways and atomic energy. As a result, the $32.7 billion in foreign investment approved between January 1991 and April 1997 exceeded the nominal dollar value of all foreign investment approved during the previous four decades, with U.S. investors taking the lead. The U.S. and India have not negotiated a bilateral investment treaty, although an agreement covering the operations of the

Overseas Private Investment Corporation (OPIC) was updated in 1997. In 1994, India became a member of the Multilateral Investment Guarantee Agency (MIGA), an agency of the World Bank. The Indian government ratified the Uruguay Round GATT agreement on January 1, 1995 and is a member of the WTO.

Government procurement practices: Indian government procurement practices are not transparent and occasionally discriminate against foreign suppliers, but they are improving under the influence of fiscal stringency. Price and quality preferences for local suppliers were largely abolished in June 1992. Recipients of preferential treatment are now concentrated in the small-scale industrial and handicrafts sectors, which represent a very small share of total government procurement. Defense procurement through agents is not permitted, forcing U.S. firms to maintain resident representation. When foreign financing is involved, procurement agencies generally comply with multilateral development bank requirements for international tenders.

Customs procedures: Liberalization of India's trade regime has reduced tariff and non-tariff barriers, but it has not eased some of the worst aspects of customs procedures. Documentation requirements, including ex-factory bills of sale, are extensive and delays frequent. However, in 1996 the government switched to the harmonized system of commodity classification, removing ambiguities and providing more transparency to the export-import policy.

6. Export Subsidies Policies

The 1991 budget phased out most direct export subsidies, but a tangle of indirect subsidies remains. Export promotion measures include exemptions or concessional tariffs on raw materials and capital inputs, and access to special import licenses (SIL) for restricted inputs. Concessional income tax provisions apply to exports (export earnings are tax-exempt). Commercial banks also provide export financing on concessional terms.

7. Protection of U.S. Intellectual Property

The Indian government has improved protection of intellectual property rights (IPR), in the area of copyrights. However, it has not yet brought its laws and enforcement up to international standards in other areas. Especially troubling for U.s. industry is the lack of patent protection for pharmaceutical, and agricultural chemical products.

The Special-301 investigation initiated by USTR in 1991 determined that Indian IPR practices, particularly inadequate patent protection, unduly burdened U.S. commerce. In response, the U.S. removed all Indian-origin chemical and pharmaceutical products from duty-free entry under the Generalized System of Preferences (GSP) in April 1992.

Under pressure from domestic industry, India strengthened its copyright law in May 1994, placing it at par with international practice. The new law, which entered into force in May, 1995, fully reflects the provisions of the Berne Convention on copyrights, to which India is a party. Based on its improved copyright protection, India's designation as a "priority foreign country" under Special-301 was revoked and India was placed on the "priority watch list." Copyright enforcement is also rapidly improving. Classification of copyright infringements as "cognisable offenses" expands police search and seizure authority. While the formation of appellate boards under the new legislation should speed prosecution, local attorneys indicate that some technical flaws in the laws, which require administrative approval prior to police action, need to be corrected.

Trademark protection is considered good, and could be raised to international standards with the passage of a new trademark bill that codifies existing court decisions on the use and protection of foreign trademarks, including service marks. The bill was first introduced in 1995 but failed to win parliamentary approval. Passage of the trademark bill is expected in 1998. Enforcement of trademark owner rights had been weak in the past, but is steadily improving as the courts and police respond to domestic concerns about the high cost of piracy to Indian rights' holders.

India's patent protection is weak and has especially adverse effects on U.S. pharmaceutical and chemical firms. Estimated annual losses to the U.S. pharmaceutical industry due to piracy are $450 million. India's patent act prohibits product patents for any invention intended for use or capable of being used as a food, medicine, or drug or relating to substances prepared or produced by chemical processes. Consequently, many U.S.-invented drugs are widely reproduced. Processes for making drugs are patentable, but the patent term is limited to the shorter of five years from the grant of patent or seven years from the filing date of the patent application. Product patents in other areas are granted for 14 years from the date of filing. However, as a signatory to the Uruguay Round of GATT, including its provisions on Trade-Related Intellectual Property Rights (TRIPS), India must introduce a comprehensive system of product patents no later than 2005. The Indian government has formed an advisory committee to recommend changes in the 1970 Indian Patents Act. A temporary ordinance for patent protection implementing the "mailbox" provisions of the WTO TRIPS agreement and providing for exclusive marketing rights was issued in December 1994. However, the ordinance lapsed and the parliament has yet to pass a new patent bill implementing the provisions of the ordinance. In July 1996, the U.S. initiated WTO dispute settlement procedures over India's failure to implement its TRIPS obligations. The final panel report on this case was issued in August 1997, and ruled that India had failed to meet its obligations under the TRIPS agreement. Indian officials have pledged to introduce a bill in parliament in late 1997, that, if passed, will put India in compliance with its TRIPS obligations.

8. Worker Rights

a. *The Right of Association.*—India's constitution gives workers the right of association. Workers may form and join trade unions of their choice; work actions are protected by law. Unions represent roughly 2 percent of the total workforce, or about 25 percent of industrial and service workers in the organized sector.

b. *The Right to Organize and Bargain Collectively.*—Indian law recognizes the right to organize and bargain collectively. Procedural mechanisms exist to adjudicate labor disputes that cannot be resolved through collective bargaining. State and local authorities occasionally use their power to declare strikes "illegal" and force adjudication.

c. *Prohibition of Forced or Compulsory Labor.*—Forced labor is prohibited by the constitution; a 1976 law specifically prohibits the formerly common practice of "bonded labor". Despite implementation of the 1976 law, bonded labor continues in

many rural areas. Efforts to eradicate the practice are complicated by extreme poverty and jurisdictional disputes between the central and state governments; legislation is a central government function, while enforcement is the responsibility of the states.

d. *Minimum Age of Employment for Children.*—Poor social and economic conditions and lack of compulsory education make child labor a major problem in India. The Government of India's 1991 Census estimated that 11.3 million Indian children from ages 5 to 15 are working. Non-governmental organizations estimate that there may be more than 55 million child laborers. A 1986 law bans employment of children under age 14 in hazardous occupations and strictly regulates child employment in other fields. Nevertheless, tens of thousands of children are employed in the glass, pottery, carpet and fireworks industries, among others. Resource constraints and the sheer magnitude of the problem limit ability to enforce child-labor legislation.

e. *Acceptable Conditions of Work.*—India has a maximum eight-hour work day and 48-hour work week. This maximum is generally observed by employers in the formal sector. Occupational safety and health measures vary widely from state to state and among industries, as does the minimum wage.

f. *Rights in Sectors with U.S. Investment.*—U.S. investment exists largely in manufacturing and service sectors where organized labor is predominant and working conditions are well above the average for India. U.S. investors generally offer better than prevailing wages, benefits and work conditions. Intense government and press scrutiny of all foreign activities ensures that any violation of acceptable standards under the five worker-rights criteria mentioned above would receive immediate attention.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		51
Total Manufacturing		348
Food & Kindred Products	25	
Chemicals & Allied Products	119	
Metals, Primary & Fabricated	[1]	
Machinery, except Electrical	145	
Electric & Electronic Equipment	[1]	
Transportation Equipment	28	
Other Manufacturing	8	
Wholesale Trade		[1]
Banking		516
Finance/Insurance/Real Estate		67
Services		51
Other Industries		[1]
TOTAL ALL INDUSTRIES		1139

[1] Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis

PAKISTAN

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
Income, Production and Employment:			
Nominal GDP [2]	54.7	58.3	57.6
Real GDP Growth (pct) [3]	5.3	4.4	3.2

Key Economic Indicators—Continued

[Billions of U.S. Dollars unless otherwise indicated]

	1995	1996	1997 [1]
GDP by sector (pct):			
Agriculture	25.9	25.8	25.4
Manufacturing	17.1	16.9	16.9
Service	7.8	8.0	8.1
Government	7.7	8.1	8.2
Real Per Capita GDP (US$)	431	441	421
Labor Force (millions)	35.2	36.1	37.2
Unemployment Rate (pct)	3.4	5.4	5.4
Money and Prices (annual percentage growth):			
Money Supply Growth (M2) [3]	17.4	13.8	12.1
Consumer Price Inflation	16.0	11.1	13.0
Exchange Rate (Rupees/US$)			
Official [4]	31.1	35.1	40.5
Balance of Payments and Trade:			
Total Exports FOB [3]	8.1	8.7	8.3
Exports to U.S.[3]	1.3	1.4	1.5
Total Imports CIF [3]	10.4	11.8	11.9
Imports from U.S.[3]	1.0	1.1	1.4
Trade Balance [3]	-2.3	-3.1	-3.6
Balance with U.S [3]	0.3	0.3	0.1
External Public Debt	27.1	28.9	30.0
Fiscal Deficit/GDP (pct)	5.6	6.3	6.2
Current Account Deficit/GDP (pct)	-2.2	-4.3	-3.9
Debt Service Payments/GDP [6](pct)	44.6	46.6	48.4
Gold and Foreign Exchange Reserves	4.1	7.1	6.5
Aid from U.S. (millions of US$)	-0	-10.0	35.0
Aid from All Other Sources	4.0	4.3	3.7

[1] Unless otherwise indicated, data are for the corresponding Fiscal Years ending June 30. Rupee exchange rates used to convert to dollars were, by period, the following: 30.85 for 1995, 33.57 for 1996, and 39.0 for 1997.
[2] GDP at factor cost.
[3] Percentage changes calculated in local currency.
[4] SBP rate to authorized dealers at June 30.
[5] Average exchange rate of authorized dealers.
[6] GDP at market prices.

Source: Various Government of Pakistan, including State Bank of Pakistan Annual Report 1997/97 and Pakistan Economic Survey, Statistical Supplement 1996/97.

1. General Policy Framework

A continuing large budget deficit and rapid net domestic asset expansion during 1996, into early 1997, contributed to a sharp deterioration of the external current account. This was accompanied by a large build-up of short-term external liabilities, mainly nonresidents' foreign currency deposits. The 12-month inflation rate reached 13.8 percent in February 1997, concurrently with a deterioration in the external reserve position to the 500-600 million dollars range (about two weeks of imports), and a premium in the local foreign exchange market in excess of 10 percent. Real Gross Domestic Product (GDP) growth weakened to 3.2 percent in the fiscal year ending June 1997, reflecting a poor cotton crop and a decline in manufacturing output. The government which assumed office in February 1997 has emphasized tax and tariff reforms, government and public enterprise restructuring and down sizing, financial sector reform (including bank privatization), and exchange market reform.

Economic performance since February 1997 has been mixed. Generally, the economy has remained sluggish and the outcome of important reforms remains in doubt. However, the International Monetary Fund (IMF) replaced a successful Staff Monitored Program with an Enhanced Structural Adjustment Facility and Extended Fund Facility (ESAF/EFF) in October 1977. This, along with an expected good crop year has bolstered hopes for economic recovery.

2. Exchange Rate Policy

The value of the rupee is determined according to a managed float, with the State Bank of Pakistan (SBP) making adjustments against a basket of major currencies. The U.S. dollar is used as an intervention currency to determine other rates. Authorized foreign exchange dealers are allowed to trade at an open market rate that

varies over the official rate. The SBP seeks to follow a policy that balances exchange rate stability with the imperatives of competitiveness. Among other things, it closely watches the currencies of regional and other trade competitors in managing the rupee's value. In the face of domestic inflation, declining exports and foreign exchange reserves, and perceived over valuation vis-a-vis competitors' currencies, authorities devalued the rupee by 8.7 percent in October 1997.

Over the past few years, foreign exchange controls have been significantly liberalized, but the Rupee is now fully convertible on current account. Individuals and firms resident in Pakistan may hold foreign currency bank accounts and may freely move foreign currency into and out of the country. Foreign firms investing in Pakistan (other than banks and insurance companies) may remit profits and capital without prior SBP approval.

3. Structural Policies

Under the new three year ESAF/EFF of October 1997, Pakistan has recommitted itself to a program of macroeconomic objectives and structural adjustment policies. The macroeconomic objectives for the three-year period 1997 to 2000 are: (a) to reduce the external current deficit (excluding official transfers) to the range of 4.0 to 4.5 percent of GDP which would provide for a substantial strengthening of the external reserve position; (b) to raise the annual growth rate of real GDP to the 5 to 6 percent range; and,—to progressively reduce annual inflation to about 7 percent. The key intermediate policy target will be a reduction in the overall budget deficit from 6.1 percent of GDP in 1997 to five percent of GDP in 1998, and to four percent of GDP by the third year of the program.

The key structural elements in the fiscal area will be: (a) the extension of the General Sales Tax (GST) to the retail sector; (b) strengthening of the recently enacted provincial agricultural income taxes;—overhaul of the tax collection machinery; (d) return to an automatic petroleum pricing mechanism; and, (e) restructuring of government ministries and autonomous bodies. Reduction in defense spending is significant and front-loaded. The budgetary adjustment is to be supplemented by major improvements in the operations of the public enterprises. In the banking sector, the program incorporates: (a) an enhancement of the central bank's autonomy and of its regulatory and supervisory role; (b) an improvement of the legal and judiciary processes for enforcing financial contracts;—privatization of the state-owned banks and financial institutions; and, (d) loan recovery efforts. As regards the external sector, customs tariffs will be lowered and simplified and exchange market reforms will be implemented with a view to develop private forward cover and enable the central bank to gradually phase out its forward cover scheme for foreign currency deposits.

4. Debt Management Policies

Pakistan remains dependent on foreign donors and creditors to meet its financing needs, and its total external debt has grown in recent years. Total external debt at June 30, 1997 was $30.0 billion, up to 48.4 percent of GDP at market prices over 46.6 percent in 1996. Debt service as a share of export earnings had grown had grown to 61.8 percent, up from 52.3 percent in 1996.

Pakistan has a historically excellent record for honoring external debt obligations, even during periods of strained financial circumstances. Nonetheless, in November 1996, as a result of a growing current account deficit, declining reserves and suspension of the IMF's Standby program, some foreign creditors lowered their rating of Pakistani exposure. In 1997, the government took steps to reduce external imbalances and actively and cooperatively to seek support from the international financial institutions for its policies. The government has also worked to maintain good relations with foreign commercial creditors. These efforts paid off in the form of a new ESAF/EFF program in October 1997, and with significant additional balance of payments support financing from other international financial institutions. However, given Pakistan's long difficulties trying to stabilize its budget and external account, the availability of continued support financing is more than ever dependent on successful performance as measured frequently against predetermined benchmarks. The uncertainty of achieving the performance benchmarks likely will continue importantly to determine export success for U.S. companies.

5. Aid

The U.S. suspended bilateral assistance to Pakistan in 1989 over differences regarding nuclear arms proliferation. Few categories of assistance were exempted. In fiscal years 1997 and 1998, the U.S. continued food export programs under P.L.-480

Title I at ten million dollars per year, with a 25 million dollar supplemental program in fiscal year 1997.

6. Significant Barriers to U.S. Exports

Import licenses: In recent years Pakistan has significantly reformed its restrictive import regime. Since July 1993, import licenses, formerly common, have been abolished on all "freely importable" goods, i.e. on all items not on the Negative List which consists of 68 items banned mostly for religious, health or security reasons, or in accordance with international agreements.

Services barriers: Several sectors, including banking, insurance, transportation and telecommunications, are affected by services barriers. Portions of major service industries are nationalized and run by the government. Foreign banks are generally restricted to having at most four branches, are subject to higher withholding taxes than domestic banks, and face restrictions on doing business with state-owned corporations. New foreign entrants to the general insurance market are effectively barred, and those to the life insurance market, while not barred, face severe obstacles. Meanwhile, those few foreign insurance companies operating in Pakistan face various tax problems, long delays in remitting profits, and problems associated with operating within a cartelized industry. Basic telephony is the monopoly of the state-owned Pakistan Telecommunications Corporation Ltd. (PTCL) and may remain a monopoly for some time after PTCL's scheduled privatization. Competition among private providers is now allowed in cellular telephony. Foreign brokers are allowed to join one of the country's three stock exchanges as part of a joint venture with a Pakistani firm. Motion pictures face high tax rates, especially the practice of including the royalty value in the dutiable value of films imported for showing in theaters, which have sharply cut their import into Pakistan.

Standards, testing, labeling, and certification: Testing facilities for agricultural goods are inadequate, and standards are inconsistently applied, resulting in occasional discrimination against American farm products.

Investment barriers: Pakistan has significantly liberalized its investment regime and actively encourages inward foreign investment. A tentative substantial additional liberalization of conditions for foreign direct investment was announced in December 1997 but had not been finalized or implemented as of year end. Frequent changes in tax and duty policy undermine the ability of private sector firms to carry out planning for long-term investments.

Government procurement: The government, along with its numerous state-run corporations, is Pakistan's largest importer. Work performed for government agencies, including purchase of imported equipment and services, is usually awarded through tenders that are publicly announced and/or issued to registered suppliers. The government subscribes to principles of international competitive bidding, but political influence on procurement decisions is common, and these are not always made on the basis of price and technical quality alone. Delays in bureaucratic decision-making are common.

Customs procedures: Investors sometimes complain of a gulf between incentives advertised at the policy level and on-the-ground implementation, and these complaints often relate to customs problems. For example, preferential tariff rates are usually subject to the proviso that the goods in question are not domestically manufactured. Disputes sometimes arise over this provision, with investors arguing that local output, while available, does not meet their specifications. Investors also cite arbitrary and inconsistent customs valuations and frequent changes in rates. Delays are also reported in administration of the "duty drawback" scheme, which refunds partial tariff charges on imported inputs once the final output they were used for is exported. Charges that customs officers demand bribes are also common.

7. Export Subsidies Policies

Pakistan actively promotes the export of Pakistani goods with government financing measures, the tariff rebate scheme noted above and other tariff concessions on imported inputs, tax concessions, and government sponsored exhibitions. These policies appear to be equally applied to both foreign and domestic firms producing goods for export. Pakistan's main exports are cotton textile products, and until 1994 the government taxed raw cotton exports in order to keep their price low for domestic manufacturers. Cotton exports are no longer taxed, but they must be registered with the Export Promotion Bureau, and domestic textile producers continue to call for reimposition of the tax.

8. Protection of U.S. Intellectual Property

Pakistani enforcement of intellectual property rights is weak, resulting in widespread piracy, especially of copyrighted materials. As a result, Pakistan has been on the Special 301 IPR "Watch List" since 1989. In 1995, however, the authorities took steps to strengthen enforcement, including raids on several pirated video rental shops, but the impact of these efforts has been limited. Pakistan is subject to the terms of the World Trade Organization's Agreement on Trade Related Intellectual Property Measures and is a member of the World Intellectual Property Organization. The U.S. Pakistan Treaty of Friendship and Commerce guarantees national and most favored nation treatment for patents, trademarks and industrial property rights. Pakistan is not a member of the Paris Industrial Property Convention or the Berne Convention but is a member of the Universal Copyright Convention.

Patents: Current law protects only process patents, though the government has stated its commitment to eventually offering product patents in accordance with WTO obligations.

Trademarks: Since 1994, Pakistan has required that pharmaceutical firms label the generic name on all products with at least equal prominence as that of the brand name. This trademark labeling requirement serves to dilute in the minds of consumers the differences in quality, efficacy and safety among different products. There also have been occasional instances of infringement, including of trademarks for toys and industrial machinery.

Copyrights: The markets for imported computer software and, until recently, film videos, are nearly 100 percent pirated. Piracy of copyrighted textile designs is also a serious problem. Some counterfeit products made in Pakistan are exported to other markets. However, at least one local firm is now distributing legitimate, copyrighted videotapes produced by U.S. film studios. And as a result of strengthened law enforcement, some other pirate outlets are taking steps to offer legitimate products. Sustained stronger enforcement needs to be paired with action by the courts to prosecute and sentence violators.

The impact on U.S. exports of weak IPR protection in Pakistan is substantial, though difficult to quantify. In the area of copyright infringement alone, the International Intellectual Property Alliance estimates that piracy of films, sound recordings, computer programs, and books resulted in trade losses of $62 million in 1994.

9. Worker Rights

a. *The Right of Association.*—The Industrial Relations Ordinance of 1969 (IRO) enunciates the right of industrial workers to form trade unions but is subject to major restrictions in some employment areas. In practice, labor laws place significant constraints on the formation of industrial unions and their ability to function effectively. The Essential Services Maintenance Act of 1952 restricts normal union activities in sectors associated with "the administration of the State," e.g., government services and some public utilities, but the government has reduced its application.

b. *The Right to Organize and Bargain Collectively.*—The right of industrial workers to organize and freely elect representatives to act as collective bargaining agents is established in law. However, the many restrictions on forming unions preclude collective bargaining by large sections of the labor force, e.g., agricultural workers, who are not guaranteed the right to strike, bargain collectively, or make demands on employers. Legally required conciliation proceedings and cooling off periods constrain the right to strike, as does the government's authority to ban any strike that may cause "serious hardship to the community." Strikes are rare and, when they occur, usually illegal and short. The government regards as illegal any strike conducted by workers who are not members of a legally registered union. The law does not protect leaders of illegal strikes.

c. *Prohibition of Forced or Compulsory Labor.*—The Constitution and the law prohibit forced labor. However, illegal bonded labor is widespread. Bonded labor is common in the brick, glass, and fishing industries and is found among agricultural and construction workers in rural areas. Conservative estimates put the figure of bonded workers at several million. The Bonded Labor System (Abolition) Act, adopted in 1992, outlawed bonded labor, canceled all existing bonded debts, and forbade lawsuits for the recovery of existing debts. However, the provincial governments, which are responsible for enforcing the law, have failed to establish enforcement mechanisms, and the law is largely ineffective.

d. *Minimum Age for Employment of Children.*—Child labor is common and results from a combination of severe poverty, employer greed, and inadequate enforcement of laws intended to control it. A government study done with the assistance of the

ILO estimates there are some 3.6 million child laborers in Pakistan. While much child labor is in the traditional framework of family farming or small business, the employment of children in larger industries is also widespread. Child labor is widely employed in the carpet industry, much of which is family run. Children have also been employed in other export industries, such as textiles, leather tanning, surgical instruments, and sporting goods, though the extent is unclear. The government has made some efforts to improve enforcement of laws against child labor and is cooperating with the ILO on a range of programs with the goal of eliminating child labor. It has also encouraged the establishment of an independent Child Welfare Foundation designed to rehabilitate child laborers and to oversee child labor-free certification programs. But such programs have yet to be implemented. The United States partially suspended Pakistan's Generalized System of Preference (GSP) benefits in 1996, due to inadequate worker rights protections involving child labor. The suspension removed $40 million in GSP benefits from Pakistani surgical instruments, sporting goods, and handmade rugs.

e. *Acceptable Conditions of Work.*—The law provides for a monthly minimum wage of about 42 dollars (1,650 rupees), a maximum work week of 54 hours, rest periods during the workday, and paid annual holidays. Although this wage provides a meager subsistence living for a small family, minimum wage benefits and other regulations affect only a small part of the work force, and most families are large. In general, health and safety standards are poor.

f. *Rights in Sector with U.S. Investment.*—Significant investment by U.S. companies has occurred in the petroleum, food, and chemicals sectors. U.S. investors in industrial sectors are all large enough to be subject to the full provisions of Pakistani law for worker protection and entitlements. In general, multinational employers do better than most employers in fulfilling their legal obligations, providing good benefits and conditions, and dealing responsibly with unions. The only significant area of U.S. investment in which worker rights are legally restricted is the petroleum sector. The oil and gas industry is subject to the Essential Services Maintenance Act, which bans strikes and collective bargaining, limits a worker's right to change employment, and affords little recourse to a fired worker.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1996

[Millions of U.S. dollars]

Category		Amount
Petroleum		73
Total Manufacturing		[1]
Food & Kindred Products	6	
Chemicals & Allied Products	49	
Metals, Primary & Fabricated	-4	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	[1]	
Wholesale Trade		[1]
Banking		149
Finance/Insurance/Real Estate		[1]
Services		0
Other Industries		0
TOTAL ALL INDUSTRIES		382

[1] Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

○