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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 FOREIGN AFFAIRS,
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

MARCH 1992

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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 individual country human rights practices, the reports are intended to provide a single, comprehensive and comparative analysis of the economic policies and trade practices of each country with which the United States has an economic or trade relationship. Because of the increasing importance and interest in trade and economic issues, these reports are printed to assist members in considering legislation in the areas of trade and economic policy.

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Chairman, Committee on Finance.

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DAN ROSTENKOWSKI,
Chairman, Committee on Ways and Means.

LETTER OF TRANSMITTAL

DEPARTMENT OF STATE,
Washington, DC, March 6, 1992.

Hon. CLAIBORNE PELL,
Chairman, Committee on Foreign Relations.

Hon. LLOYD BENTSEN,
Chairman, Committee on Finance.

Hon. J. DANFORTH QUAYLE,
President, U.S. Senate.

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Speaker, House of Representatives.

Hon. DANTE B. FASCELL,
Chairman, Committee on Foreign Affairs.

Hon. DAN ROSTENKOWSKI,
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 each country with which the U.S. has an economic or trade relationship. In this regard, I am pleased to provide the enclosed report.

Sincerely,

JANET G. MULLINS,
Assistant Secretary, Legislative Affairs.

Enclosure.

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<u>COUNTRY REPORTS ON ECONOMIC POLICY AND TRADE PRACTICES FOR 1992</u>

INTRODUCTION

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. The legislation instructs the Department to prepare a detailed report regarding the economic policy and trade practices of each country with which the United States has an economic or trade relationship: we have done so. In addition, we have included reports on a few other countries that may be of interest to readers despite a relatively small level of economic involvement with the United States.

Many of our trading partners experienced enormous political and social upheavals in 1991. The countries of Estonia, Latvia, and Lithuania are represented in this report for the first time. The report on the new independent states of the former Union of Soviet Socialist Republics contains as much information as was available prior to going to press. Each of the new independent states will be discussed in individual reports in the 1993 Trade Act Report.

The country reports have been compiled from information supplied by U.S. Embassies overseas, amplified by analysis and review within the Department of State and in consultation with other U.S. Government agencies. The reports are intended primarily as general guides to economic conditions in a specific country. While we have attempted to standardize the reports, some are necessarily different, reflecting wide variances in availability of data. In some countries, the U.S. has no formal representation. In other cases access to reliable information is limited. Nevertheless, all the country reports incorporate the best information available.

Each country report is divided into nine sections.

- <u>Key Economic Indicators</u>: The report begins with a chart showing data for key economic indicators in the national income, monetary, and trade accounts.

- <u>General Policy Framework</u>: The first narrative section is a general sketch of macroeconomic trends.

- <u>Exchange Rate Policies</u>: The second section outlines exchange rate policies, particularly with respect to their impact on price competitiveness of U.S. exports.

- <u>Structural Policies</u>: The third section on structural policies also emphasizes those changes with might affect U.S. exports to that country.

- Debt Management Policies: The fourth section describes debt management policies and implications for trade with the United States.

- Significant Barriers to U.S. Exports and Investment: The fifth section addresses significant barriers to U.S. exports and investment.

- Export Subsidies Policies: The sixth section notes any government acts, policies, and practices that provide support for 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 for intellectual property.

- Worker Rights: The eighth and final section has three parts.

  -- The first part outlines in general the country's laws and practices with respect to internationally recognized worker rights.

  -- The second part (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.

We believe that this fourth annual report builds on the strong foundation of the reports submitted in January 1989, January 1990, and February 1991. The Department of State considers the report to be an important contribution toward our goal of ensuring that strong and effective U.S. Government trade policies are based on the best possible understanding of the economic trends in countries around the world.

Eugene J. McAllister
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 Foreign Affairs 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

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 eight) are abridged versions of section 6 in the Country Reports on Human Rights Practices for 1991, submitted to the Committees on Foreign Affairs of the House of Representatives and on Foreign Relations of the U.S. Senate on January 31, 1992. For a comprehensive 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 1990 for all countries for which foreign direct investment has been reported to it. This information for 1990 -- the most recent figures available -- was published for selected countries in the August 1991 issue of Survey of Current Business. 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). 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
BDV - Brussels Definition of Value
BIS - Bank for International Settlements
CACM - Central American Common Market
CARICOM - Caribbean Common Market
CAP - Common Agricultural Policy (of the European Communities)
CCC - Commodity Credit Corporation (Department of Agriculture)
COMECOM - Council for Mutual Economic Assistance
EC - European Communities
EFTA - European Free Trade Association
EMS - European Monetary System (of the EC)
ERM - Exchange Rate Mechanism (of the EC)
EXIMBANK - U.S. Export-Import Bank
FOREX - Foreign Exchange
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)
ILO - International Labor Organization (of the U.N.)
IMF - International Monetary Fund
IDB - Inter-American Development Bank
IPR - Intellectual Property Rights
LIBOR - London Interbank Offer Rate
NNI - Net National Income
OECD - Organization for Economic Cooperation and Development
OPIC - U.S. Overseas Private Investment Corporation
PTT - Posts, Telegraph and Telephone
SAP - Structural Adjustment Program (of the IMF/World Bank)
SDR - Special Drawing Rights (of the IMF)
UR - Uruguay Round of current trade negotiations in the GATT
VAT - Value-added tax
WIPO - World Intellectual Property Organization

ANGOLA

Key Economic Indicators

(Millions of U.S. Dollars Except As Noted

	1988	1989	1990 1/3/
Income, Production, and Employment			
Nominal GDP	6,926	7,724	9,073
Real GDP growth rate (percent)	14.3	1.8	2.8
GDP by sector (percent share)			
oil	56.9	56.7	57.1
other	43.1	43.9	42.9
Nominal GDP per capita ($)	739.8	796.3	907.3
Size of labor force (millions)	3.9	4.0	4.1
Unemployment rate	N/A	N/A	N/A
Money and Prices			
Money supply (M2)	317.1	370.8	289.6
Savings Rate	N/A	N/A	N/A
Investment Rate	N/A	N/A	N/A
Consumer price index (official prices)	21.7	N/A	6.1
Exchange rates (Kz/US$)			
Official	29.92	29.92	29.92
Parallel	2,000	3,500	N/A
Balance of Payments and Trade (mils $)			
Total Exports FOB	2,491.0	3,013.0	3,883.0
Exports to U.S. CIF	1,343.1	1,863.3	1,958.1
Total Imports FOB	1,372.0	1,273.0	1,488.0
Imports from U.S. FAS	101.0	97.6	149.7
Aid from the U.S. 2/	9.3	7.7	N/A
Aid from all sources	159.0	140.0	N/A
External debt (including interest arrears)	5,928.0	6,533.0	7,281.0
Debt service as percent of exports	227.6	207.8	182.4
Foreign Exchange reserves (excluding gold)	180.2	174.5	137.6
Balance of payments on current account	-469	-20	246

1/ Angola's fiscal year is January 1 - December 31.
2/ U.S. assistance takes the form of PL-480 (Food for Peace), earmarked funds to the ICRC and UNHCR for refugee and civilian disaster relief and private voluntary agency administered disaster assistance.
3/ 1991 data is not available.

1. General Policy Framework

The People's Republic of Angola (PRA) potentially could be one of Africa's richest countries. Relatively sparsely

ANGOLA

populated, it has large hydrocarbon and mineral resources, huge hydroelectric potential, and ample arable land. Civil and foreign war from independence in 1975 until May of 1991 have wreaked havoc on the country, and prevented Angola from realizing this potential.

In addition to the extreme disruptions caused by conflict, a severe lack of managerial, administrative, and technical talent has hampered economic performance. Misguided and ineffective attempts at collectivist economic planning and centralized decision-making have further precluded development. Analysis of the Angolan economy has been limited seriously by the inadequacy of data. Only the country's oil sector, second to Nigeria's in Subsaharan African oil production and jointly run by foreign multinationals and the PRA oil monopoly, SONANGOL, has remained well-managed and prosperous. In 1991, oil accounted for over half of real GDP, 90 percent of exports and 62 percent of government revenues, and kept the rest of the economy barely afloat.

Urban populations, swollen by refugees and isolated from their natural former regions, have subsisted largely on foreign food aid or extensive black markets based on barter and illegal currency dealings. The bulk of the rural population lives in the bush, often in marginal security and barely existing by subsistence farming. Extensive administrative chaos and corruption have tended to vitiate reform and normal economic activity.

The budget of the Government of the People's Republic of Angola (GPRA)* has been perpetually in deficit from the heavy military burden; in 1991 that deficit was 28.5 percent of GDP. The deficit's magnitude depends on the fortunes of the oil sector. Around half of the PRA's foreign exchange, 40 percent of its budget, and an inordinate proportion of the country's energy and talent have been spent on the war effort. In addition, ailing state enterprises are supported through heavy subsidies and credit facilities. The deficit has been financed by the printing press, increasing the money supply without ameliorating shortages of goods and services. Shortages, artificial price controls, and erosion of confidence in the national currency have encouraged black markets and led to widespread dependence on barter.

The signing of the Angola Peace Accords in May, 1991, provided the first real hope in 16 years for economic recovery in Angola. The Accords provide for a UN-supervised ceasefire, the creation of a new, non-partisan national armed force, and free and fair internationally-monitored elections between September 1 and November 30, 1992. (The government has announced its intention to hold these elections in September.) While the ceasefire has held to date, the long-term effects of the war, destruction to infrastructure and years of general mismanagement remain to be addressed. The end of the conflict should offer opportunities for economic growth and stabilization, but there is little hope of an immediate "peace dividend." Recovery is likely to be slow

*The United States does not recognize any government as the Government of Angola; see Section 5.

even with concerted efforts at economic reforms.

The GPRA has declared its intentions to reform and restructure the economy along market lines. In 1987, under the Economic and Financial Reorganization Plan (SEF), basic laws on privatization, management of state enterprises, and the role of private investment were published. The SEF was to feature new rigor in financial management, the opening of certain sectors to private enterprise (e.g., legalization of illicit parallel market activities), semi-privatization of commerce and agriculture, restructuring of the largest state-operated enterprises (SOEs), liberalization of foreign investment, and devaluation. Removal of price controls on some fruits and vegetables in effect legalized their parallel market prices. Guidelines for sale or liquidation of some SOEs have been approved; over 200 enterprises in the industrial sector are reportedly to be privatized in the first phase of this effort, beginning in late 1991. An Office of Foreign Investment, Office for the Privatization of State Enterprises and Office on Sectoral Privatization was established.

In March and April 1991, basic legislation to start reform of the financial sector was enacted. New laws provided for the creation of a commercial bank and a credit institution for agriculture and fisheries; a savings and mortgage institution is planned. Loans for new private enterprises are to come from commercial banks, not from the central bank, and other changes are contemplated.

Reform efforts continued in November 1991, with the focus on exchange rate adjustment and the loosening of price controls. Fiscal measures and action to privatize state-owned enterprises (SOEs) remain to be announced.

The GPRA claims to welcome foreign trade and investment and eagerly is seeking Western participation in development projects. Barriers to U.S. exports and capital lie not so much in deliberate government policies as in the regime's sheer ineffectiveness and incapacity. The oil sector, the only one run in a reasonably systematic and straightforward manner and fairly isolated from battle, has been the focus of U.S.-Angolan trade and U.S. investment to date. The United States buys about half of Angola's oil exports, while equipment for the sector accounts for the bulk of U.S. sales to Angola. With the end of the war, and the expectation of elections by September 1992, U.S. investors are beginning to look at additional investment possibilities in Angola. Given the country's huge potential, peace and genuine economic liberalization could provide substantial opportunities for U.S. trade with and investment in Angola.

2. Exchange Rate Policies

From 1978 to September 1990, the PRA maintained the official exchange rate for the kwanza (Kz), a non-convertible currency, at 29.918/$1.00. The new kwanza (NKw) replaced the old at par in September 1990. In March 1991, the kwanza was devalued by 50 percent, from 29.92 to 59.24 NKw per U.S. dollar, the first of several devaluations intended to

determine a true value for the kwanza. The rate on the parallel (black) market has been as much as 120 times the official rate. In much of the country, in both areas controlled by the PRA and the National Union for the Total Independence of Angola (UNITA), barter continues to be common for consumer transactions.

In accordance with IMF recommendations, the kwanza was devalued a second time to 90 NKw per dollar in November 1991, and to 180 NKw per dollar in late December 1991. A multiple exchange rate scheme, designed to cut imports and stimulate nontraditional exports, was also instituted. There are two surcharges for imports, one for raw materials (180 NKw/$) and one for other imports and nontraditional exports (550 NKw/$). Oil, coffee, diamonds and other minerals will continue to be traded at the official rate.

Until April 1991, all legal foreign exchange transactions were handled by the National Bank of Angola. Foreign exchange was carefully budgeted on an annual basis and allocated quarterly by quota. In April, new legislation authorized the central bank and newly formed commercial banks to conduct foreign exchange transactions.

3. Structural Policies

Price controls have been pervasive, but were often rendered meaningless because products were unavailable or found only on the black market. Basic commodities are still rationed at officially fixed prices. Prices of many other goods and services were also fixed or subject to price ceilings. Minimum purchase prices are established for most agricultural and livestock products and fixed commercial margins are set at various stages of transport and trading. The system is inefficient and incoherent, causing extreme price distortions.

For some time, the regime has been planning to deregulate most prices. The first concrete step was taken in 1988 when price controls on 52 fruits and vegetables were eliminated. In November 1991, the PRA announced that the basket of goods furnished under the fixed price rationing system would be trimmed from 17 to 5. Prices have skyrocketed in response to these changes and to the exchange rate changes, as the still-distorted economic system struggles to find the appropriate market-clearing rates.

4. Debt Management Policies

The GPRA began substantial foreign borrowing only in the early 1980s, principally to finance large oil sector investments. Prior to the 1986 slump in international oil prices, the PRA scrupulously met its foreign debt commitments, even those contracted prior to independence. Subsequently, however, large payment arrears accumulated ($378 million by the end of 1986), and major Western export credit agencies suspended cover to the country. The GPRA announced a foreign debt of more than $7.7 billion in 1990. A substantial part of the debt is owed to the Soviet Union for military purchases

during the 16-year civil war against UNITA.

The GPRA's recent economic and financial strategy relies heavily on debt rescheduling. In 1989, the PRA joined the IMF and the World Bank. Also in 1989, official medium- and long-term debts were rescheduled by the Paris Club for the first time. The U.S.-Angola bilateral rescheduling agreement ($7.1 million) entered into force in March of 1990.

5. Significant Barriers to U.S. Exports and Investment

The United States does not recognize or maintain diplomatic relations with the PRA. While it does maintain a liaison office in conjunction with the U.S. role as an observer to the Joint Political Military Commission (JPMC) overseeing implementation of the Peace Accords, it has no personnel there to evaluate economic and trade conditions.

The potential for U.S. exports to Angola is constrained by certain U.S. laws or policies which prohibit the following:

- extension of Export-Import Bank (EXIM) cover;

- utilization by U.S. investors in Angola of tax credits or deferments.

The holding of free and fair elections in late 1992, as stipulated in the Accords, could allow for changes in the above provisions.

Since the sharp decline of its coffee and diamond sectors, Angola's ability to import has depended almost entirely on oil earnings. When oil export growth halted in 1981-82, stringent import curbs were imposed. After some easing in 1984-85, they were re-imposed after 1986's oil price slump. At the end of 1991, hard currency reserves reportedly were reduced to one month import coverage.

All imports require a license. An annual foreign exchange budget is implemented on a quarterly basis with individual quotas allocated to ministries and state, mixed, and private companies. The quotas are strictly enforced. Company applications are assessed in terms of overall ministerial quotas. Documentary requirements can be burdensome. Equipment for the oil industry, food, agricultural inputs, and consumer goods for rural marketing campaigns receive the highest priority for civilian imports but military equipment probably had accounted for about half of total purchases through the end of the war in mid-1991. In recent years, the PRA has relied on foreign food aid for a substantial proportion (at least half in 1990) of foodstuff imports.

A large part of the country's imports are handled by state trading companies. Except for foreign companies' shares of oil production, most exports are handled by state agencies. Countertrade deals (involving exchanging oil for imports of goods and services) have been signed with Brazil and Portugal.

ANGOLA

Foreign investment is very large in the oil sector and significant in many other areas of the economy. A new investment code, devised under the GPRA's 1987 economic recovery plan, permits mixed companies, joint companies, joint ventures and private companies, the latter able to be wholly-owned by foreign capital. The code provides certain guarantees and incentives, and simplifies the process of negotiation, but still prohibits foreign investment in a number of areas, such as defense, banking, posts and public telecommunications, public services, the media and air and long-distance maritime transport.

6. Export Subsidies Policies

No export subsidy schemes currently exist, although among the measures proposed (but not yet implemented) in the PRA's economic reform package was a foreign exchange retention scheme as an incentive for non-oil export industries.

7. Protection of U.S. Intellectual Property

Angola joined the World Intellectual Property Organization (WIPO) in 1985, but has not adhered to any of the principal conventions on intellectual property. There is no known domestic legislation on intellectual property rights. U.S. industry has not flagged any specific problems regarding intellectual property.

8. Worker Rights

a. The Right of Association

Until 1991, the sole, legally-recognized trade union organization in the GPRA was the National Union of Angolan Workers (UNTA), which was formed in the late 1950's as an appendage of the Popular Movement for the Liberation of Angola (MPLA) and became the ruling party's official labor wing after Angolan independence in 1975.

The revised Constitution contains a provision recognizing the right of Angolans to form trade unions and to participate in trade union activities. A second provision recognizes the right to strike. Law No 23/91 of June 15, 1991 provides the detailed legal framework for that provision.

Despite the changes in the law, to date there has been no formation of independent labor unions per se. However, free labor activity has increased as individual factories and offices have formed their own workers' committees. Numerous strikes have taken place without interference from the government of the PRA.

b. The Right to Organize and Bargain Collectively

In 1991, the revised GPRA Constitution gave Angolan workers the right to bargain collectively. Legislation is reportedly in preparation to address the specifics of this provision, as well as to regulate the formation of independent

trade union activities. The Ministry of Labor and Social Security still controls the process of setting wages and benefits. Several significant wage raises were granted in 1991 as a result of negotiation following work stoppages.

c. Prohibition of Forced or Compulsory Labor

Previous GPRA legislation authorized compulsory labor for breaches of labor discipline and participation in strikes. On the basis of this legislation, the PRA was first cited by the ILO in 1984 for being in violation of ILO Convention 105, on the abolition of forced labor. It is not known whether labor legislation now in preparation specifically addresses the issue of forced labor or other issues mentioned below.

d. Minimum Age for Employment of Children

There is no information available on this subject apart from the fact that in 1976 the GPRA ratified ILO Convention 6 governing night work of young persons and Convention 7 regarding the minimum age for employment at sea.

e. Acceptable Conditions of Work

According to a decree issued in 1982, the normal workweek is limited to 44 hours. The workweek is limited to 34 hours and 6 days a week for persons aged 14 to 16, and to 38 hours and 7 days a week for persons aged 16 to 18. Minimum wage legislation exists but no recent information is available on the extent of its application. No information is available on the existence or adequacy of occupational health and safety standards.

f. Rights in Sectors with U.S. Investment

U.S. investment in Angola is located in the petroleum industry. There is no specific information available regarding the conditions for workers in this sector.

ANGOLA

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category	Amount	
Petroleum		103
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		(D)
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, August 1991

GABON

Key Economic Indicators

(Millions of CFA Francs Unless Otherwise Noted)

	1989	1990	1991 1/
Income, Production, and Employment			
GDP, current prices (bn CFA)	1,125.8	1,284.8	1,305.7
GDP, pct change, nominal	16.5	14.1	1.6
GDP by sector (percent):			
Primary	10.1	9.1	9.2
Secondary	47.5	52.3	50.5
including extractive	35.1	41.8	39.4
Tertiary	36.8	34.4	35.0
including public admin.	12.1	12.0	12.3
Labor force (thousands)	110.0	105.0	100.0
Unemployment rate	N/A	N/A	N/A
Money and Prices			
M1 (bn CFA)	258.3	267.5	272.1
Commercial Lending Rate (pct)	7.5	18.5	N/A
Savings Rate (pct)	18.5	23.9	24.4
Investment Rate (pct)	23.6	18.9	19.0
Consumer Price Index (2)	N/A	N/A	N/A
Wholesale Price Index (2)	N/A	N/A	N/A
Exchange Rate (avg)	318.6	272.0	285.0
Balance of Payments and Trade (millions US$)			
Exports FOB	1,592.0	2,665.0	2,284.0
Exports to U.S.	418.0	721.2	N/A
Imports CIF	748.0	615.0	702.0
Imports from U.S.	49.0	49.0	N/A
Aid From U.S. (thousands US$)	150.0	163.0	185.0
External Public Debt	3,263.0	3,499.0	N/A
Payments Made	3/	3/	3/
Debt Service Ratio (pct)	30.2	31.3	28.1
Foreign Exchange Reserves			
Gross	-10.0	20.0	N/A
Gold	4.7	N/A	N/A
Balance of Payments			
On Current Account	-169.4	214.4	290.7
On Capital Account	-234.5	-415.4	-370.2
Basic Balance	-380.4	-235.1	-79.4

1/ Those figures reported for 1991 are necessarily estimates, drawn in most cases from Central Bank/IMF data. "N/A" indicates that no official estimate is available.
2/ The Government of Gabon stopped publishing price indexes in June 1989. Estimates compiled by private sector consultants indicate rates of approximately 10 percent in 1989 and 1990. The Embassy does not believe that conditions in 1991 have been significantly different.
3/ The Government of Gabon has only serviced its debt very selectively since the middle of 1989, and virtually discontinued debt service starting in 1990. IMF estimates

indicate that $304 million in arrears were accumulated in 1989 and 1990; the stand-by arrangement signed on September 30, 1991 calls for a total of $307.7 million in arrears to be paid by end 1991.

1. General Policy Framework

The Gabonese economy is dominated by mining and petroleum production, which together contribute nearly 40 percent of gross domestic product (GDP). Oil is the key variable, as the petroleum industry generates 80 percent of Gabon's export earnings and nearly half of government revenues. There is very little manufacturing activity in Gabon, and most finished goods are imported. The limited manufacturing which exists is concentrated in initial transformation of Gabon's raw materials; e.g. the uranium "yellowcake" plant located adjacent to the uranium mine at Mounana, in southeastern Gabon, and the petroleum refinery located at Port Gentil. On the other hand, like many developing economies, there is an important services sector, comprising the civil service, which accounts for over 10 percent of GDP by itself, and a wide range of tertiary activities ranging from banking to legal and accounting services to business consulting.

Since oil prices weakened sharply in 1986, the Gabonese government has been in fiscal crisis. The large deficits since then - they hit a high of over 14 percent of GDP in 1987, dipped to under 5 percent in 1990, and have since climbed again past 6 percent - forced Gabon to turn to foreign creditors for financing, drawing on its International Monetary Fund (IMF) allotment and then seeking project finance from the World Bank and the African Development Bank (ADB). Commercial banks, which had financed a number of large projects in Gabon in the seventies and early eighties, lost their enthusiasm when Gabon turned to the London Club in 1987 for a rescheduling.

Gabon's persistent budget deficits are rooted primarily in the government's inability to manage its expenditures. The employment rolls at government agencies and parastatal corporations have never been fully purged of deceased, fired and otherwise separated employees, who continue to draw salaries. Public outcries have thwarted several attempts to institute layoffs or even hiring freezes. By the same token, the government has been unable to control expenditures on travel, telephone and utility bills and housing, and only recently has succeeded in imposing central control over government agency purchasing. On the revenue side, tax evasion, especially of customs duties, is rampant and the government is only now beginning to bring this problem under control.

Monetary policy is exercised through adjustments in the central bank discount rate and through adjustments in bank reserve requirements. Under the Franc Zone mechanism (see below), however, the French Treasury exercises tight control over the monetary policies of the member states, who must observe money supply growth targets set in consultation with the French authorities. Given the constraints of the Franc Zone, monetary policy is not used as a tool for sectoral

policies and is largely neutral in its effect on the competitiveness of U.S. exports.

2. Exchange Rate Policies

As a member of the Franc Zone, Gabon has relatively little flexibility where monetary and exchange rate policies are concerned. The value of the currency, the CFA franc (CFA is the French acronym for African Financial Community), is pegged at 50 CFA per French franc. While this mechanism assures exporters and importers of the convertibility of the currency, it ensures a fixed exchange rate vis-a-vis the French Franc only. Thus, it has the side effect of discriminating against imports from outside France in that prices for French goods can be more readily anticipated and transactions with France are simpler than with other countries.

Although the CFA franc is fully convertible, the Gabonese Central Bank exercises an administrative control over foreign exchange transactions. Outflows of foreign exchange must be justified with an invoice or other contractual document, which must be accepted by the Central Bank before the commercial banks may complete the transaction. To the Embassy's knowledge, however, these controls are little more than an administrative formality, and we know of no instances where exchange controls have been used to impede the operations of U.S. firms.

3. Structural Policies

The Gabonese government levies a personal income tax, a corporate income tax, a value-added tax and Customs duties on imports. The government draws a major component of its revenues from oil royalties. Small and Medium Businesses (SMB's) routinely receive tax holidays up to five years, and the government uses a similar incentive to attract oil exploration companies without discrimination by nationality. The personal income tax is widely evaded and the government is relatively powerless to collect it. Customs duties are very high, in excess of one hundred percent on luxury cars, for example; but here, too, evasion is the rule. Some observers estimate the loss in revenues as high as $100 million, though a French aid project is currently computerizing the Customs system in an effort to improve collection. Gabon is a member of UDEAC, the Central African Customs Union. Customs duties are discriminatory vis-a-vis finished goods, especially automobiles, from non-European sources; nonetheless, Japanese cars outnumber European makes on the streets of Libreville and in the interior.

The government exercises price controls on staples at the retail level, primarily to ensure that retailers do not gouge unsophisticated consumers. Prices thus tend to vary within a narrow range, fluctuating over time with changes in international market conditions and local demand. Due in large measure to the monetary discipline imposed by the Franc Zone mechanism, price controls are not needed to control inflation.

GABON

4. Debt Management Policies

Gabon has experienced a sharp increase in its foreign indebtedness since the international oil price drop of 1986. External debt rose from about one billion dollars in 1985 to $3.5 billion in 1990. During this period, debt service rose from 7 percent of GDP to over 11 percent, while debt service as a share of export earnings has oscillated around 30 percent. As a result of the fiscal crisis of the late 1980's, Gabon has rescheduled its private debts in the London Club in 1987, and has been to the Paris Club four times, most recently in October 1991.

Faced with a domestic political crisis since late 1989, the government attempted to shift the adjustment burden onto its foreign creditors, and suspended debt payments on most foreign obligations in early 1990. Its repeated requests for reschedulings, both in the London Club and the Paris Club, were denied pending signature of a new stand-by arrangement. This finally occurred in September 1991, after a drawn-out negotiation in which the key stumbling blocks were the government's lack of fiscal discipline, parastatal reforms and questions surrounding the disposition of a share of the country's oil revenues. The 1991 stand-by arrangement covers eighteen months. EXIMBANK cover is not available for the public sector.

5. Significant Barriers to U.S. Exports

Gabon protects its local producers of mineral water, household soap, cooking oil, cement, and sugar. These products may not be imported into Gabon, but this has had little effect on U.S. exports in practice, as U.S. producers of these products have not found the Gabonese market attractive. In addition, import of wheat and rice are subject to license. The wheat market is under the control of a French firm, Grands Moulins de Paris, which is principal shareholder in Gabon's only flour mill and which has an exclusive right to import wheat. The rice market is more open, with several Asian brands available. U.S. rice has been imported successfully, but faces a price disadvantage which excludes it from the mass market.

Technical and other standards tend to be drawn directly from the relevant French standards. Telecommunications equipment, for example, has in the past been restricted to French brands due to a perception in the Telecommunications Ministry, diligently cultivated by the French technical counselors, that only French equipment could be used in Gabon. A Gabonese entrepreneur who wanted to import AT&T equipment has successfully challenged this barrier and began importing and installing U.S.-made telephones and Private Branch Exchanges in 1991.

The Gabonese government has not imposed intrusive or discriminatory measures on foreign investors, which are the mainstay of the petroleum industry. During the height of the fiscal crisis, in the late 1980's, the government resorted to a "solidarity bond" which it required all private firms to

post with the Ministry of Finance. Under the terms of the "solidarity bond," the monies could not be transferred out of Gabon, but local investments could be credited against it. This mechanism was abolished in 1990 and investors, both foreign and domestic, have been able to use the "bonds" as a tax credit. The government reserves the right to take a ten percent share in the capital of any firm incorporated in the country, whether the capital is foreign or domestic.

The Gabonese government often does not adhere to competitive bidding practices, and the French technical advisers throughout the government are well placed to steer contracts to French firms. In the petroleum sector, the government has organized five bidding rounds for exploration leases since the mid-1980's, but continues to sign contracts outside the rounds. Gabon's deteriorating debt payment record has caused the EXIMBANK to withdraw from the financing of U.S. exports to Gabonese Government purchases.

Customs procedures are slow and cumbersome, particularly since the introduction of a new computer system. The burden, however, affects all suppliers equally, regardless of nationality.

6. Export Subsidies Policies

Since Gabon's exports are almost exclusively raw materials, the government does not offer subsidies to exporters. To the contrary, another side effect of membership in the CFA mechanism is an overvaluation of the currency, which poses a disincentive to exports.

7. Protection of U.S. Intellectual Property

The Gabonese government is not active in GATT or other international trade fora, and has not taken a position on the intellectual property aspects of the Uruguay Round. Gabon is a member of the Libreville Agreement of 1962 (OAPI), which provides for unified patent and trademark laws among a number of African countries, as well as a common patent office.

The level of patent and other protection available through OAPI, even if it were enforced, would fall short of preferred standards. The current period of patent protection is 5 years, renewable to up to 15 years.

Trademark protection is ineffective; largely for lack of enforcement capability, the government turns a blind eye to trademark violations. For example, U.S. ethnic cosmetic brands are sought after in Gabon. However, many of those available in Gabon are in fact "remanufactured" (i.e., diluted) versions which have transited Nigeria en route to Gabon.

No other specific information or figures are available as to the existence or significant impact on U.S. trade of any industrial property or copyright violations.

GABON

8. Worker Rights

a. The Right of Association

Since the abolishment of the unique status of the former sole political party, the Democratic Party of Gabon (PDG), in 1990 the Gabonese Union Confederation (COSYGA) has had to give up its exclusive right to represent workers. Since that time, unions throughout the economy have proliferated. Current law severely limits the right to strike but a new draft Labor Code would liberalize these and other provisions of the existing Code.

b. The Right to Organize and Bargain Collectively

With the promulgation of the Constitution of 1991 the right to collective bargaining is secured. The ILO has urged that antiunion discrimination provisions be included in the new labor law.

c. Prohibition of Forced or Compulsory Labor

Forced labor is prohibited by law and is not practiced, although technical violations of the conventions on forced labor have been criticized by the ILO.

d. Minimum Age of Employment for Children

The Labor Code sets a minimum age of sixteen years for employment.

e. Acceptable Conditions of Work

Minimum wage rates are established administratively after tripartite consultation. The minimum wage only applies to Gabonese workers, not immigrants. Work over 40 hours per week must be compensated with overtime and the workweek must include a minimum rest period of 48 consecutive hours. Health and safety standards are in place but adherence varies by firm. Most of the firms operating petroleum production facilities in Gabon are subsidiaries of or otherwise associated with European or U.S. companies and tend to follow their home-country standards.

f. Rights in Sectors with U.S. Investment

U.S. investment is almost exclusively in the petroleum sector. Worker rights and working conditions are in general better than those elsewhere in the economy, with more careful adherence to safety standards, accident prevention procedures and proper use of protective gear.

GABON

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category	Amount	
Petroleum		408
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
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		408

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, August 1991

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Key Economic Indicators

(Millions of Cedis Unless Otherwise Stated)

	1989	1990	1991 1/
Income, Production, Employment			
GDP current prices (bn cedis)	1,346.9	1,609.1	N/A
GDP, current prices, pct change	27.3	19.5	N/A
Per capita GDP/current dollars	331.0	325.0	330.0
Cocoa (000 mt) 2/	305.0	270.1	292.0
Gold (000 troy oz)	429.5	541.4	N/A
Diamonds (000 carats)	285.6	636.5	N/A
Manganese (000 mt)	334.5	246.9	N/A
Bauxite (000 mt)	374.6	368.7	N/A
Aluminum (000 mt)	167.6	172.3	N/A
Size of Labor Force 3/	N/A	N/A	N/A
Unemployment Rate (pct)	N/A	N/A	N/A
Money and Prices (In billions of cedis except as noted)			
Money Supply (M2, yr-end)	204.1	265.2	N/A
Commercial Lending Rate (percent year-end)	23-31	23-31	N/A
Savings Growth Rate	6.5	4.6	6.5
Investment (percent/gdp)	14.0	14.4	15.6
Consumer price index (1980 - 100)	2,601	3,511	4,213
Wholesale Price Index (1977 - 100)	18,084	N/A	N/A
Exchange Rates (Cedi/US$) 4/			
Auction average	280	326	370
Foreign exchange bureau	310-50	340-50	360-90
Parallel (not applicable)	N/A	N/A	N/A
Balance of Payments and Trade (Millions US$)			
Total Exports FOB	829.9	793.4	843.4
Exports to U.S. CIF	127.4	168.6	N/A
Total Imports FOB	1,052.9	1,141.2	1,224.5
Total Imports from U.S.	122.7	138.4	N/A
Aid Flows 5/			
Disbursements	565.3	570.0	N/A
Aid from U.S.	21.8	27.6	38.0
Aid from Multilaterals	280.8	289.8	N/A
External Public Debt Yr-end	2,862.4	3,043.1	N/A
Annual Debt Service Paymts	516.6	336.8	307.0
Debt Service Ratio (Percent of exports)	58.3	36.4	27.8
Gold Reserves	N/A	N/A	N/A
Gross Int'l Reserves Yr-end	248.0	320.7	435.0
Overall Balance of Payments	126.4	90.0	100.0

1/ All 1991 figures are provisional estimates.
2/ Crop year begins September.
3/ Only data available for unemployment (1.9 percent) and size of labor force (6,477 mn) are from 1987

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Ghana living standards survey.
4/ Exchange rates are given as: average annual for official auction and actual range for the foreign exchange bureaus. Forex bureaus supplanted parallel market activity, starting in mid-1988.
5/ Data for aid flows converted to US$ at exchange rates prevailing at time of disbursements; data are for calendar year.

1. General Policy Framework

Ghana has implemented a structural adjustment program for eight years with impressive results. Annual GDP growth averaged 5.5 percent from 1984-89, dipped to 3.0 percent in 1990 but will rebound to about 5.0 percent in 1991. Key reforms included liberalized private access to foreign exchange, relaxation of import controls, a rehabilitation of basic infrastructure, civil service reform, steps toward privatization of parastatals, and market incentives for agricultural and export sectors. Large aid inflows have helped rebuild infrastructure and restore basic services. Good rains and higher producer prices for cash crops boosted farm output while industry and mining have experienced a private sector led resurgence. However, more could have been done to encourage private sector enterprise and attract foreign investment.

Ghana still relies excessively on cocoa and gold for export revenues. Inflation rose above 40 percent in the last quarter of 1990, reflecting higher oil prices but by the end of the second quarter had dropped below 18 percent. The government expects inflation to fall to 10 percent by year end 1991. Commercial lending rates of 28 - 32 percent discourage business investment. There are few official data on unemployment and underemployment but underemployment rates are believed to be high. Foreign exchange and trade liberalization improved prospects for U.S. exports. Access to credit is a significant constraint on importers.

Fiscal policy: The Government uses its annual budget to finance its reform program and channel resources to rehabilitate productive sectors. Public investment is targeted at projects described in a rolling, three-year investment plan. The Government of Ghana raises civil service salaries annually. Resource mobilization efforts include rationalization of the tax system and reinvigorated collections (income taxes and customs/excise taxes). Donor inflows provide a large percentage of government revenues. Tight liquidity is a problem as the Government, with World Bank support, restructures the banking system. Foreign aid helped Ghana achieve a modest budgetary surplus in 1990.

Monetary policy: Monetary policy has a limited effect because of a weak banking system. The government is working with the World Bank and IMF to improve monetary policy. The Central Bank relies on credit ceilings and adjustments in the discount rate and reserve requirements to control money supply. The annual level of financing for the cocoa sector significantly influences money supply. The Bank of Ghana

(BOG) periodically sells controlled volumes of new treasury bills to commercial and merchant banks, but open market operations are not extensive enough to significantly influence money supply.

Foreign exchange remittances may contribute more than had been realized to M2 growth. Substantial liquidity circulates outside the formal financial system, partly because public confidence in the banks is low due to a history of mismanagement and government interventions.

2. Exchange Rate Policies

Ghana maintains two foreign exchange rates. The BOG holds weekly auctions that determine the official exchange rate for the following seven days. The weekly level of auction is about $6-7 million. Importers must bid through their banks. Only designated banks or financial institutions are permitted to participate. There is an unwritten rule barring importation of luxury consumables with foreign exchange purchased through the auction. In April 1991 restrictions on remittances of income earned by non-Ghanaians were ended, virtually eliminating exchange controls.

The government of Ghana legalized private foreign exchange (forex) bureaus in 1988. The bureaus buy and sell currencies at market rates without governmental controls. The spread between the auction and bureau rates is about ten percent or less. Forex bureaus have virtually eliminated the parallel market.

3. Structural Policies

Since 1983, the government has progressively liberalized the market structure. Price controls have been largely dismantled. While some state owned enterprises still set prices for agricultural products (e.g., maize), the market increasingly determines food prices. Ghana has eliminated price subsidies on hundreds of products and commodities but retains controls on a few items, including petroleum products, cement, utility tariffs, beer, cigarettes, machetes, fertilizers and selected pesticides. Surviving subsidies may affect regional trade but has minimal effect on U.S. exports.

The annual budget statement in January, 1991 announced several changes to the tax regime. The marginal tax rates on personal income were cut from 55 to 25 percent and the top corporate rate (for banking, trading, insurance and printing) was lowered from 55 to 50 percent. For the construction sector, the rate dropped from 50 to 45 percent. The basic corporate tax rate remained at 45 percent. The import duty structure was simplified in 1990, and new "super sales taxes" on large engine capacity passenger cars and luxury consumer goods were introduced (ranging from 50 to 500 percent). To enforce payment of sales tax and excise duties, a sales tax clearance certificate is required from manufacturers before goods clear the port. 1990 data indicates that excise duty receipts are below projected levels. No major structural policy changes affecting direction or character of investment

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occurred from 1990-1991.

4. Debt Management Policies

Ghana's structural adjustment program is supported by the World Bank and the IMF. Ghana will complete its Enhanced Structural Adjustment Facility (ESAF) with the IMF by December 1991. Ghana has not rescheduled official credits under the Paris Club and has not rescheduled commercial bank credits. At year-end, 1990, Ghana's total external debt was estimated at $3.04 billion. A breakdown of external public debt as of 1990 follows (in millions of U.S. dollars):

Medium-term	348.8
Long-term	1,945.2
IMF	749.1
Arrears	0
Total	3,043.1

Ghana succeeded in eliminating its remaining payments arrears by mid-1991.

The profile of Ghana's external debt has improved with access to IMF resources on better repayment terms (ESAF) since 1987 and cancellation of portions of its bilateral debt. Debt service ratios dropped from a peak of 68 percent (1988) to 57 percent (1989), 38 percent in 1990, and 36 percent in 1991. Relations with the international financial institutions are good. A debt management unit was established in 1988 at the finance ministry, equipped with a computer program to analyze Ghana's external obligations.

5. Significant Barriers to U.S. Exports

In January 1989, the last vestiges of Ghana's import licensing system were abolished. Importers still submit an import declaration form and a current tax clearance certificate.

Service Barriers: Service barriers affect many activities in the following sectors: advertising, insurance, shipping, and tourism and travel services. The following business and/or investment activities are prohibited to non-Ghanaian proprietors: commercial overland transportation, laundry/dry cleaning, small scale wholesale/retail operations, taxi/car hire service, tire retreading, beauty/barber shops, real estate, agricultural commodity brokerages, and certain other agencies and distributorships.

Standards: Ghana has its own standards for food and drugs, and conducts testing according to accepted international practices for imports with suspicious characteristics. But all locally manufactured goods are subject to standards testing, labeling and certification regulations.

Investment Barriers: The government has designated priority sectors for investment (agriculture, manufacturing, building/construction and tourism) and strongly favors

export-oriented enterprises using predominantly local raw materials. There are also incentives for certain categories of investments in under-developed regions of the country. For foreign investors, the minimum equity is $60,000 (joint venture) or $100,000 (wholly-owned); the latter must be a net earner of hard currency. Expatriate quotas are in force and a special tax on expatriates was raised in 1988 to 500,000 cedis ($1,450). Waivers are granted for government contract employees, projects financed by international organizations or bilateral donors, and on an exceptional basis.

Under the 1985 investment code, the government 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.

Prospective investors are screened in accordance with their capacity to contribute to any of nine goals listed in the investment code (e.g., development and transfer of technology). The Ghana Investment Center (GIC) registers and may regulate such transfers. Foreign investors are not subject to differential treatment on taxes, prices or access to foreign exchange, imports and credit. Official policies do not restrict U.S. exports or direct investment, although some economic activities are closed to foreign investment. Land ownership by non-citizens is prohibited although expatriate companies may own property constructed on leased lands.

The GIC may stipulate the amount and source of capital, nationality and number of shareholders, project size, training of Ghanaians, time for implementation, utilization of local raw materials and other criteria. While the government has exhibited flexibility and pragmatism in applying these requirements, they will remain an integral part of its economic strategy.

Separate legislation provides for investments in mining and petroleum and applies equally to foreign and Ghanaian investors.

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. The Central Bank does not encourage countertrade because of adverse past experience of over and under-invoicing. However, the government has traditionally conducted countertrade with Eastern European countries and Cuba. Except for aid-tied imports, Ghana does not discriminate against any country, with two exceptions: imports from South Africa and Iraq are prohibited.

Parastatal entities continue to import some commodities, principally wheat, though most former government monopolies have been abolished. The parastatals no longer receive government subventions to finance imports.

Capable private sector importers are permitted to bring in almost any commodity, except for wheat (though flour is permitted) and the five items remaining on the prohibited

imports list (beer and stout, cigarettes, cement pipes, roofing sheets, and asbestos and fibers).

6. Export Subsidies Policies

The government does not directly subsidize exports. Theoretically, exporters are entitled to 85 percent drawback of duty paid on imported inputs. Exporters of non-traditional commodities (other than cocoa, coffee, timber/logs and non-fuel minerals) may retain 20-35 percent of export receipts in hard currency accounts to finance spare parts and inputs. They are also permitted to repatriate funds if held abroad for sale through the forex bureaus. Ghana is not a member of the GATT Subsidies Code.

7. Protection of U.S. Intellectual Property

Prior to independence in 1957, Ghana had offered protection to intellectual property under U.K. laws. It still does so for patents, requiring the registration of patents in the U.K. and thereafter in Ghana within three months of the U.K. registration. In the early years of independence, Ghana instituted separate legislation for copyright and trademark protection (1961 and 1965).

Ghana is a member of a the Universal Copyright Convention, the World Intellectual Property Organization and the English-speaking African Regional Intellectual Property Organization. Ghana also offers protection under the terms of the conventions to which it belongs. The government is drafting its own legislation regarding patent protection but, in the meantime, continues to operate under the patent law of the U.K. There are no official statistics on infringement cases, but reportedly, there were fewer than 30 court cases over the past four years. Aggrieved holders of intellectual property rights have access to courts for redress locally.

Information on counterfeiting or trademark infringement is not readily available from official sources in Ghana. There is no problem in gaining or maintaining patent registration. Fees for registration by local applicants are 15,000 cedis (about $40) and $90 for foreign applicants.

The few book piracy cases recorded were resolved by arbitration at the Ghanaian copyrights registry. A small number of cases of other forms of copyright infringement have been resolved through arbitration. The most serious problem of copyright infringement relates to videotapes. The government is considering measures to curb illegal reproduction and commercial screening of pirated tapes, but has not yet taken action. As of 1990, the Ghana frequency board will not issue a permit for a commercial videotape rental establishment to put up a satellite dish to receive foreign television programming. Copyright violations may be pursued in both the criminal and civil courts.

Copyright violations in the form of pirated videotapes and/or cassette tapes probably account for the most serious losses to U.S. firms in the form of lost sales and royalties,

but no statistics or estimates as to the level of impact on U.S. trade of those losses are available.

8. Worker Rights

a. The Right of Association

Trade unions are governed by the Industrial Relations Act (IRA) of 1958. Organized labor is represented by the Trades Union Congress (TUC). Once closely linked to the governing party, TUC now has free elections and is becoming increasingly autonomous. The ILO continues to criticize Ghanian legislation which limits the rights of workers to form unions of their choosing.

The right to strike is recognized in law and in practice. The IRA provides for a system under which the Government seeks first to conciliate, then arbitrate, disputes.

b. The Right to Organize and Bargain Collectively

The IRA provides a framework for collective bargaining and some protection against antiunion discrimination as well. Ghana's trade unions engage in collective bargaining for wages and benefits with both private and state-owned enterprises.

c. Prohibition of Forced or Compulsory Labor

Ghanaian law prohibits forced labor, and it is not known to be practiced.

d. Minimum Age for Employment of Children

Legislation sets a minimum employment age of 15 and prohibits night work and certain types of hazardous labor for those under 18. In practice, child labor is prevalent since local custom and economic circumstances favor children working to help their extended families. Violators of regulations prohibiting heavy labor and night work for children are occasionally punished.

e. Acceptable Conditions of Work

A tripartite committee of representatives of government, labor and employers establishes a minimum wage. The basic workweek is 40 hours. Occupational safety and health regulations are in effect, and sanctions are occasionally applied to violators.

f. Rights in Sectors with U.S. Investment

U.S. investment in Ghana is dominated by an operation in the primary and fabricated metals sector. However, there is also significant U.S. investment in the petroleum, chemicals and related products, and wholesale trade sectors. U.S. firms in Ghana must comply with Ghanaian labor laws and no instances of noncompliance are known.

GHANA

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category		Amount
Petroleum		-25
Total Manufacturing		(D)
Food & Kindred Products	2	
Chemicals & Allied Products	5	
Metals, Primary & Fabricated	(D)	
Machinery, except Electrical	0	
Electric & Electronic Equipment	1	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		7
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, August 1991

KENYA

Key Economic Indicators

(Millions of U.S. Dollars Unless Otherwise Indicated)

	1989	1990	1991 1/
Income, Production and Employment			
GDP at 1982 prices	4,589	4,322	3,755
Real GDP Growth Rate (pct)	5.0	4.5	3.5
Real GDP: Agriculture	1,308	1,219	1,069
Manufacturing	601	571	498
Real Per Capita GDP (1982 prices)	169	153	148
Size of Labor Force (millions)	9.1	9.9	10.5
Unemployment Rate 2/	N/A	N/A	N/A
Money and Prices			
Money Supply (M1)	1,316	1,459	1,470
Commercial interest rate (max)(pct)	18.0	19.0	22.0
Savings Rate (minimum)(pct)	12.5	13.5	14.5
Investment Rate (percent)	N.A	N.A.	N.A.
Inflation Rate 3/	10.5	12.6	22.0
Wholesale Price Index	N.A	N.A	N.A.
Official Exchange Sh/USDOL	20.7	23.0	27.4
Balance of Payments and Trade (Million US$)			
Total Exports (FOB)	920	1,007	999
to U.S.	68	37	51
Imports (CIF)	2,180	2,318	2,175
from U.S.	133	99	128
Imports (FOB)	1,951	1,998	1,939
Trade Balance	-1,031	- 991	- 940
Net services and transfers	772	904	859
Net investment income	- 324	- 380	- 375
Current Account Balance	- 584	- 467	- 446
Net Capital Account	658	325	285
Of Which:			
Private Long-term	68	23	20
Govt. Long-term	538	154	135
Short-term	52	148	130
Overall Balance	78	- 147	- 161
Aid from U.S.	49	28	30
Other donor inflows	784	597	550
U.S. Direct Investment ($million)	285	285	290
Debt Service Ratio	30.6	30.8	28.0
Gold and Foreign Exchange:			
Reserve Level	235	164	150
Months of Imports	2.3	1.4	1.2

1/ Preliminary estimates obtained from Kenya's Ministry of Planning and Central Bank of Kenya.
2/ The Kenyan government does not publish unemployment figures but due to the large numbers of school leavers

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and graduates (over 500,000 in 1990) entering the labor market annually, unemployment and underemployment is estimated at over 25 percent.
3/ Consumer Price Index (base -- 1982)
N.A refers to "not available"

1. General Policy Framework

Twenty percent of Kenya's 585,466 square kilometers is arable. The bulk is either rangeland or semi-arid wasteland. Seventy-eight percent of Kenya's 24 million people live in rural areas. In 1990, the government revised the country's estimated 4.1 percent population growth to 3.4 percent. Nevertheless, population pressure remains a critical long term problem in the provision of adequate food supply, education, employment and health services.

Kenya's mixed economy has an active private sector and a large inefficient public sector. The government is a major provider of basic infrastructure and socio-economic services and is still deeply entrenched in agricultural marketing. The government has over 200 poorly managed and unprofitable state corporations in virtually all sectors of the economy. Its resources are thinly spread over enterprises of the economy where the private sector should be a key player. The public sector employs 50 percent of modern sector wage earners and accounts for 42 percent of total investment but contributes a declining 30 to 40 percent of Gross Domestic Product (GDP).

Agriculture, the engine of growth, accounts for 28 percent of GDP and provides income for over 75 percent of the population. Tourism, coffee and tea are significant foreign exchange earners, however, foreign assistance exceeds all as a source of foreign exchange. Foreign grants and loans finance up to 35 percent of total investment in the country.

Between 1986 and 1990, Kenya's economy achieved an average 5 percent GDP growth. Signs of strains in the economy began to show in 1989 and 1990 following a drop in earnings of coffee and horticulture and resurgence in petroleum prices. Growth in agricultural production declined even further to 3.4 percent in 1990 from an average of 4.0 percent in the period between 1985 and 1989. A worsening foreign exchange position and government budgetary spending may further reduce performance to less than 4 percent growth in 1991. Heightened donor concern over political, including human rights issues, and economic policy performance in Kenya combined with domestic economic constraints in donor countries, has substantially reduced donor resources vital for the functioning of the Kenyan economy from $950 million in 1989 to approximately $650 million in 1990. In 1991 donors pledged $1 billion. For 1992, donors at a recent World Bank Consultative Group Meeting declined to pledge new assistance until Kenya's performance improves. Donors will reconvene in May 1992. The foreign exchange crunch is being felt in delayed issuance of import licenses and repatriation of profits. This year the reserve level is so low that there is nothing left to draw upon to finance the deficit. This situation is likely to adversely affect Kenya's demand for U.S. and other foreign

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goods, as well as its ability to fully service its $5 billion in external debt.

Throughout the 1980's Kenya enacted reforms in line with World Bank (IBRD) and International Monetary Fund (IMF) structural adjustment programs. Reforms implemented in the last few years include widening the tax base, liberalizing imports, reducing the number of items in the price control list, reducing government participation in marketing and creating duty free facilities (bonded warehouses) for firms strictly producing for export. Nevertheless, many serious impediments to greater free market development exist. The government is still heavily involved in key sectors of the economy and many costly and inefficient parastatal organizations divert scarce budgetary resources from more productive use. Government expenditure remains high at about 40 percent of GDP in 1990. In 1991 the budget deficit is estimated at above 6 percent of GDP compared to the IMF/WB performance benchmark of 2.5 percent.

In 1986 the government embarked on budget rationalization measures. The fiscal policy components of this program includes making tax revenue more responsive to growth in GDP, and improving government project financing. From January 1990, the government widened the tax base by introducing a five percent tax on sales of selected agricultural produce, and replaced the sales tax with an 18 percent Value Added Tax.

Corporation tax rates declined to 37.5 percent and personal income tax rates for the highest income brackets fell to 45 percent in 1991.

Government revenue, although high at 23.5 percent of GDP, does not match government expenditure especially in education, health and defense. Government efforts to rationalize expenditure have largely been unsucessful due to expansion of public sector employment and slow implementation of cost sharing for some social services. Reduction in government spending has proven to be sensitive politically because of pressure to maintain "ethnic balance" in the public service, to maintain parastatal employment for political patronage and to increase benefits for the military and police force. The government's main fiscal instruments for financing the deficit are domestic borrowing, treasury bills and medium term bonds. These sources are limited by relatively underdeveloped financial and capital markets.

Relying on assistance from the IBRD and IMF, the government has taken positive steps to strengthen and rejuvenate the financial sector. In 1989, in an effort to avert a banking crisis, the government assumed control over nine Kenyan-owned financial institutions, merging them into one government run bank. In 1991, the government passed a new Banking Act which will give the Central Bank wider supervisory powers over all Kenyan financial institutions. In 1990, the government established a capital markets authority aimed at developing a wider and freer capital market that will generate long term funds required for investment.

The main policy instruments used to contain growth of money supply and domestic credit are minimum liquidity ratio, minimum cash and reserve ratios, interest rate regulations,

as fertilizer, cereals and sugar are regulated through government-owned marketing boards. Trade barriers on certain products such as computers are maintained by high import duties and value added taxes. Procurement decisions are sometimes dictated by donor tied aid or influenced by considerations such as corruption. Donor flows have, however, fallen from a high of nearly U.S.$1 billion in 1989 to about $550 million in 1990.

Throughout the 1980s the government worked closely with both the IMF and the World Bank. Kenya received a series of seven standby arrangements from the IMF in support of economic stabilization efforts and, at the same time, entered into five structural adjustment lending agreements with the Bank. These efforts have paid off as Kenya has avoided the sharp external and domestic disequilibria that have plagued many African countries. In 1987, Kenya embarked on a major stabilization and structural adjustment program supported by World Bank sectoral adjustment lending and cofinancing from other donors. As its part of the package, Kenya pledged to implement agricultural, industrial, financial, export development and parastatal structural reforms. In FY 1989/90 (July - June) and 1990/91, the government received SDR 181 million Enhanced Structural Adjustment Facility (ESAF) funds from the IMF. In 1989 and 1990, the government also received U.S. $372 million from IBRD as part of World Bank's structural adjustment and project lending. Kenya's performance in 1991 has, however, sharply declined. The Bank conducted an exhaustive review of Kenya's performance in key sectors in 1991 and found government performance highly inadequate. The government budget deficit has persistently risen and is now estimated at above 6 percent of GDP as compared to the IMF/IBRD performance benchmark of 2.5 percent. In late 1991, the World Bank reduced its lending to Kenya to "core program" and project lending only in sectors where appropriate reforms were underway, i.e., education and health, with no fast disbursing balance of payments lending because of the inappropriate macroeconomic environment. In December 1991, Kenya failed the midterm review of its third annual arrangement under ESAF and the disbursement of the final $45 million (estimated) has been delayed.

4. Debt Management Policies

Kenya's debt service ratio is about 28 percent of total export earnings. Export earnings depend largely on receipts from tourism, coffee and tea. The debt service burden, while onerous, is not yet completely out of control. The Kenya government guaranteed commercial borrowing by parastatals has been an issue with the International Monetary Fund (IMF). For 1991-1992 the IMF would like to see the ceilings lowered.

5. Significant Barriers to U.S. Exports

Trade barriers exist in the form of import licensing, duties and sales taxes. Due to limited foreign exchange availability, the Kenyan licensing system classifies import items into three broad categories. The first category comprises high priority capital goods, raw materials and

intermediate inputs which can be identified easily. In principle, license requests for category 1 goods are approved automatically and demand is controlled by tariff rates. The second category contains goods subject to special import authorization such as fertilizers, cattle, live poultry, live fish, powdered milk, cheese, wheat, rice, maize, cereal flours, nuts, refined sugar, spices, petroleum products, selected motor vehicles and tractors. These are subject to special authorization of a designated government agency. The third category has three schedules A, B and C. Schedule A lists technical items of unique high priority such as engineering components, spare parts, precision instruments, chemicals, and special plastic, glass and metal products. Approval is usually delayed because the items are handled on a case by case basis. Schedule B lists semi-essential goods, mainly consumer goods. Licensing depends on the foreign exchange reserve position. Schedule C lists lower priority items which the government considers undesirable. Approval for such items is normally difficult to obtain. Importation of used clothing intended for sale is banned.

The Government maintains lower duties and sales taxes for selected items which it considers important in priority sectors. Such items include palm oil and tallow; bicycles; steel billets; wire rods; graphite lead; windmills; power transformers; cables; and active ingredients used for the preparation of drugs including veterinary drugs, fungicides and pesticides. But items such as computers and other electronic equipment have very high duty and sales tax.

There are barriers to trade in services in audio and visual works, construction, engineering, architecture, insurance, leasing, shipping and foreign travel. Audio and visual works are licensed, censored, and sold by the government company, Kenya Film Corporation. Foreign companies offering services in construction, engineering and architecture often face discrimination in bidding for public projects. Local firms get 10 percent preference on quotations for tenders, and small projects are reserved for local companies. Kenyan buyers of foreign goods are forbidden from insuring imports abroad. Kenyan exchange control laws represent major impediments to international leasing. Import licensing restrictions make it difficult to import equipment for leasing if the equipment is available locally. There are strict restrictions in foreign exchange approval for travel outside Kenya. Kenya's draft shipping law has been the subject of official protests by the United States and the European Community for discrimination against foreign shipping.

Most commodities imported into Kenya are subject to preshipment inspection for quality and quantity as well as for price comparison. All foreign exporters have to obtain "Clean Report of Findings" from a government appointed inspection firm which has offices in major trading points such as New York, Baltimore, Chicago, New Orleans and Houston. Importation of animals, plants, and seeds is subject to quarantine regulations. Importation is allowed only at designated ports of entry. Special labelling is required for condensed milk, paints, varnishes, vegetable and butter ghee. In addition, imports of prepacked paints and allied products must be sold by metric weight or metric fluid measure.

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The importance of governmental action in the import sector has increased. Government procurement for ordinary supplies as well as materials and equipment for public development programs is a significant factor in Kenya's total trade. Government action is also evident in programs designed to ensure citizen control of local commerce. Because Kenya is an ex-British Colony, U.K. firms dominate in the procurement of government imports. Many government imports are purchased through Crown Agents, a British quasi-governmental organization. Sales of major government import requirements are frequently tied to source country provision of official development finance. Most Kenyan government departments obtain goods and services locally through a central tender board.

Under the Foreign Investment Protection Act (FIPA), preference for investment is given to investors whose firms are expected to earn or save foreign exchange, increase the country's technical knowledge, increase employment in the country, utilize local resources, and are not based in Nairobi or Mombasa. Foreign investors are required to sign an agreement with the government of Kenya stating training arrangements for phasing out expatriates. Expatriate work permits are increasingly difficult to renew or acquire. Government approval for ventures in agriculture, distributive trade, and small scale enterprises has become more difficult to obtain as the government seeks to indigenize these sectors. Utilities are not open to foreign investment.

In early 1989, the government enacted antitrust legislation entitled "The Monopolies, Prices and Trade Restriction Practices Act." The Act created a legal framework for dealing with restrictive and predatory practices that prevent the establishment of competitive markets; reducing concentration of economic power; and controlling monopolies, mergers, and takeovers of enterprises. The Act repealed the existing Price Control Act and incorporated some of its provisions in new, cost-geared price legislation.

Foreign investors have limited access to domestic credit markets and are encouraged to seek credit from outside sources. All foreign firms are permitted to borrow locally up to the amounts required to pay customs duty on imported capital equipment. Foreign investors are also permitted limited credit from local financial institutions based on their amount of equity capital.

The Government allows a limited number of bonded warehouses for investors producing for export. Such investors may import inputs duty free and make local purchases free of sales tax. The manufacturing under bond scheme, which was started in 1988, has 10 operational firms out of 41 firms which have received licenses. Some firms have shied away from the scheme because of lengthy and costly bureaucratic processes in import procurement. A one year old private sector export processing zone in Nairobi remains unattractive owing to inadequate government incentives. The Government is also making arrangements for establishment of export processing zones in Nairobi and Mombasa.

Price controls and restrictions in distributive trade are

key disincentives to foreign investment in Kenya. In the last two years, the Government has reduced the number of items under price control and streamlined the system by which it reviews applications for price increases for those items still on the list. In addition, the government has promised to further liberalize price legislation.

In June 1989 and 1990, the government reduced corporate taxes to 42.5 percent. Withholding tax ranging from 12.5 percent to 30 percent is imposed on payments such as royalties, interest, dividends, and management fees. Kenya's tax treaties normally follow the Organization for Economic Cooperation and Development model for the prevention of double taxation of income. There is no tax treaty with the United States.

The government does not have any significant investment performance requirements. Recent policy statements, however, indicate that the government may soon institute export performance requirements. Investors who are potential or successful exporters may obtain special concessions over and above the generally available incentives.

Under FIPA, foreign investors are permitted to repatriate dividends, interest on loan capital, and the value of their original equity investment plus any reinvested profits. Due to the current foreign exchange crisis, delays of up to two years have been experienced in dividend remittances. Permission is not normally given for immediate repatriation of capital gains, which must be placed in blocked accounts or invested in government securities at below market rates for five years before they can be repatriated. Loan capital, which can be denominated in local currency or in the currency in which it was brought in, is repatriable. It has become increasingly difficult to obtain exchange control approval for registering royalty, technology, and management agreements.

6. Export Subsidies Policies

The government of Kenya operates an export compensation scheme for locally manufactured products with less than 70 percent import content. Investors receive 20 percent compensation above their export earnings after earnings have been received. Petroleum products, chemicals, electric power and certain agricultural products are ineligible. For most products, eligibility is not automatic. Exporters have to seek approval from the Ministry of Commerce. The Government has stated that it will establish a green channel to simplify and speed up current lengthy procedures for import licensing and foreign exchange allocation.

The government grants a one time 50 percent investment allowance tax deduction from the cost of industrial buildings, fixed plant, and machinery for investments outside Nairobi and Mombasa, and 10 percent for those within these towns. This has an overall effect of reducing income taxes in the startup phase of a project.

Exporters to the regional market covering 18 countries which are members of the Preferential Trade Area (PTA) Treaty

receive advantages. Restrictive Rules of Origin which did not allow foreign firms to participate in the PTA market have been suspended until 1992. (Under the suspended rules, goods produced by firms with more than 51 percent local ownership received 100 percent duty free treatment, while those from firms with between 41 percent and 50 percent got 60 percent preferential treatment. Exports from firms with between 30 and 40 percent local ownership received 30 percent preferential treatment.) Kenya is a signatory of major international trade agreements such as the United Nations Conference on Trade and Development, the General Agreement on Tariffs and Trade and the Lome Convention.

7. Protection of U.S. Intellectual Property

Kenya is party to several international agreements on intellectual property, including the Paris Convention for the Protection of Industrial Property, the Universal Copyright Convention, and the Brussels Satellite Convention. U.S. businesspersons are entitled to the benefits of these conventions, such as national treatment and "priority right" recognition for their patent and trademark filing dates. In spite of these agreements, pirated books, records, videos, and to a limited extent, computer software, find their way into Kenyan markets. Government inspection and existing laws are inadequate.

8. Worker Rights

a. The Right of Association

All Kenyan workers, save for central government civil servants, are free to join unions of their own choosing. There are at least 33 unions in Kenya representing approximately 350,000 to 385,000 workers (i.e. 3 percent of the country's total work force and between 20 and 25 percent of the 1.4 million people now estimated to have worked in 1990 in the modern wage sector). Except for the 150,000 to 165,000 member Kenya National Union of Teachers and four other smaller unions, all unions are affiliated with the Central Organization of Trade Unions (COTU). In recent years COTU has been firmly allied with President Moi and the KANU party. Workers, except for police, military, prison guards and members of the National Youth Service, can strike only if they submit a written report to the Minister of Labor who can forestall the strike by referring the case to mediation, arbitration or fact finding. Strikes by civil servants can also be preempted by Labor Ministry action.

b. The Right to Organize and Bargain Collectively

Kenyan labor laws give workers the right to engage in legitimate trade union organizational activities. Wages and conditions of employment are established in the context of negotiations between unions and management. The Government of Kenya, however, has promulgated wage policy guidelines limiting wage increases to 75 percent of the annual rate of inflation. The Trade Disputes Act makes it illegal for employers to intimidate workers. The government has yet to

decide whether labor laws will apply in the nascent EPZs.

c. Prohibition of Forced or Compulsory labor

The Kenyan Constitution proscribes slavery, servitude and forced labor. Under the Chiefs' Authority Act, however local authorities can require individuals to perform community services in the event of an emergency. There have been no reported instances of this practice in recent years.

d. Minimum Age for Employment of Children

The Employment Act of 1976 proscribes the employment in any industrial undertaking of children under the age of 16. This enactment applies neither to the agricultural sector, where the overwhelming majority of the labor force is employed, nor to children serving as apprentices under the terms of the Industrial Training Act. Given the high levels of adult unemployment and underemployment, the employment of children in the formal wage sector in violation of the employment act is not a frequent occurrence.

e. Acceptable Conditions of Work

The legal minimum wage for workers in the wage sector varies by location, age and skills. On May 10, 1991, the minimum wage was raised an average of 16 percent. Legislation limits the normal workweek for nonagricultural employees to 52 hours, although nighttime employees may be employed for up to 60 hours. The Factories Act of 1951 sets forth detailed health and safety standards; the Act was amended in 1990 to encompass the agriculture, service and government sectors. Health and safety inspectors attached to the Ministry of Labor's Directorate of Occupational Health and Safety Services are authorized to inspect factories and work sites if they have reason to believe that a violation of the Act has occurred, or upon receipt of a complaint from a worker. Recent amendments to the Factories Act provide Directorate inspectors with the authority to issue notices enjoining practices or activities involving a risk of serious personal injury.

f. Rights in Sectors with U.S. Investment

Workers' rights in sectors with U.S. investment do not differ from other sectors of the economy.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category	Amount	
Petroleum		101
Total Manufacturing		-2
Food & Kindred Products)	9	
Chemicals & Allied Products	-5	
Metals, Primary & Fabricated	(*)	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	(D)	
Other Manufacturing	(D)	
Wholesale Trade		-4
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		95

(D)-Suppressed to avoid disclosing data of individual companies

(*)-Under $500,000

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, August 1991

NIGERIA

Key Economic Indicators

(In Naira (N) or U.S. Dollars as Indicated)

	1989	1990 (prel)	1991 (proj)
Income, Production, and Employment			
GDP (current prices) (N bn)	234.7	285.0	355.0
Real GDP growth rate (pct)	6.3	5.1	4.0
GDP composition (pct) 1/			
Agriculture	41.3	40.8	41.0
Manufacturing	8.4	8.5	8.3
Construction	2.0	2.0	2.2
Services	32.4	32.0	32.0
Petroleum and mining	12.9	13.8	14.0
Other	3.0	2.9	2.5
GDP per capita ($)	270	300	300
Labor force (millions)	39	40	41
Unemployment Rate (pct) 2/	4.0	3.2	N/A
Money and Prices			
Money supply (M1) (N bn)	25.7	37.2	49.0
Bank lending rate (pct)	21.6	26.7	21.0
Gross domestic savings (pct of GDP)	23.4	29.6	21.0
Gross national savings (pct of GDP)	14.6	21.2	13.6
Gross domestic investment (pct of GDP)	13.9	14.6	16.0
Consumer prices (pct chng)	50.5	7.5	15.0
Average Exchange Rate (Naira/$):			
Official	7.4	8.0	9.8
Parallel	10.5	9.6	13.5
Balance of Payments and Trade ($ millions unless otherwise indicated)			
Total Exports FOB	9,814	13,827	9,750
Total Exports to the U.S.	5,267	5,977	5,300
Total Imports CIF	5,612	6,918	6,800
Total Imports from the U.S.	492	551	640
U.S. Share (pct of total):			
Nigerian Exports	54	43	54
Nigerian Imports	9	8	9
Aid from U.S.	48	12	11
Trade Balance	4,202	6,909	2,950
Current Account Balance	158	1,489	-1,490
Foreign Debt (year end)	31,164	33,958	35,000
Debt Service Ratio (pct) 3/	25	36	26
Foreign Exchange Reserves	1,765	3,863	2,750

1/ Sectoral composition at 1984 factor costs
2/ Registered unemployed only
3/ Actual debt service paid
Sources: Central Bank of Nigeria, IMF, IBRD, U.S. Department of Commerce, and U.S. Embassy estimates.

NIGERIA

1. General Policy Framework

Nigeria is blessed with considerable human and material resources. Its active, enterprising population, estimated at 110-120 million, is the largest in Africa. Yet Nigeria is also one of the poorer countries in the world, with a per capita income of only about $300. Nigeria's agricultural sector, which accounts for about 40 percent of GDP and employs about two-thirds of the labor force, is dominated by small-scale subsistence farming. Other important sectors of the economy are services, manufacturing, and government. The crucial petroleum sector provides Nigeria with about 90 percent of its foreign exchange earnings and over 80 percent of its budgetary revenue. While there is little direct spillover from the oil sector to the rest of the economy, its financial importance makes it a crucial determinant of the country's economic health.

Despite Nigeria's economic potential, its growth and development have been slowed by the misguided economic policy environment that prevailed through much of its history. The two oil shocks of the 1970s provided Nigeria with a sudden and unexpected influx of resources, as crude oil exports rose from less than $1 billion in 1970 to over the value of $25 billion in 1980, or the equivalent of some $40 billion in 1990 dollars. These resources were seriously mismanaged, however, leaving the economy vulnerable to the downturn in the world oil market that followed. Falling oil prices and Nigerian production caused a dramatic decline in Nigeria's oil exports, which hit a low of only $6 billion in 1986. Reduced exports led to large current account deficits, and by 1986, Nigeria's external debt had soared to $26 billion, or 104 percent of GDP.

Nigeria's initial response to its reduced income was to impose budgetary austerity and import restraints, but without any attempt to correct the economy's distortions. In July 1986, however, the government of President Ibrahim Babangida, who had come to power in an August 1985 coup, launched its Structural Adjustment Program (SAP), a more thoroughgoing attempt to revitalize the economy by reducing the role of the state and increasing reliance on market forces. Among the most ambitious of such programs in Africa, SAP featured a large devaluation to encourage domestic production and to reduce reliance on imports. Since 1985, the naira has been devalued by about 85 percent in real effective terms. Other notable measures taken under SAP have been the abolition of import licenses, commodity boards, and most price controls; a more open system of access to foreign exchange; privatization of many public enterprises; deregulation of the financial system; and liberalized policies on foreign investment.

Initially, SAP was accompanied by a conventional macroeconomic stabilization program, but fiscal policy over the five years of SAP has been uneven, with major relaxations of fiscal discipline occurring in 1988 and from late 1990 onward. Most fiscal revenue, consisting mainly of royalties and taxes from crude oil sales, but also including corporate income taxes and customs receipts, is collected centrally and then divided among the federal, state, and local governments on a 50/30/15 percent basis. (The remaining five percent is paid to a variety of special funds.)

NIGERIA

The government's fiscal policy for the year is set out by the President in his annual budget speech, traditionally delivered on January 1 of each year. The budget speech is also the occasion at which major economic policy initiatives are announced, including trade policies. In recent years, budget deficits at the federal level have largely been financed by borrowing from the Central Bank of Nigeria (CBN), which held about 67 percent of the government's domestic debt at the end of 1990. Other financing sources include the domestic banking sector, domestic nonbank investors, foreign export credit agencies, and multilateral development banks.

Monetary policy in Nigeria is the responsibility of the CBN. A decree issued in mid-1991 removed the CBN from the jurisdiction of the Minister of Finance. The Bank now reports directly to the President, who has final authority over monetary policy and who may issue binding directives to the Bank on such matters. Monetary policy is strongly influenced by fiscal policy, since the CBN must accommodate the government's financing needs.

In 1990 and 1991, the CBN began using "stabilization securities" in an attempt to mop up excess liquidity caused by monetization of the government's fiscal deficits. Stabilization securities are non-negotiable CBN liabilities issued involuntarily to banks thought to be overly liquid; portions of such banks' working balances with the CBN are debited and replaced by these illiquid assets for periods of one to three months. Large issuances of stabilization securities have periodically tightened conditions in the money market; the resulting scramble for funds among banks has driven up interest rates and temporarily firmed the free-market value of the naira, but at the cost of crowding non-government borrowers out of the credit markets.

The CBN also influences monetary conditions in Nigeria by means of the quantitative credit ceilings applied to each bank. Each year, the CBN's monetary and credit policy guidelines set out the allowable percentage increase in banks' total credit, which limits the scope for competition among banks for deposits and loans. Sectoral credit requirements also stipulate that fifty percent of banks' loans and advances go to the "priority sectors" of agriculture and manufacturing. The President in his 1992 budget message, has pledged to eliminate its quantitative credit ceilings and move to a system of indirect monetary control based on open market operations. Implementation of this major reform of Nigeria's system of monetary control is expected sometime in 1992.

Interest rates in Nigeria were deregulated in 1987. However, the stubbornly high real interest rates that prevailed throughout 1990, when lending rates remained at 25 to 30 percent, although inflation declined to single digit levels, led the CBN to impose a cap of 21 percent on banks' lending rates in January 1991. Banks were also limited to a maximum four percentage point spread between their average deposit and lending rates. This reimposition of interest rate controls has been described by top CBN officials as a temporary departure from their policy of financial deregulation, to be removed as soon as conditions permit.

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2. Exchange Rate Policies

Nigeria's official exchange rate is determined at the Foreign Exchange Market (FEM) administered by the CBN. Only licensed banks may participate in the FEM; approximately $3 billion was sold through this mechanism in 1991. The official exchange rate reflects both market demand and administrative guidance; concern over the pace of devaluation has led the authorities to intervene in the market through moral suasion and limits on each bank's allowable purchases to slow or reverse the naira's fall. Accordingly, there has typically been a gap between the official exchange rate and the parallel market rate, a spread that averaged 28 percent in the first six months of 1991.

In 1989, Nigeria sought to bring the parallel market under administrative control by instituting a system of bureaux de change, which are licensed to deal in foreign currency notes and travellers' checks at a market-determined rate. Over 100 such bureaux had been licensed by June 1991, but the unlicensed or black market persists. Foreign investors may also purchase naira using Nigerian debt instruments obtained on the secondary market through the CBN's debt conversion program. This program provides investors with as much as a 50 percent premium over the official exchange rate; special restrictions apply to dividend remittances and capital repatriation, however. Even for normal remittances lengthy administrative delays are common.

Nigeria maintains a comprehensive system of exchange controls; individual transactions must receive the approval of the Ministry of Finance before external remittance is allowed. Nigerian residents are authorized to maintain foreign currency domicillary accounts with banks in Nigeria; the disposition of such funds is subject to less scrutiny than is the case with foreign exchange purchased from the CBN.

3. Structural Policies

Nigeria's adjustment program has meant a reduced role for the state in economic decision-making. Nonetheless, as restated in the December 1989 "Industrial Policy of Nigeria," the government retains a system of tax 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, that is, 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.

Nigeria has set itself the goal of increasing its proven oil reserves from 16 to 20 billion barrels and its maximum oil production capacity from 1.9 to 2.5 million barrels per day. To encourage increased exploration, the government revised its agreements in mid-1991 with the foreign oil companies that operate in partnership with the Nigerian National Petroleum

Corporation (NNPC). The new agreements widen the companies' profit margins and provide new incentives for additions to reserves. Since U.S.-based companies are strongly represented in all aspects of Nigeria's oil sector, the increased pace of exploration resulting from the revised tax regime is likely to result in increased sales of petroleum-related goods and services from the United States.

4. Debt Management Policies

Nigeria is one of the developing nations whose development has received extensive international attention in recent years. Its gross external debt of $34 billion at the end of 1990 amounted to 107 percent of GDP, while actual debt service paid in 1990 was 36 percent of Nigeria's exports of goods and services. About 52 percent of the debt ($17.1 billion) is owed to the creditor governments of the Paris Club. Another $5.8 billion is owed to the commercial banks, while $4.6 billion in promissory notes issued to refinance uninsured trade credits from the early 1980s remain outstanding.

Since 1986, Nigeria has had three stand-by arrangements with the International Monetary Fund (IMF), the most recent of which was approved in January 1991. In 1986 and 1988, the World Bank also supported Nigeria's reform program with two $500 million quick-disbursing adjustment loans. Nigeria rescheduled its bilateral official debt at the Paris Club in October 1986, March 1989, and January 1991. Two reschedulings with the London Club of commercial banks have been concluded; a third, a debt and debt-service reduction deal in the framework of the Brady Plan, was due to be concluded January 20, 1992. Despite the debt relief secured thus far, Nigeria's external debt service requirements remain heavy and are likely to limit its ability to purchase goods and services from abroad for the immediate future.

5. Significant Barriers to U.S. Exports

Nigeria abolished all import licensing requirements and cut its list of banned imports from 74 to 17 categories in 1986. Today the importation of 27 different items is banned, principally agricultural items and textiles. These across-the-board bans were initially implemented to restore Nigeria's agricultural sector and to conserve foreign exchange. Although the bans have been compromised by widespread smuggling, U.S. exporters have lost an important market for wheat, rice, and corn. The wheat import ban alone eliminated the largest single U.S. market in Nigeria, worth $226 million in 1985. The reduced availability of grains has raised prices for both banned commodities and locally produced substitutes. The higher prices have helped to expand local production, but other factors, such as weather, disease, lack of credit, poor distribution of such inputs as fertilizer, fungicides, and pesticides, and marketing constraints, continue to hold back Nigerian agriculture. The import bans have also adversely affected various agro-allied industries, as well as contributing to instability in food supplies and prices.

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Nigeria's textile industry has grown in recent years, stimulated by Nigeria's competitive exchange rate and the ban on imports. Nigerian exports of cotton print cloth to the United States increased by 93 percent from 1988 to 1989, as Nigeria became the ninth largest supplier to the U.S. market, triggering the application of Section 204 of the U.S. Agriculture Act of 1956. As a result, a ceiling instituting managed growth of Nigerian textile exports to the United States was agreed to by both governments in February 1991.

In some cases, Nigeria is using tariffs as a substitute for administrative controls on imports. For example, the 200 percent duty on legally imported cigarettes, which replaced a ban on cigarette imports in January 1990, amounts to a virtual ban. The total amount of U.S. cigarette and tobacco exports lost is estimated at over $50 million annually.

The Standards Organization of Nigeria (SON), created in 1971, has enacted standards for a wide variety of products, but enforcement of these standards is virtually non-existent. The SON focuses on consumer education.

In December 1989 the government liberalized the Nigerian Enterprises Promotion Decree to allow 100 percent foreign equity ownership of Nigerian businesses in certain cases. The rule applies to new investments only and is not retroactive. The government also allowed foreign firms to invest in the 40 lines of business normally reserved for 100 percent Nigerian ownership if they invest a minimum of N20 million (about $2 million at the current official exchange rate). Reserved sectors include: advertising and public relations, commercial transportation, travel services, and most of the wholesale and retail trade. Banking, insurance, petroleum prospecting, and mining continue to require 60 percent Nigerian ownership. Despite the existence of incentive programs, Nigeria is not considered to impose performance requirements.

An expatriate quota system is place, and government approval is required for residency permits for expatriates occupying positions in local companies. The number of expatriate positions approved is dependent on the level of capital investment, with additional expatriate positions considered on a case by case basis. In the past, this system has caused relatively few problems for U.S. firms.

Nigeria requires that an international inspection service certify price, quantity, and quality before shipment for all private sector imports. The United States has objected to this requirement, citing its lack of transparency, interference with the free flow of international trade, additional costs to importers and exporters, and violation of the confidential rights of the exporter. Until April 1991 only shipments valued at $5,000 or more were subject to this requirement. As of April 1, 1991, all containerized shipments irrespective of value and all goods exported to Nigeria with a CIF value greater than $1,000 are subject to preshipment inspection. Nigeria's government is attempting to stop the practice of under-invoicing to circumvent the preshipment inspection requirement.

Nigeria generally uses an open tender system for awarding

government contacts, and foreign companies incorporated in Nigeria receive national treatment. Approximately five percent of all government procurement contracts are awarded to U.S. companies, due to the absence of U.S. business representatives in Nigeria, ethical concerns, and a general lack of familiarity with business practices in Africa. Nigeria is not a signatory to the General Agreement on Trade and Tariffs Government Procurement Code.

The Nigerian government imposed import restrictions which apply to aircraft and ocean going vessels, the third and fourth largest U.S. exports to Nigeria respectively, in January 1991. In an effort to check acquisition abuse, guidelines mandate that all imported aircraft and ocean going vessels shall be inspected by a government authorized inspection agent. In addition, performance bonds and offshore guarantees must be arranged before either down payment or subsequent installment payments are authorized by the Ministry of Finance.

Nigeria's maritime policy implements provisions of the United Nations Conference on Trade and Development (UNCTAD) Code of Conduct for Liner Conferences, most notably the allocation of incoming and outgoing cargo among shipping lines. Following the UNCTAD Code, 40 percent of all cargo is allocated to Nigerian lines, while 40 percent is allocated to lines of the countries of origin and destination of Nigeria's trade. The remaining 20 percent is distributed among "crosstraders" which may be flagged under any nationality. The breakdown stipulated in the UNCTAD Code is honored only in principle, however; Nigeria's merchant fleet is not yet capable of carrying 40 percent of its imports and exports.

6. Export Subsidies Policies

A series of measures and government programs are designed to encourage non-oil exports under the auspices of the Nigerian Export Promotion Council. Non-oil exporters may now retain 100 percent of their foreign exchange earnings in domiliciary accounts. Other measures include a reduction in the number of banned exports and more lenient export licensing requirements. Government programs include a duty drawback program and a revolving N500 million refinancing and discounting facility. To date, these programs have been largely ineffectual due to cumbersome requirements and the length of time required to receive refunds.

Nigeria also plans to introduce a manufacturing in-bond program this year. This program permits the duty free importation of raw materials, regardless of whether their importation is prohibited or not, to produce goods for export, contingent on the issuance of a bank guaranteed bond ensuring that all products manufactured will be exported. The performance bond will be discharged upon evidence of exportation and repatriation of foreign exchange.

7. Protection of U.S. Intellectual Property

Nigeria, as a signatory to the Universal Copyright

Convention (UCC), provides national treatment for the holders of copyrights of all other signatories of the UCC. The Nigerian government is also in the process of reviewing adhesion to the Berne Convention. 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.

The Copyright Decree of 1988 provides an improved copyright regime, based on the World Intellectual Property Organization (WIPO) and U.S. copyright law. Criminal offenses under the law include counterfeiting, exporting, importing, reproducing, exhibiting, performing, or selling any work without the permission of the copyright owner. Progress enforcing the 1988 law has been slow, in large part because of the government's decision to inform the public about the provisions of the law before actively enforcing it. The expense and length of time necessary to pursue a copyright infringement case to its conclusion are detriments to the prosecution of such cases. The government is considering amendments to the law to make its enforcement more effective.

The Patents and Design Decree of 1970 governs the registration of patents. Once conferred, a patent gives the patentee the exclusive right to make, import, sell, or use the products or apply the process. The Trade Marks Act of 1965 governs the registration of trademarks. Once conferred, a trademark gives its holder the exclusive right to use the registered mark for a particular good or class of goods approved the trademark registrar. Few companies have bothered to secure trademark or patent protection because it is generally considered to be ineffective. The government has begun the lengthy process of drafting new legislation covering both trademarks and patents.

Losses from ineffective intellectual property rights protection are substantial, although their magnitude is difficult to estimate. It has been estimated that 80 percent of the sound recordings sold in Nigeria are pirated copies, and the entire video industry is based on the sale of pirated tapes. Satellite signal piracy is common, but any infringement of other new technologies is infrequent in Nigeria, as most computer and computer-related technologies are not yet widespread. The International Intellectual Property Alliance estimated that U.S. companies lost $39 million in 1988 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 of government services designated essential by the Federal government, may join trade unions. Employers are obliged by law to recognize trade unions and must pay or deduct a dues checkoff for employees who are members of a registered trade union. While the trade union movement has had, within limits, considerable latitude for action, it is subject to government oversight, particularly during the past

three years. The right to strike is recognized by law, except in the case of essential services as defined by the government. During the past year, strikes were relatively few and of short duration and focused primarily on pay and benefits.

b. The Right to Organize and Bargain Collectively

The labor laws of Nigeria permit both the right to organize and the right to bargain collectively between management and trade unions. Collective bargaining is in fact, common in many sectors of the economy. Nigerian 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 antiunion discrimination. The Government, however, retains broad authority over labor matters, and unions frequently take their demands directly to the Government, rather than to the employers. In January 1991 the Government abolished the uniform wage structure for all government entities, allowing workers to negotiate their own levels of wages, benefits, and conditions of employment.

c. Prohibition of Forced or Compulsory Labor

Nigeria's 1989 Constitution prohibits forced or compulsory labor, and this prohibition is generally observed.

d. Minimum Age of 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 Labor Decree does allow the apprenticeship of youths aged 13 to 15, but only under specific conditions. Activities of apprentices over 15 years of age are not specifically regulated by the government. These laws are enforced only sporadically, particularly in rural areas where most Nigerians live.

e. Acceptable Conditions of Work

Nigeria's 1974 Labor Decree also established a 40-hour workweek, prescribed 2 to 4 weeks of annual leave, and set a minimum wage for commerce and industry. In January 1991 the government announced a 50 percent increase in the minimum wage but labor leaders were not satisfied with the new figure, believing that it did not represent much of an increase since it also included many allowances previously given, or permitted a reduction in the benefits of some workers. Labor also complained that government and private employers were slow to enact the new wage scale and there were numerous local strikes and work stoppages in protest. The 1974 Decree contains general health and safety provisions, including compensation for injured workers and dependent benefits for workers killed in industrial accidents. The Government's ineffectiveness in enforcing these laws is regularly criticized by labor unions.

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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 Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category	Amount	
Petroleum		163
Total Manufacturing		67
Food & Kindred Products	(D)	
Chemicals & Allied Products	47	
Metals, Primary & Fabricated	-4	
Machinery, except Electrical	0	
Electric & Electronic Equipment	(D)	
Transportation Equipment	0	
Other Manufacturing	6	
Wholesale Trade		(D)
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business August 1991, Vol. 71, No. 8, Table 11.3

SOUTH AFRICA

Key Economic Indicators

(Billions of Rand Except Where Noted)

	1989	1990	1991 (est)
Income, Production, and Employment			
Real GDP (1985 prices)	121.1	119.9	119.3
Real GDP growth rate (pct)	2.1	-0.9	-0.5
Real GDP by sector (1985 prices)			
Agriculture	8.2	7.4	N/A
Mining	15.5	15.2	N/A
Manufacturing	28.3	27.6	N/A
Electricity	5.6	5.7	N/A
Construction	4.0	4.0	N/A
Wholesale retail trade	13.8	13.9	N/A
Transport/communication	10.7	10.7	N/A
Finance/business services	17.4	17.5	N/A
Community services	2.1	2.1	N/A
Population (est. millions)	37.1	38.0	38.9
GDP per capita (1) (est., 1985 Rand)	3,264	3,155	3,066
Labor force (millions) (1)	10.9	11.1	11.5
Unemployment rate (pct)(1)	35.0	37.0	40.0
Money and Prices			
Money supply (M1)	45.8	53.0	N/A
Prime overdraft rate (pct at year-end)	21.0	21.0	20.0
Gross savings/GDP (pct)	22.5	21.5	19.5
Gross domestic fixed investment/GDP (pct)	19.7	19.6	19.0
Consumer price index (year-end pct change)	14.7	14.4	15.0
Producer price index (year-end pct change)	15.2	12.0	11.5
Exchange rate (USD/rand, year average)	.38	.39	.35
Balance of Payments and Trade			
Total exports FOB (US$ bil)	22.2	23.4	N/A
Total exports to U.S. (US$ bil)	1.5	1.7	1.9
Total imports FOB (US$ bil)	N/A	17.0	N/A
Total imports from U.S.(US$ bil)	1.7	1.7	2.0
Aid from U.S. (fiscal yr)	32.5	32.0	50.0
Aid from other countries	N/A	N/A	N/A
External public debt	7.9	6.8	N/A
Annual public debt service paid	N/A	N/A	N/A
Gold and forex reserves (gross)	6.9	7.3	N/A
Balance of payments (curr acct)	3.1	5.8	5.0

1/ Statistics depending on population data are often unreliable; official black population and unemployment rates are likely understated. While the Central Statistical Services no longer attempts to quantify black unemployment, most economists believe the rate is in excess of 40 percent. Unemployment among other racial groups is lower.

SOUTH AFRICA

1. General Policy Framework

South Africa is a middle-income developing country with a modern industrial sector, well developed infrastructure, and abundant natural resources. Economists agree that the South African economy has the potential to grow at an annual rate in excess of five percent; yet economic growth over the past decade averaged less than one percent in real terms; no new net jobs were created in the manufacturing, mining, and agricultural sectors; and per capita incomes declined sharply. Real growth in 1990 failed to meet even this low standard of performance, with real GDP declining by almost one percent. The economy will continue to decline in 1991, as the nation battles to emerge from its longest recession in over forty years.

Besides being affected by the present worldwide recession, the South African economy's poor performance can be explained by several structural factors. Apartheid policies have led to inefficient use of human resources, underinvestment in human capital, labor rigidities, and large budgetary outlays for duplicative layers of government and facilities. Inflation has persisted at double-digit levels each year since the early 1970's. Labor productivity has been low and declining, and has been outstripped by high average wage increases. The government has intervened extensively in the economy to protect inefficient industries, provide employment to its constituents, and combat foreign economic sanctions. Foreign and domestic investment has been limited by political uncertainty, continuing violence, labor unrest, and the concern over the role of the private sector in a post-apartheid South Africa. Many sectors of the economy are dominated by a few large firms with pre-emptive market strength.

The South African Government has taken steps to address some of these structural problems. The U.S. Government has consistently opposed apartheid but is encouraged by current multiparty negotiations on a new democratic constitution. While there is a long way to go in eliminating the effects of apartheid and meeting the aspirations of the black community, progress has been made in reducing the economic distortions caused by racial policies. Legal restrictions which prevented black South Africans from owning businesses, obtaining skilled jobs, or living in major urban centers have been lifted. Black trade unions have been recognized. Spending on black socio-economic development, including education and health care, has increased in recent years, although it still remains greatly below spending on white services. Much remains to be done, and the effects of past policies, particularly the legacy of the "bantu" education system, will be felt for many years.

Over the last decade, quantitative credit controls and administrative control of deposit and lending rates largely disappeared. The South African Reserve Bank now operates similarly to western central banks. It influences interest rates and controls liquidity through its rates on funds provided to private sector banks, and to a much smaller degree through the placement of government paper. The Reserve Bank has had some success in meeting its M3 growth target for FY 91,

of between 8 and 12 percent. In the past three years, restrictive monetary policy, primarily the maintenance of a relatively high central bank lending rate, has sought to curb domestic spending on imports and to reduce inflation. Although M3 growth and producer prices have shown some downward movement, consumer prices have remained in the 15 percent range.

Traditionally, South Africa has adopted conservative fiscal policy. In the late 1980's, however, revenues lagged behind spending, leaving large deficits to be financed through borrowing, putting pressure on private capital markets. The government of President de Klerk adopted more restrictive fiscal policies, although the 1991/92 budget, which anticipated roughly a three percent deficit, may again be in trouble as spending in the first half of the fiscal year rapidly outpaced revenues. Pressure is also growing to use fiscal policy to address socioeconomic development requirements in education, health care and housing for the majority of South Africans.

The South African Government owns substantial portions of the energy sector, transportation, armaments, electric power, communications, aluminum, and chemicals. In early 1988, then State President P.W. Botha announced a program of widespread privatization of public enterprises to reduce the size of the public sector. The privatization of ISCOR, the state steel corporation, in November 1989 was a major step in that direction. The move toward privatization has attracted much political opposition, however, and further privatization has been put on hold until arrangements for a non-racial majority government are agreed to.

2. Exchange Rate Policies

Faced with large scale capital outflows in 1985, the Reserve Bank reimposed comprehensive capital controls, including a dual exchange rate previously abolished in 1983. The Bank maintains one exchange rate (the financial rand) for foreign investment inflows and outflows, and another exchange rate (the commercial rand) for all other transactions. This effectively cushions the economy from the effects of international capital flows.

Under South African exchange regulations, the Reserve Bank has substantial control of foreign currency. The Reserve Bank is the sole marketing agent for gold, which accounts for about 30 percent of export earnings at current prices. This provides the Bank with wide latitude in influencing short term exchange rates. Except for a period in 1987 when the bank, followed an implicit policy of fixing the rand against the dollar, monetary authorities normally allow the rand to adjust periodically with an aim to stabilize the external accounts. Since 1984, the rand has depreciated sharply against all the major western currencies. Since the fall of 1989, the rand has been relatively stable against the U.S. dollar, but continued to depreciate against a trade-weighted basket of currencies.

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3. Structural Policies

Prices are generally market-determined with the exception of petroleum products. Purchases by government agencies are by competitive tender for project or supply contracts. Bidders must prequalify, 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 primary source of government revenue in South Africa is the income tax. The 1991/92 budget lowered the maximum personal income tax rate from 44 to 43 percent at an income level of R80,000 for married and R56,000 for single taxpayers. The corporate income tax rate was lowered to a flat rate of 48 percent, including mining enterprises which had previously paid 56 percent of profits to the government.

In September 1991, the Government shifted from a 13 percent general sales tax to a 10 percent value-added tax (VAT) levied on many additional goods and services that had been exempt from general sales tax. Originally, VAT was to be implemented at 12 percent, but widespread opposition forced the government to introduce the tax at the lower rate. Continued discontent over the taxation of basic foods, medical services and utilities, as demonstrated by a nation-wide two-day general strike in November, may cause the government to reconsider other aspects of the VAT which especially hurt South Africa's poor. South Africa raises additional revenue through estate, transfer and stamp duties. There are no export taxes, but import duties as high as 100 percent in the case of certain luxury goods protect local industry.

4. Debt Management Policies

South Africa's external debt at the end of 1990 was estimated at US$19.4 billion, with the private sector accounting for about US$12.6 billion of this total. The ratio of total foreign debt to GDP in 1990 was 19.1 percent, and interest payments to total export earnings was 7.1 percent. Debt repayment obligations in 1991 are estimated to have been R5-6 billion, although increasing access to international capital markets should allow South Africa to refinance at least half of that debt.

In 1985, faced with large capital outflows, intense pressure against the rand, and a cutoff of its access to foreign capital, the South African Government declared a unilateral standstill on amortization payments. Interest payments were continued, and amortization payments due to international organizations and foreign governments were not affected, obviating the need for a Paris Club rescheduling. The debt "standstill" was regularized in a rescheduling arrangement with private creditors in 1986. In 1990, South Africa and its private creditors negotiated a third extension of that arrangement which extends through 1993.

South Africa is a member of the World Bank and International Monetary Fund (IMF) and continues Article IV consultations with the latter organization on a regular basis.

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U.S. law requires the U.S. Executive Director at the IMF to actively oppose any extension of IMF credit to South Africa until the Secretary of the Treasury certifies to the Congress that such credit would have a number of specified favorable effects vis-a-vis the elimination of apartheid's effects. Since July 1991, when President Bush lifted the Title III sanctions of the Comprehensive Anti-Apartheid Act of 1986 (CAAA), the South African Government has been pressing its case for access to IMF funds as a "safety net" for further expansion of the economy and a seal of international approval on recent government moves to dismantle the apartheid system.

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. Current regulations require import permits for a wide variety of goods. Surcharges on imported goods, which range as high as 100 percent on some items, are the most significant barriers for U.S. exports. The Department of Trade and Industry is attempting to simplify its system of tariffs, but some tariffs have been increased in the process, including hikes of up to 180 percent on certain steel products. Local content requirements also apply in certain industries, most notably in motor vehicle manufacturing.

The repeal of Title III sanctions in the Comprehensive Anti-Apartheid Act lifted restrictions on the export of certain U.S. products to South Africa and repealed the prohibition on U.S. nationals from making new investments in South Africa. Laws still prohibit U.S. firms from exporting to South African police or military organizations (including defense manufacturer ARMSCOR) and from transferring nuclear or supercomputer technology to South Africa.

6. Export Subsidies Policies

The General Export Incentive Scheme (GEIS), begun in 1990 and administered by the Department of Trade and Industry, is aimed at encouraging the export of manufactured products with a high local content. GEIS payments to exporters are based on total export value, the degree of processing involved, and the percentage of value added in South Africa. The maximum value of the tax free cash incentive is 25 percent of the FOB value. GEIS will remain in effect until March 1995. The export Marketing Assistance Scheme, begun in 1990, may give cash assistance for primary market research and trade fair and trade mission participation. Other incentives available include customs tariff tax-exempt export development finance.

7. Protection of U.S. Intellectual Property

South Africa's attendance at meetings of the World Intellectual Property Organization (WIPO) has been barred by a resolution of that organization, but it remains a member. The country is also a signatory of the Paris and Berne Conventions.

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South Africa's intellectual property laws and practices are generally in conformity with those of the industrialized nations, including the United States. There is no discrimination between domestic and international holders of intellectual property rights.

The basic objective of South African government policy with respect to foreign intellectual property rights holders is to secure access to foreign technology and information. An effort in the 1989 parliamentary session to prohibit cancellation of license agreements by disinvesting companies was dropped after objections by South Africa's major trading partners.

8. Worker Rights

a. The Right of Association

South Africa's Labor Relations Act entitles all private sector workers to freely join labor unions. Public employees, farm workers, and domestic servants are not covered by the Labor Code. All private employees enjoy the right to strike, although unions have been denied permits to rally and force has been used to break up labor gatherings. There are increasing incidents of public sector strikes as part of the effort to organize public workers.

There are several labor confederations which, although independent of the government, are often closely linked to political groups and parties. South African Labor law does not apply to the "homelands" where labor organizing and the right to strike are generally much less developed.

b. The Right to Organize and Bargain Collectively

The South African Government does not interfere with union organizing in the private sector and has generally not intervened in the collective bargaining process. Collective bargaining is freely practiced throughout the country. There is an unbiased system of labor courts to rule in labor-management disputes. Antiunion discrimination in the workplace is illegal.

c. Prohibition of Forced or Compulsory Labor

South Africa does not constitutionally or statutorily prohibit forced labor; however, Dutch-Roman common law does not permit it.

d. Minimum Age of Employment of Children

South African law prohibits the employment of minors under age 15 in most industries, shops and offices. It prohibits minors under 16 from working underground in mining. There is no minimum age at which a person may work in agriculture.

e. Acceptable Conditions of Work

There is no legal minimum wage in South Africa. The Labor

Relations Act provides a mechanism for negotiations between labor and management to set minimum wage standards industry by industry. At present over 100 industries covering most non-agricultural workers come under the provisions of the Act. Attention to health and safety issues has increased in recent years. The state-funded National Occupational and Safety Association claims that the Ministry of Manpower effectively enforces government-legislated minimum standards for the workplace environment. Most industries have a standard workweek of 46 hours (which is also the well-enforced legal maximum), as well as vacation and sick leave. Overtime is voluntary and limited to 10 hours a week. The law does not mandate a 24 hour rest break. The Basic Conditions of Employment Act which legislates minimum workplace standards does not apply to agricultural workers and domestic servants. Their work conditions and those of workers in the homelands are sometimes far less advanced than in the rest of South Africa.

f. Rights in Sectors with U.S. Investment

The worker rights conditions described above do not differ between the goods-producing sectors in which U.S. capital is invested and other sectors of the South African economy.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category		Amount
Petroleum		(D)
Total Manufacturing	411	
Food & Kindred Products	11	
Chemicals & Allied Products	125	
Metals, Primary & Fabricated	(D)	
Machinery, except Electrical	111	
Electric & Electronic Equipment	(D)	
Transportation Equipment	(D)	
Other Manufacturing	57	
Wholesale Trade		46
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business August 1991, Vol. 71, No. 8, Table 11.3

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Key Economic Indicators

(Millions of U.S. Dollars Unless Otherwise Noted)

	1989	1990	1991 1/
Income, Production And Employment			
GDP (1980 Prices)	5,633	5,633	N/A
GDP Growth (pct)	1.2	N/A	N/A
GDP by sector (pct)			N/A
Manufacturing	11.2	N/A	N/A
Agriculture	30.2	N/A	N/A
Mining/petroleum	N/A	N/A	N/A
Service	36.3	N/A	N/A
Utilities/public works	N/A	N/A	N/A
GDP per capita ($)	180	180	N/A
Labor force (millions)	19	19	20
Unemployment (pct)	36	N/A	N/A
Money and Prices			
Money supply (mils zaires)	282,042	560.000	N/A
Interest rate (rediscount)	55	45	55
Savings rate (pct of GDP)	11	N/A	N/A
Investment rate (pct of GDP)	12	N/A	N/A
Consumer price index (pct change)	101	242	1,500
Wholesale price index	N/A	N/A	N/A
Official exchange rate (11/91)	460	1,950	36,000
Parallel exchange rate (11/91)	510	2,300	40,000
Balance of Payments and Trade			
Total exports FOB	2,302	2,104	N/A
Exports to U.S.	332	316.5	N/A
Total Imports CIF	2,004	1,823	N/A
Imports from U.S.	122	138.4	N/A
Aid from U.S. (mils USD)	67	34	46
Bilateral aid from others	432	N/A	N/A
External public debt (excl. IMF)	8,843	10,008	N/A
Actual debt payments	172	85	N/A
Gold and forex reserves	282	229	N/A
Balance of payments			
Trade	84	295	N/A
Current account	-641	N/A	N/A

1/ 1991 data are estimates

1. General Policy Framework

Zaire's mixed economy has long been stagnant owing to crumbling infrastructure, mismanagement and capital depletion in the parastatal sector, and official corruption. Zaire's economic problems include increasing arrears to creditor countries and international financial institutions, a budget deficit exacerbated by unaccounted expenditures by President

Mobutu, the printing of large volumes of paper money and its introduction into the economy through unaccountable non-official channels and consequent hyper-inflation; a major fall in export earnings due mainly to lower copper production, opening an annual gap of over $200 million in the balance of payments; depletion of hard currency and gold reserves, and continuing infrastructural deterioration.

The national economy, which by late summer had been on the verge of collapse, has been in a virtual free-fall since September 23 when a series of military and civil riots (sparked by discontent with the economic situation and impatience with the pace of democratic reform) began in Kinshasa and later spread to urban centers throughout the country. The crisis has crippled Zaire's modern economic sectors. Transportation, food distribution, energy production and distribution, banking, communications, mining, and manufacturing have broken down. Thousands of expatriate managers and engineers, a key factor in maintaining infrastructure and industry, have fled, leaving the economy ever more dependent upon traditional subsistence agricultural production and barter exchange.

Zaire remains in a state of political crisis as a consequence of these disturbances. The government does not enjoy the confidence of the population and has not demonstrated an ability to restore political, social, and economic order. Short- to medium-term prospects for economic reform in the country are poor.

2. Exchange Rate Policies

In August 1991 the government permitted the zaire, the national currency, to float because the central bank had run out of foreign exchange with which to support the official exchange rate. The float resulted in an immediate 50 percent devaluation of the zaire against the dollar, but had only a moderate effect on inflation because most imports were already priced at the parallel rate. Since then, the zaire has continued to depreciate. Availability of foreign exchange has depended on production levels and world commodity prices for Zaire's major exports (copper, diamonds, gold, oil, and coffee), and on government adherence to a floating exchange rate system no longer determined by supply and demand.

By statute, the government no longer controls the import or export of capital or the foreign exchange markets. Large capital movements, however, can be blocked by capricious application of bureaucratic regulations. The government tries to allocate foreign exchange for the politically-sensitive purchase of refined petroleum products and food, but since October 1991 exports have been so reduced that the government has been unable to maintain allocations at a minimal level. Foreign exchange is expected to be in increasingly short supply through 1992.

3. Structural Policies

In early 1990 Zaire's adjustment programs with the

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International Monetary Fund (IMF) and World Bank collapsed because of uncontrolled government spending largely by increasing the money supply and accumulating arrears. Since then relations with both institutions have been strained. Zaire's disagreements with the IMF include control of government disbursements, monetary restraint, the opening of financial markets to allow competitive interest rates, and repayment of arrears. Other donors will not resume substantial aid until Zaire agrees to a Structural Adjustment Program (SAP) or a meaningful shadow structural adjustment program. The IMF and the World Bank believe Zaire's economic crisis has advanced beyond the point where partial remedies could work: only a fundamental reorganization of government priorities, sustained over a credible period, could induce these institutions and other donors to return to Zaire.

Over the short term, the disastrous state of Zaire's economy will depress U.S. exports. Long-term prospects would be better if Zaire were to restructure its economy in conformity with donor requirements. Since 1983 Zaire has gained experience with deregulated internal markets, including the development of a moderately sized entrepreneurial class. This human capital, if supported by a stable economic infrastructure, could produce economic growth and expanded trade opportunities.

4. Debt Management Policies

At the end of 1990, Zaire's total external public and publicly-guaranteed debt was estimated to be $9.1 billion. Payment arrears were estimated to have reached about $891 million. Debt forgiveness plans initiated in 1989 and 1990 by Belgium, France, Germany, and the United States nevertheless had improved Zaire's debt situation. Zaire received $59.2 million from the United States in debt forgiveness under Section 572 in 1989; if it had had one of the legislatively-required SAPs in effect, Zaire's debt could have been reduced by an additional $67.3 million in FY91 and $64.7 in FY92. It would have also been eligible in FY91 under Section 411 for a further $277 million of debt forgiveness. Zaire's last Paris Club debt rescheduling was concluded in 1989. In 1991 Zaire failed to make most of its debt service payments to bilateral and multilateral creditors and to commercial banks.

5. Significant Barriers to U.S. Exports

The major barriers to U.S. trade and investment in Zaire are the country's economic collapse, the continuing political crisis, corruption, and the sporadic breakdown of law and order.

6. Export Subsidies Policies

There are no export subsidies in Zaire.

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7. Protection of U.S. Intellectual Property

Zaire is a member of the World Intellectual Property Organization. Zaire is party to the Berne Convention for the Protection of Literary and Artistic Works, and the Paris Convention for the Protection of Industrial Property. No incidents of patent infringement have been reported.

8. Worker Rights

a. The Right of Association

Until April 24, 1990, the labor movement in Zaire was limited by law to the National Union of Zairian Workers (UNTZA). On that day President Mobutu, in a speech promising political reforms, also promised to permit labor pluralism. Shortly thereafter, the UNTZA, which had been an arm of the ruling Popular Movement for the Revolution (MPR), reorganized and declared itself independent. Several additional worker groups were organized in the intervening months and have since applied for approval as legal unions. Some of these had existed independently until the late 1960s.

The right to strike is recognized in Zairian law. Because the law establishes lengthy (and mandatory) arbitration and appeal procedures, legal strikes have been rare. While the Government has used force to put down strikes in the past, there were no attempts to coerce workers to return to work in 1991.

b. The Right to Organize and Bargain Collectively

Over the past several years, the UNTZA has negotiated nearly 1,000 collective bargaining agreements. Under an existing arrangement between the UNTZA and the Zairian Employers Association, wages and prices have been fixed jointly on an annual basis with minimal government supervision. This system, which functioned reasonably well prior to 1991, has since broken down as a result of the Zaire's current economic chaos and has yet to be replaced. Neither the UNTZA nor the emerging unions have demonstrated the capability to protect worker interests or defend worker rights in the current environment. The government has yet to promulgate revisions to the Labor Code promised in 1990, which would strengthen provisions of the law safeguarding the right to form unions and bargain collectively.

c. Prohibition of Forced or Compulsory Labor

The Constitution and Labor Code forbid forced labor. There are no indications that it is practiced.

d. Minimum Age for Employment of Children

The legislated minimum age for employment is eighteen years, although minors fourteen years of age and older may be legally employed with the consent of a parent or guardian. Employment of children of all ages is common in the informal economic sector and in family subsistence agriculture.

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e. Acceptable Conditions of Work

The majority of Zairians are engaged in subsistence agriculture or small-scale commerce outside the formal sector. The meager wage levels in the modern economy have been devastated by four-digit inflation, and workers must rely on the extended family and subsistence agriculture to survive. Public sector employees typically work at a second job or resort to corrupt activities. The maximum legal workweek is 48 hours with one 24-hour rest period required every seven days. The Labor Code specifies health and safety standards, but enforcement is minimal.

f. Rights in Sectors with U.S. Investment

There are U.S. investments in the petroleum, manufacturing, agribusiness, and service sectors. These enterprises are subject to the labor laws that cover all Zairian workers. There is no forced labor or child labor at U.S. companies in Zaire. Although health benefits and salaries are low at some companies, they generally compare favorably with local practice.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category	Amount	
Petroleum		45
Total Manufacturing		-9
Food & Kindred Products	0	
Chemicals & Allied Products	(D)	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	(D)	
Other Manufacturing	0	
Wholesale Trade		2
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		38

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, August 1991

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Key Economic Indicators

(Millions of Australian Dollars, Unless Otherwise Noted)

	1989	1990	1991 (est)
Income, Production and Employment			
Real GDP 1/	255,762.0	259,928.0	257,500.0
GDP growth rate (percent)	4.4	1.6	-1.3
GDP by sector (percent)			
Manufacturing	17.7	17.0	16.2
Agriculture	3.6	3.9	2.8
Services and other	78.7	79.1	81.0
Real per capita income	17,439.0	18,036.0	17,038.0
Labor force (thousands)	8,236.0	8,462.0	8,526.0
Unemployment rate (percent)	5.9	9.1	10.5
Money and Prices			
Money supply (M1)	40,820.0	42,373.0	44,744.0
Interest rates (percent)			
Commercial (prime)	19.5	16.9	12.5
Saving rate	7.9	7.6	4.6
Foreign investment (year-end)	36.9	15.6	11.6
Consumer price index (June 1984 = 100)	194.6	208.7	215.3
Wholesale price index	N/A	N/A	N/A
Exchange rate (A$/U.S.$)	.788	.794	.785
Balance of Payments and Trade			
Total exports FOB	49,911	50,923	53,118
Exports to U.S.	5,104	5,742	5,338
Total imports FOB	51,728	49,797	48,135
Imports from U.S.	11,572	11,863	11,617
Aid from U.S.	0	0	0
Aid from other countries	0	0	0
Gross external public debt	67,224	73,043	67,500
Annual public debt service payments	5,803	6,251	6,425
Gold and forex reserves	21,487	24,989	24,017
Balance of payments			
Current account balance	-22,472	-18,901	-9,069

1/ 1984/85 prices, seasonally adjusted.
2/ Earnings per year.

Sources: Australian Bureau of Statistics, Embassy Estimates.

1. General Policy Framework

Although in area Australia is the size of the contiguous United States, its markets and production capability are limited by a small domestic population of 17.2 million. Based on Australian FY 1990/91 statistics, GDP is comprised of 16.7

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percent manufacturing, 7.8 percent mining and 4.1 percent farming, with the services and other production accounting for the remaining 71.4 percent. Primary agricultural and mineral products account for 63.7 percent of exports. Australia leads the world in wool production, is a significant supplier of wheat, barley, dairy produce, meat, sugar, and fruit, and a leading exporter of coal, minerals and metals, particularly iron ore, gold, alumina, and aluminum.

The Australian economy remains in a recession, with real GDP declining an estimated 1.3 percent in 1991, and recovery appearing unlikely anytime before mid-1992. Unemployment continues to increase and is estimated to have reached 10.5 percent of the workforce at the end of 1991. Manufacturing output is low or stagnant in most sectors. Wage growth has slowed significantly and with double-digit unemployment, sharply lower farm product prices and stagnant domestic demand, inflation has stabilized at around three percent. Net external debt remains high at A$130 billion.

The recession was, in part, precipitated by Government anti-inflationary policies implemented in 1988. At that time, the Government tightened monetary policy to curb consumption and imports in response to an overheating economy. A policy-induced economic slowdown became apparent in the third quarter of 1989 and sharpened thereafter. At the same time, downturns in key export markets and low international commodity prices combined with the results of the policy-induced slowdown to bring on recession.

The Government is now faced with the challenge of attempting to stimulate economic growth without reigniting inflation. A successful turn-around depends not only on a measured relaxation of policy restraints, but also on a resumption of export-led growth, stable external markets and tourism. However, despite the easing of monetary policy nine times in the past 18 months and major improvements in the current account, the economic forecast remains clouded. Business and consumer confidence alike have been hit by a run of significant failures and scandals in the corporate and financial sectors.

Hoping to stimulate export growth, the Government has worked to increase Australia's international competitiveness by continuing to reduce protective trade barriers and deregulate large segments of the economy. Privatization of government services at both the federal level (airlines, bank, telecommunications) and state levels (water treatment, transportation, electricity, banks) is being pursued. Notable successes include the deregulation of the aviation industry in October 1990, and finalization of criteria for the establishment of a second telecommunications carrier to compete with Telecom Australia before the end of 1991. Trade reforms begun in June 1988 resulted in an end to import quotas on all but textiles, clothing, and footwear, and in lower tariffs on most imports. The Government has announced a phase-out of bounty subsidies to a number of industries still receiving such assistance. A 20-percent preference given to Australian and New Zealand firms bidding on federal government contracts was abolished in November 1989, and eliminated for offsets in October 1991 (however, most state and territory

governments continue to apply preferences and offsets to their procurements).

After three consecutive years of budget surpluses, the Government has budgeted for a A$4.7 billion deficit for FY1991/92, resulting primarily from social payments for the unemployed. Personal tax reductions made possible by the surplus in the previous two years will not be continued in FY1991/92. Public sector borrowing, which has been close to zero for the last two fiscal years, will increase this financial year to cover the deficit. A total of A$2.1 billion in foreign currency debt was reduced in FY1990/91, but in FY1991/92 new debt issues totaling A$11 billion will have to be made to cover the budget deficit, Treasury Bond maturities of A$4.6 billion, saving bond redemptions of A$200 million, maturing foreign currency debt of A$400 million and about A$1 billion in government business enterprise retirement transactions.

The Government stimulates private investment through a variety of programs. Firms operating in Australia can qualify for some or all of the following: tax breaks and bounties for certain local manufacturing; tax incentives for research and development and export programs; energy, labor and research and development subsidies; local government investment and location incentives; and, although diminishing, some types of trade protection.

Australia has few legal restrictions on investment. Four sectors require substantial Australian ownership: media, urban real estate, certain types of transportation, and some mining. All new foreign direct investments in these sectors are subject to approval by the Foreign Investment Review Board (FIRB). In addition, the FIRB reviews new foreign direct investment in all other sectors worth more than $10 million (Australian), as well as foreign acquisitions of 15 percent or more of Australian corporations. Industry deregulation and government decisions made September 6, 1990, to privatize 100 percent of Australian Airlines and 49 percent of Qantas have led to substantial liberalization of the rules governing ownership in the aviation sector in 1991. Some U.S. investors find Australia's immigration laws more protective than many other countries', especially restrictions affecting assignments of non-Australians to positions in foreign-owned firms.

2. Exchange Rate Policies

Australian dollar exchange rates are determined by international currency markets. Official policy is not to defend any particular exchange rate level. In practice, however, the Reserve Bank is active in "smoothing and testing" foreign exchange rates in order to provide a generally stable environment for government economic adjustment policies.

Australia does not have major foreign exchange controls beyond requiring Reserve Bank approval if more than A$5,000 in cash is to be taken out of Australia at one time, or A$50,000 in any form in one year. The purpose is to control tax evasion and money laundering. If the Reserve Bank is

satisfied that there are no liens against the money, authorization to take large sums out of the country is automatic. The regulation does not affect U.S. trade.

3. Structural Policies

Pursuing a goal of a globally competitive economy, the Australian government is continuing a program of economic reform begun in 1988 that includes an accelerated timetable for the reduction of protection and microeconomic reforms. The Government's program is focusing on industry-by-industry, micro-economic changes designed to compel businesses to become more competitive.

A program to phase down tariffs an average of about 70 percent was begun July 1, 1988, to be completed on June 30, 1996. Except for textiles, clothing, footwear (TCF) and some vehicles, all tariffs will be reduced to 5 percent. On March 12, 1991, the government announced that over-quota duty rates on TCF will be reduced by 50 percent on March 1, 1992. Effective March 12, 1991, import duties on certain mineral processing equipment and goods for shipbuilding and repair were removed. Along with these measures, some of the few manufactured products still receiving bounties will have those benefits reduced each year until the bounties expire. U.S. exports should benefit from these reductions.

Legislation abolishing the 20-percent sales tax on imported, legal-tender gold coins became law on July 14, 1990. In late 1990, sales taxes averaging about 20 percent were eliminated on products used by subcontractors for packing and labeling, quality control, waste disposal, in-house movement and storage of goods, and for aids to manufacturing that operate, apply, clean or sterilize. A sales tax exception was granted in 1991 to computers used in production processes.

4. Debt Management Policies

Australia's gross foreign debt at the end of Australia's fiscal year (AFY) 1991 (June 30, 1991), totaled A$166 billion, or approximately 45 percent of 1991 GDP. Of this amount, public sector obligations (including the foreign debt of state-owned enterprises) were A$69.7 billion, down from A$70.8 billion at the end of AFY89. Interest payments on public foreign debt totaled A$6.9 billion in AFY91. Although public foreign debt levels and interest payments remained essentially stable in AFY 91, Standard and Poors continues to maintain Australia's general credit rating at only AA, reflecting concerns about the absolute level of the debt and Australia's balance of payments deficit.

5. Significant Barriers to U.S. Exports

Tariffs: On a trade-weighted basis, Australian duties on manufactured goods average slightly less than eight percent. This is higher than average tariff levels for other industrialized countries (less than five percent for the

United States and the European Community).

Australia's tariff profile is characterized by significant "peaks" protecting sensitive domestic industries. In addition, only a relatively small percentage of Australia's tariff rates are GATT-bound, approximately 25 percent, compared to 99 percent for the United States.

Licensing: Import licenses are now required only for certain vehicles, textiles, clothing, and footwear.

Services: Prior to January 1, 1992, the Australian Broadcasting Tribunal (ABT), which controls broadcast licensing, required that no more than 20 percent of the production work on any given advertisement shown on Australian television could be done by non-Australian or New Zealand labor. The ABT's new regulations permit up to 20 percent of the overall broadcast time for paid-advertisements be non-Australian produced. However, the new regulations also include more stringent criteria for determining what qualifies as Australian-produced.

On January 1, 1990, the ABT adopted a requirement that local-content regulations also be applied to commercial television programming. Beginning with 35 percent for 1990, and increasing 5 percent a year (45 percent for 1992), the ABT has ruled that after January 1, 1993, 50 percent of a commercial television station's weekly prime-time broadcasting must be "Australian." Programs are evaluated on a complex point system based on relevancy to Australia (setting, accent, etc., ranging from no Australian content to a 100 percent Australian production). The ABT content requirements have been vigorously opposed by the U.S. and Australia's commercial television stations, but the ABT has resisted efforts to abolish the requirements.

State governments restrict establishment of private hospitals. States' motives are to limit health expenditures and to balance public/private services to prevent saturation and overuse. This is also based on government fiscal concerns, given that most medical expenses for private hospital care are paid through government health programs. Some aspects of these restrictions are expected to change in 1992 as some State governments consider privatizing their hospital systems.

Standards: The Government announced on January 16, 1992 that it will sign the GATT Standards Code. The Government's ability to sign the Code was made possible after New Zealand and each Australian state and territory with standards-making authority signed the Domestic Agreement on Standards, Accreditation and Quality (ASAQ), which commits them to authorize the sale ~~in the~~ signatory state of any product meeting the standards of any other signatory state. The sale of foreign-made products meeting the standards of any one ASAQ-signatory must also be permitted by all. As a result, state standards are being reviewed to harmonize with federal standards by the end of 1992.

Labeling: Federal law requires that country of origin be clearly indicated on the front label of some imports sold in

Australia. Labels must also give the name and address of a person in Australia responsible for the information provided on the label. State rules requiring that the mass or volume of a package's contents be expressed on labels to the nearest five milliliters or kilograms are expected to be changed as state standards are harmonized.

Packaging: Some importers, particularly of food products, encounter packaging and labelling requirements which vary from state to state. The new ASAQ agreement, which allows for interstate recognition of standards, should eliminate this problem.

Motor Vehicles: Under the Motor Vehicle Standards Act of August 1, 1989, the import of used vehicles (only those manufactured after 1973 for personal use) is banned, except when 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 before they may be driven in Australia. Only approved (licensed) garages are permitted to make these conversions. Because of these requirements, only a small number of used cars are imported into Australia each year.

An Export Facilitation Scheme lets domestic automobile manufacturers credit vehicle and parts exports against tariffs on imported components. Passenger vehicle tariffs, currently 35 percent, will be phased down to 15 percent on January 1, 2000. The Export Facilitation Scheme that allowed credits to the industry to exceed 7.5 percent was abolished as of January 1, 1991. The entire Scheme will be phased to zero on January 1, 1995.

Foreign investment: All foreign direct investments in the media, mining, and certain types of transportation, as well as those in new businesses valued over A$10 million, those involving acquisition of 15 or more percent of shares in a business with total assets of A$5 million or more, and certain proposals to acquire real estate, are subject to approval by the government's Foreign Investment Review Board (FIRB). However, there are very few rejected proposals.

In mining, proposals for the acquisition of an interest in an existing mining business are approved where it is demonstrated that there are sufficient economic benefits to offset any reduction in Australian ownership and control. Proposals for the establishment of businesses valued at A$10 million or more are allowed to proceed if there is a minimum of 50 percent Australian equity and control. If Australian capital is not available on reasonable terms and conditions, foreign equity beyond 50 percent may be approved.

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

Government Procurement: In October 1991, the government abandoned the 30-percent offset investment in Australia

required on most contract sales valued at more than A$2.5 million. The office maintaining the "national offsets program," which pooled state and federal government offset liabilities and audited compliance, was also disbanded. Although the federal government has abandoned the offset program, some state governments may require offsets in some cases.

During 1991, two key industrial states abandoned the policy of giving Australian and New Zealand bidders on government contracts a 20-percent preference over foreign bidders. Other states and the territories are expected to join them in 1992. On July 1, 1990, government agencies became liable to pay tariff duties on imported products. However, tariffs are assessed only on products that are made or could be made in Australia, which constitute a very small part of government procurement.

Beginning on February 1, 1992, the government plans to implement a Restricted Systems Integration Panel (RSIP) scheme. The RSIP will be a panel of 20 to 25 selected private companies through which all Commonwealth information technology requirements involving systems integration activity are to be sourced, except for purchases with an estimated value of less than A$1 million. Firms applying for panel membership will be evaluated on "demonstrated competence, commercial viability and potential to contribute to government policy objectives, including expansion into Asian-Pacific markets, particularly those of North and South-East Asia." The net effect of the panel will be to hinder non-member participation in government systems integration contracts. Use of the panel is expected to be extended to state and territory governments in 1993. Technically, panel membership will not be closed. However, access will remain severely restricted and a new applicant (domestic or foreign) would have to demonstrate overwhelming eligibility to join or be able to offer expertise not available within the panel. The U.S. has express concern regarding the criteria that firms must meet to be eligible to participate on the panel.

Quarantines: Because of its geographic location, Australia is relatively free of many animal diseases (rabies, hoof-and-mouth, etc.) and pests that plague other parts of the world. To preserve its environment, Australia imposes extremely stringent animal and plant quarantine restrictions. Except for horses, livestock imports are limited to reproductive material and a few valuable breeding animals that must undergo long quarantines.

Tobacco: Local manufacturers are encouraged to use at least 50 percent local leaf in their products through the offer of concessional duties on imported leaf. In practice, an "informal" agreement between growers and cigarette manufacturers extends the local content requirement to 57 percent. This local content rule is to be removed on July 1, 1995. Since October 12, 1989 the government has banned the sale of smokeless tobaccos (chewing tobacco, snuff for oral use), leaving the market solely to local products used for oral purposes, but not labeled as such.

Fruit drinks: Noncarbonated fruit drinks containing 20

percent or more local fruit juice are assessed a sales tax of 10 percent, whereas fruit drinks with below 20 percent local fruit juice content are assessed a 20 percent sales tax. U.S. industry claims the discriminatory tax on content results in a significant amount of lost sales. A law, which was to have become effective on July 1, 1991, taxing all fruit juice regardless of origin at ten percent, was withdrawn.

6. Export Subsidies

The Australian government provides export market development reimbursement grants of up to A$250,000 for most qualifying domestic firms exporting goods and services. Other mechanisms provide for drawbacks of tariffs, sales, and excise taxes paid on exported finished products or their components. In some cases, government grants and low-cost financing are provided to exporters for bonding, training, research, insurance, shipping costs, fees, market advice, and to meet other costs. "Bounties" (production subsidies) are paid to manufacturers of some textile products, bed sheets, new ships, some machine tools, computer and moulding equipment, and photographic film coatings to help them compete with cheaper foreign-made substitutes. On July 1, 1991, qualifying thresholds for bounties were raised. Existing bounties are to be phased down until they expire. Bounty expiration dates are as follows: photographic film and books - December 31, 1993; shipbuilding, citrus fermentation and textiles - June 30, 1995; computers and circuit boards - December 31, 1995; machine tools and robots - June 30, 1996. All bounties will be reviewed before expiration with the possibility of extension or conversion to tariffs.

The government provides financial support and research and developments grants to Australian industry for development of internationally competitive products and services for which the Federal or state governments are the primary purchasers. Such support is expected to be A$361.7 million in AFY 1991/92. On March 12, 1991, the government announced that the 150-percent corporate tax deduction allowance for research and development will be reduced to 125 percent on June 30, 1993.

Electricity generation is the purview of state governments, all of which subsidize the industry and, indirectly, users of electricity. States also control and subsidize railroads. New South Wales and Queensland make up for railroad losses through charges to their coal industries. In competing for investment, states offer a wide range of negotiable concessions on land, utilities, and labor training, some of which amount to subsidies.

Australia is a signatory of the GATT Subsidies Code.

7. Protection of U.S. Intellectual Property

Copyrights, patents, trademarks, designs and integrated circuits are protected by Australian law. Australia is a member of the World Intellectual Property Organization, the Paris Convention for the Protection of Industrial Property, the Berne Convention for the Protection of Literary and

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Artistic Works, the Universal Copyright Convention, the Geneva Phonograms Convention and the Patent Cooperation Treaty. Australian law is broad and protects new technology, including genetic engineering.

Patents: Patents are available for inventions in all fields of technology (except for human beings and biological processes for their production). They are protected by the Patents Act, which offers coverage for 16 years, subject to renewal. However, patents for pharmaceutical substances may have the term of protection extended to 20 years. Trade secrets are protected by common law, such as by contract. Designs can be initially protected by registration under the Designs Act for one year, which may be extended for six years and for further periods of five and five years respectively, upon application.

Trademarks: Trade names and marks may be protected for seven years and renewed by registration under the Trademark Act. Once used, trade names and marks may also, without registration, be protected by common law. Protection also extends to parallel importing; that is, imports of legally manufactured products ordered by someone other than a person or firm having exclusive distribution rights in Australia.

Copyrights: Copyrights are protected under the Copyright Act. Works do not require registration and copyright automatically subsists in original literary, artistic, musical and dramatic works, film and sound recordings. Computer programs are legally considered to be literary works. Copyright protection is for the life of the author plus 50 years. Although copyright protection also extends to parallel importing, Parliament recently passed a bill that will reducing such protection for books. The new law provides that, if, within 30 days of publication abroad, those persons having distribution rights within Australia have not begun distribution in Australia, anyone may import legally-produced copies from abroad for local distribution. The U.S. has made submissions to the Australian Government contesting this proposal, particularly the adverse effect it would have on normal channels of distribution for U.S. textbooks.

Australia does not provide exclusive rental sights for sound recordings or computer software. In July 1991, the Attorney General rejected a proposal to amend Australia's Copyright Act to provide such protection. As a result, the U.S. industry is concerned that rental shops for sound recordings and software would proliferate, significantly undermining U.S. sales.

The Australian Copyright Act provides protection regarding public performances in hotels and clubs, and against video piracy and unauthorized third-country imports. No complaints about unauthorized public showings of films have been received for over three years. The Attorney General's Department monitors the effectiveness of industry bodies and enforcement agencies in curbing the illegal use of copyrighted material.

Data on the incidence of piracy of copyrighted material is not available, although industry sources indicate that the

crime is less prevalent in Australia than in the United States. Close monitoring by customs has virtually eliminated pirated books and other material from the market. Press reports indicate that commercial pirating is prosecuted. Industry sources complain that copying of videos, tapes, and computer software for personal use is widespread, but difficult to monitor.

New Technologies: Illegal 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. Its geographic isolation precludes most U.S. satellite signal piracy. Australian networks, which pay for the rights to U.S. television programs, jealously guard against infringement. Cable television is not yet established in Australia.

8. Worker Rights

a. The Right of Association

Workers in Australia fully enjoy and practice the right to associate, to organize and to bargain collectively; rights enshrined in the Arbitration Act of 1904. Although there is no legal right to strike in Australia, work stoppages are well-established in practice. 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 whose mandate includes resolution of disputes through conciliation and arbitration. Australia has also ratified the major International Labor Organization conventions regarding worker rights.

b. The Right to Organize and Bargain Collectively

Over 40 percent of the Australian workforce belongs to unions. Workers have the right, by law and in practice, to organize and bargain collectively. They are also protected from antiunion discrimination. Chinese contract workers in the Northern Territory's Trade Development Zone (TDZ) were "extremely underpaid" and their right to organize was abridged until these practices were exposed by a government report. As a result the special immigration agreement for the TDZ was cancelled.

c. Prohibition of Forced or Compulsory Labor

Compulsory and forced labor is prohibited and not practiced in Australia.

d. Minimum Age for Employment of Children

There is no federal law mandating minimum age for employment, but an effective floor is maintained on the age at which children may be employed full time by the enforced requirement that children attend school until age 15.

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e. Acceptable Conditions of Work

There is no legislatively-determined minimum wage. An administratively-determined minimum wage exists, but is now largely outmoded. Instead, various minimum wages in individual industries are specified in industry "awards" approved by state or federal tribunals.

The 1991 Occupational Health and Safety Act gives employees the right to cease work if they believe there is an immediate threat. Due to federal and state regulations Australian workers enjoy hours, conditions, health, safety standards and wages that are among the best and highest in the world.

f. Rights in Sectors with U.S. Investment

Most of Australia's industrial sectors enjoy 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 Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. Dollars)

Category	Amount	
Petroleum		2,615
Total Manufacturing		6,060
Food & Kindred Products	1,080	
Chemicals & Allied Products	2,262	
Metals, Primary & Fabricated	399	
Machinery, except Electrical	490	
Electric & Electronic Equipment	127	
Transportation Equipment	603	
Other Manufacturing	1,097	
Wholesale Trade		1,294
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		9,969

Source: U.S. Department of Commerce, Survey of Current Business August 1991, Vol. 71, No. 8, Table 11.3

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Key Economic Indicators

	1989	1990	Projected 1991
Income, Production, Employment			
GNP (bil RMB) 1/	1,568	1,740	2,001
Real GNP	N/A	N/A	N/A
Real GNP Growth (pct)	3.9	4.0	7.0
GNP by Sector	N/A	N/A	N/A
Gross Value Indus. Output (GVIO) (billion RMB) 2/	2,188	2,385	2,814
Real Growth GVIO (pct)	8.3	7.6	10.0
Gross Value Agric. Output (GVAO) (bil RMB) 2/	655	738	827
Real Growth GVAO (pct)	3.3	6.9	3.0
Real GNP Per Capita	N/A	N/A	N/A
GNP Per Capita (RMB)	1,410	1,522	1,760
Real Per Capita GNP Growth (pct)	2.2	4.5	8.0
Size of Labor Force (mil) 3/	553	560	565
Official Unemployment (pct) 4/	2.6	2.5	3.0
Money and Prices			
Money Supply (M-1) 5/	744	840	920
Money Supply (M-2)	1,314	1,666	1,900
Commercial Interest Rates	N/A	N/A	N/A
Savings Rate /6	34.8	35.7	40.0
Investment Rate 6/	35.5	37.1	38.0
General Retail Price Index (CPI) (pct change) 7/	6.4	5.4	5.5
Wholesale Price Index	N/A	N/A	N/A
Official Exchange Rate (year-end) (RMB/USD)	4.7	5.3	5.5
Parallel Exchange Rate (estimated) (RMB/USD) 8/	5.8	5.8	5.9
Balance of Payments and Trade (Billions U.S. Dollars)			
PRC Exports (FOB)	52.5	62.1	72.0
U.S. Imports from China (CIF) 9/	12.0	15.2	18.5
PRC Imports (CIF)	59.1	53.4	57.0
U.S. Exports to China (FAS) 9/	5.8	4.8	6.0
Aid from the United States	0.0	0.0	0.0
Aid from Other Countries	N/A	N/A	N/A
External Debt, Year-End	41.3	52.5	55.0
Debt Service Paid (estimated)	5.2	7.0	9.5
Foreign Exchange Reserves, Year-End (excl. gold)	17.0	28.6	43.0
Current Account Balance	-4.3	11.0	17.0

RMB = renminbi

Sources: State Statistical Bureau (SSB) Yearbook and Annual Statistical Communiques on Economic Performance, People's Bank of China Monetary Data, World Bank and International Monetary Fund reports, USG trade data, and

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Embassy estimates.

1/ Source for GNP data for 1989 and 1990 is the IMF's International Financial Statistics. GNP per capita and real per capita GNP growth are calculated using this IMF data. Real GNP growth is based on PRC government statistics. Figures for 1991 are Embassy projections.
2/ In accordance with the material product system (MPS) of national income accounting, GVIO and GVAO figures are calculated on a gross rather than a net basis. They are not directly comparable with GNP and national income figures which are calculated on a net value added basis.
3/ Embassy estimates.
4/ 1989 and 1990 are unofficial Chinese estimates.
5/ M1 and M2 are Embassy estimates based on data released by the Central Bank. Because of definitional problems, the estimate for M2 is probably more accurate.
6/ Estimates of Gross National Savings as a percent of GNP and Gross Domestic Investment as a percent of GNP for 1989 and 1990 are as estimated by the IMF in January 1990. Actual savings in 1990 were much higher. Figures for 1991 are Embassy estimates.
7/ Figures are for December over December inflation. They differ from official Chinese statistics which show average annual inflation of 17.8 percent for 1989.
8/ The parallel exchange rate estimate is based on an average of year-end prices of foreign exchange sold at domestic adjustment centers (swap markets).
9/ U.S.-China bilateral trade is based on U.S. Government data. Trade totals are from Chinese Customs data.

1. General Policy Framework

The guidelines for the People's Republic of China's eighth five year plan (1991-1995) and outline for the next ten years, approved by the National People's Congress in the spring of 1991, reaffirmed the primacy of state ownership while promoting continued economic reform measures and opening to the outside. In a major speech on reinvigorating large and medium size state run enterprises, in September, 1991, Premier Li Peng declared that the period of economic retrenchment begun in late 1988 had ended, paving the way for a new series of reform measures. It appears that reform will be gradual and subordinate to maintaining a stable social environment.

Economic performance indicators showed that the period of retrenchment ended with an upturn beginning in the last quarter of 1990. The Gross Value of Industrial Output (GVIO), led by the non-state owned enterprise sector, registered strong growth throughout 1991, exceeding 13 percent in the second and third quarters, and annual GNP growth appears likely to have reached or exceeded 6 percent, surpassing earlier Planning Commission estimates of less than 4 percent. However, structural problems in the industrial sector continue to plague China's economic future, giving rise to increasing calls for restructuring and reform. Agriculture, in spite of severe flooding in the south of China, will experience its second best grain crop ever, leading to difficulties in storing and distributing the near record output. Prices

appear to be under control with estimates for national average retail price indices below 5 percent, although certain urban indicators are near the ten percent mark. Reflation of the economy in 1992-93 could lead to some moderation of China's trade imbalance with the US. Although U.S. exports to China for 1991 returned to 1989 levels, imports from China continued to rise sharply with the result that the U.S. trade deficit with China, based on U.S. Department of Commerce figures and Embassy estimates, increased from USD 10.4 billion in 1990 to approximately USD 12.5 billion in 1991.

The industrial sector is the target for new reform policies designed to resolve the chronic debt, low efficiency and heavy losses of state run enterprises. National and provincial conferences focussing on the industrial sector in Fall 1991 called for measures to improve both the national economic environment for state run enterprises as well as management conditions within the enterprises themselves. The centerpiece of the proposed reform measures is the 1988 Enterprise Law, which gives enterprise managers the right to hire and fire workers, separates factory management from government interference, and calls for more responsibility on the part of individual factories for their own profits and losses. References to effectively implementing this law, while perhaps more credible now than when first proposed three years ago, are still overly optimistic. Measures to carry out the provisions of the law will depend on the dynamism of the implementing organizations and their leaders for their effectiveness. More immediate measures are likely to be low interest loans and fiscal restructuring aimed at reducing the tax burden on large and medium scale enterprises and leveling the playing field between these enterprises and their more tax favored non-state run counterparts.

Chinese fiscal policy remains embryonic. It is widely acknowledged that budget deficits were used to fund subsidies for grain distribution and bailouts of state run enterprises. However, fiscal deficits are still thought to be manageable in terms of percentage of GNP (4-5 percent). China's system of taxation, in which the center negotiates a share of tax revenues collected by the provinces, is ripe for reform but the growing economic power of the provinces makes arriving at an agreed formula for allocation of taxation revenue difficult if not impossible in the short run. In an effort to relieve the fiscal burden, the government has raised prices on subsidized items such as wheat and edible oil and removed export subsidies. However, assistance to flood victims is likely to increase the budget deficit by over 8 billion yuan by the end of 1991 to a potential 15-17 billion yuan. Li Peng and others have cited the need to reform fiscal policy to reduce the deficit, but it seems an elusive goal at present.

The relaxation of monetary policy beginning in the fourth quarter of 1990 has not had a highly stimulative effect on the economy since most of the new credit went to bail out financially starved state run enterprises and settle "debt chains" among state firms. Recently called-for reform policies encourage using measures of a firm's viability to allocate bailout loans, but it remains to be seen if they will in fact be used. Large increases in money supply have not yet been accompanied by inflation, possibly due to disinflationary

expectations among consumers who have a savings rate in excess of 30 percent. The banking system continues to espouse strengthening the role of the central bank and using monetary levers to control the economy. There has been some success recently with using interest rate policy to promote the introduction of various forms of debt instruments, i.e., bonds, and the continued development of the stock markets in Shenzhen and Shanghai. Foreign currency swap centers have been established in nine cities and the resulting availability of foreign exchange (about $15 billion in 1991) has all but destroyed the black market in foreign currency.

2. Exchange Rate Policies

China administers a managed, floating official exchange rate. This rate is nominally linked to a trade-weighted basket of currencies. China issues Foreign Exchange Certificates (FEC); this is a hard currency-backed scrip for domestic payments by foreigners. The Chinese currency, the renminbi (RMB), is not freely convertible.

The last major devaluation was on April 12, 1991, when the RMB fell 11.6 percent from its rate a year earlier of 4.72 to 5.26 to USD 1.00. Since then, the RMB has changed its value vis-a-vis foreign currencies several times a week in small increments, with a current value, as of November 1991, of 5.39 to USD 1.00. It is still regarded as somewhat overvalued. The rates at Foreign Exchange Adjustment Centers (commonly called "swap centers") have also remained stable at about 5.88 RMB to 1 U.S. dollar for the past year. Swap centers were established in late 1986 to permit the trading of enterprise foreign exchange or foreign exchange retention quotas. Swap center rates are determined daily through negotiation between buyers and sellers, although trading methods differ from center to center. Black market rates also run about 5.8 RMB to 1 U.S. dollar. Many observers believe that the swap centers have all but eliminated the black market. The Chinese government uses the swap center rate as one of the signals denoting the "proper" value of the RMB.

3. Structural Policies

China's structural policies have traditionally tried to emphasize industry while not neglecting agriculture. Chinese agricultural policy emphasizes extensive government involvement to promote self-sufficiency for key commodities such as grain and cotton; these policies have not resulted in complete self-sufficiency but contributed to attaining record grain production in 1990. Industry, as a result of earlier reforms, has split into the state and non-state run enterprise sectors. The state run sector manufactures heavy equipment, needed primary products, energy, etc. and is plagued by low efficiency, poor quality, excessive interference in management by government, and other problems related to being managed within a planned economy. The non-state run sector is primarily in light manufacturing, services, high technology and small subcontracting firms. In 1991 government leaders called for reform to be deepened in both sectors but, predictably, with emphasis on state run enterprises.

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Measures set out in Fall 1991 called for preferential loans, tax reform to equalize treatment between state run and non-state run institutions, gradual lessening of involvement in the plan and more separation of government and enterprise management.

Much depends on how thoroughly these reforms are implemented, and they still do not deal with the core issue of bankruptcy. There is a vigorous debate going on within the Chinese government as to how to handle this politically sensitive issue. Many would like to see firms actually go under if they cannot compete in a market or quasi-market situation. Reformers cannot overcome opposition from others who believe China should not implement its bankruptcy laws without first setting up a social safety net for the unemployed.

The policy of "opening to the outside" is becoming more and more a part of standard Chinese socialist policy rhetoric. In policy speeches the words of Deng, Mao, Marx and Lenin are used in support of continuing the policy and many of the reforms in South China are based on openness rhetoric. Especially now that the period of austerity has ended, China is expected to actively pursue foreign investment and expanded trade.

Foreign investment is welcome in areas approved under the industrial policy and development plan. The government has allowed certain areas along the coast to offer preferential terms to foreign investors to increase the financial attractiveness of locating in China. Nevertheless, the myriad of difficulties in doing business in the Third World apply to an even greater degree in China's plan/market economy. Investment from other Asian areas, such as Hong Kong and Taiwan, has grown more quickly than from Western sources, especially following political turmoil in 1989. In general, the difficulties experienced by all enterprises have been shared by foreign investors; however, those firms concentrating on exports have been in a better position.

4. Debt Management Policies

The International Monetary Fund, the World Bank, and the commercial banking community regard China's current debt burden as within acceptable limits, although it has increased since 1989. At the end of 1990, China's total outstanding debt was officially reported at USD 52.5 billion. Of this total, an estimated 12.9 percent is in short-term loans, the rest is in long- and medium-term loans. Outstanding debt at the end of 1990 was equivalent to 16 percent of 1990 GNP or 85 percent of merchandise exports. The debt service ratio was estimated at about 10 percent of export earnings. These indicators, though higher than in 1989, are all well below internationally-recognized danger levels.

The majority of China's loans come from Japan and the World Bank, with these two entities providing approximately 60 percent of all of China's governmental and commercial loans. France, Hong Kong/Macau, the UK, and Germany are also major lenders. After a hiatus brought on by western governments'

sanctions following the events of June, 1989, multilateral bank lending to China resumed in the second half of 1990, as did certain foreign government lending. China cites the threat of further financial or trade sanctions, as well as its debt repayment obligations, as its rationale for the need to accumulate larger foreign exchange reserves. From a base of large reserves accumulated during the period of tight import controls, China's continued favorable export performance, helped by recent devaluations, has allowed the country to amass foreign exchange reserves of $35.2 billion by June 30, 1991. Reserves are believed to have continued to increase throughout 1991.

Debt management responsibility is shared by several central government agencies, including the State Planning Commission, the People's Bank of China, the Ministry of Finance, and the Ministry of Foreign Economic Relations and Trade (MOFERT). Annual quotas for foreign borrowing are allocated to localities and enterprises through the central planning process. The State Administration for Exchange Control (SAEC), a unit of the People's Bank, is responsible for enforcing quota restrictions, approving any out-of-plan borrowing, and ensuring that borrowers are capable of repaying their loans. Since mid-1987, all foreign loans nationwide (including those of Sino-foreign joint ventures) must be registered with the SAEC. Recent regulations have attempted to further tighten guidelines for management of international commercial loans.

5. Significant Barriers to U.S. Exports

China's barriers to U.S. exports have proven intractable. U.S. exporters have not enjoyed the same freedom of access to China's market that Chinese exporters have enjoyed in the U.S. market. Trade talks held in both capitals during the Spring, Summer and Fall of 1991 failed to significantly remove the barriers to U.S. exports to China. Consequently, the United States Trade Representative (USTR), on October 10, 1991, announced a self-initiated 301 investigation of China's market access barriers. The investigation, which could take as long as one year, will focus on selected product specific and sector specific import prohibitions and quantitative restrictions, restrictive import licensing requirements, technical barriers to trade such as testing and certification requirements, among others, and the failure to publish laws and regulations on import restrictions.

China's centrally-directed annual import plan continues to play a key role in determining the composition of China's imports. The import plan affects some 40 percent of China's economy and is designed to ensure the inflow of materials and technology needed for the country's development. An annual determination is made for each class of raw material, foodstuff or manufactured product of what the domestic demands for that product will be the following year. If domestic production can meet that demand, imports are banned or strictly limited. If domestic production cannot meet anticipated demand, the shortfall is designated as the import quota for the following year.

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China's import licensing system covers about half of China's imports by volume. Currently, 53 broad categories of products require import licenses, covering a wide range of consumer goods, raw materials and production equipment. Even after a license has been issued by a local trade bureau, it can be rescinded if the central government decides that the transaction is not consistent with current trade policy.

Obtaining permission for an import often requires approval from several layers of bureaucracy, and in many cases, a certificate of approval from the ministry that oversees the manufacture of such products in China. Approval is often withheld if the ministry believes that an acceptable domestically-made substitute is available. Regulations state that the import substitutes must be "comparable" in quality and price to the imports, but in practice, domestic products often have not met this standard.

China uses embargoes to restrict certain consumer goods imports. China has also banned imports of production lines for televisions, tape recorders, washing machines and air-conditioners. Approximately 80 types of consumer goods, raw materials and production equipment are now embargoed.

U.S. firms frequently cite China's foreign exchange controls and non-convertibility of the renminbi as the most significant non-tariff barriers to trade and investment.

China's standards and testing requirements hold imports to a higher quality standard than applies to domestic products. Import certification can be a time-consuming and expensive process and appears designed to protect domestic producers and to exclude products considered unnecessary for China's development.

During bilateral discussions in October 1991 and later in the local press, the Chinese government announced a number of proposed changes to its trade regime. China was scheduled to adopt the Harmonized System for customs classification and statistics, effective January 1, 1992, and, in conjunction with its adoption, reduce tariffs on 225 items. China has also proposed eliminating import regulatory taxes and, within three years, reducing by two-thirds the number of items requiring import licenses. Lists of goods under import bans or quantitative restriction would be published. The number of items under control would gradually be reduced and replaced by a quota system within three years. MOFERT would compile trade rules, laws and regulations which are still in effect and publish these items within one year. MOFERT would, moreover, be the sole source authorized to issue and publish trade related regulations in the future. Import substitution lists would be published, although the People's Republic of China contends these lists are for "advertising only." The measures described in this paragraph are proposals with implementation schedules which post-date this report.

Services Barriers: Chinese restrictions on certain foreign firm service activities (including insurance, construction, banking, accounting, and legal services) prevent U.S. firms from participating fully in China's service sector. U.S. and other foreign banks, for example, are not

allowed to engage in local currency business in China, while the New York Branch of the Bank of China has conducted all forms of branch banking activities since 1980. U.S. insurance firms are not allowed to participate in the direct insurance market in China. U.S. lawyers and accountants must largely limit their activities to servicing foreign firms that do business in China. Foreign law firms cannot be registered as official representative offices, nor can accountants be registered as CPA's. We are awaiting implementation of an October 1991 agreement to permit U.S. maritime companies to establish branch offices in China.

Investment Barriers: Under Chinese regulations, export-oriented and advanced technology manufacturing investments are given special incentives. Beijing has expressed interest in foreign direct investment (FDI) in basic infrastructure (energy production, communications, transportation, etc.). Chinese laws permit equity participation in investment projects from a minimum of 25 percent up to complete foreign ownership. Government approval is required for all foreign investment in China.

Chinese regulations and policies place strong pressure on most foreign investors to export. Encouraging localization is another central goal of Chinese investment policies. Chinese rules do not set a fixed limit on the percentage of foreign personnel in a given enterprise's staff, although in practice foreign personnel normally constitute only a very small portion of staff. Chinese law prohibits forced disinvestment, except under extraordinary circumstances. The law permits repatriation of profits, so long as the venture has sufficient foreign exchange to cover the remitted amount.

Many joint ventures are highly dependent on China's state-owned sector 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 People's Repulic of China channels for support. China does not provide national treatment to foreign investors. 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. Chinese authorities are, however, approving long-term land use deals for investors, some lasting up to 70 years.

6. 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. Import/export companies also cross-subsidize unprofitable exports with earnings from more lucrative products, although the Chinese are making efforts to define and assign enterprise responsibility. Other export incentives that may be regarded as subsidies include tax rebates for exporters and duty exemptions on imported inputs for export production. China's swap markets constitute a de facto alternative exchange rate

system where exporters can exchange earned foreign exchange for domestic currency at a rate higher than the official rate.

7. Protection of U.S. Intellectual Property

China has made significant progress in recent years in the enactment of laws, such as the new Copyright Law, and regulations to protect intellectual property. Despite this progress there are serious deficiencies in the degree of protection intellectual property is afforded in China. In April 1991, China was identified as a Priority Foreign Country under the "Special 301" provision of the 1988 Trade Act and investigated because of its failure to provide adequate protection of U.S. intellectual property rights (IPR). The scale of piracy of computer software, video and sound recordings, and printed materials has been enormous and it is suspected that much of the copying--especially of computer software--has been by state agencies. The competing interests of such agencies and the difficulty of coordinating China's cumbersome bureaucratic process have made progress on IPR issues difficult.

Although China's new Copyright Law, which came into effect on June 1, 1991, was an important step forward in the protection of intellectual property, the law still does not provide adequate protection for foreign works. The law stipulates that foreign works must first be published in China (works published elsewhere which are then published in China within 30 days will be considered first published in China), and previously-published works are still not protected. There is inadequate protection for computer software which is not considered a literary work under the new law. Its patent law does not now protect either pharmaceutical or chemical products, and a Chinese process patent is not infringed by the importation of a compound made by the same process outside China. U.S. firms have reported that some fertilizers patented in the U.S have been produced in China without license for both the domestic and export market. Moreover, the formulae have sometimes been copied incorrectly, causing serious damage to end-users and damaging the reputation of the genuine product. China's trademark regime is generally consistent with international practice. However, pirating of trademarks is still widespread and actions taken against infringers generally must be instigated by the injured company.

On January 17, 1992, the U.S. and China signed a Memorandum of Understanding (MOU) that addresses many of these problems. In it, China agrees to make best efforts to amend its Patent Law by January 1, 1993. The amendments are to include a patent term of 20 years from filing of applications and extension of patent protection to pharmaceutical and chemical products. China also agreed to provide, beginning January 1, 1993, administrative protection for pharmaceuticals and agricultural chemicals patented in the U.S. since January 1, 1986. This protection will allow the patent holder or licensee to import or manufacture the product in China for seven and a half years from the date of issue of the certificate of administrative protection and will prohibit others from manufacturing the product without permission of the patent holder.

In the copyright area, China has agreed to join the Berne Copyright Convention by October 15, 1992. In connection with this, China has agreed to protect all computer software as a "literary work" under Berne. It will protect all existing works of members of the Berne Union when it accedes to Berne. It will join the Geneva Phonograms Convention by June 1, 1993. In the interim until China joins these two multilateral conventions, the two governments agreed to establish bilateral copyright relations, beginning 60 days after the signing of the MOU, which will protect U.S. works at the standards now in the Chinese law.

China also agreed to make best efforts to pass a trade secrets law by January 1, 1994. Both governments committed to providing effective enforcement measures, both at their borders and internally, to stop violations of intellectual property rights.

In exchange for the commitments the Chinese Government made in the MOU, the U.S. Government agreed to terminate its investigation of China's intellectual property practices and to remove it from identification as a Priority Foreign Country under "Special 301."

8. Worker Rights

a. The Right of Association

China's 1982 Constitution provides for "freedom of association," but the guarantee is heavily qualified by references to the interest of the State and the leadership of the Communist Party. Although union membership is voluntary for individual employees, it is compulsory for each enterprise. China's only union organization, the All China Federation of Trade Unions (ACFTU), while nominally independent, is closely controlled by the Communist Party. The Government does not allow independent trade unions, and none operate openly. There is no right to strike, however organized walkouts over safety issues are tolerated. The International Labor Organization (ILO) continues to question the Government about the fate of some 130 workers reported by the International Confederation of Free Trade Unions to have been imprisoned, and some tortured and executed, following the events of 1989.

b. The Right to Organize and Bargain Collectively

The Government does not permit collective bargaining. Without legal status as a collective bargaining body, the ACFTU's role has been restricted to a consultative one in the decisionmaking process over wages and wage reforms. Worker congresses generally meet only once a year, however, and appear to act primarily as rubber stamps on agreements worked out between factory managers, party secretaries and union representatives. Other than in a few cases where laid-off workers' "living wages" were in jeopardy, trade unions have limited themselves to channelling workers' complaints.

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c. Prohibition on Forced or Compulsory Labor

China is still considering ratification of ILO Convention 105 on forced labor. China's longstanding practice is that all prisoners, including those we would consider political prisoners, work. Some prisoners, even after they have officially been released, are obliged to continue to work at or near their former prison. There is growing evidence that some prison products are exported, including to the United States, although China has stated it is against government policy to export the products of prison labor.

d. Minimum Age for Employment of Children

Regulations promulgated in 1987 prohibit the employment of school-age children who have not completed the compulsory nine years of education. In September 1988 the Ministry of Labor issued a circular designed to curb pervasive child labor problems and reiterated the instruction in 1991. It imposes severe fines, withdrawal of business licenses, or jail for employers who hire child laborers under 16 years old. However, enforcement of the provisions of the circular is spotty and the employment of child labor is still fairly common, particularly in rural areas.

e. Acceptable Conditions of Work

China does not have a labor code. The terms and conditions of employment, including wages, are unilaterally determined through administrative regulation. There is no minimum wage law. Regulations set a basic "living wage," which operates essentially as the minimum unemployment benefit and varies from city to city. The maximum work week is 48 hours, of which a half or full day each week is devoted to the study of political and current affairs. Safety conditions are generally poor and the absence of a national labor code makes enforcement of safety regulations difficult.

f. Rights in Sectors with U.S. Investment

Worker rights practices do not appear to vary substantially among sectors. In general, safety standards are higher in U.S. invested companies. There are no confirmed reports of child labor in the Special Economic Zones or foreign-invested sectors.

Workers in Chinese-foreign joint ventures are guaranteed the right to form unions (which then must affiliate with the ACFTU), and joint venture managers report significant union activity and the need to bargain with these unions over wages and benefits. In addition, some municipal trade union regulations, such as those in Shenyang and Shanghai, give the unions substantial clout in the dismissal process. In 1990 the Ministry of Labor issued a regulation which stipulates that wages paid to workers in foreign-invested joint ventures generally may not exceed 120 percent of the wages paid to workers in state run enterprises or -- if profits are high -- 150 percent of state enterprise wages (though in the latter case the salaries must be approved by the local labor bureaus). However, there have been no reports of attempts to enforce the regulations.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. Dollars)

Category		Amount
Petroleum		79
Total Manufacturing		86
Food & Kindred Products	1	
Chemicals & Allied Products	(D)	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	(D)	
Electric & Electronic Equipment	(D)	
Transportation Equipment	(D)	
Other Manufacturing	(D)	
Wholesale Trade		(D)
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, August 1991

HONG KONG

Key Economic Indicators

(In Millions of HK Dollars unless Otherwise Noted)

	1989	1990	1991(est)
Income, Production, and Employment			
Real GDP (1980 prices)	254,218	261,209	271,135 1/
Real gdp growth rate (pct)	2.7	2.8	3.8 1/
GDP by Sector (pct of total)			
Agriculture/fishing	0.3	N/A	N/A
Manufacturing	18.9	N/A	N/A
Commerce 2/	32.9	N/A	N/A
Finance 3/	19.8	N/A	N/A
Construction	5.3	N/A	N/A
Real per Capita Income (HKD)	44,124	45,031	46,292 1/
Labor Force (1,000's) 4/	2,796	2,804	2,812
Umemployment Rate (pct) 5/	1.4	1.6	2.0
Money and Prices			
Money Supply (M-1) 4/	94,858	107,509	121,485
Commercial Interest Rate (pct) 4/ 6/	10.0	10.0	9.25
Savings Rate (pct) 4/ 7/	5.25	5.5	4.25
Investment Rate (pct) 4/ 8/	6.5	6.75	5.25
Consumer Price Index (a) 9/	129.4	142.0	159.0
Exchange Rate (HKD/USD)	7.800	7.790	7.774
Balance of Payments and Trade			
Total Exports (FOB)	570,509	639,874	767,162
Domestic Exports	224,104	225,875	233,103
Re-exports	346,405	413,999	534,059
Total Exports to U.S. (FOB)	144,195	154,123	161,526
of which:			
Domestic exports	72,162	66,370	59,733
Re-exports	72,033	87,753	101,793
Total Imports (CIF)	562,781	642,530	790,312
from U.S. (CIF)	46,234	51,788	59,038
Aid from U.S.	-0-	-0-	-0-
Aid from Other Countries	-0-	-0-	-0-
U.S. Direct Investment (stock) 10/ (US$mil)	5,948	6,537	N/A
By sector (pct of total)			
Manufacturing	12.3	11.9	N/A
Wholesale trade	39.3	37.4	N/A
Finance and Insurance	28.5	30.7	N/A
Banking	11.4	10.3	N/A
Petroleum	3.1	2.9	N/A
Ext. Public Debt (US$mil)	-0-	-0-	-0-
Annual Debt Service	-0-	-0-	-0-
Gold & Forex Reserves 11/	N/A	N/A	N/A
Balance of Payments 12/	N/A	N/A	N/A

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1/ Consulate revised projection.
2/ Includes wholesale, retail, import/export trades, restaurants, hotels, transport, storage and communications.
3/ Includes banking, insurance, real estate and business services.
4/ End of period.
5/ Quarterly average; seasonally adjusted.
6/ Prime lending rate.
7/ Savings deposit rate.
8/ 3-month time deposit rate.
9/ Oct 1984-Sept 1985; CPI (a) covers urban households with monthly expenditure of HKD 2,000-6,499 (approximately 50 percent of households.
10/ U.S. Department of Commerce, Bureau of Economic Analysis
11/ The foreign exchange holdings of the Hong Kong government exchange fund are confidential.
12/ The Hong Kong government does not keep statistics on capital, interest, dividend or royalty flows, making it impossible to construct a balance of payments table.

1. General Policy Framework

The Hong Kong government pursues a policy of minimum interference in the economy. This applies to trade in goods, services and investment, making the territory's markets arguably the most open in the world. No import tariffs and duties are levied. Taxes are collected on tobacco, cosmetics, non-alcoholic beverages, liquors, methyl alcohol and some hydrocarbons. These taxes are levied equally on local manufactures and imports. There is no protection nor are there subsidies for manufacturing. There are some restiictions on services of foreign professionals in the legal and medical fields. Government-sanctioned monopolies control aspects of telecommunications and aviation-related services. Hong Kong has a freely convertible currency and allows complete freedom of capital movement. Taxes are low and are currently set at 1.5 percent for corporate profits, 15 percent maximum on personal income. Property is taxed; interest, royalties, dividends, capital gains and sales are not.

The Hong Kong government welcomes foreign investment in the territory. It makes no distinction in law or practice between foreign and domestic companies. There are no restrictions on foreign ownership, nor are there export performance or local content requirements. Profits can be freely converted and remitted.

Changes in domestic money supply are largely dictated by balance of payments-flows; the Government's role is restricted to influence over interbank liquidity and thus short-term interest rates. The maintenance of a foreign exchange rate link to the U.S. dollar constrains overall interest rate movements to a narrow band around overseas dollar rates. Hong Kong has no central bank as such, although the monetary affairs branch undertakes most central bank functions with the exceptions of note issue, bank clearing house, and providing a discount window. There is no rediscount rate, reserve requirement, or system of open market operations. Money

supply, interest rates, and economic activity adjust to levels dictated by the exchange rate link. This is largely accomplished by market forces through currency or interest rate arbitrage.

On July 18, 1988 the Hong Kong government augmented its control over domestic interbank rates by requiring that the net clearing balance of the interbank clearing house be deposited with the government's exchange fund. This change gave the government the power to affect liquidity in the interbank market, but the power has been used sparingly. In early June 1989, the authorities acted quickly to inject liquidity into the market following a run on the Bank of China group after the June 4 Tiananmen massacre. The injection was reversed a month later once market conditions had normalized. The most recent instance of use of the liquidity tool was in late May 1991 when the authorities tightened interbank liquidity to help fight inflationary pressures via higher interest rates. However, the resulting interest rate gap put considerable upward pressure on the exchange value of the Hong Kong dollar, forcing a reversal of the move only a few weeks later. In mid-July 1991, the authorities injected liquidity to forestall possible pressure caused by the failure of the Bank of Credit and Commerce Hong Kong operation. The government launched a so-called exchange fund bills program in March 1990. The short-term debt paper is issued on the account of the exchange fund itself and is meant primarily as an additional tool for influencing liquidity conditions. However, it has not been noticeably used for this purpose to date.

2. Exchange Rate Policies

The Hong Kong dollar has been linked to the U.S. dollar at the rate of about HKD7.80 to US$1.00 since October 1983. The link is anchored by a note-issuing mechanism featuring this fixed rate of exchange and maintained by market forces in the foreign exchange market. There are no multiple rates of exchange and no foreign exchange controls. More than half the deposits in the domestic banking system are denominated in foreign currencies.

The price competitiveness of U.S. exports is affected by the value of the U.S. dollar in relation to third country currencies. When the value of the U.S. dollar rises in the international market, U.S. exports are less competitive in Hong Kong and vice versa. As a practical matter, the bilateral merchandise trade deficit has steadily declined over the past few years.

3. Structural Policies

The Hong Kong government does not interfere in any way in the free market price-setting mechanism. There are no price controls or subsidies of any kind. Hong Kong is a GATT member and signatory to the GATT Government Procurement Code and conducts government procurements through a competitive international offer and bid basis. The biggest tenders are published in the U.S. Department of Commerce biweekly magazine *Business America* and provided to subscribers of the trade

opportunity program. U.S. suppliers are always apprised of sizable procurements.

Hong Kong has pursued a balanced budget strategy based on estimates of growth in the economy. Revenues are derived from a betting duty, an entertainment tax, an estate duty, a hotel accommodation tax, a stamp duty, a business registration fee, a property tax, a salaries and profits tax, and miscellaneous fees and charges.

Individuals are liable for tax on three sources of income: business profits, salaries and property. Profits tax is charged only on profits arising or derived from business carried on in Hong Kong. The government pursues a low-tax policy; profits and maximum personal income taxes currently stand at low levels of 1.5 and 15 percent, respectively. As the direct tax base is narrow (salaries and profits tax account for nearly half of general revenue), the government intends to impose a sales tax at the wholesale level. The government's idea of creating this tax is for Hong Kong to develop a broad-based tax system through widening the indirect tax net in order to minimize the vulnerability of the existing narrow tax-revenue base to economic fluctuations. A working paper on the sales tax proposal was sent to the local business and professional groups for comments in May 1989. The consultative exercise for advice on the technical aspects of the proposed tax was completed in October 1989. To avoid any hasty decision, the government has announced no timetable for passage of the legislation.

Hong Kong imposes virtually no controls on trade and industry other than to ensure sound business practices and to meet international obligations associated with health, safety and security. There are no laws or regulations which effectively encourage or discourage investment or determine its character. In line with its obligations to restrain exports of certain textiles and apparel under bilateral agreements, Hong Kong has an export control system administered by its trade department. Due to heavy reliance on sales to the U.S. Market and its trade surplus with the United States, the Hong Kong government encourages diversification of export markets and increased imports from the United States.

4. Debt Management Policies

The Hong Kong government carries no external public debt at present, having issued only one domestic debt instrument (a five-year bond in 1984 for HKD 10 billion) which was retired at the end of 1989. The exchange fund bills described earlier are not considered sovereign debt. The government plans to issue two-year debt on its own account by the end of 1991. With quarterly tranches of HKD 500 million, the total outstanding amount is expected to reach HKD 5 billion (US$641 million) within two years. According to a recent agreement with the People's Republic of China, outstanding government debt cannot exceed HKD 5 billion at the time of retrocession to Chinese sovereignty in 1997.

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5. Significant Barriers to U.S. Exports

There is no general tariff on goods entering Hong Kong. Taxes are levied for revenue purposes only on six groups of commodities (see Section 1). Barriers to trade in services involve accreditation of foreign legal and medical practitioners. For the past three years, U.S. and other foreign law firms have sought permission to associate with local law firms to offer their clients more comprehensive legal coverage. The Hong Kong law society's position in 1989 was that foreign law firms should not be entitled to employ or take into partnership Hong Kong solicitors and thereby practice Hong Kong law.

In mid-July 1991, the law society sent consultation papers to the Hong Kong government, local law firms and various chambers of commerce to invite comments on a proposal to allow associations between foreign and local law firms on a limited basis. The Law Society's proposal also includes an objective, nondiscriminatory and competency-based scheme to assess credentials of foreign lawyers for admission to practice Hong Kong law. However, the call for a specific ratio of foreign lawyers to local lawyers within an individual firm would tend to dilute the overall trade liberalizing effects. The Hong Kong Government, at least informally, seemed pleased to see proposals facilitating the practice of foreign lawyers in Hong Kong. The Law Society, after weighing the commentary, is expected to submit a final proposal in the first quarter of 1992. Legislation will be required. The Legislative Council (LEGCO) may consider the final proposal in Spring 1992.

Basic telephone (wired-voice) and long distance services are controlled by government-sanctioned monopolies, as are air cargo and airport ground handling services.

6. Export Subsidies Policies

Except for the quasi-governmental Hong Kong Trade Development Council which engages in export promotion activities, the Hong Kong government does not subsidize exports either directly or indirectly. The Council is financed by net proceeds of an ad valorem charge of 0.5 percent on all exports and on imports other than foodstuffs and by miscellaneous income from sources such as advertising fees and publication sales.

7. Protection of U.S. Intellectual Property

Hong Kong has acceded to the Paris Convention for the Protection of Industrial Property, the Berne International Copyright Convention and the Geneva and Paris Universal Copyright Conventions. To meet its obligations under these conventions, Hong Kong has enacted laws covering trademarks, trade descriptions (includes counterfeiting) copyrights, industrial designs and patents.

Hong Kong patent law is identical to United Kingdom patent law. A large proportion of patents are registered by

U.S. firms. Protection extends for 20 years. Hong Kong provides full patent protection for chemical compounds and foodstuffs. There are no restrictions on the licensing of patents nor is licensing compulsory. All trademark registrations in Hong Kong, valid for seven years and renewable for 14-year periods, are original. Proprietors of trademarks registered elsewhere must apply anew and satisfy all requirements of Hong Kong law. When evidence of use is required, such use must have been in Hong Kong. Counterfeiting and trademark infringement carry maximum penalties of HKD 100,000 and imprisonment for two years on summary offenses, and HKD 500,000 and imprisonment for five years on indictable offenses. All goods seized are liable to forfeiture.

Copyright protection in Hong Kong derives from U.K. law extended to Hong Kong and from the Hong Kong Copyright Ordinance. Foreign works are protected provided ownership is vested in a country which is a signatory to one of the international conventions. Protection under the Copyright Ordinance is automatic; no registration is necessary. Three-dimensional representations of two-dimensional works are protected as are registered designs. Copyright infringement carries a penalty of HKD 1,000 for each copy and imprisonment for one year. For possession of plates used, or intended to be used in counterfeiting of copyrighted materials, the maximum penalty is HKD 50,000 and imprisonment for two years.

Following a detailed review of Hong Kong's intellectual property laws, the American Chamber of Commerce in Hong Kong concluded in 1988 that, by virtue of the rights created by law and the remedies available for enforcement, Hong Kong's intellectual property laws are among the strongest in the world. The Chamber further concluded that Hong Kong has no intellectual property laws or administrative practices which act to hinder trade.

8. Worker Rights

a. The Right of Association

The right of association and the right of workers to establish and join organizations of their own choosing are guaranteed under local law. Unions are defined as corporate bodies and enjoy immunity from civil suits arising from breaking of contingent contracts or interference with trade by work stoppages on the part of their members.

b. The Right to Organize and Bargain Collectively

The right to organize and bargain collectively is guaranteed under local law. However, the latter is not widely practiced and there are no mechanisms to specifically encourage it. Instead, a dispute settlement system administered by the government is generally resorted to in the case of disagreements. In the case of a labor dispute, should initial conciliation efforts prove unsuccessful, the matter may be referred to arbitration with the consent of the parties or a board of inquiry may be established to investigate and make suitable recommendations.

c. Prohibition of Forced or Compulsory Labor

Compulsory labor is prohibited under existing legislation, and it does not appear to be practiced.

d. Minimum Age of Employment of Children

Under applicable regulations governing the minimum age for employment of children, minors are allowed to do limited part-time work beginning at age 13 and to engage in full-time work at age 15. Employment of females under age 18 in establishments subject to liquor regulations is prohibited. The labor inspectorate conducts workplace inspections to ensure that these regulations are being honored. During 1990, extensive inspection activities resulted in 63 convicted cases for engaging children in employment or during prohibited hours.

e. Acceptable Conditions of Work

There is no legislated minimum wage. Hours and conditions of work for women and young persons aged 15 to 19 in industry are subject to legislation. There are no restrictions on hours of work for men; overtime is restricted in the case of women and prohibited for all young persons under age 18. In extending basic protection to its workforce, the Hong Kong government has enacted industrial safety and compensation legislation. The Hong Kong Government 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. Right in Sectors with U.S. Investment

U.S. direct investment in manufacturing is concentrated in the electronics and electrical products industries. Working conditions do not differ materially from those in other sectors of the economy. Labor market tightness and high job turnover in the manufacturing sector have led to continuing improvements in working conditions as employers compete for available workers.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. Dollars)

Category	Amount	
Petroleum		188
Total Manufacturing		775
Food & Kindred Products	(D)	
Chemicals & Allied Products	140	
Metals, Primary & Fabricated	(D)	
Machinery, except Electrical	284	
Electric & Electronic Equipment	215	
Transportation Equipment	0	
Other Manufacturing	185	
Wholesale Trade		2,444
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		3,407

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business August 1991, Vol. 71, No. 8, Table 11.3

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Key Economic Indicators

(Billions of 1983 Rupiah (RP) Unless Otherwise Noted)

	1989	1990	1991 (est)
Income, Production and Employment			
Real GDP	107,321	114,921	122,391
Real GDP Growth (pct)	7.4	7.4	6.0
GDP by sector			
Agriculture	22,086	22,645	N/A
Mining and energy	16,727	17,198	N/A
Manufacturing	19,836	22,182	N/A
Electricity, gas, water	616	720	N/A
Construction	5,878	6,587	N/A
Retail trade and hotels	17,230	18,772	N/A
Transport and communications	5,667	6,207	N/A
Banking	4,228	4,812	N/A
Real estate	2,880	3,012	N/A
Government	8,397	8,887	N/A
Other services	3,716	3,909	N/A
Real per capita income (Rp '000)	613	588	631
Labor force (mils)	73.6	75.9	78.2
Unemployment rate (pct)	3.10	3.26	2.8
Money and Prices			
Money supply (M1) (pct) 1/	39.8	18.4	6.1
Interest rates 2/	12.4	14.5	17.7
National savings/GDP (pct)	21.4	21.4	22.0
Investment/GDP (pct)	23.5	24.6	25.0
Consumer price index 3/ 4/	337	115	126
Change in CPI 4/	6.0	9.5	9.5
Wholesale price index 5/	162	178	185
Exchange rate (Rp/$) 6/	1,770	1,843	1,950
Balance of Payments and Trade (US$ million)	1989	1990	1991
Exports FOB	22,974	26,807	14,300 9/
Oil and gas	8,914	11,931	6,000 9/
Non-oil/gas	14,060	14,876	8,300 9/
Imports FOB	-16,310	-21,455	-12,200 9/
Oil and gas	-2,406	-3,222	-1,700 9/
Non-oil/gas	-13,904	-18,233	-10,500 9/
Services (net)	-7,944	-8,592	-4,700 9/
Current account	-1,280	-3,240	-2,500
Annual official debt service	6,845	6,645	7,196
Exports to U.S. FOB	3,497	3,365	3,400
Imports from U.S. CIF	2,218	2,520	1,990
U.S. direct investment	3,770	3,827	N/A
Official reserves (end of period)	6,562	8,661	9,754
Total foreign assistance 8/	4,297	4,156	4,750
of which U.S.	90	135	138

1/ Annual growth rate, except for 1991 which is first half of 1991 over first half of 1990.
2/ Interbank funds rates; 1991 rate is January to June

average.
3/ End of period. For 1989, FY 1977/78 equals 100; starting 1990, FY 1988/89 equals 100; due to change in basis of calculating CPI, comparable data for earlier years are not available. Fiscal year is from April 1 to March 31.
4/ First nine months of 1991.
5/ 1983 equals 100; end of year except for 1991 which is end-June.
6/ Period average; for 1991, period is January to August.
7/ Whole year totals.
8/ Total is amount pledged at the annual Intergovernmental Group on Indonesia (IGGI) donors' meeting (does not include all special assistance and aid outside the IGGI context.)
9/ Jan-Jun 1991 total only.

1. General Policy Framework

The principal objectives of the Indonesian government's economic policies are twofold: to reduce the country's reliance on the oil sector as a source of foreign exchange and government revenues, and to stimulate job creation by giving freer rein to the private sector. Since the early 1980s the government's strategy has been generally successful in enhancing the country's economic performance. Growth in real gross domestic product has exceeded five percent every year since 1986, and was above seven percent in both 1989 and 1990. Due to the government's success in promoting non-oil exports, the performance of the national economy is less closely tied to the price of oil: in FY 1981/82 oil and gas comprised more than 80 percent of export earnings and 70 percent of domestic revenues; in FY 1990/91 they contributed 43 percent of export earnings and 45 percent of domestic revenues. This progress has been achieved while holding inflation to single digit levels and maintaining a convertible currency for both current and capital account transactions. While underemployment remains a concern, job creation has generally kept pace with the rapidly expanding work force.

The government's wide-ranging reforms, known as "deregulation," are aimed at reducing burdensome regulations and administrative controls. The reforms have covered sectors such as banking and capital markets, taxation, customs, foreign trade, investment, transport, and telecommunications. The deregulation program has boosted economic performance and given the private sector a more prominent role in the economy. New opportunities for sales in export and domestic markets have resulted in rapid expansion of the non-oil manufacturing sector, which since 1983 has grown at an average annual rate of over 12 percent. Private investment has also been robust. Foreign investment approvals in 1990 exceeded $8.7 billion; domestic investment approvals were over $30 billion. Private fixed investment as a percentage of total fixed investment increased from about 50 percent in the late 1970s to 61 percent in 1990, underlining the growing role of the private sector in the economy.

Strong domestic demand, fueled by vigorous private and public investment, has strained limited infrastructure and pushed up inflation. Increased private sector borrowing from offshore to finance investment has heightened concern about

Indonesia's ability to service the resulting higher levels of debt. In addition, the current account deficit in 1990 grew rapidly due to higher imports and slower growth in exports. In an effort to reduce inflation and curb the demand for imports, in mid-1990 the government responded by slowing monetary growth. In October 1991 it further decided to postpone several major projects financed with foreign commercial credits.

In the longer term, creating jobs for the country's relatively young population will pose a continuing challenge for economic policymakers. While the population growth rate has been reduced to just under two percent, an estimated 2.3 million persons will enter the workforce each year. The government estimates that creating jobs for these new entrants will require annual GDP growth of five percent or better for the foreseeable future. Another challenge will be completing and consolidating deregulation reform. Entrenched interests and restrictive regulations in certain sectors continue to pose obstacles to increasing the flexibility and efficiency of the economy. The Government, however, remains fully committed to the process of deregulation, and more deregulation packages are in preparation.

Fiscal policy: The Government is seeking to augment its limited funds available for development through efforts to increase tax collections; in each of the last three fiscal years, domestic revenues have increased by at least 30 percent. The Indonesian authorities are required in principle to maintain a balanced budget without borrowing from domestic sources; however, external debt payments and government salaries together account for about 70 percent of operating expenditures. Foreign donors therefore finance a major share of development expenditures through bilateral or multilateral aid programs. The current five-year economic plan assigns a large role to private sector investment as a source of financing for economic growth.

Monetary policy: In the conduct of monetary policy, the Central Bank buys and sells financial paper. The Government has on occasion ordered state-owned enterprises to withdraw deposits from the banking system. It also provides subsidized credit to financial institutions lending in target sectors. In early 1990 the government announced its decision to phase out these credits and further restricted new credits to a few priority sectors; between January 1990 and September 1991, outstanding liquidity credits declined almost 20 percent, from Rp 16.2 trillion to Rp 13.5 trillion (approximately $6.9 billion). In 1988 reserve requirements were cut from 15 percent to 2 percent. Indonesia imposes no capital controls.

2. Exchange Rate Policies

The government has maintained the convertibility of the rupiah since the 1960s. There are no foreign exchange controls. The government follows a managed float policy based on a basket of major trading currencies, including the U.S. dollar. Current policy is to maintain the competitiveness of the rupiah through a gradual depreciation against the dollar, at a rate of about five percent a year. The exchange rate on

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November 1, 1991 was 1,977 rupiah per U.S. dollar.

3. Structural Policies

In general, the government does not intervene directly to set prices, but allows the market to determine price levels. To promote food security, the government enforces a system of floor and ceiling prices for certain food products, for example, rice. In some cases, business associations, with government support, establish prices for their products. In mid-1990 the government, in response to domestic shortages, prohibited the export of certain types of cement. In 1990, the government established a new domestic clove trading system; the purchasing body's clove buying is supported with Central Bank liquidity credits. Direct government subsidies are confined to certain goods such as fertilizers and petroleum products. The Government is committed to reducing subsidies for agricultural inputs. On January 1, 1989, pesticides subsidies were removed. The fertilizer subsidy has been reduced annually from 1989 through 1991.

Individuals and businesses are subject to income taxes. The maximum rate is 35 percent of annual earnings in excess of Rp 50 million (about $25,000). On April 1, 1985, a value-added tax (VAT) was introduced. The level of tariff protection has been reduced. Companies can apply for an exemption from or a rebate of import; duties and VAT paid on inputs used to produce exports. A few products remain subject to export taxes. In October 1989 export taxes on sawn lumber were raised to prohibitive levels. In July 1988, Indonesia and the United States signed a double taxation agreement, which entered into force in December 1990.

4. Debt Management Policies

Indonesia's medium and long term foreign debt, both official and private, totals about $65 billion. In 1991 Indonesia will pay approximately $4.7 billion in principal payments and $2.9 billion in interest payments on public sector debt, or about 26 percent of its projected total export earnings. The government is fully committed to meeting its debt service obligations and has no plans to seek a debt rescheduling.

In response to the sharp increase in external debt occasioned by higher private sector offshore borrowing, the government in September 1991 set up a cabinet-level team 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. The announcement of the team's formation stated that financing for purely private projects is not directly affected. The team is also charged with prioritizing the use of offshore funds by project and with establishing ceilings for government total borrowing by fiscal year. In October 1991 the team announced guidelines on public and private sector foreign commercial borrowing through FY 1995/96 ranging from $5.6 to $6.5 billion total per year. It also decided to defer four large projects in the petroleum sector with a total cost of $9.8 billion.

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5. Significant Barriers to U.S. Exports

By Indonesian law, foreign companies cannot engage in wholesale or retail distribution of foreign or domestic goods, only Indonesia companies have this right. An Indonesian company is defined as comprised of 51 percent Indonesian ownership and a board of directors consisting of mostly Indonesian nationals.

Foreign firms must select an Indonesian agent or distributor to market their products in Indonesia. The foreign company may only appoint one sole agent for the entire country, while an Indonesian firm may enter into several sole agency agreements.

Import Licenses: Since 1986, import licensing requirements have been relaxed in a series of deregulation packages, the most recent of which were issued in May 1990 and June 1991. Items still subject to import licensing include some agricultural commodities (rice, sorghum, sugar), alcoholic beverages, and some iron and steel products. Remaining import licensing requirements may be waived in some cases for companies importing goods to be incorporated into subsequent exports. The importation of most types of completely built-up passenger vehicles is forbidden. Tariffs and surcharges have often replaced licenses as the preferred method of protecting certain domestically produced goods. As trade and investment market-opening has progressed, accompanied by more rapid economic growth, U.S. exports to Indonesia have increased.

Services Barriers: Services barriers abound, although there has been some loosening of restrictions, particularly in the financial sector. Foreign banks, securities firms, and life and property insurance companies are permitted to form joint ventures with local companies; in all cases, the capitalization requirements are higher than for domestic firms. Foreign companies incorporated in Indonesia may issue stocks and bonds through the capital market. Foreigners are permitted to purchase up to 49 percent of all non-bank shares listed on the stock exchange.

Foreign attorneys may serve as consultants and technical advisors. However, attorneys are admitted to the bar only if they have graduated from an Indonesian legal faculty or from an institution recognized by the government as equivalent. Foreign accountants may serve as consultants and technical advisors to local accounting firms. Air express companies are not permitted to own equity in firms providing courier services, although they may arrange with local firms to provide services in their name and provide expatriate staff to the local firms.

Indonesia imposes a quota on the number of foreign films which may be imported in a given year and restrictions are placed on their distribution within the country. All U.S. films must be imported by a group of six fully Indonesian-owned companies. In September 1990 the Motion Picture Export Association of America established a representative office in Indonesia. U.S. film producers would like to distribute their films directly or, as an interim

measure, establish joint ventures for this purpose.

Standards, Testing, Labelling, and Certification: In May 1990 the government of Indonesia issued a decree which stated that the Department of Health must make a decision within one year of receiving a complete application for registration of a new foreign pharmaceutical product. Under the national drug policy of 1983, a foreign firm may register prescription pharmaceuticals only if they both incorporate high technology and are products of the registering company's own research. Foreign pharmaceutical firms have complained that copied products sometimes become available on the local market before their products are registered.

Investment Barriers: Although deregulation has reduced the difference in treatment between foreign and domestic investors, national treatment for foreign investments does not exist. With the qualified exception of new investment on Batam Island, foreign investment must be in the form of joint ventures. Usually with minimum Indonesian equity of 15 percent. With very limited exceptions, foreign partners must divest over a period of time to achieve majority Indonesian ownership, according to the law. Although wholesale distribution of products manufactured by a joint venture is permitted, retailing is closed to foreign investors.

Most foreign investment must be approved by the Capital Investment Coordinating Board (BKPM). Line departments handle investment in the oil and gas, non-oil minerals, financial, and forest concession sectors. BKPM maintains a list of sectors closed to further foreign and/or domestic investment. There are several provisions under which foreigners may exploit or occupy land in Indonesia, but only Indonesians may own land. There are numerous restrictions on the employment of expatriates by both domestic and foreign/joint venture firms.

Government Procurement Practices: 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 generally followed. Under a 1984 Presidential Instruction ("Inpres-8") on government-financed projects, the government generally requires concessional financing which at least meets the following criteria: 3.5 percent interest and a 25 year repayment period which includes 7 years' grace. Foreign firms bidding on certain government-sponsored construction or procurement projects must agree to purchase and export the equivalent in selected Indonesian products. Government departments and institutes and state and regional government corporations are required to utilize domestic goods and services to the extent they are available (this is not mandatory for foreign aid-financed goods and services procurement). An October 1990 government regulation exempts state-owned enterprises which have offered shares to the public through the stock exchange from government procurement regulations; as of October 1991 one such enterprise had made a public offering.

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6. Export Subsidies Policies

Indonesia has joined the GATT Subsidies 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 manufacturing export products. Exemptions 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 and is a party to certain sections of the Paris Convention for the Protection of Intellectual Property. It is not a signatory to the Berne Convention for the Protection of Literary and Artistic Works, but is considering adhering to it. Indonesia has made progress in intellectual property protection, but it remains on the U.S. Trade Representatives's Special 301 "watch list" under the provisions of the 1988 Omnibus Trade and Competitiveness Act.

Patents: In November 1989 Indonesia enacted its first patent law which came into effect on August 1, 1991. Implementing regulations clarified several areas of concern, but others remain including compulsory licensing provisions, a relatively short term of protection, and a provision which allows importation of 50 specific products by non-patent holders. The patent law and accompanying regulations include product and process protection for both pharmaceuticals and chemicals.

Trademarks: The government has submitted to Parliament a trademark bill which it hopes will become law by April 1992; in the interim, a new trademark regulation broadening the definition of well-known marks was issued in May 1991. Several U.S. companies have trademark cases pending before the Indonesian Supreme Court. The new law is expected to improve significantly existing law which makes cancellation of trademarks registered in bad faith difficult after a nine-month opposition period.

Copyrights: On August 1, 1989 a bilateral copyright agreement with the United States went into effect extending national treatment to each other's copyrighted works. Enforcement of the ban on pirated audio cassettes and textbooks has been vigorous; in September 1991 the government initiated a crackdown on pirated videos. The government has also conducted raids against software pirates, prompting retail outlets to take pirated material off their shelves. The government has demonstrated that it wants to stop copyright piracy and that it is willing to work with copyright holders toward this end. Enforcement to date has significantly reduced losses from pirated property, but problems still exist.

New Technologies: Biotechnology and integrated circuits are not protected under Indonesian intellectual property laws. Indonesia has, however, participated in a World Intellectual Property Organization conference on the

protection of integrated circuits and is considering introducing legislation.

Impact: It is not possible to estimate the extent of losses to U.S. industries due to inadequate intellectual property protection, but U.S. industry has placed considerable importance on improvement of Indonesia's intellectual property regime.

8. Worker Rights

a. The Right of Association

Private sector workers, including those in export-processing zones, are free to form or join unions without previous authorization, but in order to bargain on behalf of employees a union must meet the requirements for legal recognition and register with the Department of Manpower. Less than 6 percent of the 76 million member work force is organized. The All Indonesia Workers Union (SPSI), which groups together private sector workers, is the only recognized intersectoral trade union body. Unions draw up their own constitutions and rules and elect their representatives under close government scrutiny.

All unionized workers, with the exception of civil servants, have a legal right to strike. With a few exceptions, civil servants and employees of state enterprises must belong to the Indonesian Corps of Civil Servants (KORPRI), a nonunion association, and do not have the right to strike. By government regulation, a separate and compulsory dispute resolution and appeals process exists for civil servants and public employees to protect their interests.

b. The Right to Organize and Bargain Collectively

Collective bargaining is provided for by law, but only registered trade unions can engage in it. Once an employer is notified that 25 employees have joined the union, it is under a statutory obligation to bargain. Workers can organize without restriction in private enterprises. There are no laws which prevent bargaining from taking place in export processing zones, but no companies in the zones which have SPSI units have negotiated collective bargaining agreements. If the State has a partial interest, the enterprise is considered to be in the public domain, but this does not legally limit organizing. There is a significant number of government/private joint ventures which have labor unions and bargain collectively. Regulations forbid employers from harassing employees because of union membership.

c. Prohibition of Forced or Compulsory Labor

Forced labor is strictly prohibited.

d. Minimum Age for Employment of Children

The Department of Manpower acknowledges that there is a class of children under age 14, which is the legal minimum age for employment, who, for socio-economic reasons, must work.

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Special protections exist for children aged 7 to 14 and such employment must be with the permission of the child's parent or guardian. Employers are required to ensure that these children have access to junior high education within the framework of the compulsory schooling law. The Department of Manpower conducts periodic inspections and can impose sanctions for violations.

e. Acceptable Conditions of Work

The law establishes 7-hour workdays and 40-hour workweeks with a half-hour of rest for each 4 hours of work. Minimum wages are established by region by Wage Councils working under the supervision of the National Wages Council. An extensive body of labor law and regulation provides workers with vacation pay, maternity leave, public holidays, overtime and sick pay, severance and service pay, etc. Workers also receive transportation and food allowances and holiday bonuses. Workers in more modern facilities receive health benefits, social security contributions, and free meals. An extensive body of law and regulation provides for minimum standards of industrial health and safety.

f. Rights in Sectors with U.S. Investment

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 pharmaceuticals 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 control 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 Indonesian 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 contracts of 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 etc. applies to all sectors. The best industrial and safety record in Indonesia is found in the oil and gas sector.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. Dollars)

Category		Amount
Petroleum		3,209
Total Manufacturing		135
Food & Kindred Products	(D)	
Chemicals & Allied Products	72	
Metals, Primary & Fabricated	10	
Machinery, except Electrical	(D)	
Electric & Electronic Equipment	-1	
Transportation Equipment	0	
Other Manufacturing	(D)	
Wholesale Trade		(D)
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business August 1991, Vol. 71, No. 8, Table 11.3

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Key Economic Indicators

	1989	1990	1991
Income, Production, and Employment			
Real GNP (Trillions of Yen)	383.1	404.7	422.6 2/
Real GNP Growth Rate (Pct)	4.7	5.6	4.1 2/
Real GNP by Sector (Trillions of Yen)			
Manufacturing	114.4	119.7 3/	N/A
Agriculture & Fisheries	10.2	9.8 3/	N/A
Per capita GNP (Dollars)	23,015	23,950	26,753
Labor Force (Million)	62.7	63.8	63.6 4/
Unemployment Rate (Pct)	2.3	2.1	2.1 4/
Money and Prices			
Money Supply (M2+CD Annual Avg) (Trillions of Yen)	432.7	483.1	498.9 4/
Commercial Interest Rates (10-year Govt Bond; Yr-end)	5.73	7.10	5.38
Savings Rate (Pct) 5/	14.2	14.3	N/A
Investment Rate (Pct) 6/	31.5	33.0	33.9 2/
CPI (1990 equals 100)	97.0	100.0	102.9 7/
WPI (1985 equals 100)	88.8	90.6	90.8
Exchange Rate (yen/dol)	138.0	144.8	134.5
Balance of Payments and Trade (Billions of Dollars)			
Total Exports FOB	275.2	286.9	229.4
Total to U.S. FOB	93.2	90.3	66.3
Total Imports CIF	210.8	234.8	174.9
Total From U.S. CIF	31.0	31.6	39.8
Aid to Other Countries 8/	8.97	9.22	N/A
Gold & Forex Reserves (Yr-end)	84.9	77.1	67.9 7/
Balance of Payments			
Current Account	57.2	35.8	48.3 4/
Trade Account	76.9	63.5	71.6 4/
Services & Trans.	-19.8	-27.8	-23.3 4/
Long-Term Capital	-89.2	-43.6	33.7 4/
Basic Balance	-32.1	-7.8	81.9 4/
Short-Term Capital	20.8	21.5	-28.9 4/

1/ Calendar year unless otherwise indicated.
2/ Jan-Sep seasonally adjusted annual rate (S.A.A.R.)
3/ Estimated from production indexes.
4/ End of Sept N.S.A.
5/ Percent of household income.
6/ Domestic fixed capital formation and inventory/GNP.
7/ Jan-Nov average, non-seasonally-adjusted (N.S.A.)
8/ Gross official development assistance (ODA) flows; Japanese government projection.

1. General Policy Framework

The Japanese economy in 1991 continues to be the world's

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second largest. Gross National Product (GNP) in nominal terms at $2.8 trillion (1990) is 54 percent that of the United States. Japan's large, persistent external trade and current account surpluses have evoked international appeals for Japan to adopt policies that advance structural adjustment. Frustrated trading partners point out that Japan is home to inefficient transport, agricultural, construction and distribution sectors which it hesitates to expose to foreign competition. Transition to greater competition in these sectors is underway, although more slowly than trading partners generally feel is necessary.

Since 1987, Japan has recorded 18 quarters (through 1991's second quarter) of strong real economic growth, highlighted by low inflation and low unemployment. However, the growth pattern began shifting in late 1990, as growth of domestic demand slowed and net foreign demand reappeared, bringing about a rising current account surplus. Prior to 1991, Japanese external surpluses had been declining in dollar terms since 1988, reaching a low point of 1.2 percent of GNP in 1990.

Easy credit and equity conditions played an important role through 1989 in sustaining expansion of Japanese domestic demand, while falling import prices and a measure of deregulation kept inflation at bay. In response to worsening asset inflation, Japan began tightening credit conditions late in 1989. The subsequent climb in interest rates brought capital costs from historic lows to levels comparable to those in the U.S., which together with a change in earnings expectations, prompted reduced net capital outflows from Japan. Japanese monetary tightening coincided with two distinct periods of broad equity market devaluation, the first in the early spring of 1990 and the latter following the Iraqi invasion of Kuwait. The higher cost of equity financing and more stringent monetary policy have dampened growth in corporate investment and residential housing, two of the mainstays of the long-lived expansion. Consumer spending has advanced steadily, thanks in part to wage growth sustained by a tight labor market. This feature of the Japanese economy has a long term character, as the potential labor force will begin to shrink in the mid-1990s.

Japan has pursued relatively tight fiscal policies since 1982 to constrain growth in government debt, which had expanded to about 35 percent of nominal GNP by that year. However, responding to appeals from other summit countries to contribute to the reduction of international imbalances, the Japanese government in June 1987 initiated a $35 billion multi-sector public works spending package and followed up with tax cuts worth about $10 billion. Notwithstanding these stimulative measures, Japan's budget balance continued to improve, and in 1987 the general government budget balance (central and local governments, and social insurance) went into surplus. In the June 1990 report of the U.S.-Japan Structural Impediments Initiative (SII), the Japanese Government agreed to formulate a ten-year plan to boost significantly social infrastructure spending. Japanese Government budget actions in FY 1991 were consistent with the trend line investment growth implied by the plan.

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The Japanese Government reduced personal and corporate income tax rates and introduced an indirect value-added tax (VAT)-type consumption tax in April 1989. The consumption tax, intended to broaden the tax base and thereby improve the Government's ability to respond to prospective future claims on the national purse in one of the world's fastest aging societies, evoked widespread popular opposition. However, imports continued to rise after imposition of the new tax, due in large part to the overall surge in domestic demand.

In recent years, Japan's economic policy has been formulated in coordination with the economic policies of the six other economic summit countries. In cooperation with the United States, Japan is playing a leading role in increasing official development assistance (ODA) flows, and became the world's largest donor in 1989. (It reverted to second place in 1990.) Japan has committed to double ODA to at least $50 billion over the five years 1988-92 and to improve the "quality" of that aid by boosting the share of grant and untied aid. Japan also committed to support financial flows to highly indebted countries through its $20 billion "yen recycling" program, which includes loans to debtor countries as well as increased funding for international financial institutions and multilateral development banks.

Japan's private sector continues to play the greater role in recycling Japan's large current account surpluses, although in 1990 private outflows to less developed countries were scaled back as direct investment flows diminished. The pattern of capital flows has undergone shifts as well. Long-term capital outflows exceeded Japan's current account surplus from 1984 through 1990, and Japanese overseas direct investment grew steadily. In the first three quarters of 1991 the composition of outflows shifted predominantly to short-term capital, and overseas direct investment slowed. Japan became a net borrower of long-term capital, due to high offshore borrowing and also to strong inward portfolio investment by foreigners, attracted by high yields and attractive prices for Japanese securities.

2. Exchange Rate Policies

Japan ended most but not all of its foreign exchange controls in the 1970s, culminating in a major simplification of the foreign exchange and foreign trade control law in 1980. Currently, pursuant to the international understandings launched under the 1985 Plaza Accord and refined since then, Japan actively coordinates economic policies with the U.S. and its other Group of Seven (G-7) partners. The appreciation of the yen since 1985 increased the competitiveness of American products and contributed to the reduction of Japan's external imbalances through 1990.

3. Structural Policies

The Japanese economy continues to undergo transition and structural change. This has primarily been a market-driven response to the fundamental exchange-rate realignment of the mid-to-late 1980s. Another central factor has been the focus on deregulation of the economy, particularly the privatization

of public telecommunications and railway companies and simplification of product standards. Despite progress in this area, Japan's economy remains heavily regulated, reinforcing business practices that restrict competition and thus keep prices high. Price controls remain on certain agricultural products, and bureaucratic obstacles to the entry of new firms into businesses like trucking, retail sales and telecommunications also have slowed the economy's structural adjustment. The 1989 Structural Impediments Initiative (SII) identified structural problems in both countries that stand as impediments to reduction of payments imbalances. In the Joint Report of June 1990, Japan undertook to resolve a range of structural issues.

The U.S. achieved progress in the SII, which is aimed at removing impediments to trade, balance of payments adjustments, and opening markets. Although further government of Japan actions are clearly needed, progress has been made. In 1991 the government of Japan took budgetary decisions to implement the first year of a 430 trillion Yen (US$3.6 trillion), ten year public infrastructure investment plan. The Government is deregulating portions of its distribution system, including reform of the Large Scale Retail Store Law, liberalizing its foreign direct investment regime, improving various disclosure rules that should help make business practices more transparent, and strengthening antimonopoly enforcement. In the area of land use, action was taken to eliminate tax preferences for agricultural land in major urban areas. Additional progress in all areas is necessary in order to contribute further to the goals of opening markets and reducing trade and current account imbalances. In particular, Japan should take additional steps to reinforce the antimonopoly enforcement regime so that it will effectively deter anti-competitive practices. Substantial additional actions are also needed to make business relationships more open and transparent by, for example, addressing anti-competitive aspects of cross-shareholding, strengthening shareholders' rights, and improving corporate accounting and disclosure practices. Furthermore, it remains important that the Japanese government follow through steadily on its ten-year public investment plan, support a more rapid phase-in of lease law reform, continue to streamline customs clearance procedures, and take other measures to remove impediments to structural adjustment.

Government spending policy has given an indirect boost to the competitiveness of a number of Japanese industries. In the past, the government directed considerable public and private resources to targeted priority areas, but has been moving away from such industrial policy measures, partly in response to criticism of export-oriented policies by Japan's trading partners. The Japanese government continues to promote high technology cooperation among firms and plays a direct role in organizing these efforts, using off-budget resources and small amounts of appropriated funds to contribute to investment projects and government-private sector efforts.

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4. Debt Management Policies

Japan is the world's largest net creditor. It is an active participant together with the United States in international discussions of the developing country indebtedness issue in a variety of fora.

5. Significant Barriers To U.S. Exports

Over the past few years, the Government of Japan has removed most formal barriers to the import of goods and services. Import licenses, which are still technically required for all goods, are granted on a pro forma basis with limited exceptions (fish, leather goods and some agricultural products). Japan's average industrial tariff rate is one of the lowest in the world, at around two percent, and Japan has offered to reduce its industrial tariffs by one-third in the Uruguay Round Market Access Negotiations. The Uruguay Round negotiations seek to reduce further trade barriers in a number of areas, such as agriculture (where the United States seeks, among other things, an end to Japan's ban on rice imports), manufactured goods (where the United States has proposed the mutual elimination of tariffs for major industrial sectors), and the services sector.

U.S. and Japanese negotiators concluded agreements over the past two years in the areas of supercomputers, commercial satellites, public sector purchases of computers and computer services, semiconductors and construction as well as wood products. In addition, the Government of Japan agreed to ease rules on value-added telecommunications services, to strengthen copyright protection for U.S. music recordings, and to resolve a dispute involving amorphous metals by facilitating market entry. Discussion of market barriers in the areas of autos, auto parts and paper products continues.

Current obstacles to selling into the Japanese market do not fit conventional trade barrier categories. Instead of tariffs and official discrimination against imports, American exporters, in areas ranging from paper to computers, face a number of factors which raise costs and inhibit access. These include government red tape, the high cost of land, an outdated and fragmented distribution system, and insular attitudes by both government officials and private businessmen. The Japanese government has turned its attention to, and has begun to show some progress in, the areas of distribution, exclusionary business practices and land use, all of which should help cut the cost of new market entry for U.S. exporters.

Impediments to trade in services have become prominent on the U.S.-Japan trade agenda in recent years. The U.S. and Japan concluded accords partially liberalizing access to the legal services market (1987), promoting free and open procurement of construction services and goods (1988 and 1991), and easing restrictions on telecommunications services (International Value-added Networks I, 1988; Cellular phones, 1989; International Value-added Networks II, 1990). In recent years, Japan has eased restrictions on financial services, though remaining barriers continue to be reviewed in the

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U.S.-Japan Working Group on Financial Markets. Foreign architectural design and construction firms continue to encounter difficulties in competing for construction contracts set by Japanese Government agencies. The 1988 Major Projects Arrangement established leaner and more transparent procedures for foreign bidders. In 1991 that arrangement was revised to improve the procedures. We require additional experience to determine how the procedures will work in practice. In addition, despite partial liberalization of legal services in 1987, Japan maintains a number of severe restrictions in that area, including prohibition on employment of or partnership with Japanese lawyers. These difficulties are the subject of ongoing bilateral talks.

Government procurement in Japan conforms to the letter of the GATT Procurement Code. Uruguay Round negotiations seek to significantly expand the coverage of the Code, including in Japan. The United States will continue to monitor Japanese Government procurement and to discuss procedures with the Japanese Government to assure that U.S. firms are given an opportunity to compete fairly and openly.

The Government of Japan has simplified, harmonized and, in some cases, eliminated restrictive standards in order to follow international practices in many areas. For example, the 1985-87 Market-Oriented Sector-Selective (MOSS) talks resolved a host of standards problems and set in motion a continuing dialogue through MOSS follow up meetings of experts. However, in some cases, advances in technology make current standards outdated and restrictive; in other cases, Japanese industry supports unique safety standards which have the effect of limiting competition. Finally, bureaucratic inertia inhibits further simplification of standards.

Japan requires that a prospective foreign investor notify the Ministry of Finance of his intention to make an investment thirty days before the investment takes place. Investments in sectors other than aircraft, space development, atomic energy, agriculture, fisheries, forestry, oil and gas production and distribution, leather and leather product manufacturing and tobacco manufacturing normally proceed without further formalities. In the Structural Impediments Initiative, the Government of Japan agreed to substantially eliminate its pre-notification procedures. Beginning on January 1, 1992, foreign direct investment in sectors on a "positive list" will no longer require prior notification. This positive list encompasses approximately 80 percent of the Japanese economy. Investments in sectors not on this list will still require prior notification but investments can only be restricted for national security reasons or for reasons consistent with the OECD Code on Capital Investment. Foreign investment in the banking and securities industries is subject to a reciprocity requirement. Japan provides foreign investors national treatment after entry with limited exceptions notified to the Organization for Economic Cooperation and Development (OECD). The Japanese Government continues to publish "visions" for the future development of promising industrial sectors and to provide some funds for pre-competitive research in certain industrial areas. The Japanese Government does not employ local equity requirements, export performance requirements, or local content requirements. The Japanese Government has not

forced foreign individuals or companies to divest themselves of investments. Japanese law allows foreign landholding, and foreign investors may repatriate capital and profits readily.

The acquisition of existing Japanese companies is difficult due in part to crossholding of shares among allied companies, resulting in a low percentage of publicly traded common stock, and to the obstacles outsiders face in gaining access to company records. The difficulty of acquisition of existing companies inhibits foreign investment.

6. Export Subsidies Policies

Japan adheres to the Organization of Economic Cooperation and Development (OECD) export credit arrangement, including the agreement on the use of tied aid credit. The Government of Japan subsidizes exports as permitted by the OECD arrangement, which allows softer terms for export financing to developing nations. Japan has virtually eliminated Japan-tied aid credits and now extends about three-quarters of its loan aid under untied terms. But U.S. exporters face difficulties in competing due to the use of (1) "Less Developed Country" (LDC) untied aid, where bidding is only open to Japanese and LDC firms, and (2) tied feasibility studies (provided by grant aid) for untied (loan aid) projects which result in project specifications more suited to Japanese than U.S. bidders. These programs are the subject of continued discussions with the OECD. Japan exempts exports from the three percent VAT-like consumption tax initiated in April 1989. This provision does not appear to have any significant impact on a manufacturer's decision to sell domestically or export.

7. Protection of U.S. Intellectual Property Rights

Japan is a party to the Berne, Paris and Universal Copyright conventions and the Patent Cooperation Treaty. Japan's Intellectual Property Rights (IPR) regime affords national treatment to U.S. entities. The United States and Japan agree that uniform IPR standards and better enforcement are needed. To that end, U.S., Japanese and European negotiators are engaged in trilateral patent harmonization talks. Discussions, including the protection of semiconductor mask works, are also taking place in the World Intellectual Property Organization (WIPO) and the General Agreement on Tariffs and Trade (GATT) talks.

Average patent pendency in Japan is one of the longest among developed countries, averaging over five years from application to grant. Japan's slow patent processing has been discussed in the SII talks, and the average patent examination portion of the pendency period has been reduced from about 37 months to 32 months, with further efforts planned to reduce this period to 24 months maximum. Coupled with the practice of laying open all applications to public inspection 18 months after filing, the long patent pendency period results in a long period of public access to the application without effective legal protection. Many Japanese firms use the patent system as a tool of corporate strategy, filing many applications to cover slight variations in known technology, a

practice facilitated by access to previously laid-open applications and the patent law's compulsory licensing provisions for dependent patents. U.S. filers often find that their Japanese rights are closely circumscribed by prior filing of applications for a very similar invention or process. The need for individual responses to multiple patent oppositions often increases delay and processing costs. Moreover, Japanese courts interpret patent applications narrowly and adjudicate cases slowly. Japanese patent law lacks a doctrine of equivalence and civil procedure lacks a discovery procedure to seek evidence of infringement.

Trademark applications are also processed slowly, sometimes taking three to four years. Infringement carries no penalty until an application is approved. Service marks already widely known in Japan can be protected in court only under the unfair competition law. Japan has announced its intention to amend the trademark law to explicitly protect service marks. A service mark law has been passed by the Diet and will be implemented in April 1992. In the meantime, the Japan Patent Office, following a 1989 court decision, has stopped permitting firms in service industries to register or renew registration of trademarks for products not sold in commerce but used or distributed in conjunction with their services.

Japanese copyright protection of algorithms and programming languages remains ambiguous. Sale of pirate videos remains a problem although the Japanese police have cooperated with strong efforts by the Motion Picture Association of America to raid video pirates under Japan's 1988 legislation which facilitates prosecution of video pirates. Japan has promised to vigorously enforce national treatment rights, and a revised copyright law was passed in 1991 to take effect in January 1992. Under the revised law, copyright protection was extended from 30 to 50 years. Pre-1978 foreign recordings are now protected back to 1968, and foreign recordings are provided with exclusive rights by cabinet order.

While Japan's new trade protection law, enacted in 1990, is a step forward from protection by ordinary contract, it will still be very difficult to get an injunction against a third-party transfers of purloined trade secrets.

8. Worker Rights

a. The Right of Association

The right of workers to organize, bargain and act collectively is assured by the Constitution. Approximately 25 percent of the active work force belongs to unions. Unions are free of government control and influence. Members of the armed forces, police, and firefighters, however, are not permitted to form unions or to organize. Japanese law allows unions to lobby and to make political campaign contributions, and most unions are involved in political activity as well as labor relations. The right to strike is implicit in the Constitution and it is exercised. Public employees, however, do not have the right to strike although they do have recourse

to mediation and arbitration in order to resolve disputes. In exchange for a ban on their right to strike, government employees' pay raises are determined by the government based on a recommendation by the independent National Personnel Authority.

b. The Right to Organize and Bargain Collectively

The Constitution states that unions have the right to organize, bargain and act collectively, and these rights are exercised in practice. Collective bargaining is widely practiced. The annual "spring wage offensive," in which individual unions in each industry conduct negotiations simultaneously with their firms, attracts national attention. Japanese management usually consults closely with unions on issues. Antiunion discrimination is prohibited by law and in practice does not take place.

c. Prohibition of Forced or Compulsory Labor

The labor standards law prohibits the use of forced labor and there are no known cases of forced or compulsory labor.

d. Minimum Age of Employment of Children

Under the revised labor standards law of 1987, minors under 15 years of age may not be employed as workers and those under the age of 18 may not be employed in dangerous or harmful work. Child labor laws are rigorously enforced by the labor inspection division of the Ministry of Labor.

e. Acceptable Conditions of Work

Minimum wages are administratively determined by the Minister of Labor or the Director of the Prefectural Labor Standards Office based usually on the recommendation of the Tripartite Minimum Wage Council. Minimum wage rates vary by industry and region. The Labor Standards Law provides for the phased reduction of maximum working hours from the present 44 hour 6 day workweek to 40 hours by early in the 1990's. The Minister of Labor effectively administers various laws and regulations governing occupational health and safety, principal among which is the Industrial Safety and Health Law of 1972. Standards are set by the Ministry of Labor and issued after consultation with the Standing Committee on Safety and Health of the Tripartite Labor Standards Commission. Labor inspectors have the authority to suspend unsafe operations immediately and the law provides for workers to voice concerns over occupational safety and to remove themselves from unsafe working conditions without jeopardizing their continued employment.

f. Rights in Sectors with U.S. Investment

Internationally recognized worker rights standards, as defined by the ILO, are protected under Japanese law and cover all workers in Japan. U.S. capital is invested in all major sectors of the Japanese economy, including petroleum, food and related products, primary and fabricated metals, machinery, electric and electronic equipment, other manufacturing and wholesale trade.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category	Amount	
Petroleum		3,419
Total Manufacturing		10,623
Food & Kindred Products	388	
Chemicals & Allied Products	2,509	
Metals, Primary & Fabricated	225	
Machinery, except Electrical	2,891	
Electric & Electronic Equipment	1,224	
Transportation Equipment	2,464	
Other Manufacturing	921	
Wholesale Trade		3,820
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		17,862

Source: U.S. Department of Commerce, Survey of Current Business
August 1991, Vol. 71, No. 8, Table 11.3

SOUTH KOREA

Key Economic Indicators

(Billions of Korean Won Unless Otherwise Indicated)

	1989	1990	1991 (est.)
Income, Production and Employment			
Real GNP (constant 1985 prices)	119,577	130,373	141,455
Real GNP Growth Rate (pct)	6.8	9.0	8.7 1/
Real Per Capita GNP (000s won, 1985 prices)	2,828	3,051	3,274
Current GNP	141,794	168,438	200,104
Current GNP by Sector			
agriculture/forestry/fisheries	14,457	15,444	16,989
mining and manufacturing	45,463	50,283	56,301
construction/electricity gas/water	17,395	25,517	34,251
other services	64,479	77,193	92,563
Labor Force (000s)	17,971	18,487	19,023
Unemployment Rate (pct)	2.6	2.4	2.4
Money and Prices			
Money Supply (M1) 2/	14,329	15,905	18,609
Commercial Bank Rate (pct)	12.5	12.5	12.5
Savings Rate (pct)	35.3	35.3	36.0
Investment Rate (pct)	33.5	37.1	38.0
Consumer Price Index (1985=100)	119.9	130.2	143.2
WPI (1985=100)	103.2	107.5	114.5
Exchange Rates (Won/US$)			
average	671.4	708.0	732.0
year-end 2/	679.6	716.4	750.0
Balance of Payments and Trade			
Total Exports FOB	41,880	46,031	53,436
exports to U.S.	13,857	13,707	13,469
Total Imports CIF	41,268	49,450	59,585
imports from U.S.	10,683	11,996	14,274
Aid from U.S.	0	0	0
Aid from other countries	0	0	0
External Debt Outstanding 2/	19,980	22,710	29,250
Annual Debt Service Payment	5,418	5,168	5,051
Gold and Forex Reserves 2/	10,361	10,618	10,500
Balance on Current Account	3,394	-1,543	-5,051

1/ Economic Planning Board (EPB) estimate.
2/ Data are for end of period.
Sources: Embassy estimates; Bank of Korea; Economic Planning Board; and the Ministry of Finance

1. General Policy Framework

The South Korean government's economic policies in the

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early and mid-1980s emphasized rapid export-led development, protection of domestic industries, and the reduction of the Republic of Korea's large external debt. Government intervention in the economy to promote these objectives has been pervasive throughout the post-Korean war era. Restrictions on foreign participation in the economy through trade and investment have been common. In the latter part of the decade, removal of explicit import prohibitions and rapidly increasing domestic demand began to push Korea toward a more mature stage of economic development -- one which will see more balanced growth with less reliance on exports as a catalyst for economic growth.

After three straight years (1986-1988) of unprecedented economic growth -- years in which real GNP grew more than 12 percent annually --South Korea's rate of economic growth slowed to 6.8 percent in 1989, as the economy adjusted to fundamental changes, including a doubling of real wages following democratization. Fearing that the "economic downturn" signalled a trend toward slower growth and declining export competitiveness, the government of the Republic of Korea implemented stimulating policies aimed at promoting industrial restructuring and restoring competitiveness. The growth rate rebounded to 9.0 percent in 1990 and stayed there through the first half of 1991, exceeding the rate of 7.5 to 8 percent calculated by the Bank of Korea as optimal for the South Korean economy. South Korean government estimates show real GNP growth of 8.7 percent in 1991.

The higher than targeted growth in 1991 came largely as a result of strong export performance (up 14 percent in the first eight months of the year) and active domestic demand especially in the construction sector. Import growth of 17.7 percent (primarily raw materials and capital goods) pushed the current account into a deficit of $10.8 billion in the first ten months of 1991. To finance the deficit, South Korea expanded foreign borrowings. Thus, net foreign debt exceeded $10 billion for the first time in three years -- $10.6 billion at the end of June. Inflation continues to plague the overheated economy, running 12.5 percent on an annualized basis, the highest increase in 10 years. Delays in ports and on roadways hampered distribution, exacerbated trade friction in some areas, and highlighted the need for investment in infrastructure.

The total money supply (M2) increased an average 18 percent during the first eight months of 1991, but, due to inefficiencies in the financial sector, domestic interest rates also rose to about 20 percent. Average monthly wages for the first four months increased 16 percent, despite the government's efforts to keep wage increases to single digits. Unemployment averaged 2.5 percent in the first half of the year.

Alarmed by the unexpected current account deficit in July and August and high inflation rates, President Roh on September 5, 1991 blamed his economic team for their "overly optimistic stance" and ordered them to work out a new basic economic package. "Measures to improve balance of payments (BOP) and price stability" were announced on September 19, 1991 and included holding the M2 growth rate to 18.4 percent

in the final quarter of 1991 and reducing 1992's national budget increase to 6.8 percent over 1991's final budget.

Despite these steps, analysts question whether the government can stick to policies of restraint over the short term, particularly given the four elections coming up in 1992. Even assuming government policy does not become more stimulative, the economic planning board projects growth in 1992 above the economy's long-term potential, with continuing current account deficits, and inflation of nine to ten percent. After five and half years of growth averaging 10.6 percent, the South Korean government recognizes that slower growth is now needed. While that correction may be postponed by the government's election-related decisions, it cannot be put off indefinitely. The South Korean economy is likely to experience slower growth and continuing adjustments in the next few years, as the economy makes the transition to higher wages and the government attempts to reduce inflation and improve international competitiveness.

2. Exchange Rate Policies

The won depreciated against the U.S. dollar for the second year in a row after four consecutive years of appreciation, dropping 3.3 percent or 24.5 won from 716.4 won per U.S. dollar on December 31, 1990 to 740.9 won on September 16, 1991. As of September 16, 1991, the won had depreciated against the dollar by 6.3 percent since March 2, 1990 (the date the "market average rate" system was implemented), and by 10.1 percent since the end of April 1989 (peak). On September 2, 1991, the government announced that the daily fluctuation band (DFB) of the won-dollar rate would widen to plus/minus 0.6 percent, compared with the previous ceiling of 0.4 percent. Under the provisions of the seventh five-year plan, the range of DFB will be gradually expanded to shift to a floating exchange rate system in 1996. The role of market forces in the exchange market remains restricted by the existence of pervasive controls on capital and exchange flows both into and out of the Republic of Korea.

3. Structural Policies

South Korea's economy is based on private ownership of the means of production and distribution. The government, however, has actively managed the South Korean economy through a variety of means including comprehensive economic development plans, regulatory policies, and financial market controls. The import regime was structured to allow easy entry of raw materials and capital equipment needed by competitive export industries while consumer imports were severely restricted. Since the mid-1980's the Republic of Korea has eliminated most explicit import prohibitions outside of the agricultural area.

Many of the problems U.S. exporters now experience in South Korea are rooted in the maze of regulations which make up complicated licensing requirements, rules for inspection and approval of industrial goods, country of origin marking requirements, and other standards often inconsistent with

international norms. "Special laws" have given line ministries broad powers to "stabilize" markets by controlling imports. The South Korean government also has intervened to direct the flow of foreign investment to priority development sectors. In the services sector, even in those industries where foreign investment is permitted, investors have encountered a restrictive regulatory regime that often has limited their operations. Under the provisions of the U.S.-South Korean "Super 301" agreement, the South Korean government agreed to eliminate the border closure provisions encompassed in the "special laws" and to dismantle the investment approval process and move to a more transparent notification system. Effective January 1, 1992 some firms with less than 50 percent foreign ownership were permitted to notify rather than wait for government approval of new investment.

The government of the Republic of Korea has taken some concrete measures over the past two years to improve the treatment of foreign financial institutions in South Korea, including increases in the ceiling on issuance of certificates of deposit by foreign banks, elimination of the ceiling on foreign banks' paid-in capital in South Korea, and permission for foreign securities firms to establish branches in South Korea. However, the government of the Republic of Korea continues to deny national treatment to foreign financial entities in significant areas. In particular, foreign banks continue to face severe difficulties in meeting the local financing needs of their traditional clients. In the securities area, stiff criteria for branch establishment and a limited scope of permissible activities effectively limit the attractiveness of the South Korean market for foreign securities firms.

Three formal, and several informal, rounds of bilateral financial policy talks have been held since February 1990 to provide a mechanism for addressing specific market access problems that U.S. banks and securities firms face and for encouraging broader liberalization of South Korea's financial, capital, and exchange markets. The reforms the government of South Korea has implemented -- deregulation of interest rates, liberalization of foreign exchange controls, and opening of capital markets -- are gradual and limited. The U.S. Government has called on the government of the Republic of Korea to develop and publish a comprehensive blueprint with clear timetables for the full liberalization of its financial sector.

South Korean tariff rates remain higher than the average rates of OECD nations but lower than the average tariff rates of developing countries. Under the current tariff schedule, South Korea's average tariff rate for all products was 11.4 percent in 1991. In January 1991 the South Korean government announced that it would postpone a five-year tariff reduction plan for one year until December 31, 1991 to offset revenue cuts resulting from the elimination of the national defense tax. Tariff rates remain high in some areas of interest to the United States, particularly agricultural products. The average tariff rate on agricultural products is 19.9 percent. It will be reduced to 17.8 by 1993 and to 16.6 percent by 1994.

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In October 1989, the Republic of Korea announced that it would graduate from GATT balance of payments protection, and accordingly, the South Korean government has undertaken to eliminate remaining import controls or otherwise make them conform with GATT provisions by 1997. South Korea has implemented a GATT-approved three-year liberalization program through 1991. Under this program a total of 243 agricultural products were liberalized over the past three years (1989-91), bringing the percentage of liberalized agricultural products to 84.7 percent. However, in some cases liberalization has not lead to real market access due to phytosanitary requirements. Remaining import restrictions are subject to further liberalization under a plan presented by the Republic of Korea in March 1991 to the BOP committee. The government is expected to supplement that plan and add some "secondary" measures to the liberalization schedule.

4. Debt Management Policies

In 1985 South Korea was the fourth largest debtor among developing countries with external debt totaling nearly $47 billion (52 percent of GNP). The Republic of Korea used its substantial current account surpluses between 1986 and 1989 to reduce and even prepay its foreign debt. As result, South Korea's gross foreign debt dropped to $29.4 billion in 1989. Net foreign debt, which topped $35.5 billion at the end of 1985, dropped to $3 billion by the end of 1989.

Reflecting rising current account deficits and increased foreign borrowing, South Korea's outstanding gross foreign debt grew again in 1990 and 1991, reaching $36.8 billion in the first half of 1991. Net foreign debt reached its highest level in 3 years, $10.6 billion at the end of June 1991 and continued an upward trend through the remainder of the year. South Korea's 1991 debt service ratio is projected at about 8 percent. The total debt service to GNP ratio was 3.1 percent in 1990 and is estimated at 2.5 percent for 1991. As part of the government's September 1991 plan to improve the balance of payments, South Korean banking institutions were banned from obtaining long-term bank loans until the end of the year. The government also reduced the availability of foreign currency loans in an effort to curb rapidly growing imports of plant and equipment.

In 1995 the Republic of Korea will graduate from its status as a World Bank loan recipient. In September 1991 the government formally filed a graduation plan with the bank which included a four-year phase out period agreed upon with World Bank officials.

5. Significant Barriers to U.S. Exports

Over the past several years, formal South Korean import barriers have been reduced. However, many regulations remain on the books that inhibit access to the South Korean market. Also, with many areas formally open to imports, U.S. companies have faced a new series of less formal, but just as real, impediments to trade. One of the most pervasive of the formal impediments remaining is the restriction on the ability to

import on credit. Use of limited deferred payment terms is restricted to items with a tariff of ten percent or less, which are generally raw materials. Use of deferred payment terms for other goods requires a license from the Foreign Exchange Bank and permission from the governor of the Bank of Korea; it is rarely granted, except in cases of raw material or capital equipment imports. U.S. firms estimate that they could increase exports to the Republic of Korea by up to one third if South Korean firms were allowed to buy on credit.

With the signing of the "Super 301" agreements in May 1989, the South Korean government committed to eliminate over a three-year period a number of important structural barriers in the Republic of Korea's trade and investment regime. The government of South Korea has yet to fully comply with several provisions of this agreement. In the cosmetics trade, an area where U.S. firms are very competitive, full liberalization of wholesaling, for example, has not been completed. Progress in implementing the BOP agreement has also been less than satisfactory. BOP liberalization of agricultural products has been largely limited to products with little import potential. Under a separate agreement, the South Korean government has also agreed to liberalize beef imports by 1997. In the interim, imports are restricted technically by a quota system, a quasi-governmental agency has been designated as the sole importer, and buyers may designate suppliers and negotiate prices directly for only a small percentage of imports. The South Korean government currently is importing well above specified quota levels in an effort to control domestic prices.

The government of the Republic of Korea has done little to educate a public accustomed to a closed domestic market on the benefits of imports, particularly to consumers. Most South Koreans have been taught that imports are, by definition, luxury goods. The government has encouraged a "frugality campaign" against "over-consumption" that hits consumer imports particularly hard. While the government has privately pledged not to target imports, it has not publicly objected to rallies against foreign cigarettes or promotion of unfounded imported food safety scares by government-funded "consumer groups." In fact, the Bank of Korea has launched an investigation into "excessive" credit card spending overseas and the press frequently airs reports that the office of national taxation will audit individuals who travel "excessively" abroad or spend "too much" on so-called "luxury" goods.

The government continues to espouse a policy of gradually opening the South Korean market, and imports have grown rapidly along with the rapid growth of the South Korean economy. However, working level officials and officials in some of the conservative regulatory ministries still employ complex and opaque rules to effectively keep imports out after nominal "liberalization." For example, health, phytosanitary, electrical, testing and registration, and building material standards are sometimes used as a second line of defense against imports now that many outright import bans have been lifted.

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6. Export Subsidies Policies

Since the early 1980s, the South Korean government has eliminated a number of direct export subsidies, including the special depreciation allowance for large exporting firms and overseas construction firms. In December 1991, in response to South Korea's growing trade deficits, the government initiated a review of its export support policies with a view to strengthening them, including making foreign currency export financing available to large firms, a facility which was terminated in 1988.

These new measures will be added to existing programs of support for the Republic of 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 firms; rebates on the value-added tax (VAT) and a special consumption tax for export products; corporate income tax benefits from costs related to the promotion of overseas markets; unit export financing loans; and special depreciation allowances for small and medium exporters. In mid-October 1991 the South Korean government began a special loan program for small and medium business to facilitate exports to Japan as a measure to curb its bilateral trade deficit with that country.

The Republic of Korea is a member of the GATT Code on Subsidies and Countervailing Duties.

7. Protection of U.S. Intellectual Property

The Republic of Korea is a party to the Paris Convention for the Protection of Industrial Property, the Patent Cooperation Treaty, the Universal Copyright Convention, the Geneva Phonograms Convention and is a member of the World Intellectual Property Organization.

In 1991 the South Korean government continued to take steps to improve the protection of U.S. intellectual property rights (IPR) in South Korea. Most recently, legislation to protect trade secrets was passed by the National Assembly in its December 1991 session. Enforcement, however, remains a problem. The Republic of Korea remains on the U.S. trade representative's special 301 "watch list" under the provisions of the 1988 Omnibus Trade and Competitiveness Act. In December 1988 the South Korean government created an interministerial task force chaired by the Ministry of Trade and Industry. The task force has been a useful forum for addressing IPR problems, but major successes have been achieved only through constant monitoring.

Patents: Patent experts report that, while South Korea's patent laws are satisfactory, the actual extent of patent protection in the Republic of Korea depends on judicial interpretation. Problems include a lack of discovery procedures, limits on the use of the "doctrine of equivalents," and a determination that "improvement patents" (whether patentable or not) do not infringe on the pioneer patent. Existing laws on compulsory licensing pose problems for some U.S. firms in that they specify that a patent can be

subject to compulsory licensing if the patent is not worked.

Trademarks: Trademark violations are widespread in South Korea despite regular crackdowns by the authorities. Of continuing concern is the export of counterfeit goods from South Korea to the United States and third countries. Although South Korean law allows prosecutors or police to investigate trademark infringement cases without the filing of a formal complaint, U.S. firms have complained that South Korean prosecutors often provide little or no information about the status or results of these investigations.

Copyrights: South Korea and the United States established copyright relations when Korea joined the Universal Copyright Convention in 1987. South Korean government administrative measures outlined in the 1986 U.S.-South Korea IPR agreement were intended to provide retroactive protection for books copyrighted from 1977 to 1987 and software copyrighted from 1982 to 1985. To date, the South Korean government has had some success in curbing pirating activities through the use of tax and trademark infringement laws. Nevertheless, software piracy continues to be widespread. South Korean law does not permit the prosecutor or the police to undertake an investigation of alleged copyright infringement unless a formal complaint has been filed. U.S. firms have maintained that this requirement causes delays which allow the alleged violator to remove evidence from the premises before the authorities arrive.

New Technologies: Draft legislation to extend IPR protection to semiconductor mask works was introduced in the National Assembly in November 1991, but was not passed before adjournment on December 18. The bill is expected to be reintroduced in 1992. While the bill addresses many of the concerns expressed by U.S. companies, it does not deal with third party infringement issues, particularly downstream infringement.

8. Worker Rights

a. The Right of Association

The Constitution gives workers, with the exception of most public service employees and teachers, the right to free association. The government also has refused to legalize the teachers' union, since the teachers (even those working in private schools) are considered to be public service employees. Companies operating in South Korea's two export processing zones (EPZ's) have been considered public-interest enterprises whose employees' rights to organize and bargain collectively face restrictions. In practice, however, unions at EPZ companies have been formed and workers in the two EPZ's exercise the right to organize and collectively bargain to the same degree as other private sector unions. Only a single union is permitted to represent workers at each place of employment; there is no minimum on the number of workers required to form a union. Unions must register with the government and affiliate with the Federation of Korean Trade Union (FKTU) although there are attempts to form an alternative labor center and unaffiliated unions.

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Strikes are also prohibited in government agencies, state-run enterprises, and defense industries. By law, enterprises in public interest sectors such as public transportation, utilities, public health, banking, broadcasting, and communications must submit to government ordered arbitration in lieu of striking. The Labor Dispute Adjustment Act requires unions to notify the Ministry of Labor of their intention to strike and mandates a 10-day "cooling-off period" before a strike can actually begin. The cooling-off period is 15 days in public interest sectors.

b. The Right to Organize and Bargain Collectively

The Constitution and the Trade Union Law guarantee the autonomous right of workers to enjoy the freedom of association, collective bargaining, and collective action. Extensive collective bargaining is practiced. South Korean labor law does not extend the right to bargain collectively to employees of government agencies, state-run enterprises, and defense industries. There is no independent system of labor courts. Labor disputes have been marked by violence.

c. Prohibition of Forced or Compulsory Labor

The Constitution provides that no person shall be punished, placed under preventive restriction, or subjected to involuntary labor except as provided by law and through lawful procedures. Forced or compulsory labor is not condoned by the government.

d. Minimum Age for the Employment of Children.

The South Korean labor standards law prohibits the employment of persons under the age of 13 without a special employment certificate from the Ministry of Labor. Because the Republic of Korea has compulsory education to the age of 13, the authorities issue very few special employment certificates for full-time work. Children employed under the age of 18 must have written approval from their parents or guardians. Employers are permitted to have minors work only a limited number of overtime hours, and are prohibited from employing them at night without special permission from the Ministry of Labor.

e. Acceptable Conditions of Work

The labor standards and industrial safety and health law limit the maximum work week (including overtime) to 60 hours. By October 1991, the standard work week in large firms was 44 hours. The Government sets health and safety standards, but the Ministry of Labor employs few inspectors, and the standards are not effectively enforced. The South Korean Government reviews the minimum wage rate annually. The minimum wage law does not apply to firms employing fewer than ten workers.

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 to a lesser degree electrical

and electronic 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 to improve wages and working conditions, or move offshore. Working conditions at U.S.-invested plants are for the most part better than Korean plants.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category	Amount	
Petroleum		7
Total Manufacturing		920
Food & Kindred Products	146	
Chemicals & Allied Products	169	
Metals, Primary & Fabricated	(D)	
Machinery, except Electrical	(D)	
Electric & Electronic Equipment	224	
Transportation Equipment	209	
Other Manufacturing	141	
Wholesale Trade		236
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		1,163

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business August 1991, Vol. 71, No. 8, Table 11.3

MALAYSIA

Key Economic Indicators

(In Millions of Malaysian Ringgits (M$) Unless Noted)

	1989	1990	1991 (est.)
Income, Production and Employment			
GNP (Current Prices)	95,560	109,663	123,232
Percent Change	11.4	14.8	12.4
GDP (1978 Prices)	72,134	79,155	85,923
Percent Change	8.8	9.8	8.6
By Sectors:			
Agriculture	14,737	14,821	14,836
Manufacturing	18,089	21,323	24,628
Mining and Petroleum	7,385	7,749	8,043
Utilities	6,203	6,960	7,686
Construction	2,380	2,844	3,271
Whole and Retail Trade	7,748	8,755	9,717
Financial Services	6,770	7,655	8,535
Government Services	8,132	8,522	8 ,905
Other Services	1,519	1,656	1,781
Per Cap GDP (M$) (1978 Prices)	4,144	4,457	4,727
Labor Force (thousand)	6,834	7,046	7,258
Unemployment Rate	7.1	6.0	5.6
Federal Gov't Revenues	25,223	29,521	33,607
Federal Gov't Expend	30,533	35,037	39,698
Federal Deficit	5,260	5,516	6,091
Percent of GNP	5.5	5.0	4.9
Public Sector Deficit	1,774	2,018	4,613
Percent of GNP	1.9	1.8	3.7
Money and Prices			
Money Supply (M1)	21,249	24,240	25,020 (Jul)
Money Supply (M2)	74,400	83,903	89,233 (Jul)
Prime Rate (Pct)	7.0	7.5	9.00 (Oct)
KLIBOR (12 month)	5.6	7.9	8.78 (Oct)
Nat Savings/GNP (Pct)	30.7	30.9	30.0
Investment/GNP (Pct)	30.3	35.2	36.5
Inflation (CPI)	2.8	3.1	4.5
Balance of Payments and Trade (Thousands M$)			
Merchandise Exports	66,818	78,322	94,230 1/
To U.S.	12,678	13,483	14,904 2/
Merchandise Imports	56,219	73,119	96,316 3/
From U.S.	9,344	12,167	14,589 2/
Merchandise Balance	10,599	5,203	- 2,086
Services (Net)	- 11,392	- 9,935	-10,053
Current Account	- 574	- 4,522	-11,819
M$/US$ (Average)	2.71	2.70	2.76 (Aug)
U.S. Aid (US$ mil)	1.5	1.5	1.5
Foreign Debt	42,140	41,577	40,874
Public Sector	37,458	36,564	35,826
Private Sector	4,682	5,013	5,048
Debt Service Payments(c)	6,743	6,813	7,713
Debt Service Ratio(c)(pct)	9.3	7.5	6.4
Official Net Reserves	21,660	27,025	27,991

MALAYSIA

1/ Government of Malaysia projection
2/ Embassy estimates
3/ Does not include prepayments

1. General Policy Framework

Malaysia has a relatively open, market-oriented economy. Since independence in 1957, the economy has shown sustained growth and has diversified away from the twin pillars of the colonial economy: tin and rubber. Real GDP growth averaged 6-8 percent from 1964-1984. In 1985-1986, the collapse of commodity prices led to Malaysia's worst recession since independence with real GDP growth a negative 1 percent and nominal GNP falling 11 percent. Since then, the economy has rebounded, led by strong growth in manufactured goods exports. In 1991, real GDP growth is estimated to have been approximately 8.6 percent. Malaysia's 1992 budget, tabled in Parliament November 1, 1991, introduced a number of significant tariff and investment incentive changes, described below, which are expected to go into effect upon routine passage of the budget bill.

The government plays a large role in the economy, both as a producer of goods and services and as a regulator. The government or government-owned entities dominate a number of sectors, particularly plantations and banking. Through the National Equity Corporation, the government has equity stakes (generally minority stakes) in a wide range of domestic companies. In all, government-controlled entities may account for one-third of the economy. These entities are rarely monopolies; instead, they are one (generally the largest) player among several competitors in a given sector. Since 1986, the government has begun to move towards corporatization and eventual privatization of many entities, including telecommunications, ports, a major highway, and the national electricity board.

Malaysia encourages direct foreign investment, particularly in export-oriented manufacturing. Multinational corporations control a substantial share of the manufacturing sector. U.S. and Japanese firms dominate the production of electronic components (Malaysia is the world's third largest producer of integrated circuits), consumer electronics, and electrical goods. Foreign investors also play an important role in petroleum, textiles, vehicle assembly, steel, cement, rubber products, and electrical machinery.

Fiscal policy: The government operates a generally conservative fiscal policy, with a surplus in its operating account. The capital budget is in deficit financed by government bonds largely sold in the domestic market. In recent years the government has been prepaying its foreign debt, but this year has taken on new debt in order to maintain a presence in foreign capital markets.

Monetary policy: Malaysian monetary policy is designed to control price increases while providing adequate liquidity to stimulate economic growth. Monetary aggregates are controlled

by the central bank through its influence over interest rates in the banking sector, changes in reserve requirements and, occasionally, open market operations.

2. Exchange Rate Policy

Malaysia has a substantially open foreign exchange regime. The Malaysian currency, the ringgit (M$), floats against the U.S. dollar. Bank Negara (the central bank) does not specifically peg the ringgit, but does intervene in the foreign exchange market to smooth out fluctuations and discourage speculation. It generally tracks the ringgit's value against a trade-weighted basket of currencies in which the U.S. dollar is believed to have a large weighting. Bank Negara's policy is to maintain a stable exchange rate which reflects the currency's true underlying value rather than to manipulate the rate to boost exports. In 1990 and 1991 the ringgit was traded within a fairly narrow band against the U.S. dollar, ranging from M$2.67 (April 1989) to M$2.75 (January 1991) per U.S. dollar.

Payments, including repatriation of capital and remittance of profits, are freely permitted. Payments to countries outside Malaysia may be made in any foreign currency other than the currencies of Israel and South Africa. No permission is required for payments in foreign currency up to M$10,000 (approximately US$3,600). Individual foreign exchange transactions above M$10,000 require an exchange control license. For transactions up to M$10 million (US$3.6 million), the license is obtained upon completion of a simple reporting form which is approved by any commercial bank without reference to the Controller of Foreign Exchange (part of Bank Negara) provided certain conditions are met. An individual transaction in excess of M$10 million requires the approval of the Controller.

3. Structural Policies

Pricing Policies: Most prices in Malaysia's economy are market-determined but the government controls prices of some key goods, notably fuel, public utilities, motor vehicles, rice, flour, sugar, and tobacco. Tariffs overall average 15 percent on a trade weighted basis and import licenses are required only for a small range of sensitive items. In the agricultural sector, however, restrictive tariffs and nontariff barriers distort trade significantly. For example, the government sets above-world-market farm gate prices for rice and tobacco to encourage domestic production and to boost depressed rural incomes. Despite this price incentive, the government must import large quantities of rice and use the profits from reselling the cheaper imports to offset losses from the sale of domestic rice at retail prices that are fixed below domestic farm prices. In the case of tobacco, the government presses cigarette manufacturers to use a higher proportion of locally grown tobacco and imports of tobacco are restrained by high import duties. Since price-supported domestic tobacco is not competitive in export markets, the government also obliges tobacco product manufacturers to purchase and store excess supplies of tobacco when local

output exceeds established production quotas.

Tax Policies: Income tax, both corporate and individual, was the largest source of revenue for the government, accounting for 34.3 percent of government revenue in 1990. Indirect taxes, comprising export and import duties, excise taxes, sales taxes, service taxes and other taxes accounted for 36.8 percent of government revenue in 1990. The remainder of government revenue comes largely from profits of state-owned enterprises and the petroleum tax. Implementation of Malaysia's sales tax effectively discriminates against imported food products because it is collected on all imported food at port of entry while competing domestic foods often escape taxation. The proposed 1992 Budget significantly raised import duties on cigarettes and alcohol.

Regulatory Policies: The government encourages foreign and local private investment. Liberalized guidelines on foreign equity participation apply to new investments for which application is made between October 1, 1986 and December 31, 1991. Currently, a foreign investor can hold 100 percent of the equity of a Malaysian subsidiary by either (1) exporting 50 percent or more of output (including sales to Free Trade Zones or Licensed Manufacturing Warehouses) or (2) employing 350 or more full-time Malaysian workers. In addition, the company's products cannot compete with products already produced locally for the domestic market.

For companies exporting 80 percent or more of their output, foreign investors may hold up to 100 percent equity irrespective of whether or not the company's products compete with products presently being manufactured locally for the domestic market. For companies exporting less than 50 percent of output, certain foreign equity limits apply based on the percentage that is exported. New investment in the insurance and banking sectors may be up to 30 percent foreign equity in existing enterprises. Theoretically, foreign investment in a new enterprise is limited to 49 percent, but no new banking or insurance licenses are being issued.

4. Debt Management Policies

Malaysia's medium and long-term foreign debt stood at M$41.6 billion (US$15.1 billion) at the end of 1990. It is estimated that the nation's foreign debt declined to M$40.9 billion (US$14.9 billion) by the end of 1991. Malaysia's debt service ratio declined from a peak of 18.9 percent in 1986 to 7.5 percent in 1990 and is estimated to have continued to fall in 1991. Approximately 54 percent of Malaysia's outstanding federal government external debt in 1990 was denominated in U.S. dollars followed by the Japanese yen with about 24 percent. Overall, the currency profile of the external debt is not expected to change much in 1991.

Malaysia anticipates a M$494 million foreign exchange gain resulting from an appreciation of the ringgit vis-a-vis other currencies in 1991. This gain, coupled with a slower rate of increase in debt accumulation, is estimated to have improved the ratio of federal government debt to GNP from 86.4 percent at the end of 1990 to about 80.2 percent by the end of

1991.

5. Significant Barriers to U.S. Exports

High Import Tariffs on Tobacco: To encourage greater use of local tobacco in cigarettes and to maintain high domestic leaf prices the government levies heavy import tariffs. The present import duty for unmanufactured tobacco is M$50 (US$18) per kilogram, plus five percent ad valorem. While this policy significantly reduces leaf imports, the high tariffs appear to have the greatest impact against cheaper, lower quality leaf from non-U.S. suppliers. (Since the duty on imported leaf tobacco does not vary by quality, it is more economical to import high-grade U.S. leaf to blend with lower quality domestic tobacco.) In a new development, the government recently proposed an import quota of 1.5 million kilograms for flue-cured tobacco. If implemented, this quota could have a negative impact on U.S. tobacco exports to Malaysia of at least US$10 million annually. Cigarettes are taxed at a rate of M$126 (US$46) per kilogram.

Heavy Import Duties on High Value Food Products: Duties for processed and high value products, such as canned or fresh fruits, breakfast cereals, snackfoods, and many other processed foods, range between 30 and 50 percent. In contrast, virtually all Malaysian agricultural exports to the U.S. enter duty free under GSP provisions.

High Import Duties on Alcoholic Beverages: Tariffs on all alcoholic beverages have been raised sharply under the 1992 budget. Of particular interest to U.S. exporters are higher duties of M$18.50 (US$6.73) per liter on wine and M$6.00 (US$2.18) per liter on beer. The new duties will force up retail prices, will have a significant negative impact on imports, and could even induce substantial black market activities.

Discriminatory Sales Tax: Malaysia's sales tax is a single-stage tax levied on locally produced goods ex-factory and on imported goods at the point of entry, rather than at the retail level as in the United States. In order to broaden the tax base, the Ministry of Finance announced in the 1988 budget a substantial reduction in the sales tax exemptions for foodstuffs. With the 1989 budget, the Ministry moved to tax additional high-value food products. The five percent sales tax adversely affects U.S. fruit and vegetable exports in particular because the sales tax is not being collected from many local producers of identical or similar goods. Most farmers and many small-scale enterprises in Malaysia are outside the tax system whereas taxes are easily collected on imported goods.

Ban on Imports of Chicken Parts: In 1983, the government effectively closed Peninsular Malaysia to imports of chicken parts by ceasing to issue veterinary import permits. The ban was implemented because the European Economic Community allegedly was dumping chicken parts into the Malaysian market. Until January of 1991, the East Malaysian states of Sabah and Sarawak maintained separate import regimes for poultry products which permitted the import of U.S. chicken.

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Now, however, similar bans have been implemented in those states as well. Chicken part imports into Malaysia could increase significantly if the ban were removed. Since the implementation of the ban, a significant domestic poultry industry has developed and Malaysia now exports large quantities of poultry meat to Singapore and Japan.

Discriminatory Rice Import Policy: Because subsidized local production satisfies only part of domestic demand, the National Rice Authority (Lembaga Padi Negara or LPN) imports substantial quantities of rice. LPN is also the sole legal importer of rice. Purchases generally are made on the government-to-government basis characteristic of some Asian countries, notably Thailand. This government-to-government transaction structure places private U.S. suppliers at a considerable disadvantage.

Import Licenses: Malaysia makes limited use of import licensing. In the few sectors subject to licenses, i.e., requiring approved permits, U.S. exports have not been significantly impaired. Some technical licenses (e.g., for electrical products and telephone equipment) exist, but they are administered fairly and do not appear to constitute nontariff barriers.

Service Barriers: Malaysia protects many service sectors. Foreign lawyers, architects, etc., are generally not allowed to practice in Malaysia. Television advertisements must be largely produced in Malaysia with Malaysian performers unless an exception is obtained. Wholly-owned U.S. travel agencies, air courier services, motion picture and record distribution companies are permitted.

Financial Services: Banking, insurance and stockbroking are all subject to government regulation which limits foreign participation. Foreign banks are currently not permitted to open new branches or establish off-site automated teller machines. Foreign-controlled companies are required to obtain 60 percent of their local credit from local banks. Despite these restrictions, foreign banks account for more than 25 percent of commercial bank assets. No new insurance or foreign banking licenses are being granted. Foreign shareholdings in insurance companies are limited to 30 percent without government approval. However, the two largest insurance companies are 100 percent foreign-owned (one American) and dominate the life insurance market, but there are pressures on these firms to divest. The government has announced that foreigners may hold up to 49 percent of the equity of a stockbroking firm and said it would consider requests for majority foreign ownership.

Standards: Malaysia has extensive standards and labelling requirements, but these appear to be implemented in a nondiscriminatory fashion. Food product labels must provide ingredients, expiry dates and, if imported, the name of the importer. Electrical equipment must be approved by the Ministry of International Trade and Industry, telecommunication equipment must be "type approved" by the Department of Telecommunications. 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.

Government Procurement: Malaysian government policy requires countertrade provisions on government tenders above M$1 million. Below M$1 million, countertrade is welcomed and even encouraged, but not required. (Most government tenders require that countertrade be offered as an alternative.) Incentives exist for local procurement. Many smaller civil construction projects (M$50 million or less) are restricted to local firms.

6. Export Subsidies Policies

Malaysia offers several export subsidies. The most important is the Export Credit Refinancing (ECR) scheme operated by the central bank. Under the ECR, commercial banks and other lenders provide financing to exporters at an interest rate of 6 percent. The lender then rediscounts the loan to Bank Negara at 4 percent interest. In 1990, loans totaling M$13.9 (US$5.1) billion were extended under the ECR scheme. Of this amount, M$3.47 (US$1.3) billion (25 percent of the total) went to cover exports of animal oils and fats (mainly palm oil), followed by M$2.84 (20 percent) for mechanical and electrical goods, and M$1.4 billion (10 percent) for textiles. The government is in the process of creating a new low-cost (subsidized) export credit scheme designed for developing countries importing Malaysian palm oil.

Malaysia also provides tax incentives to exporters, including the following:

Abatement of adjusted income for exports provides for an abatement equal to 50 percent of the proportion of sales represented by exports (e.g., if 60 percent of sales are exported, then adjusted income would be reduced by 30 percent).

An export allowance of five percent of the FOB value of export sales is granted to trading companies exporting products manufactured in Malaysia.

Double deduction for export credit insurance premiums provides a double deduction from income for export credit insurance premiums paid to a company approved by the Ministry of Finance.

Double deduction for promotion of exports provides for double deductions from income for expenses of overseas advertising, export market research, preparation of tenders for sales abroad, supply of technical information abroad, supply of free samples abroad, participation in overseas trade shows approved by the Ministry of Trade and Industry, public relations services abroad, overseas travel expenses (up to air fare and M$200 per diem), and maintaining overseas sales offices.

Two important tax law changes introduced in the 1992 budget affect the exporter tax incentives of abatement of adjusted income for exports and the export allowance. As of tax year 1993, the abatement will be applied to statutory income (adjusted income less a capital consumption allowance)

of the company instead of the adjusted income. Heretofore available to all exporters, this incentive will be available only to manufacturing companies which are 70 percent owned by Malaysians and whose businesses are situated in free trade zones. Similarly, the export allowance will be available only to trading companies that export manufactured goods and to exporters of agricultural produce which are 70 percent owned by Malaysians and whose businesses are situated in free trade zones.

A third tax law change introduced with the 1992 Budget concerns the five percent allowance granted to trading companies exporting products manufactured in Malaysia. That allowance, too, is scheduled for termination in tax year 1993.

7. Protection of U.S. Intellectual Property

Malaysia is a member of the World Intellectual Property Organization and, as of October 1, 1990 the Berne Convention for the Protection of Literary and Artistic Works. Malaysia is not a member of the Paris or Universal copyright conventions.

The Trade Description Act of 1976, the Patent Act of 1983, the Copyright Act of 1987, and the Copyright (Amendment) Act of 1990 have greatly strengthened protection for intellectual property in Malaysia. Under the Copyright (Amendment) Act of 1990 - and the accompanying accession to the Berne Convention - Malaysia now provides copyright protection to all works (including video tapes, audio material, and computer software) published in countries that are members of the Berne Convention regardless of when the works are first published in Malaysia.

Patents registered in Malaysia generally have a duration of 15 years but may have longer duration under certain circumstances. A person who has neither his domicile nor residence in Malaysia may not proceed before the patent registration office or institute a suit except through a local patent agent. With regard to trademarks, where any person has registered or applied for protection of any trademark in any foreign state designated by the Malaysian government, such person shall be entitled to registration of this trademark in Malaysia provided that application for registration is made within six months from the date of registration in the foreign state concerned.

Trademark infringement is not a problem in Malaysia for U.S. companies. Patent protection is also good.

8. Worker Rights

a. The Right of Association

With some limitations, unions may organize workplaces, bargain collectively with an employer, form federations, and join international organizations. The Trade Unions Act's definition of a trade union restricts it to representing workers in a "particular trade, occupation, or industry or

within any similar trades, occupations, or industries." The Director General of Trade Unions has considerable latitude in deciding whether or not to register a trade union in Malaysia. The Director General also has the power, under certain circumstances, to withdraw the registration of a trade union. A trade union for which registration has been refused, withdrawn or cancelled is considered an unlawful association. While strikes are legal and do occasionally occur, critics claim that this right in practice is restricted. Actions by the Government have limited the formation of unions in the electronics sector to "in-house" unions.

b. The Right to Organize and Bargain Collectively

Collective bargaining is the norm in Malaysian industries where workers are organized. Malaysia's system of conciliation and arbitration seeks to promote negotiation and settlement of issues without industrial action. Malaysian law, especially the Industrial Relations Act, effectively restricts collective bargaining rights through compulsory arbitration. In 1991 the International Labor Organization (ILO) asked the Government to remove legal restrictions on the right to bargain in pioneer industries, in the public sector, and on dismissals without notice. Despite the existence of antiunion discrimination laws, there have been a number of instances in which union activists have been dismissed, allegedly for engaging in union activities. The ILO examined two such complaints in 1991 and is awaiting the Government's response. Redress through the Industrial Court is slow.

c. Prohibition of Forced or Compulsory Labor

Malaysia laws allow the use of imprisonment with required forced labor as a punishment for persons expressing views opposed to the established order or participating in strikes. The Government maintains that these laws have no force. There is no indication that forced or compulsory labor is practiced in Malaysia.

d. Minimum Age for Employment of Children

The Children and Young Persons (Employment) Act of 1966 stipulates that 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 by the government in a school or training institution, or employment as an approved apprentice. Effectively enforced laws prohibit children from working more than six hours per day, more than six days per week, or at night.

e. Acceptable Conditions of Work

The Employment Act of 1955 sets working conditions. Minimum standards of occupational health and safety are set by law and enforced by the Ministry of Labor. No national minimum wage legislation exists, but certain classes of workers are covered by minimum wage laws.

f. Rights in Sectors with U.S. Investment

The largest U.S. investment in Malaysia is in the

petroleum sector. Exxon has two subsidiaries operating in Malaysia. Esso Production Malaysia Incorporated (EPMI), which is 100 percent owned by Exxon, handles offshore oil and gas production. Esso Malaysia, which is 65 percent owned by Exxon and 35 percent by a range of Malaysian individuals and institutions, refines and markets oil products in Malaysia. Bargainable employees at both companies are represented by the National Union of Petroleum and Chemical Industry Workers (NUPCIW), which has negotiated collective agreements with management. Some EPMI employees have broken away from the NUPCIW and formed a separate in-house union. Pay and benefits at both companies are well above the Malaysian norm.

The second largest concentration of American investment in Malaysia is in the electronics sector, especially the manufacture of components, such as semiconductor chips and various discrete devices. (Electronic components are Malaysia's largest single manufactured export.) Wages and benefits are among the best in Malaysian manufacturing. Fifteen American electronic components manufacturers operate 19 plants in Malaysia, employing more than 37,000 Malaysian workers.

None of the American-owned electronics plants is unionized. There is no legal prohibition against organizing unions in the electronics industry and workers at some non-American companies (mainly not in the components industry) are represented either by the Electrical Industry Workers Union (EIWU), other unions, or in-house unions. Malaysian trade union law limits a union to organizing workers in a single industry or in related industries. The Director General of Trade Unions has to date interpreted this law to preclude the EIWU from organizing electronic component workers.

In September 1988, the Minister of Labor announced that the Government would permit electronic component workers to unionize. The National Electronics Industry Workers Union (NEW) was formed, but has been denied registration as a trade union on the grounds that it is seeking to represent workers in both the electronics and electrical industries. The union denied that it represented workers in the electrical industry, but its appeal to the Minister of Labor was rejected. The previous Minister of Labor had stated in the past that only "in-house" unions would be permitted in the electronics industry. The legal basis for such a restriction is unclear.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category		Amount
Petroleum		379
Total Manufacturing		861
Food & Kindred Products	2	
Chemicals & Allied Products	41	
Metals, Primary & Fabricated	1	
Machinery, except Electrical	11	
Electric & Electronic Equipment	722	
Transportation Equipment	0	
Other Manufacturing	85	
Wholesale Trade		95
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		1,335

Source: U.S. Department of Commerce, Survey of Current Business August 1991, Vol. 71, No. 8, Table 11.3

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Key Economic Indicators

(Millions of NZ Dollars Unless Otherwise Noted 1/)

	1989	1990	1991
Income, Production, and Employment			
Real GDP (constant 1983 prices)	35,264	35,288	35,621
Real GDP Growth Rate (percent)	1.2	0.1	0.9
Agriculture	-9.6	-4.7	3.7
Fishing/hunting/forestry/mining	15.9	11.0	-2.2
Manufacturing	-3.1	1.7	-5.2
Electricity/gas/water	3.2	-4.9	2.6
Construction	-11.2	-0.2	-6.6
Trade/restaurants/hotels	-2.2	1.3	-1.5
Owner-occupied dwellings	1.8	2.0	2.2
Transport/communications/ business & personal services	2.3	2.9	0.2
General government services	-2.3	-1.6	-0.5
Real per capita disposable income (1983 NZ$) /2	9,211	9,086	9,152
Size of labor force (1,000s)	1,582	1,587	1,624
Unemployment rate (percent)	7.4	7.3	9.9
Money and Prices			
Money supply (M1)	8,188	8,837	8,812
Commercial interest rates (percent)			
Money market call	12.80	13.12	11.77
90-day commercial bill	13.32	13.69	11.95
Five-year government stock	13.19	12.09	11.39
Base lending rates	15.80	15.80	14.90
Personal savings rate	2.0	-0.8	-2.9
Investment rate (gross fixed capital formation as percent of GDP)	26.1	29.2	29.2
Consumer price index (December 1988 equals 1000)	995	1,059	1,117
Producer Price Index (final qtr 1982 equals 1000)	1,599	1,712	1,748
Exchange Rate (annual average) ($1.00 = NZ$ x.xx)	1.56	1.70	1.68
Balance of Payments and Trade			
Total exports FOB 3/	14,905.4	15,227.8	15,847.9
Exports to U.S. 3/	2,008.1	2,029.7	2,110.9
Total imports VFD 3/	11,401.7	14,420.1	14,051.9
Imports from U.S. 3/	1,905.7	2,615.4	2,431.5
External public debt	16,777	20,104	20,198
Interest on external public debt	1,372	1,514	1,692
Gold and foreign exchange reserves	4,033.3	5,612.0	6,608.0
Current account balance	-707	-2,195	-2,343

1/ Fiscal year ending March 31
2/ Estimate
3/ Trade year ending June 30

NEW ZEALAND

1. General Policy Framework

Historically, the engine for growth in New Zealand was pastoral agriculture, particularly the export of sheepmeat, wool and dairy products to the United Kingdom. British entry into the European Economic Community in 1973 sharply changed the external situation for New Zealand. The farming industry had to diversify both its range of products and its export markets. In the late 1970s and 1980s, the government sought to support this process through extensive subsidies. While incomes and output were maintained, the fiscal costs became excessive and the sector became divorced from market signals.

Manufacturing in New Zealand developed first in the processing of the primary products of the rural sector. After World War II, the government sought to promote a broader based manufacturing sector through import substitution policies. Strong domestic demand from the good performance in agriculture initially permitted this policy to function, but by the mid-1970s balance of payments problems led the government to turn to export incentive schemes to boost manufacturing. In the early 1980s, the government sought to offset the impact of the second oil crisis through a number of "think big" investment projects in petroleum processing and petrochemicals, based on domestic gas resources. The mid-1980s fall in oil prices threatened the viability of these projects, which contributed to an increase in government debt.

In general, the performance of the New Zealand economy was lackluster from the mid-1950s until the mid-1980s. New Zealand fell from eighth in the world for per capita GDP in 1955 to twenty-second in 1985. GDP per capita grew less than one percent per annum on average for the 1965-87 period. While high employment was achieved, it was accompanied by high inflation, distortions in the allocation of resources and chronic balance of payments problems. In 1984, the newly elected Labour Party Government embarked on a program of deregulation and structural change aimed at unwinding the previous policies of protectionism and excessive government intervention. After an auspicious start, in 1988 the Party leadership withdrew support for the efforts of Finance Minister Roger Douglas, the main architect of reform, leading to his departure at the end of the year. While some progress continued, internal divisions in the party led to two changes of leadership and to defeat by the National Party in October 1990. The change of direction introduced by the Labour Party, however, has been maintained.

The Labour government reduced the fiscal deficit from 6.9 percent of GDP in FY1984 to 1.3 percent in FY1990. However, at the time the National Party assumed office, burgeoning welfare expenditures threatened to rapidly reverse this progress. With no change in fiscal policy, the deficit was projected to grow to 4.9 percent of GDP in FY1992 and to reach 6.3 percent of GDP in FY1994. In December 1990, the government introduced an Economic and Social Initiative as the first step in tackling this problem. The main elements of that package were industrial relations legislation and measures to better target welfare assistance. The FY1992 budget introduced in July 1991 extended that process to retirement benefits and introduced partial user charges for

health care and education. The result is reduced deficit projections of 2.4 percent of GDP in FY1992, 0.9 percent in FY1993 and 0.7 percent in FY1994. The most significant aspect of this improved outlook, however, is that it comes from controlling expenditure rather than raising taxes. Expenditure is projected to fall from nearly 43 percent of GDP in FY1991 to 37 percent of GDP by FY1994.

The Reserve Bank of New Zealand Act of 1989 instructed the Reserve Bank to direct monetary policy towards achieving price stability. While the Act provides the Reserve Bank greater operating independence, it also requires the Reserve Bank Governor and the Ministry of Finance to agree on policy targets. The agreement reached in December 1990 sets a goal of a zero to two percent annual rise in the Consumer Price Index (CPI) by December 1993. In the third quarter of 1991 the CPI fell to 2.2 percent compared to the September quarter of 1990. Some increase is expected in 1992 as a result of higher taxes on alcohol and tobacco, the introduction of partial user fees in health care and education, and some increase in import costs due to recent declines in the value of the New Zealand dollar. However, the CPI is expected to stay below three percent for the year, and the end-1993 target should be readily attainable.

The structural reforms introduced have brought strong productivity gains, but output gains have been elusive. The resultant "labor shedding" increased unemployment to 10.1 percent in the June quarter of 1991, the highest level since the 1930s. After growth of only 0.1 percent in FY1990, real GDP increased by 0.9 percent in FY1991. Growth of around one percent is expected again in FY1992, with a pickup to over two percent the following year. Unemployment will continue to rise in this low growth environment. Total employment is expected to fall further in FY1992, and grow slower than the labor force in FY1993. Thus unemployment may well reach 12 percent before peaking. This is the biggest economic and social issue facing the government.

2. Exchange Rate Policies

The New Zealand dollar was floated in March 1985 as part of a broad based deregulation of financial markets. Prior to deregulation, the New Zealand dollar was devalued by 20 percent in July 1984. The Reserve Bank has not intervened in the foreign exchange market since the float. In late October 1991, the New Zealand dollar was worth about 9.5 percent less on a trade-weighted basis than at the time of the float. However, the New Zealand dollar appreciated by nearly one-fourth vis-a-vis the U.S. dollar during this period. Even so, U.S. goods and services remain competitively priced in the New Zealand market.

In pursuing the objective of price stability, the Reserve Bank uses the following check list of indicators: exchange rates, level and structure of interest rates, growth of money and credit, inflation expectations, and trends in the real economy. The interest rate yield gap and the trade-weighted exchange rate are seen as the principal indicators. While not attempting to run a fixed exchange rate band, the Reserve Bank

does seek "comparative exchange rate stability." The key instrument for monetary control utilized by the Reserve Bank is the quantity of settlement cash balances held by banks at the Reserve Bank. This control of primary liquidity influences the exchange rate indirectly through its impact on short-term interest rates.

3. Structural Policies

The Labour government's reform program included deregulating financial markets, floating the New Zealand dollar, lifting wage, price and interest rate controls; removing export and agricultural subsidies, reducing border protection, reorganizing public sector activities, and tax reform. The timing of these actions had a pronounced effect on the pattern of adjustment among sectors. The abrupt removal of subsidies for agriculture, combined with the slower reduction in protection of import-competing manufacturers, resulted in a dramatic adjustment in agriculture. Although efficiency has improved, investment levels remain depressed from the fall in profitability and income. Manufacturing has faced much more gradual change, and certain producers retain high effective rates of protection. In March 1991, a further tariff reduction program was announced for 1993 to 1996. Liberalization beyond 1996 will be determined by a review to be held in 1994.

The major structural problems left unaddressed by the Labour Party were labor market rigidities and an overly generous welfare system. Both of these problems have adversely affected labor mobility, and welfare expenditures must figure in any effort to control overall expenditure levels. The National Party has moved promptly to extend the reform process to both of these areas.

In December 1990, the government introduced industrial relations reform legislation, and the Employment Contracts Act was passed on May 15, 1991. This law abolished compulsory unionism and the practice of centralized, occupational awards. The removal of these restrictive practices is expected to lead to more flexible workplace arrangements with consequent improvements in productivity.

The December 1990 initiative also included immediate reductions in expenditures for social benefits through better targeting, and initiated a broad review of the social assistance structure. This process was extended in the July 1991 budget package through the introduction of partial user charges for health and education and rationalization of the provision of housing assistance. Plans to better target the provision of retirement benefits are under review.

4. Debt Management Policies

Public debt in New Zealand is high by comparison with most OECD member countries. Gross public debt grew from 45 percent of GDP in 1973 to 79 percent of GDP in 1987. In June 1991, gross public debt was NZ$44 billion. This was slightly higher than in 1987, but represented a drop as a percent of

GDP to 62 percent. A turnaround also has been achieved in the debt service burden. This improvement in large part is due to the use of proceeds from privatization to repay external debt. Debt service on the public debt reached nearly NZ$5 billion in the fiscal year ending March 1988, equal to 8.4 percent of GDP and 20 percent of government expenditure. This dropped to NZ$4.6 billion in FY1991, equal to 6.5 percent of GDP and 16.7 percent of expenditures. Domestic debt accounted for 53 percent of the total in mid-1991. Interest on public external debt in FY1991 equalled eight percent of exports of goods and services.

5. Significant Barriers to U.S. Exports and Investment

New Zealand embarked on a unilateral tariff liberalization program in 1985 with an announcement that tariffs on goods not produced in New Zealand would be reduced to zero. In 1988, the government reported that 93 percent of imports entered duty free. In December 1987, a general tariff reduction plan was announced for goods not covered by industry plans. Four categories of goods are covered by industry plans: footwear, carpet, apparel and motor vehicles. Tariffs on other goods are being reduced in four stages between July 1, 1988 to July 1, 1992 from a range of 30 to 40 percent to a range of between 16 to 19 percent. In September 1991 it was announced that tariff reductions would be continued between 1993 and 1996, with general tariffs dropping by about one-third. Separate treatment will continue for goods covered by industry plans. A review for the post-1996 period will be conducted in 1994.

Despite this extensive reform, tariffs on goods competing with domestic products remain relatively high, and most tariffs remain unbound in the GATT. Items of particular export interest to the United States subject to high tariffs include printed matter for commercial use, plywood, aluminum products and wine. Reductions in tariff levels in accordance with the aforementioned plan should result in expanded commercial opportunities for U.S. exporters. The United States is also pursuing further reductions on items of particular U.S. exporter interest through the Uruguay Round market access negotiations.

New Zealand has nearly completed the dismantling of a highly restrictive import licensing regime. The share of imports subject to licensing dropped from nearly 25 percent in 1984 to around 3 percent in 1989. The remaining import license controls for goods under industry plans are scheduled to be phased out by the middle of 1992. This liberalization has benefitted U.S. exporters.

The New Zealand Apple and Pear Marketing Board, a producer organization, has a monopoly right to import apples and pears, except from Australia. This partially shields domestic producers from competition and constrains import growth.

Approval by the Overseas Investment Commission is required for foreign investments over NZ$10 million or involving 25 percent or more foreign ownership of a firm.

This approval requirement has not been an obstacle for U.S. investors. In most cases up to 100 percent foreign ownership is allowed, but there are special restrictions on foreign ownership of rural land and of fishing, minerals, petroleum and natural gas resources. A similar restriction on broadcasting was recently removed. No performance requirements are attached to foreign direct investment. Full remittance of profits and capital is permitted through normal banking channels.

6. Export Subsidies Policies

New Zealand acceded to the GATT Subsidies Code in September 1981. At that time, New Zealand undertook to eliminate seven export subsidy programs that were inconsistent with the code by March 31, 1985. While five of the programs were eliminated on schedule, two programs were extended through March 1987, leading the United States to deny New Zealand imports use of the injury test in countervailing duty cases. One of these programs, the Export Market Development Taxation Incentive, was extended a second time, but expired March 31, 1990. The United States reinstated the injury test for New Zealand once tax rebates under this last inconsistent program were complete.

7. Protection of U.S. Intellectual Property

New Zealand is a member of the World Intellectual Property Organization, the Paris Convention for the Protection of Industrial Property, and the Berne Copyright and Universal Copyright Conventions. New Zealand has generally supported measures to enhance intellectual property protection at multilateral organization meetings.

The Government of New Zealand strongly endorses the protection of intellectual property and enforces effectively those laws on its books which offer such protection. This is done to protect New Zealand innovators both at home and abroad, and to encourage technology transfer. The Government recognizes that New Zealand is heavily dependent on imported technology and that the country derives considerable benefit in providing intellectual property protection.

There are, however, some aspects of current New Zealand legislation that present problems for U.S. intellectual property owners. First, the patent law contains permissive rules for compulsory licensing of pharmaceutical products. While these provisions had not been used for several years, there are now cases pending with the Commissioner of Patents. On December 18, the Government announced, in the context of on-going GATT negotiations, that the Patent Act would be amended in early 1992 to remove provisions for compulsory licensing for food and medicines. Existing cases under the old law will lapse. Second, recently amendments were made to the Medicines Act, the Trade Marks Act and the Copyright Act to allow the government to engage in the parallel importation and distribution of medicines. Finally, the Copyright Act permits hotels to show motion picture videos on internal systems as long as there is no charge for the service.

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The Government is engaged in a full review of its intellectual property rights regime. On July 30, 1990 the Ministry of Commerce issued a two volume study of possible options for reform. Interested parties were invited to submit comments on the paper by November 16, 1990. A second review paper with recommended options is to be issued in early 1992. Interested parties will again be invited to comment, and this second round of comments will be considered in framing recommendations to the Cabinet.

8. Worker Rights

a. The Right of Association

New Zealand workers have unrestricted rights to establish and join organizations of their own choosing. Unions are protected from interference, suspension, and dissolution by the Government and, in fact, influence legislation and government policy. Unions have and freely exercise the right to strike. Public sector unions, however, are precluded from striking if work stoppages threaten public safety, and new legislation prohibits (in both the public and private sectors) strikes designed to enforce national wage awards.

b. The Right to Organize and Bargain Collectively

The right of labor unions to organize and bargain collectively is provided by law. Unions actively recruit members and engage in collective bargaining.

Approximately half of all wage earners are represented by unions, and the level is dropping. The Employment Contracts Act which became law on May 15, 1991, ended compulsory membership in labor unions. This legislation also scrapped the past system of national awards, whereby one contract covered workers across the country and across industrial lines. Under the new law, employers may negotiate contracts with unions, with other voluntary associations of workers, or with individuals.

Mediation and arbitration procedures are independent of government control. A system of labor courts hears cases arising from disputes over interpretation of labor laws. In addition, the arbitration commission and the mediation service are available to handle wage disputes and assist in maintaining effective labor relations.

c. Prohibition of Forced or Compulsory Labor

All workers are protected from forced or compulsory labor by law and in practice.

d. Minimum Age for Employment of Children

Children under the age of 15 may not be employed without special government approval and must not work between the hours of 10 p.m. and 6 a.m. These laws are effectively enforced by the Department of Labour.

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e. Acceptable Conditions of Work

New Zealand enforces a 40 hour workweek, a minimum of three weeks' annual paid vacation for all employees, and observance of 11 paid public holidays. There is a government-mandated minimum wage. In most cases, minimum wage recipients also receive a variety of welfare benefits and most workers earn more than the minimum wage.

New Zealand has an extensive body of law and regulations governing health and safety issues. Rules are enforced by Department of Labour inspectors, who have the power to shut down equipment if necessary, and unions may file safety complaints on behalf of workers.

f. Rights in Sectors with U.S. Investment

The conditions in sectors with U.S. investment do not differ from conditions in other sectors of the economy.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. Dollars)

Category	Amount	
Petroleum		(D)
Total Manufacturing		341
Food & Kindred Products	28	
Chemicals & Allied Products	120	
Metals, Primary & Fabricated	(D)	
Machinery, except Electrical	15	
Electric & Electronic Equipment	(D)	
Transportation Equipment	(D)	
Other Manufacturing	97	
Wholesale Trade		132
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business August 1991, Vol. 71, No. 8, Table 11.3

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Key Economic Indicators

(Millions of Pesos Unless Otherwise Noted)

	1989	1990	1991 (proj.)
Income, Production and Employment			
Real GDP (1985 pesos)	697,816	712,869	713,582
Agriculture & fisheries	159,398	162,481	166,545
Industry	251,581	254,358	247,607
of which manufacturing	178,396	181,983	181,700
Services	286,837	296,030	299,430
of which trade/commerce	99,283	101,354	103,330
Real GDP growth rate (pct)	5.9	2.2	0.1
Real per capita GNP (pesos)	11,466	11,618	11,394
Labor force (000s)	24,120	25,290	25,900
Unemployment rate (pct)	9.2	9.4	11.0
Money and Prices			
Money supply (M1) (year-end)	78,530	89,012	100,000
Commercial interest rate (pct) 1/	19.1	24.4	23.0 2/
Savings interest rate (pct)	4.3	5.1	4.7 2/
Investment rate (pct) 3/	14.6	19.1	17.8 4/
Consumer price index (1978=100)	443.5	499.7	589.6
Wholesale price index, Metro Manila (1978=100)	551.5	607.6	706.0
Exchange rate (Pesos/US$)			
Official	21,737	24,310	27,540
Parallel	21,856	24,930	27,850
Balance of Payments and Trade (Millions of U.S. Dollars)			
Total exports FOB 5/	7,821	8,186	8,750
Exports to U.S., CV 6/	3,068	3,383	3,400
Total imports FOB 5/	10,419	12,206	12,350
Imports from U.S. FAS 6/	2,202	2,472	2,650
Aid to the Philippines 7/	1,052	1,217 8/	1,212
From the U.S.	256	184	263
From other countries	796	1,033	949
U.S. direct investment (stock)	1,657	1,655	N/A
Petroleum	132	149	
Manufacturing	763	818	
Wholesale trade	118	124	
Banking	313	322	
Finance, insurance & real estate	175	95	
Services	54	56	
Others	102	90	
External public debt	22,222	23,052	23,815
Debt service paid	3,139	3,675	3,538
Central bank forex reserves	2,324	1,993	3,500
Balance of payments	451	-185	900

1/ Bank lending rates on secured loans; weighted average for all maturities.
2/ Actual weighted average rate for January - September.

3/ Money market rates; weighted average for all types of instruments.
4/ Actual average for January - August.
5/ Based on Philippine Government data.
6/ Based on U.S. Department of Commerce statistics. CV = customs valuation basis.
7/ Bilateral official development assistance (draw-downs)
8/ Preliminary
N/A - Not available.
Sources: National Economic and Development Authority, Central Bank of the Philippines, Department of Finance, U.S. Survey of Current Business.

1. General Policy Framework

Following a severe recession in 1983-85, the economy experienced a strong recovery between 1986 and 1989. But beginning in late 1989 growth started to sag as inflation, high interest rates, fiscal and trade imbalances, an attempted coup, the Iraqi occupation of Kuwait, and a series of natural disasters disrupted consumer and investment spending. Potential investors are now taking a wait-and-see approach pending the outcome of the May 1992 general elections. Gross National Product (GNP) growth in 1990 dipped to 3.7 percent and growth in 1991 is anticipated to be less than one percent. Serious poverty continues to burden the Philippine economy. Per capita income in 1990 stood at $713, but unbalanced income distribution means that half the country's 62 million people live below the poverty line.

The Philippine government fiscal deficit continued to be a major source of economic concern during 1991. The deficit exceeded three percent of GNP in 1990, although sharp spending cuts are aimed at reducing it to less than one percent of GNP in 1991. The consolidated public sector deficit (including government corporations and the Central Bank) was 5-6 percent of GNP. Most of the shortfall has been financed by domestic borrowing, primarily through Treasury bills. Thus, public sector demand for funds has kept interest rates high, although in 1991 they dropped to roughly 20 percent from the 30 percent levels of 1990. In 1991 service on the government's domestic debt consumed 30 percent of the budget. The Philippines' $28.9 billion foreign debt also remains a major preoccupation of policymakers.

The Central Bank has used periodic "mopping up" operations -- a combination of Treasury bill floats, adjustments of reserve requirements, and reverse repurchase operations -- to attempt to keep liquidity in compliance with International Monetary Fund (IMF) targets. Pinched by a burgeoning trade deficit, the Central Bank, which generally intervenes in the foreign exchange market, was forced to allow the peso to depreciate by 25 percent in nominal terms in 1990. However, due to weak import demand and greater foreign exchange reserves, the peso recovered by four percent from January to October 1991, raising concern about Philippine export competitiveness.

Foreign trade, especially imports, slowed in the first

half of 1991 because of the general economic slowdown and a temporary nine percent additional import levy imposed to increase government revenues. The levy was reduced in August 1991 to five percent, and is scheduled to be eliminated entirely during the first half of 1992. The Philippines continues to run a trade surplus with the United States, amounting to $729 million in 1990. Overall trade is in deficit, however; the gap was $4 billion in 1990 on exports of $8.2 billion and imports of $12.2 billion.

2. Exchange Rate Policies

Commercial banks are required to make dollar purchases in the official interbank market. The exchange rate is free floating but strongly influenced by Central Bank intervention in support of the peso-dollar rate. Traders also buy and sell dollars at a premium on a vibrant parallel market for those who cannot, or will not, justify their purchases under foreign exchange and tax regulations.

The Philippine government has traditionally attempted to maintain a somewhat overvalued peso, given the high import component of the country's export products, high debt service costs on the country's nearly $29 billion in foreign borrowings, and strong demand for imported consumer goods by those able to afford an international lifestyle. The peso appreciated by 0.9 percent in June 1991 to approximately 27.75 pesos to the dollar, and by November was below 27:1. Slowed economic activity, savings from reduced oil prices, and inflows of dollars from multilateral institutions have resulted in a buildup of foreign exchange reserves, resulting in a strengthening of the peso in the parallel market. Continued weak import demand will allow the Central Bank to maintain the present exchange rate in the short run, but when economic activity increases, demand for foreign currency will increase and push the value of the peso lower. The question of the proper value of the peso may be an election year issue in 1992; exporters are attempting to organize better to push for more export-oriented tariff and exchange rate policies.

3. Structural Policies

The government's economic leadership continues to pursue much-needed structural economic reforms, including measures to liberalize and promote foreign investment, accelerate financial sector reform, privatize state-owned assets, and improve government revenue gathering. Economic planners face resistance, however, from both the Congress (especially the Senate) and from political leaders in the Administration. An executive order restructuring the country's tariff system was pushed through the bureaucracy in 1991 after an earlier, more ambitious attempt at tariff reform was quashed by bureaucratic and private sector resistance. This reform, which will lower tariffs in stages over the next four years, should be a boon for U.S. exporters of many finished and semi-finished products. The government continues to liberalize imports by eliminating quantitative restrictions, an initiative begun in 1987.

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The government also succeeded in pushing the milestone Foreign Investment Act of 1991 through the Congress. The new law is an attempt to encourage foreign investment by opening up new areas to investment and lowering the required domestic equity share for joint ventures in several other sectors. A bill liberalizing the Philippines' oligopolistic banking sector is also in the works, although it is not clear whether it will get through Congress during the Aquino Administration, which ends in June 1992. Financial liberalization of this kind would be an important complement to foreign investment liberalization.

Privatization of state-owned assets (many of which are collapsed Marcos-era firms) has stalled, due in part to poor market conditions. The government has also proposed a number of revenue enhancement measures; under pressure from the IMF and international creditors, the Administration has squeezed government expenditures but is still faced with a yawning central government deficit next year. As the country approaches an election season, administrative measures for improved tax collection would seem to be more possible than Congressional approval of new taxes.

4. Debt Management Policies

As of June 1991 the Philippines' foreign debt totalled $28.9 billion, or roughly 63 percent of GNP. The debt is overwhelmingly public sector (81 percent) and about half of it is owed to commercial banks or suppliers. Debt servicing consumes approximately 25 percent of export earnings. Servicing was suspended in 1983 in the midst of a political and economic crisis. Relations with the international financial community began to move back to normal with the completion of a debt rescheduling agreement in 1985. The Aquino Administration, which came to power in 1986, has reiterated the country's determination to service its debt while pursuing structural reforms to alleviate the debt burden through growth.

The Philippines was unable to meet the conditions of a medium-term IMF program and has also experienced some difficulty in meeting the monetary targets set in a more modest 18-month standby agreement approved in February 1991. Heavy Central Bank purchases of foreign exchange and higher-than-expected levels of domestic bank reserve deficiencies have complicated efforts to meet these benchmarks. An IMF review of the country's key performance criteria took place in November 1991.

The country is on generally good terms with its commercial bank creditors. Since 1983, the Philippines has periodically rescheduled both its commercial and its Paris Club (official creditor) debt. In August 1991 the Philippine government and its commercial bank creditors agreed in principle on the structure of a $5.3 billion debt relief package, a Brady-type program with a menu of options such as par bonds and interest rate reduction bonds. Negotiations between the government and the banks continue; one important issue still to be resolved is the inclusion of debt paper related to the Bataan nuclear power plant. The government is

under pressure to repudiate the nuclear debt because of questions surrounding the original contract and the construction of the plant, while creditors insist that it be included in the rescheduling package. In June 1991 Paris Club creditors rescheduled $1.5 billion of official Philippine debt; a bilateral U.S. - Philippine agreement to implement the Paris Club pact is now under review.

5. Significant Barriers to U.S. Exports

Tariffs and Other Import Charges: The government undertook tariff reform as part of a broader trade liberalization program under a 1981 World Bank structural adjustment program. As a result, most tariff rates were set between 10 and 50 percent and average nominal tariff rates fell from 42 percent in 1979 to 28 percent in 1991.

Continuing the reform process, President Aquino signed Executive Order 470 (E.O. 470) on July 20, 1991, putting into place a tariff reduction, restructuring, and simplification program. In effect since August 22, 1991 E.O. 470 will be phased in over a four year period, resulting in average nominal tariff rates of 20 percent. Upon its full implementation, E.O. 470 will have compressed the current seven-tier tariff structure to a four tier structure of 3, 10, 20, and 30 percent.

Selected products will be exempt from this basic framework. Tariffs will remain at 50 percent and 40 percent for such products as meat, fish, and produce, garments, textiles, glass, home appliances, audio and television equipment, and other consumer goods. While the tariffs on most of these products will be phased down into the basic framework over the life of the program, some 208 products identified as "strategic" will continue to attract 50 percent tariff rates. Included in this group are rice, vegetable oils, sugar, fruits, and luxury consumer goods such as alcohol, tobacco, and leather goods.

Import Licenses: Under the government's import liberalization program, prior clearances from Philippine government agencies, such as the Central Bank, the Board of Investments, and agencies of the Department of Trade and Industry, are no longer needed to open letters of credit for most imports. However, clearance requirements for certain restricted or controlled items still apply. Commodity imports financed through foreign credits still require prior approval from the Central Bank. The Philippines is a signatory to the GATT Import Licensing Code.

Between 1981 and 1991, licensing requirements were lifted on 2,489 items representing 90 percent of the 2,762 commodities identified for liberalization over a twelve year period. In September 1991 a cabinet-level committee approved a working-level recommendation to remove import licensing requirements from an additional 61 products, primarily consumer electronics. Those products which remain to be deregulated include more sensitive products such as animal and meat products, consumer durables and transport equipment. In addition, over 100 of these products are unlikely to be

liberalized for reasons of health, safety, or national security. (Note: The specific count of items is based on the original Philippine Standard Commodity Classification Code (PSCC). Under the revised PSCC, the number of items liberalized will appear larger as a result of the disaggregation of many product lines.)

Banking: Foreign bank branches have been denied entry since 1948. Foreign participation is currently limited to no more than 30 percent (40 percent with Presidential approval) of voting stock in existing domestic banks. Four foreign banks whose operations have been grandfathered control approximately 12 percent of total assets in the commercial banking system. In June 1990 the Central Bank lifted a prohibition against the installation of off-premise automated teller machines in high-demand areas, provided the bank has a regular branch operating within the service area. Since foreign banks cannot establish additional branches, this ruling places them at a disadvantage. The Central Bank is currently studying the possibility of allowing the limited entry of additional foreign banks, as well as increasing the maximum level of foreign participation in domestic banks.

Foreign bank branches have also been denied entry into trust activities, although one foreign bank does have a grandfathered trust license. A foreign bank may not obtain a "universal banking" license which would allow it to participate in investment banking activities.

Insurance: The licensing of new domestic and foreign life insurance companies has been suspended since 1947 and that of new nonlife insurance firms since 1966. Under the Philippine Insurance Code, foreign firms are defined as those organized under laws outside the Philippines.

Companies organized under Philippine law, even if majority foreign-owned, are defined as domestic firms. There are about seven such companies in the country which were operating before the 40 percent nationality cap on foreign investment was imposed. Majority foreign-owned companies, whether foreign or domestic, control an important segment of the overall insurance market.

Securities: Although only domestically incorporated companies may engage in the securities brokerage business, the government allows majority foreign ownership in this activity. A foreign investor who wishes to purchase shares of stock of a domestic corporation is limited by national ownership requirements. Stock exchange membership is open to any company incorporated in the Philippines.

Legal Services: Philippine citizenship, graduation from a Philippine law school, and membership in the Integrated Bar of the Philippines are the requirements which a U.S. attorney must meet in order to practice in the Philippines.

Motion Pictures: Industry problems include excessive taxation and pressure from the local motion picture industry to increase the time reserved in theaters (30 percent) for locally produced films. There has been some improvement in the incidence of piracy, although it remains widespread (see

below).

Standards, Testing, Labelling and Certification: The generics drug law of 1988 is now fully in force. Department of Health (DOH) implementing regulations call for the generic name of most drugs to appear above the brand name, in a slightly larger typeface, and enclosed in a box, with contrasting backing. The guidelines also require DOH approval for all new labels. Labelling changes caused by the generics legislation imposed substantial one-time costs, amounting to millions of pesos, on all pharmaceutical firms. This poses a greater burden for foreign firms than those that produce in the Philippines, as the foreign firms are forced to change their labelling just to fit the regulations of a relatively small pharmaceuticals market. The Philippines is a signatory to the GATT Standards Code.

Investment Barriers: The new Foreign Investment Act of 1991 is an important milestone. It increases the number of industries in which foreigners can take up to 100 percent ownership without prior governmental approval. However foreign equity is still limited to 40 percent in enterprises related to national defense (weapons) and in businesses involved in the exploration, development, and utilization of natural resources. Also, only Filipino citizens or corporations, at least 60 percent Filipino-owned, may own land. The government gives tax and other incentives to export-oriented businesses.

The Department of Labor allows the employment of foreigners provided there are no qualified Philippine nationals for the position. However, the employer must train Filipino replacements and report on such training periodically. The Philippine Constitution explicitly states that all executive and managing officers of firms engaged in mass media and in the operation of public utilities should be Filipino citizens.

The free remittance of profits and repatriation of investment is allowed, subject to emergency foreign exchange provisions as necessary. The permissible time period for the repatriation of investment currently ranges from one to nine years, depending on net foreign exchange earnings, the size of investment, and the type of industry, with more liberal treatment accorded investments in government-registered, export-oriented, or import-substituting industries.

The Philippines currently does not provide guarantees against losses due to nationalization, damage caused by war, or inconvertibility of currency. However, a full Overseas Private Investment Corporation (OPIC) agreement is in effect, and U.S. investors may contract for coverage under this arrangement.

Government Procurement Practices: Philippine government procurement policies do not generally discriminate against foreign bidders. Preferential treatment is given to Filipino firms in the purchase of medicines. Government offices which grant rice allowances to their employees must purchase the rice from a specified Filipino source. Philippine government agencies must procure their petroleum products from

government-owned sources. Pre-qualification for potential bidders in infrastructure projects requires the domestic corporation to be at least 75 percent Filipino owned. Subject to the availability of products of comparable quality, price, and delivery terms, preferential treatment is to be given to locally manufactured iron and steel products in government projects. Areas of interest to U.S. suppliers, including power generation equipment, communications equipment, and computer hardware, are not affected by significant restrictions. The Philippines is not a signatory to the GATT Government Procurement Code.

Customs Procedures: One element of the import liberalization program is pre-shipment inspection of imports, imposed since 1987 to prevent misdeclaration of goods into the Philippines and tariff evasion. Under the current scheme, imports valued over $2500 from ten countries (Japan, Hong Kong, Taiwan, South Korea, Macau, and all ASEAN countries) are subject to pre-shipment inspection. The government plans to expand this program to cover all imports valued over $500 from all countries. Implementation is scheduled to begin on December 1, 1991. The Philippine government has been working to make custom procedures more transparent and to minimize widely reported irregularities and corruption in the system. The Philippines is not a signatory to the GATT Customs Valuation Code.

6. Export Subsidies Policies

Enterprises registered with the Board of Investments (BOI) are entitled to tax and duty exemptions. The Philippine Omnibus Investment Code of 1987 provides for several programs which benefit Philippine industry. These include income tax holidays, tax and duty exemptions for imported capital equipment, as well as tax credits for purchases of domestic capital equipment and raw materials. Export traders are entitled to tax credits for imported raw materials required for packaging purposes. The Central Bank operates a rediscounting window which allows exporters to borrow at less than market rates. However, to comply with the terms of a World Bank program, the Central Bank plans to eliminate this facility in early 1992.

7. Protection of U.S. Intellectual Property

The Philippine government is a party to the Paris Convention for the Protection of Industrial Property, the Patent Cooperation Treaty, the Berne Convention for the Protection of Literary and Artistic Works, and is a member of the World Intellectual Property Organization. The Philippines remains on the U.S. Trade Representative's Special 301 "Watch List" under the provisions of the 1988 Omnibus Trade and Competitiveness Act.

Where administrative enforcement is possible, as for example by working with the Videogram Regulatory Board (VRB), enforcement raids can be readily arranged and cases can be resolved expeditiously. However, where intellectual property owners must have recourse to the courts, enforcement is slower

and less certain. Many prosecutors are not familiar with intellectual property laws. As a result, intellectual property owners frequently complain of arbitrary and capricious decisions. The Philippines argues that U.S. standards of intellectual property protection are too high for developing countries.

The Philippine Department of Trade and Industry has recently taken several steps to improve enforcement of intellectual property laws. These steps include strengthening the Philippine government's interagency task force on anti-piracy and counterfeiting, and creating regional task forces in areas where counterfeiting is prevalent; issuing a Department order identifying copyright law as one which can be enforced administratively by Trade and Industry personnel; and permitting private-sector intellectual property organizations to assign a full-time representative to work with enforcement officials in the Department's Bureau of Trade Regulation and Consumer Protection.

Patents: The main problems with the present law relate to working of the patent, provisions which allow issuance of a compulsory license under lenient conditions beginning three years after the patent is granted, and a requirement that places a very low ceiling on royalty payments. These provisions undermine the nominal protection available under Philippine law and discourage foreign and domestic investment. Several pharmaceutical products have been subjected to compulsory licensing, but, considering the years that provision has existed, the actual number of licenses is small.

Trademarks: Trademark counterfeiting is widespread. While enforcement is possible, results can be disappointing because of slow legal procedures and because penalties for infringement are not sufficiently high to deter pirates. Philippine law requires use or justified nonuse of a trademark to avoid cancellation of registration after five years. Nonuse of a mark must be totally beyond the control of a registrant, but it is unclear whether Philippine government restrictions, such as import bans, constitute justified nonuse. All license arrangements between foreign companies and Philippine companies must be submitted to the Technology Transfer Registry for approval and registration, and there is a requirement that royalty for the license to use trademarks may not exceed one percent of net sales of the licensed product.

Copyrights: Philippine law is overly broad in allowing the reproduction, adaptation or translation of published works without the authorization of the copyright owner. Also, a Presidential Decree allows compulsory reprint licenses for textbooks used in school courses. The compulsory licensing provisions, especially for textbooks, are inconsistent with the appendix of the 1971 text of the Berne Convention. The Motion Picture Export Association of America reports effective cooperation with the VRB. A key factor in recent enforcement improvements on the videotape front is the presence in the Philippines of U.S. firms offering legal versions of videos not previously available. Printed material piracy and audio piracy are not problems. Computer software is pirated, but

software owners are beginning to organize to protect their rights in the Philippines.

New Technologies: Many shops rent video laser discs purchased retail in the United States without payment of commercial rental fees to the producers. The Motion Picture Export Association of America reports the cooperation of the VRB in arranging an interim solution which would allow these shops to license discs for a fee to be paid to Philippine representatives of U.S. producers.

8. Worker Rights

a. Right of Association

The right of workers, including public employees, to form and join trade unions is assured by the Constitution and legislation, and is freely practiced without government interference. About ten percent of the nation's employed work force of approximately 23 million workers are organized into over 3,700 trade unions. Subject to restrictions in the Labor Code and emergency executive powers, strikes in the private sector are legal, and take place frequently. The right to strike and the status of employees in government-owned industries, however, have not yet been clarified. Numerous strikes by public sector workers occurred, although there were comparatively few in 1991.

b. Right to Organize and Bargain Collectively

Labor's right to organize and bargain collectively is provided for in law. Since 1986, the number of collective bargaining agreements in force has increased from 3,112 to 4,982. In the same period, the number of registered unions increased by more than 10 percent.

It is an unfair labor practice to dismiss a union official or a worker who is trying to organize a union. Nevertheless, employers sometimes attempt to intimidate workers by threats of firing or closure. Allegations of intimidation and discrimination for union activity are actionable, as unfair labor practices before the National Labor Relations Commission (NLRC).

There is a history of industrial relations violence in the Philippines which has been exacerbated by the insurgency and the counterinsurgency. However, labor-related violence declined significantly in 1991.

The rate of unionization and the number of collective bargaining agreements concluded in the several export processing zones (EPZ's) is similar to that in the rest of the country.

c. Prohibition of Forced or Compulsory labor

Compulsory labor is illegal and there were no reports of forced labor being practiced.

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d. Minimum Age for Employment of Children

The Constitution contains prohibitions against employment of children below age 15, except under the sole responsibility of parents or guardians and then only if the work does not interfere with schooling.

e. Acceptable Conditions of Work

Despite the minimum wage laws, substantial numbers of workers mostly laborers, janitors, messengers, drivers, and clerk-typists, earn less than the law stipulates. The standard work week is 48 hours. The law mandates a full day of rest per week. Employees with more than one year on the job are entitled to five days of paid leave. A comprehensive set of enforceable occupational safety and health standards is in effect, and the standards for protecting workers against hazards of the workplace and harmful substances are relatively advanced.

f. Rights in Sectors with U.S. Investment

Worker rights conditions in goods-producing sectors with U.S. investment tend to be better than those in Philippine industry taken as a whole. Firms with U.S. investment are extensively organized by all of the unions within the broad spectrum - left to right - of local labor organizations. Nearly all of these firms have concluded collective bargaining agreements. The labor relations scene in companies with U.S. capital is as active as that in industry generally. This is a result of workers' greater expectations regarding pay, benefits, and fair play in dealing with U.S. - Philippine joint venture management.

Firms with U.S. investment have acquired a reputation for being responsible and responsive in dealing with the workforce. The prevailing lowest wages in companies with U.S. capital are generally much higher than the legal minimum wage. Employees in most of these firms work a 40-hour week with premium pay for overtime. All of the largest firms with U.S. participation apply U.S. standards of worker safety and health, mainly because of the requirement of their U.S. insurance carriers.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category	Amount	
Petroleum		149
Total Manufacturing		818
Food & Kindred Products	295	
Chemicals & Allied Products	290	
Metals, Primary & Fabricated	17	
Machinery, except Electrical	-5	
Electric & Electronic Equipment	133	
Transportation Equipment	2	
Other Manufacturing	85	
Wholesale Trade		124
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		1,091

Source: U.S. Department of Commerce, Survey of Current Business
August 1991, Vol. 71, No. 8, Table 11.3

SINGAPORE

Key Economic Indicators

(Millions of Singapore Dollars Unless Stated Otherwise)

	1989	1990	1991 (est)
Income, Production, Employment			
Nominal GDP	56,235	62,711	69,295
Real GDP (1985 Market Prices)	52,679	57,016	61,292
Growth Rate	9.2	8.3	7.0
Breakdown of Real GDP			
Manufacturing	15,137	16,566	17,590
(pct.)	(28.7)	(29.1)	(28.7)
Construction	2,824	3,035	3,494
(pct.)	(5.4)	(5.3)	(5.7)
Commerce	9,257	9,977	10,542
(pct.)	(17.6)	(17.5)	(17.2)
Transport & Communications	7,426	8,079	8,765
(pct.)	(14.1)	(14.2)	(14.3)
Financial & Bus. Services	16,006	18,455	20,288
(pct.)	(30.4)	(32.4)	(33.1)
Per capita GNP (US$)	9,963	11,769	13,770
Labor Force (thousands)	1,305	1,516	1,539
Unemployment Rate (Mid-year)	2.2	2.0	2.0
Money and Prices			
Money Supply (M1) (end of period)	13,745	15,261	16,000
Commercial Interest Rates (end of period)			
Prime Lending Rate	6.3	7.7	8.0
3-month fixed deposit	3.4	5.1	5.0
6-month fixed deposit	3.9	5.4	5.4
12-month fixed deposit	4.6	5.5	5.4
Savings Rate (Pct of GNP)	43.3	44.6	45.0
Investment Rate (Pct of GNP)	34.5	37.9	38.0
Consumer Price Index (Base June 82-May 83)	102.8	106.3	110.0
Wholesale Price Index (Base 1985)	91.9	93.5	88.0
Avg. Exch. Rate (S$ per US$)	1.94	1.81	1.72
Balance of Payments & Trade			
Total Exports (FOB)	87,117	95,206	107,580
to U.S.	20,291	20,246	19,380
Total Imports (CIF)	96,864	109,806	120,896
from U.S	16,605	17,580	18,723
Aid from U.S.	0	0	0
Aid from Other Countries	N/A	N/A	N/A
U.S. Direct Investment 1/ (US$ millions)			
Total	2,318	3,971	4,726
Petroleum	526	775	982
Chem. and Allied Products	102	107	N/A
Machinery except Electrical	140	415	N/A

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Electric and Electronic	955	1,205	N/A
Wholesale Trade	284	405	468
Banking	118	183	N/A
finance, insur., real estate	80	126	N/A
services	54	64	95
External Public Debt (Yr-end)	138.7	69.5	50.0
Annual Debt Service Payments	107.2	96.7	24.0
Foreign Exchange Reserves	38,607	48,521	55,521
Overall Balance of Payments	5,334	9,893	7,000

1/ On a historical basis, from the U.S. Commerce Department's "Survey of Current Business." However, an Embassy survey of U.S. firms in Singapore indicated total cumulative investment was US$9 billion in 1990.

1. General Policy Framework

Singapore is a small island-nation with three million people and no natural resources, except for a magnificent harbor and a skilled and hardworking labor force. Trade and shipping have been its lifeblood since its founding as a British colony in 1819. At independence, facing a dearth of physical resources and a small domestic market, the Government of Singapore had no alternative but to adopt an outward-looking, export-oriented economic policy. That policy has been a resounding success. Total trade in 1990 was more than three times the country's gross domestic product (GDP), and Singapore has become a major center for light manufacturing, oil refining and financial services, acting as a hub for the growing Southeast Asian market. Except for a brief but deep recession in 1985-86, real growth of GDP has averaged nearly 9 percent over the last decade.

Singapore's formula for success has been an open trade and investment environment; a corruption-free, pro-business regulatory framework; political stability; public investment in infrastructure; high savings and prudent fiscal management; relatively low cost, efficient, and strike-free labor; and significant tax concessions to foreign investors. The government has run budget surpluses in most years since independence. Compulsory savings in the form of employer and employee contributions to the Central Provident Fund (a form of social security) have formed the basis of a national savings rate exceeding 40 percent of GDP.

The Monetary Authority of Singapore (MAS), the country's central bank, engages in limited money market operations to influence interest rates and ensure balanced liquidity in the banking system. There are no controls on capital movements, which limits the scope for an independent monetary policy. In fact, the government does not set targets for monetary aggregates. Money supply and domestic interest rates are primarily determined by international, rather than local, conditions. The exchange rate is the MAS's most important tool for controlling inflation.

Inflation, though moderate by international standards, has become an increasing headache for the monetary authorities over the last two years as an acute labor shortage has induced

a sharp run-up in wages. The MAS has kept inflation relatively under control to date by maintaining a strong currency. But this could erode Singapore's export competitiveness in the long run. The government is therefore encouraging industry to move more labor-intensive operations offshore while promoting services and high-technology industries at home. The government also aims to engineer a gradual slowdown to a more sustainable economic growth rate of around 5 percent. In fact, growth has already slowed from a peak of 11 percent in 1988 to less than 7 percent by the second half of 1991.

2. Exchange Rate Policies

The MAS uses currency swaps and direct purchases or sales of foreign exchange (principally U.S. dollars) to keep the Singapore dollar within a desired trading range with respect to an undisclosed trade-weighted basket of currencies. The U.S. dollar is the benchmark currency. Exchange rates with other currencies are determined by the daily cross rates in the international foreign exchange markets. The Singapore dollar is freely convertible, and there are no multiple rates. Forward quotations against the world's major currencies are available in the very active local foreign exchange market.

The Singapore dollar has appreciated nearly 20 percent against the U.S. dollar since 1988 as the MAS has acted to restrain inflation in the face of rising wages. This should make U.S. products more competitive in the Singapore market. In October 1991, the U.S. dollar hit an all-time low of S$1.68, down from S$1.79 in March and S$2.18 at the end of 1986. By 1990, authorities were beginning to worry about the effect of this currency appreciation on Singapore's trade competitiveness. According to official calculations, Singapore's unit labor cost in U.S. dollar terms increased 8.1 percent in 1990 relative to the other Asian newly industrialized economies (Hong Kong, Taiwan and South Korea). There has been little apparent impact on Singapore's export performance to date. But a clear trade-off has developed between export competitiveness and internal price stability.

3. Structural Policies

Singapore's prudent economic policies have allowed for steady economic growth and a reliable market, to the benefit of U.S. exporters. Singapore was the eleventh biggest U.S. export customer in the first half of 1991. Prices for virtually all products are determined by the market. The government maintains tariffs on a few products (notably automobiles) and levies excise taxes on cigarettes, alcohol, petroleum products and motor vehicles. There are no non-tariff barriers to foreign goods.

Sound economic management has been a key factor in attracting U.S. investment, which totals about US$9 billion, according to a 1990 U.S. Embassy survey. More than 800 U.S. companies have operations in Singapore, and a significant share of U.S.-Singapore trade is accounted for by

intra-company transfers. U.S. firms ship components and capital goods to plants in Singapore, and finished products are re-exported to the United States. Overall, multinational firms account for 71 percent of Singapore's export production. Recognizing the link between investment and trade patterns and the danger of relying excessively on a single market, Singapore has sought to diversify its export markets in recent years by balancing its sources of foreign investment. But the United States still accounts for almost a fifth of Singapore's total trade and a third of its non-oil exports (excluding re-exports).

To maintain the country's economic expansion with dwindling land and labor supplies, the government is promoting Singapore as a high-tech manufacturing and service hub for the expanding Southeast Asian region. The 1991 budget, the first under Prime Minister Goh Chok Tong, who succeeded Singapore's founding father Lee Kuan Yew in November 1990, called for increased spending on education, training, and research and development and offered new incentives for foreign companies to set up regional trading, sales, marketing and securities operations. Income from trading, managing, placing and underwriting international securities is now taxed at a preferential rate of 10 percent, and income from operating non-Singapore flag ships is exempted altogether. Despite cries from the business community for measures to offset rising labor costs, the budget offered no general tax relief and left the levy on foreign workers untouched. In fact, the employer's share of the Central Provident Fund (CPF) payroll tax was increased to 17.5 percent from 16.5 percent. The budget did eliminate double taxation on repatriated profits from foreign investments, however, an inducement to shift production offshore.

Since then, the government has tinkered with worker levies in selected sectors with little net effect. In the shipyard sector, it reduced the levy on skilled workers and raised it for unskilled workers. More recently, the government announced it would introduce a "two-tier" scheme that will allow manufacturing employers to increase their proportion of foreign workers slightly (to 45 percent from 40 percent) in exchange for a higher levy per worker. But the message is clear. The government does not want to perpetuate low-wage manufacturing in Singapore. Such jobs should move to less developed neighboring countries while Singaporeans move on to more remunerative activities.

4. Debt Management Policies

Singapore's external public debt was a mere US$40 million at the end of 1990, and its debt service ratio is less than 0.1 percent. The country has run current account surpluses for most of the past decade, and thanks to steady inflows of investment capital, it has enjoyed overall balance of payments surpluses for practically its entire independent history. Official foreign reserves have grown sharply in recent years, topping US$27 billion at the end of 1990 -- nearly US$10,000 per capita. Singapore is now using a portion of those accumulated reserves to expand its direct investments overseas, both within Southeast Asia and farther afield in

China, Europe and North America.

5. Barriers to U.S. Exports

Singapore maintains one of the world's most open trade policies. About 91 percent of imports enter duty-free. Import licenses are not required, customs procedures are minimal, the standards code is reasonable and the government actively encourages foreign investment. All major government procurements are by international tender.

U.S. exports to Singapore grew 14 percent in 1990 to US$9.7 billion. Imports from Singapore, meanwhile, increased 7.7 percent to US$11.2 billion. Over the last three years, the U.S. trade deficit with Singapore has gradually shrunk from US$2.5 billion in 1988 to US$1.5 billion in 1990. By early 1991, U.S. trade with Singapore was in surplus, largely because of a contraction in U.S. imports due to the U.S. economic recession.

Singapore does restrict market access for certain services, however. U.S. accountants, lawyers, doctors, and architects have experienced problems in obtaining local certification of their professional qualifications. And foreign law firms cannot hire or form partnerships with Singaporean attorneys to practice local law. A locally accredited lawyer is effectively disbarred upon going to work for a foreign firm. This prevents U.S. law firms from offering a full range of legal services.

The parastatal Singapore Telecom maintains a monopoly in "basic telecommunications services", a term the government defines broadly. It also restricts the sale of value-added network services and imposes volume-sensitive charges on the sale of leased-line data services to third parties. Although telecommunications policy has been liberalized in recent years and Singapore Telecom is scheduled to be privatized in 1992, U.S. firms are still excluded from a number of lucrative markets.

Singapore also denies national treatment to foreign firms in banking and financial services. Foreign penetration of the banking industry is high. But foreign banks cannot open new branches or freely relocate existing branches or participate in automated teller networks. No foreign bank has received a full banking license since 1973 (no domestic bank has either). New entrants receive restricted licenses that limit them to a single branch and forbid them from offering general savings accounts or other retail services. Foreign brokerages and insurance companies also receive restricted licenses. The government only recently opened up membership on the Stock Exchange of Singapore to foreign firms -- subject to a number of restrictions -- and it limits foreign ownership of Singapore banks and other companies it deems to be of strategic import to a fixed percentage.

U.S. cigarette manufacturers complain that the structure of import duties and excise taxes on tobacco products effectively discriminates against imported cigarettes. The duty on an imported cigarette is based on its full weight

(including the paper and filter), whereas local cigarette manufacturers pay duty only on the tobacco. U.S. industry sources estimate this puts them at a disadvantage of S$9.50 per kilogram, roughly equivalent to a 5 percent tariff.

Singapore's Economic Development Board uses tax and other incentives to attract investment in areas favored in its master development plan. But this does not appear to have had an adverse effect on U.S. trade or investment. In fact, a number of U.S. firms have profited from the incentives.

6. 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.

Singapore is not a signatory to the GATT subsidies code and has consistently opposed efforts to restrict the use of export subsidies and incentives in the Uruguay Round negotiations on Trade-Related Investment Measures (TRIMs). Although it does not employ any of the sorts of measures that U.S. negotiators are seeking to prohibit in the TRIMs talks, Singapore argues that the right to employ such measures is a "sovereign prerogative."

7. Protection of U.S. Intellectual Property

Singapore enacted strict, comprehensive copyright legislation in 1987, following close consultations with the U.S. Government. The new law relaxed the burden of proof for copyright owners pressing charges, enacted stronger civil and criminal penalties and made unauthorized possession of copyrighted material an offense in certain cases. The trademark law was similarly strengthened in January 1991, and the government is reportedly considering legislation to improve patent protection as well.

U.S. manufacturers have set the pace in cracking down on copyright violations under the new system, which relies heavily on copyright owners to combat infringement. Industries or individuals discovering pirating may press claims through civil or criminal courts; the Commercial Crime Division of the Ministry of Law, when presented with evidence, investigates copyright violations and then refers the case to the Attorney General's office for a decision on prosecution. The response from the government when manufacturers have uncovered illegal operations has been positive. Many pirating operations have shut down or moved out. The government also launched a highly publicized and largely successful campaign against sales of counterfeit designer watches and leather goods during 1988 and 1989. But "copy watches," as well as pirated software, are still readily available in certain well

known shopping areas.

Some U.S. pharmaceutical manufacturers have complained that a loophole in Singapore's patent law (Compulsory License Act) allows government hospitals to buy "copycat" drugs when convenient, costing them considerable sales.

In overall terms, Singapore's protection of intellectual property is positive and improving. The government wants to encourage foreign investment in high-tech industries. It is therefore in its interest to protect intellectual property rights in order to inspire investor confidence. But concerns remain with regard to the adequacy of enforcement. Therefore, the U.S. Government included protection of intellectual property on the "immediate action agenda" of the bilateral Trade and Investment Framework Agreement concluded with Singapore in October 1991. The two governments must meet to discuss the issue by February 1992.

The United States also encourages the Government of Singapore to work in the GATT to establish international standards on intellectual property protection, and to join international conventions on IPR.

8. Worker Rights

a. Right of Association

Singapore's Constitution gives all citizens the right to form associations, including trade unions. Parliament may, however, impose restrictions based on security, public order or morality grounds. 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. The national work force comprises about 1.5 million workers, of which some 213,000 are organized into 83 trade unions. Some 74 of these, representing about 98 percent of unionized workers, are affiliated with an umbrella organization, the National Trade Union Congress (NTUC), which has a close relationship with the Government. Workers have the legal right to strike but rarely do so.

b. Right to Organize and Bargain Collectively

The Trade Unions Act authorizes the formation of unions with broad rights. Collective bargaining is a normal part of management-labor relations in Singapore, particularly in the manufacturing sector. On the average, collective bargaining agreements are renewed every two to three years. The Industrial Relations Act makes it an offense to discriminate against anyone who is or proposes to become an officer of a trade union.

c. Prohibition of Forced or Compulsory Labor

Singapore law forbids the use of forced or compulsory labor, and such labor is not practiced.

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d. Minimum Age for Employment of Children

The Government enforces the Employment Act which sets the minimum age for the employment of children at 12 years.

e. Acceptable Conditions of Work

The Singapore labor market offers relatively high wage rates and working conditions consistent with accepted international standards. Singapore has no minimum wage or unemployment compensation. Because of a continuing labor shortage, wages have generally stayed high. The standard legal workweek under the Employment Act is 44 hours. The Government enforces comprehensive occupational safety and health laws. Enforcement procedures, coupled with the promotion of educational and training programs, have 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, except that the labor shortage induces employers in the electronics industry to hire many unskilled foreign workers. The Government controls the number of foreign workers through immigration regulations and through levies on firms hiring them. Foreign workers face no legal wage discrimination, but the low-skilled jobs they generally hold and the extra cost of hiring them suggest that they are in general paid less than Singaporeans.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. Dollars)

Category	Amount	
Petroleum		775
Total Manufacturing		2,361
Food & Kindred Products	(D)	
Chemicals & Allied Products	107	
Metals, Primary & Fabricated	3	
Machinery, except Electrical	415	
Electric & Electronic Equipment	1,205	
Transportation Equipment	(D)	
Other Manufacturing	39	
Wholesale Trade		405
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		3,541

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current usiness
August 1991, Vol. 71, No. 8, Table 11.3

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Key Economic Indicators

(In Billions of New Taiwan Dollars (NTD) Unless Noted)

	1989	1990	1991 (est)
Income, Production, Employment			
GDP at Current Prices	3,879	4,222	4,710 1/
Real GDP (at 1986 prices)	3,703	3,884	4,166 1/
Real GDP Growth (pct)	7.6	4.9	7.3 1/
Real GDP by Sector			
Agriculture	163	165	165 1/
Industries	1,671	1,693	1,798 2/
Manufacturing	1,373	1,370	1,447 2/
Others	298	323	351 2/
Services	1,868	2,025	2,197 2/
Real Per Capita Income (NTD)	174,407	180,027	190,820 2/
Labor Force (000)	8,390	8,423	8,600 2/
Unemployment Rate (pct)	1.56	1.67	1.50 2/
Money and Prices			
Money Supply (M1B)	2,069	1,932	2,280 1/
Comm'l Interest Rate (pct)	10-12	10-12	9.3-11.5 3/
Savings Rate (pct)	30.82	29.15	29.92 1/
Investment Rate (pct)	21.55	21.90	21.79 1/
CPI (1986=100)	106.30	110.69	114.59 1/
WPI (1986=100)	94.88	94.30	95.12 1/
NTD/US$ Off. Exchange Rate	26.41	26.89	26.80 4/
NTD/US$ Unoff. Exchange Rate	26.36	26.89	26.87 4/
Balance of Payments and Trade (US$ Million)			
Exports (FOB)	66,201	67,214	76,800 1/
Exports to U.S.	24,036	21,746	22,300 5/
Imports (CIF) 6/	52,231	54,716	64,200 1/
Imports from U.S.	12,003	12,612	14,400 5/
U.S. Investment Approval	381	581	628 2/
External Public Debt	1,404	1,121	800
Gold and Forex Reserves	79,052	78,061	83,710
Balance of Payments	3,119	55	5,700 7/

1/ Estimated by the Directorate General of Budget, Accounting and Statistics.
2/ Estimates based on the first three quarters.
3/ Assume November interest rate to prevail to 1991 year-end.
4/ Average of month-end figures for the year. Rates at the end of the last two months of 1991 are estimated at 26.10:1.
5/ Based on historical patterns and actual performance for first ten months of 1991.
6/ Excluding US$18 million in gold imported by Taiwan's Central Bank from England in 1989.
7/ Based on the first two quarters.

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1. General Policy Framework

Although remaining an export-oriented economy, Taiwan has made many changes since 1986 to redress its large trade surplus, in particular its surplus with the U.S. It has revalued its currency (the New Taiwan Dollar, or NTD), promoted capital flow, reduced import barriers, and encouraged the purchase of U.S. goods. In mid-1987 Taiwan removed all restrictions on foreign exchange transactions arising from trade in goods and services. The NTD/USD exchange rate rose 54 percent from 40.55 in September 1985 to 26.28 in October 1991. In the first 10 months of 1991, the exchange rate fluctuated between 26.28 and 27.45.

After peaking at USD 17 billion in 1987, the U.S. trade deficit with Taiwan has been falling steadily, reaching USD 11 billion in 1990, but it was still the second largest bilateral deficit for the U.S. According to preliminary U.S. Department of Commerce data, the U.S.-Taiwan trade gap fell again in the first eight months of 1991, to USD 6.0 billion for the period. The People's Republic of China (PRC) has replaced Taiwan as the second largest source of the U.S. trade deficit. Taiwan has more than met the goal of its 1989-1992 Trade Action Plan (TAP) to reduce its trade imbalance with the United States by 10 percent annually. Early in 1990, Taiwan opened its market to the direct import of distilled spirits. Taiwan's current economic focus appears to be its Six-year Plan to develop Taiwan's infrastructure and upgrade its industries.

But Taiwan did not meet its TAP tariff targets in 1990, and it did not meet the 1991 tariff targets either, although its legislature passed a Tariff Reduction Bill in December 1991 which is expected to reduce the average nominal and the effective tariff rates to 8.9 percent and 3.9 percent, respectively. Tariffs on many agricultural imports remain as high as 40 to 50 percent. There are import bans for animal offals and de facto bans for other agricultural items, which are permitted entry but never given approval, such as rice, peanuts, small red beans, fresh potatoes, and certain poultry and pork products.

The process of obtaining import permits for medicines and some cosmetics and agricultural products remains complicated. Imported cigarettes and alcoholic beverages (wine and beer) are subject to high taxes and a low profit margin, whereas contraband Japanese cigarettes, sold everywhere untaxed and exempt from margin restrictions, enjoy a distinctive competitive advantage. Despite some small changes, the banking sector remains a highly protected industry, with foreign banks subject to many restrictions, such as those in deposit taking, branching, and foreign exchange operations. Maritime issues, such as intermodal trucking, and off-dock container yard operations, that have been under discussion since 1989 or earlier, continue to be unresolved, despite the Coordinating Council for North American Affairs (CCNAA's) commitment to the American Institute in Taiwan (AIT) to do so in 1989. Enforcement of the protection of intellectual property rights (IPR) lacks vigor. Proposed liberalization of the telecommunications sector will discriminate against foreign companies.

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Fiscal Policy: Following three consecutive fiscal surpluses, Taiwan suffered a fiscal deficit estimated at NTD 136 billion (USD 5 billion) in FY91 (July 1, 1990 to June 30, 1991) when the island experienced an economic slowdown. The public authorities are anticipating a growing fiscal deficit for the several years to come when Taiwan's six-year development plan requires a total of over USD 300 billion investment in public infrastructural construction projects and in upgrading industries. To finance the fiscal deficits in the future, the authorities plan to issue a rising amount of public bonds, from NTD 75 billion in FY91 to NTD 250 billion and NTD 350 billion in the next two fiscal years, respectively. A consequence of the continued growth in bond issuance is a steady rise in the debt servicing burden from 2.5 percent of the central budget in FY91 to 5.8 percent in FY92 and 10 percent in FY93.

Monetary Policy: Taiwan controls money supply mainly through open market operations, adjustments in the reserve requirement and rediscount rate, and various bank credit regulations. The amended banking bill promulgated in July 1989 decontrolled interest rates. The tight money supply policy, slowing the money supply expansion from a double- to a single-digit rate in 1989 and leading to a contraction in M1B in 1990, has been under reconsideration by the authorities in 1991. In the third quarter of 1991, the Central Bank lowered the bank reserve requirements three times and rediscount rates twice in order to narrow the interest gap between NTD and overseas accounts, hoping to reduce the pressure on appreciation of the NTD. As the interest rates on NTD accounts remain higher than those on overseas accounts, the smaller interest gap is not likely to cause massive capital exodus, draining the capital resources available for the six-year plan. Meanwhile, lower interest rates should stimulate currently weak domestic private investment.

2. Exchange Rate Policies

Taiwan removed most restrictions on forex transactions in July 1987, leaving two limits in place on non-trade oriented capital flow. In March 1991, while the annual limit on outward remittance per entity was reduced from USD 5 million to USD 3 million, the limit on annual inward remittance per entity was raised to USD 3 million, up from the original ceiling of USD 50,000. An interbank forex call market was set up in August 1989, with the transaction currency expanded from only the USD to include a dozen other major foreign currencies in February 1991. The market was linked to Singapore's in February 1991 and to Hong Kong's in August 1991. The Central Bank opened currency swap and forex margin trading in June 1991. The forward forex market, opened on October 1, 1987 and closed two days later, was reopened at the beginning of December 1991, but it is subject to a number of restrictions. With less constraints on the forex market, the NTD/USD exchange rate, following a 3.6 percent depreciation in 1990, appreciated 3.8 percent from 27.12 to 26.10 in the first eleven months of 1991. As of the end of September 1991, Taiwan's forex reserves amounted to USD 76 billion, the highest in the world.

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3. Structural Policies

Pricing Policies: Prices for most commodities are set largely via market mechanism. While Taiwan pays prevailing international prices for most imports, final retail prices are sometimes inflated by commodity taxes, traditional consumer psychology (the more expensive the better), and cartel arrangements in the domestic distribution system. False invoicing by small or intermittent importers also has the effect of subverting normal competition and supporting cartel-like arrangements by middlemen to inflate consumer price levels, particularly for imported food products. Import bans, de facto bans, and other restrictions on rice, peanuts, small red beans, sugar, certain poultry and pork products including animal offals, together with high tariff rates on many of Taiwan agricultural import items, all contribute to high local retail food prices.

Since State-run enterprises are estimated to supply one-third of the GDP, the authorities have the power to influence prices for key commodities such as power, water, petroleum products, transportation, sugar, and steel. Taiwan passed a Fair Trade Law (FTL) in January of 1991. When the FTL becomes effective in February 1992, a fair trade committee will be set up to replace the price supervisory board to monitor and regulate cartel pricing activities. However, state-run enterprises will be exempt from FTL regulations for five years after the FTL goes into effect. Domestic and overseas official procurement is by open tender, restricted tender, or negotiation.

Tax Policy: With the fiscal deficit looming larger and larger in the wake of the six-year (1991-1996) development plan, the public finance authorities have been trying to broaden Taiwan's tax base. The authorities raised various types of fees for public services in 1991, including postage in July, tap water in August, and freeway tolls in September. It also submitted a proposal to eliminate the tax-exempt status of military and educational personnel in 1990 and another proposal to levy a capital gains tax on land transactions. However, these two proposals have been shelved due to strong opposition and to concern that these new taxes might cost the ruling party in the upcoming elections (including legislator elections in December 1992 and county magistrate elections in December 1993). With new taxes becoming infeasible, the public finance authorities cracked down on tax evasion and claim to have recovered over NTD 20 billion (or 2.6 percent of the annual tax revenue) in the first ten months of 1991. AIT and CCNAA have begun negotiating a tax agreement.

In January 1990, the Taiwan authorities eliminated the commodity tax on nine products and lowered the commodity tax by 16 - 50 percent on 16 other products. Following the August 1989 tariff reduction round, the average nominal and real effective tariff rates dropped to 9.65 percent and 6.25 percent, respectively, compared to 26.0 percent and 7.6 percent in 1986. Following a period of over two years without tariff cuts, Taiwan plans to further reduce the average

nominal and effective tariff rates to 9.2 percent and 4.3 percent, respectively, in early 1992. The authorities plan to phase out the tax rebate program for imported components of export goods before the end of 1992. Over three quarters of 4,800 eligible import items had been removed from the rebate program by October 1991. However, tariffs on agricultural products remain high, with nominal rates averaging 23.2 percent by the end of 1991. Tariffs ranging from 40 to 50 percent are applied on many high value agricultural imports.

Regulatory Policies: Foreign investment in agriculture, land, certain transport and energy sectors, telecommunications, and mining are forbidden. Access to the services sector remains highly restrictive but is gradually being loosened. In December 1990, Taiwan's Executive Yuan permitted foreign institutional investors to invest directly in Taiwan's stock market, subject to a capital ceiling. Earnings repatriation was relaxed with the lifting of foreign exchange controls in mid-1987. The tax treatment of foreign firms is essentially the same as that applied to local firms. In an attempt to upgrade its industries, the authorities replaced the export-oriented "Statute for Encouraging Investment" with a new "Statute Upgrading Industries" in late 1990. The new statute provides new tax incentives for investment in R and D and high-technology industries.

4. Debt Management Policies

Taiwan is virtually debt-free. External public debt stood at a mere USD 1.2 billion by the end of 1990. The debt service ratio was 2.8 percent for the year. Taiwan has begun to offer financial assistance to developing countries and is preparing a comprehensive foreign aid program. In addition to being a member of the Asian Development Bank, Taiwan became, in 1991, a member of a special fund in the Central American Bank for Economic Integration (CABEI) and in the European Bank for Reconstruction and Development (EBRD). In November of 1991, Taiwan jointed the Asia-Pacific Economic Cooperation (APEC) process under the name "Chinese Taipei." In January 1990, Taiwan applied to accede to the General Agreement on Tariffs and Trade (GATT).

5. Significant Barriers to U.S. Exports

Tariffs: Although the average nominal tariff rate was 9.7 percent in 1991, the rate on agricultural products (23.2 percent) is significantly higher than that on industrial products (7.2 percent). Approximately one-third of agricultural products imports, comprising many high value items, are subject to tariffs as high as 40 to 50 percent. Import duties on small passenger cars and trucks was lowered from 40 percent, the highest for industrial products, to 30 percent, in the recent revision of the general tariff schedule which recently passed the Legislative Yuan.

Import Licensing: Taiwan maintains an import ban on 242 categories, including weapons and drugs, as well as agricultural items such as animal offals. As of October 1991, 65.6 percent (or 5,915 categories) of total imports under the

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Harmonized System (HS) were exempt from import permits. While 691 categories are subject to import permits issued by the Board of Foreign Trade (BOFT), 2,174 others are required to have import visas issued by commercial banks. Out of the 691 BOFT license items, 56 are products that require approval by Council of Agriculture (COA) and other agricultural agencies; many of these items such as rice, peanuts, small red beans, fresh potatoes, sugar, and certain poultry and pork products face a de facto ban. In addition to the traditionally banned agricultural items, Taiwan authorities recently banned breeding swine, swine embryos, swine semen, and dairy cattle vaccinated against brucellosis disease. These new additions are banned for reasons that have no technical basis. Taiwan authorities also plan to place import levies on imported wheat, feedgrains, and soybeans according to a "Food Management Law" (FML). The process to obtain import permits for medicines and some cosmetic products remains complicated. The Taiwan Tobacco and Wine Monopoly Bureau uses high taxes to maintain market share for domestic alcoholic beverages and cigarettes. On the other hand, it seems to tolerate the ubiquitous contraband Japanese cigarettes which, by avoiding monopoly taxes and mandatory profit ceilings, enjoy a significant cost advantage over legally imported foreign cigarettes.

Services Barriers: Banking: Foreign banks are discriminated against in areas such as branching, NTD deposit-taking, forex liabilities ceilings, credit card processing, and commercial dealings. Only one foreign bank has been approved to have more than two branches in Taiwan, whereas any one of the 15 new domestic banks can have 5 branches to start with and three branches per year after the first year. The prohibition against foreign bank subsidiaries is particularly hard on U.S. banks because they are precluded from doing securities business in Taiwan as a result.

Securities: Following the permission to set up domestic securities firms and the opening of offshore transactions of foreign mutual funds to local investors in 1988, two U.S. brokerage houses were licensed to open branch offices in Taipei in February 1990. Both began operations in early 1991. In January 1991, the local stock exchange was opened to foreign institutional investors. In September 1991, the Securities and Exchange Commission announced that would accept applications for the establishment of new securities investment trust companies (SITC) for six months. Currently, Taiwan has four SITCs established before 1986, and since then has not licensed any new SITCs. Despite these liberalization measures, foreign ownership in a local securities firm is still subject to a 40-percent ceiling, with no individual foreign entity being permitted to own more than 10 percent. Foreign institutional investors are subject to very strict restrictions on the movement of capital into and out of Taiwan. Foreigners cannot invest in the local stock market except via four closed-end mutual funds.

Insurance: U.S. insurance companies have been the only foreign insurance companies allowed to enter the Taiwan market since January 1, 1986. In August 1990, Taiwan authorities increased the U.S. annual quota to three life and three non-life companies, with the allowance that unused quotas for

the two categories may be used interchangeably. Meanwhile, the authorities relaxed some qualification requirements, including shortening the required ten years of overseas experience on the part of the applying company to five years. The bill to amend the insurance law, submitted to the Legislative Yuan in May 1990, passed the first reading on November 11, 1991. The amended law will permit the establishment of domestic insurance companies, as well as the entry of all foreign insurance companies. Foreign mutual insurance companies will also be allowed to enter the market according to the Ministry of Finance's interpretation of the new law.

Credit/Charge Cards: Since January 1, 1989, foreign charge/credit cards denominated in NTD can be issued on Taiwan, but the foreign card issuing companies, like their Taiwan counterparts, are required to have their cards processed by the national credit card center (NCCC). This mandatory requirement increases the cost for U.S. card issuers which possess processing capabilities of their own. At present, Taiwan law forbids holders of both domestic and foreign cards to borrow money on their credit/charge cards, a card service common in the United States.

Travel Services: Taiwan authorities still prohibit foreigners from investing in the travel service business in Taiwan. An exception is that overseas Chinese holding both foreign citizenship and a Taiwan passport are allowed to become shareholders of such companies. No limit is imposed on the equity owned by overseas Chinese.

Motion Pictures: Foreign films are subject to a higher entertainment tax, levied at the city/county level, than are domestic films. The tax is 1 percent on Chinese-language films and 1.5 to 2.5 percent on non-Chinese films. In addition, Taiwan restricts the import of non-Chinese film prints to twelve per title and the simultaneous showing of such films to six theaters per municipality.

Transportation: For more than a year, the draft amended highway law has been pending Executive Yuan approval before it can be sent to the Legislative Yuan. The law proposes to allow, among other things, sea/land operations for shipping companies of countries which permit Taiwan shipping companies the same rights. Under pressure of U.S. Federal Maritime Commission investigations re-opened in October 1991, the Ministry of Transportation and Communications has promised to have the law sent to the Legislative Yuan as a priority bill before the current session ends in January 1992, but there is no indication when it will become law. The refusal by local port authorities to accept the international definition of slot charter is impeding operation of U.S. carriers. U.S. air carriers would like to have warehouse space on-site at airports. Currently neither domestic nor foreign carriers are permitted such space.

Customs Procedures: Customs clearance can be time consuming and costly. Many importers hire a local customs broker to expedite the process, and that adds to costs. Dispute over customs classification or valuation, delays in processing, and excessive zeal in prosecuting minor

discrepancies in documentation are common complaints. However, in order to simplify and accelerate the customs clearance process, Taiwan customs plans to adopt an automated customs clearance system for air cargo in November 1992 and for ocean-going shipments in November 1994. For agricultural imports, customs officials often adjust values upwards for tariff purposes. There are allegations of corruption among customs officials.

6. Export Subsidies Policy

Exports of rice and sugar are indirectly subsidized through guaranteed purchase prices higher than world prices. Producers of fruit, poultry, and livestock receive financial assistance with packaging, storage, and farmers associations. However, Taiwan's rice exports in the past three years have declined substantially and are unlikely to rebound to previous levels. Low domestic sugar production in 1990 and 1991 forced the authorities to allow sugar imports on a case-by-case basis.

A tax rebate system to encourage exports by repaying import taxes on imported components for re-export is gradually being phased out. The number of items qualified for the tax rebate in 1990 dropped one-third from the previous year. As of 1991, about three quarters of 4,000 eligible import items have been removed from the rebate system. The Ministry of Finance (MOF) plans to eliminate the rebate system completely in 1992. Raw materials temporarily stored in bonded warehouses for processing into re-export products can be exempted from import taxes. One-third of the taxes generated from a 0.0625 percent tax levied on exports and a 0.05 percent tax levied on imports are used to finance the activities of the semi-official China External Trade Development Council (CETRA) which actively promotes Taiwan exports both domestically and abroad. Via Taiwan's state controlled Bank of Communications (BOC), the Central Bank (CB) provides financing, at reportedly below market rates, to Taiwan companies to acquire technology companies abroad. Taiwan's premier computer maker, Acer Inc., purchased Altos Computer System in the U.S. in October 1990 with USD 20 million of CB/BOC loans.

Investment Barriers: In May 1989, the authorities adopted a "negative list" governing foreign investment applications. Under this list, foreign investors are allowed to invest in all industries except agriculture, power generation, petroleum refining, railroads, trucking, telecommunications and defense-related industries. To narrow its chronic trade deficit with Japan, Taiwan recently considered prohibiting foreign investment in trading, department stores, and housing construction. However, this proposal was recently dropped as authorities considered the potential effects of the Uruguay Round's Trade-Related Investment Measures proposal. Economic authorities are reportedly reviewing, inter alia, local content requirements for auto and motorcycle production and foreign investment restrictions in service industries. Firms with 45 percent or more foreign investment are free from nationalization for 20 years. No foreign investment has been nationalized in the past 40 years and no U.S. investor on Taiwan has filed an

Overseas Private Investment Corporation (OPIC) insurance claim.

Government Procurement Practices: There are currently no countertrade requirements imposed on either public or private sector transactions except for Taiwan's aerospace industry. Each significant official procurement of foreign aerospace products will have mandatory offset features (counterpurchase of aerospace products and/or technology transfer). Official procurement is divided into domestic and overseas components. Procurement can be made by open tender, restricted tender or negotiation. Open tenders are usually used to solicit foreign tenders and require at least three bidders. Restricted tender may be limited to pre-qualified bidders but require at least two bidders. Special authorization for negotiated purchases is occasionally granted in cases where there is a sole supplier or where the need is urgent. Some tenderss are restricted to local suppliers. Local rules stipulate that all public enterprises and public administrative agencies procure locally if the goods and services can be manufactured in Taiwan, if acceptable substitutes are available locally, or if the price of local products is not more than five percent higher than the CIF import price plus tariffs and harbor taxes. Some U.S. firms have recently reported that terms and conditions for official contracts have become more strict. Taiwan's procurement procedures are nontransparent.

7. Protection of U.S. Intellectual Property

Taiwan's intellectual property (IP) laws are improving, with a revised Copyright Law targeted for adoption by early 1992 and a Fair Trade Law going into effect in February 1992. A new cable TV law is before the Legislative Yuan, and draft trademark, patent, semiconductor, and industrial design laws are under ministerial review. However, IP enforcement efforts remain hampered by inadequate manpower and the relatively low priority assigned to such cases by enforcement agencies. For instance, the convicted infringers in the Encyclopaedia Brittanica copyright case remain at large although the case was decided in February 1991. Moreover, the judiciary often imposes light sentences (under six months), for which a nominal fine can be substituted. This is perceived as merely another cost of doing business rather than a credible deterrent to infringement. To enhance public awareness of the importance of intellectual property rights (IPR) protection, Taiwan designated 1991 as "the year of IP rights" and organized several public events throughout the year.

Specific IPR Problems: Patent Issues: The draft patent law is under review by the Ministry of Economic Affairs and targeted for submission to the Executive Yuan in early 1992. This draft includes a number of important improvements over the 1987 law. For instance, it extends patent protection to food, beverages, habit-forming articles, micro-organisms, and new uses of products; lengthens the term of patent protection for pharmaceutical and agrichemical products an additional two to five years; and accords a right of priority filing on a reciprocal basis. There are still several areas where additional amendments are necessary. In particular, the definition of invention to include a high level of technology is vague, compulsory licensing provisions are too sweeping,

and the right of administrative appeal (for non-technical decisions) is too restrictive.

Trademark Issues: The draft trademark bill is under review by the Ministry of Economic Affairs and is slated for submission to the Executive Yuan in early 1992. It includes provisions adopting an international classification system, but there is no timetable for its implementation. In addition, the draft bill still contains an enforcement loophole permitting the local sale of counterfeit goods in the absence of intent to defraud. The Fair Trade Law, which goes into effect in February 1992, protects trade dress and secrets and prohibits intentional mislabelling and other acts that may confuse consumers. The law also regulates multi-level distributorships such as Avon and Amway, but implementing regulations have not yet been finalized.

Copyright Issues: The revised copyright bill is currently under legislative review and likely to be passed by early 1992. This revision includes many significant improvements, such as an extended term of protection, retroactive protection for works created after 1965, and protection of translation rights for foreign works on a reciprocal basis. This revision is consistent with the AIT/CCNAA Copyright Protection Agreement initialed in July 1989 and will bring Taiwan's copyright protection up to Berne Convention standards.

A major copyright case involving Encyclopaedia Brittanica was decided in February 1991. The Taipei high court ruled in favor of the company against a local publishing firm. The defendants were sentenced to prison terms of up to 14 months, including fines ranging from 5,000 to 10,000 yuan (approximately US$560-1125). However, the principle defendants have yet to be apprehended and serve their terms.

At present, computer software, cable TV, compact disc (CD), and videotape piracy are serious problems on Taiwan. In 1991, the U.S. Business Software Alliance (BSA) initiated several high-profile raids, which have helped reduce corporate purchases of counterfeit software. In September 1991, the Ministry of Interior's Copyright Committee conveyed information on seven alleged CD pirates to the Ministry of Justice for investigation.

Cable TV Issues: The Government Information Office (GIO) has launched a two-pronged approach to address cable TV piracy. First, it has carried out an aggressive enforcement program to locate and destroy illegal cable TV systems. However, the high profitability and relatively low cost of installing such systems makes it difficult to make real headway in eradicating them. Secondly, the GIO has completed a cable TV bill permitting the establishment of legitimate stations providing authorized programming. This bill is now being reviewed by the Legislative Yuan and is widely expected to be adopted by June 1992. The bill provides for past IP violations to be taken into account in granting or renewing station licenses.

Videotape Viewing Parlors (MTVs) and Audio-visual Issues: In early 1991, Taiwan legalized its videotape viewing

parlors (MTVs) as agreed upon in the 1989 Audio-visual Agreement. As a result of this licensing process, the number of MTVs fell from 650 in January 1989 to 178 in June 1991. However, MTV owners and member companies of the Motion Picture Export Association of America (MPEAA) have yet to reach an agreement on royalties for the public performance rights of audio-visual works. At present, home-use videotapes are still widely used by MTVs.

Rental Rights Agreement: AIT and CCNAA concluded a Rental Rights Agreement in April 1990 which establishes administrative rules impeding the unauthorized copying of sound recordings and computer software, effective July 1990. So far, the agreement appears to be successful since new rental shops for these works have not emerged.

New Technologies: Semiconductors and satellite receivers represent new technologies posing additional IP challenges for U.S. firms. Taiwan is drafting legislation to address some of these issues, but the laws are in various stages of preparation. The draft Semiconductor Chip Act is currently under review in the Ministry of Economic Affairs. The Industrial Design Law and supplements to the Copyright Law are still being drafted by the National Bureau of Standards. There is no satellite broadcast law presently under consideration. However, small satellite receivers are common on Taiwan.

Impact of IP Infringement: The costs to U.S. industries of IPR infringement are difficult to estimate. AIT has no recent figures supplied by U.S. firms. However, MPEAA estimates that twenty percent of Taiwan's illegal cable programming features its titles, representing a major loss of revenue. The International Federation of the Phonographic Industry (including the Recording Industry Association of America) estimates that pirated CD's currently make up about 15 percent of the local market and are being exported to Asian markets.

8. Workers Rights

a. The Right of Association

Labor's right of association is seriously limited by a number of laws and regulations. The Labor Union Law permits all workers except civil servants, educational personnel, and munitions industry workers to organize unions, as long as the unions obtain approval from the central authorities. Unions may be dissolved by the authorities if their activities disturb public order. Until now, no union has been dissolved, although some applications for certification have been denied. Circumventing restrictions of the Labor Union Law, some quasi-unions known as Friendship Associations, the United Labor Front, and the Independent Labor Alliance emerged after martial law was lifted in mid-1987. The Civic Organizations Law, revised in January 1989, requires all civic organizations, including quasi-unions, to obtain official approval, with violations punishable by a two-years maximum jail sentence. Approximately 2.9 million workers, or 33.5 percent of Taiwan's work force, belonged to 3,622 officially

registered unions as of September 1991. Most unions have close relations with management and the KMT ruling party. Revisions of the law governing labor disputes effective June 1988, recognize labor's right to strike, but impose restrictions that make legal strikes difficult. Prosecution of labor activists is not uncommon and inhibits Taiwan's labor movement. Workers still are at risk of being laid off by employers when they try to set up independent labor unions.

b. The Right to Organize and Bargain Collectively

Only centrally approved labor organizations are empowered to organize and bargain collectively under the Labor Union Law, the Collective Agreement Law and the Law Governing the Handling of Labor Disputes. Collective bargaining is provided for under the Collective Agreements Law but is not mandatory. Only 295 formal collective agreements were in force as of September 1991, down from 329 the previous year. Since such agreements are made only in large scale enterprises, and less than 5 percent of Taiwan's enterprises fall into this category, the proportion of workers covered by them is small.

Under the Labor Union Law, employers may not refuse employment to, dismiss, or otherwise unfairly treat workers because they are union members. Labor laws governing union activities apply equally within export processing zones.

c. Prohibition of Forced or Compulsory Labor

Under the Labor Standards Law, forced or compulsory labor is prohibited. Violations are punishable by a maximum jail sentence of five years.

d. Minimum Age of Employment of Children

The Labor Standards Law stipulates the minimum age for employment is 15, and interaction between this law and a compulsory education law effectively keeps child labor to a low level.

e. Acceptable Conditions of Work

The Labor Standards Law defines general conditions of work, such as the basic (or minimum) wage, working hours, overtime pay, severance and retirement benefits. By law the workweek is limited to 48 hours (8 hours per day, 6 days per week) with certain provisions for overtime. While there is a new occupational safety and health law which enlarges coverage of the old law to include workers in agriculture, fishing, and the forestry industries, and strengthens penalties for safety violations, it still provides only minimum standards for working conditions and health and safety precautions. Rising labor consciousness and continuing labor shortages have resulted in improvements in working conditions.

f. Rights in Sectors with U.S. Investment

U.S. firms or joint ventures here generally abide by Taiwan's labor regulations. U.S. firms also tend to provide model work conditions both in wages and other items. Worker rights do not vary significantly by industrial sector but

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conditions of work do. Cumulative U.S. investment on Taiwan totaled USD 3.7 billion at the end of 1990, according to Taiwan's statistics. About two-thirds of this amount went to electronic/electrical and chemical industries. Workers in those sectors enjoy better vocational training and fringe benefits than those in other sectors.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category	Amount	
Petroleum		-9
Total Manufacturing		1,449
Food & Kindred Products	31	
Chemicals & Allied Products	533	
Metals, Primary & Fabricated	26	
Machinery, except Electrical	141	
Electric & Electronic Equipment	520	
Transportation Equipment	57	
Other Manufacturing	140	
Wholesale Trade		414
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		1,854

Source: U.S. Department of Commerce, Survey of Current Business August 1991, Vol. 71, No. 8, Table 11.3

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Key Economic Indicators

	1989	1990	1991 2/ (est)
Income, Production and Employment			
GDP at Current Prices (U.S. dollars, millions)	69,100	81,547	94,000
Real GDP growth rate (pct)	12.0	10.0	8.0
Per Capita GDP (U.S.$)	1,230	1,437	1,630
Percentage Breakdown of GDP by Major Sectors:			
Agriculture	15.2	12.4	11.5
Manufacturing	25.4	26.1	26.5
Wholesale & Retail Trade	15.5	15.2	15.5
Services	13.2	13.6	13.8
Labor Force (in thousands)	30,340	31,040	31,760
Unemployment Rate (pct) 1/	3.6	3.8	4.1
Money and Prices			
Money Supply (M1 - bil baht)	174.7	195.4	215.0
Annual Growth Rate (pct)	17.6	11.8	10.0
Commercial Interest Rate (pct at year's end):			
Saving Deposit	7.25	10.0	9.0
Fixed Deposit (1 yr)	9.5	14.0	11.0
Prime Rate	13.5	16.5	14.5
National Savings to GDP (pct)	30.2	30.4	32.5
Domestic Investment to GDP(pct)	31.5	36.8	35.5
Indices:			
Wholesale Prices (1976=100)	201.9	209.6	N.A.
Consumer Prices (1986=100)	112.1	118.8	125.5
Exchange Rates (B/$, avg)	25.7	25.6	25.5
Trade and Balance of Payments (U.S. dollars, millions)			
Total Exports, FOB	20,090	23,049	27,500
Exports to U.S.	4,350	5,224	5,600
Total Imports, CIF	25,785	33,333	39,000
Imports from U.S.	2,906	3,598	4,200
Balance of Trade	-5,695	-10,284	-11,500
U.S. Aid (FY)	20.1	12.0	1.6
Foreign Aid (FY)	251.0	241.8	N.A.
Earnings from Tourism	3,750	4,365	4,700
Current Acct. Balance	-2,545	-6,096	-8,000
Net Capital Movements	5,922	7,807	10,000
Overall Balance of Payments	4,339	2,227	2,000
Net International Reserves	10,215	12,403	16,000
External Public Debt	11,660	11,252	N.A.
Annual External Debt Service (Total)	2,799	2,749	N.A.
Debt Service Ratio (pct)	10.6	9.1	N.A.

1/ Includes available but not looking for work
2/ Data as of October 29, 1991.

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1. General Policy Framework

Thailand's economic development policies are based on a competitive, export-oriented, free market philosophy. Building on a base of strong agricultural production, the Royal Thai Government has pursued a policy of encouraging diversification toward export-oriented light industries and increased reliance on tourism earnings. Aided by favorable external circumstances, the Thai economy has been one of the fastest growing in the world in recent years, with real growth averaging over ten percent annually from 1987 to 1990. Growth slowed somewhat during 1991, but the strength of the economy remained broadly-based. Exports grew rapidly, investment in new productive capacity continued, albeit at a more moderate pace, and domestic demand was strong. While the agricultural sector grew slowly, manufacturing and construction maintained rapid growth, though at levels somewhat below the previous year.

Thailand's merchandise trade deficit continues to climb and may exceed $11 billion for 1991. The overall balance of payments remains in surplus, though, due to tourism earnings and large inflows of foreign capital. Continued rapid domestic growth combined with a slowdown in some of Thailand's traditional export markets will likely result in further deterioration in the merchandise trade balance during 1991 and early 1992. In this situation the government's policy priorities are to allow the economy to adjust gradually to world market forces without causing undue disruptions in the agricultural and manufacturing sectors. The government argues that a modest braking of the Thai economy's rapid growth would provide breathing room for development of infrastructure and reduction of inflationary pressures.

The Kingdom's booming economy resulted in national government revenues significantly above forecast levels and, combined with a shortfall in investment spending, will likely result in a fourth consecutive budget surplus in 1991. The government is attempting to increase its capital expenditures on infrastructure to catch up with the private sector's expansion. The government is also encouraging private sector investment in large capital infrastructure projects and has used some surplus revenues to reduce its external debt obligations.

Monetary policy has been directed at accommodating the economy's financial requirements for sustainable growth, while at the same time containing inflationary pressures. The Bank of Thailand has acted to maintain high domestic real interest rates to brake the rapid growth of the economy, particularly in the real estate sector. Cost-push inflation also remains a modest concern, with the consumer price index reaching an eight year high of six percent for 1990. It will likely be slightly below this level for 1991.

The main instruments used by the monetary authorities are open market-type operations in the repurchase market for government bonds and changes in the terms governing commercial bank access to the loan window and rediscount facility for credit to priority sectors. Direct controls on bank credit and interest rates have been more rarely used, although a ceiling on lending rates, set well above market rates, remains

in effect.

2. Exchange Rate Policies

Since November 1984 the Thai baht has been pegged to a basket of currencies of its principal trading partners. The composition of the basket is a closely guarded secret, but the U.S. dollar likely represents well over half of the value of the basket. The Exchange Equalization Fund, chaired by a Deputy Governor of the Bank of Thailand, determines the exchange value of the baht each working day. There is no parallel market in Thailand. Global currency realignments since 1985 have tended to make U.S. exports to Thailand more price competitive.

In May 1990 the Thai government announced a series of measures to significantly liberalize its exchange control regime. It accepted the obligations of the International Monetary Fund's Article VIII covering reduction of restrictions on international transactions. Commercial banks were given permission to process all foreign exchange transactions and substantial increases were allowed in ceilings on money transfers requiring Bank of Thailand preapproval and on spending by Thai tourists and businessmen abroad. In April 1991 a second round of foreign exchange liberalization was implemented. It substantially simplified foreign exchange reporting requirements and allowed banks to offer foreign currency accounts to individuals and businesses. It also raised the limits on Thai capital transfers abroad and allowed free repatriation (net of taxes) of investment funds, dividends, profits and loan repayments. The Bank of Thailand is now planning for a third round of liberalization tentatively set for April 1992. This will focus on the development of primary and secondary markets for commercial paper and allow banks and other financial sector companies to undertake new business.

3. Structural Policies

Although the nation's trade deficit continues to expand, the overall balance of payments remains in surplus due to tourism earnings and large inflows of foreign capital. This balance of payments surplus and a substantial budgetary surplus have allowed the Thai government to reduce customs duties and liberalize and improve its import regime. In October 1990 the government sharply reduced (to 5 percent) the import duty on most types of machinery and made similar reductions in tariffs on computers and parts and automobiles and components in July 1991. In addition, a wider reform of the import regime is under active consideration. The concept is to simplify the duty system so almost all goods will be taxed according to a tier system: low (0 to 5 percent) for raw materials; medium (about 10 percent) for intermediate goods; and high (about 20 percent) for finished products. These levels would result in substantial reductions in average tariff rates.

The Thai government is also undertaking a major reform of its taxation system aimed largely at broadening the tax base, increasing the efficiency of the tax collection apparatus, and

reducing the economic burden of distortions caused by a patchwork of high duties, excises and nuisance taxes. In September 1991 the National Legislative Assembly passed legislation to implement a value added tax system effective January 1, 1992. This will replace the multi-tiered business tax (essentially a turnover tax) with a single rate on value added initially set at seven percent. The government has also removed or sharply restricted several nuisance taxes, including the requirement for pre-departure tax clearance certificates, a major irritant to foreign businessmen operating in Thailand. In March 1991 the government increased personal income tax deductions and lowered the top marginal tax rate to 50 percent. The Ministry of Finance is working on a proposal to further reduce (perhaps to about 35 percent) the top marginal tax rate and to unify corporate income tax rates at 30 percent.

Thai financial authorities have been generally successful in improving the soundness of the commercial banking system. In addition to freeing up foreign exchange controls, the government has lifted the ceiling on deposit rates. It is also gradually reducing levels of government bonds that commercial banks are required to hold to satisfy reserve and other requirements. The Finance Ministry has announced that it is developing plans to allow additional foreign bank branches over the next three to seven years as a part of planned liberalizations under Uruguay Round negotiations of the General Agreement on Trade and Tariffs.

Successive Thai governments since the mid-1980s have articulated support for the privatization of selected state enterprises. In a few cases this has included the outright sale of small state enterprises. More frequently privatization has meant the provision of services by private vendors under government contracts or multi-year concessions, as is the case for expansion of the telephone system. In other cases, such as is planned with Thai Airways, the government is seeking to broaden private participation in state owned enterprises through the sale of a portion of new equity to the public through offerings on the Securities Exchange of Thailand. In addition, the government is reviewing and, in some cases, implementing proposals for private sector provision of public services such as toll roads, electric power, and port management services.

4. Debt Management Policies

Enjoying several consecutive sizeable budgetary surpluses, the Thai government has moved to reduce public sector debt. As a result domestic and external government debt has gradually declined since 1987. Led by a decline in central government debt of more than 25 percent, total public sector debt fell by about four percent during 1990. Borrowing by state enterprises during 1990 rose moderately (12.5 percent) and would likely have grown at a faster rate except for annual ceilings on public sector borrowing, imposed partly to encourage privatization and capital market development. This trend of falling central government debt and rising state enterprise borrowing is expected to continue through 1991 and 1992.

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In contrast to the decline in public sector debt, private sector external borrowing soared by more than 50 percent in 1990. Total Thai (public and private) outstanding long-term external obligations grew by just over 14 percent. Despite this increase, the rapid growth of GDP and exports meant the debt service ratio fell by two percent to around nine percent.

5. Significant Barriers to U.S. Exports

Import duties of 30 to 60 percent ad valorem and/or specific taxes of an equivalent or higher rate are assessed on most agricultural imports and many manufactured goods, greatly limiting the market for these goods. As noted above, though, a broad reform of customs duties is now under consideration by the Thai government.

Arbitrary customs valuation procedures sometimes constitute a serious import barrier. The Thai Customs Department keeps records of the highest declared prices of products imported into Thailand from invoices of previous shipments. Those prices can then be used as "check prices" for assessing tariffs on subsequent shipments of similar products from the same country. Customs may disregard actual invoiced values in favor of the check price for assessment purposes. For products shipped from other than the country of origin, the Customs Department reserves the option of using the check price of either the country of origin or the country of shipment, whichever is higher. These rules are applied to imports from all nations.

Food and pharmaceutical product importers are required to apply for import licenses from the Thai Food and Drug Administration. This licensing process poses an important barrier equal to or larger than the high duties assessed on food products because of its cost, duration, and demand for proprietary information. The cost of applying for a license is baht 10,000 (about $400) per item. Products imported in bulk require laboratory analysis at a cost of baht 1,000 to 3,000 ($40-$120) per item. Products imported in sealed containers (consumer-ready packaged) require laboratory analysis at a cost of baht 5,000 ($200) per item. Some 37 items must be registered as "controlled food items" at an additional cost of baht 5,000 ($200). Taken together, the importer must pay anywhere from baht 16,000 to 25,000 ($640 to $1,000) per item. The entire registration process requires at least three months and can take up to a year to complete. All items must be accompanied by a detailed list of ingredients and a description of the manufacturing process. Some U.S. suppliers have declined to export to Thailand rather than provide the proprietary information requested.

The Thai Ministry of Commerce requires import licenses on certain raw material, petroleum, industrial, paper, textile, and agricultural products. These licenses can be used to protect uncompetitive local industry, encourage greater domestic production, maintain price stability in the domestic market, and for phytosanitary reasons. The listing of products requiring import licenses from the Ministry has changed little over the past year, but licensing requirements for spinning and weaving machinery, sugar confectioneries, pastry and baked goods, and fruit and vegetable juices have

all been eliminated. In the food products area, licensing requirements remain for powdered skim milk and fresh milk, potatoes, soy beans and soy bean oil, refined sugar, and high-fructose syrup, among others.

On October 9, 1990 the Thai Cabinet announced its decision to lift the longstanding ban on the importation of foreign cigarettes. Legally imported cigarettes, including those from the United States, went on sale in Bangkok in late August 1991. This market-opening move was welcomed by the United States. Consultations, though, continue with the Thai government on a few related issues, including bonded warehousing availability and minting of excise tax stamps on packages.

Largely by restricting foreign bank entry, branching and acquisition of Thai banks, Thai authorities limit all foreign banks to a very small share of the total Thai banking market. That share comprised just under 5 percent of total commercial banking assets in 1990 and about 2 percent of commercial bank deposits.

Foreign branches (except for certain grandfathered branches) are legally precluded from establishing subbranches in Thailand. The last foreign bank license was issued in 1978, although one bank bought an existing bank's license in 1984. Offsite automatic teller machines (ATMs) are considered the equivalents of branches, so foreign banks are precluded from joining domestic Thai bank ATM systems or establishing their own ATM systems. However, Thai authorities regularly approve representative offices of reputable foreign banks. Foreign banks are also limited to a 25 percent participation in Thai banks. The Thai government has indicated it is reviewing its regulations on foreign bank activities and may allow new foreign bank branches during the next three to seven years.

Thai regulations limit foreign equity in new local insurance firms to 49 percent or less. This denies new U.S. property/casualty and life insurers access to the local market on terms equal to local insurers. A long established U.S. firm, however, controls a major share of the Thai life insurance market. In September the Ministry of Commerce forwarded a proposal to the Cabinet that would, among other provisions, limit foreign participation in domestic Thai insurance companies to 25 percent. The Ministry's proposal, which would create restrictions parallel to those on banks, would grandfather foreign participation in existing companies unless they increased their capital.

Thai law prohibits direct foreign participation in the brokerage business. A 1979 law limits foreign ownership of Thai security companies to 25 percent, although higher foreign participation in a number of firms was grandfathered when the law was enacted. Companies with more than 40 percent foreign ownership are not allowed to hold the licenses necessary to obtain a seat on the Securities Exchange of Thailand.

6. Export Subsidies

Thailand is not a signatory to the GATT Subsidies Code,

and it maintains several programs which benefit manufactured products or processed agricultural products and may constitute export subsidies. These programs include: subsidized credit on some government-to-government sales of Thai rice, preferential financing for exporters in the form of packing credits; tax certificates for rebates of taxes and import duties on inputs for exported products; and an export promotion fund. (The packing credit and the tax and duty rebates may be altered by the government's fiscal reform package scheduled for implementation on January 1, 1992.) Electricity discounts previously available for export industries were cancelled in January 1991.

7. Protection of U.S. Intellectual Property

Improved protection in Thailand for U.S. copyright, patent and trademark holders has become one of the most prominent trade issues between the United States and Thailand. Discussions on these issues first began in the early 1980s.

In January 1989 the President determined Thailand did not fully provide adequate and effective intellectual property protection. As a result, the U.S. Government denied Thailand roughly $280 million in GSP benefits. In November 1990 the International Intellectual Property Alliance, the Motion Picture Export Association of America and the Recording Industry Association of America petitioned the U.S. Trade Representative under Section 301 of the Trade Act for relief from Thailand's failure to enforce its copyright laws. In January 1991 the Pharmaceutical Manufacturers Association filed a Section 301 petition against Thailand for lack of protection for pharmaceutical patents. In April 1991 Thailand was designed a "priority foreign country" under the "Special 301" provision of the 1988 Trade Act. It had been on the "priority watch list" since 1989.

Thailand has made progress in a number of areas in protecting intellectual property during 1991. The National Legislative Assembly enacted amendments to the trademark law in September 1991, providing increased penalties for infringement and protection for service, certificate and collective marks. These amendments are expected to allow substantially improved trademark protection. Trademark enforcement efforts are significantly more effective than copyright enforcement; however, trademark infringement is still a problem in Thailand, as in many other countries.

On October 22, 1991 the Thai Cabinet approved draft legislation to extend patent protection to pharmaceutical products, agricultural machinery and several other areas and to increase the length of protection to 20 years. Passage of the legislation is likely by early 1992. The existing patent law denies product protection for food and beverages, pharmaceuticals and pharmaceutical ingredients, and agricultural machinery.

The new legislation does not contain transitional protection measures for pharmaceutical products already patented elsewhere but not sold in Thailand. The draft legislation maintains relatively broad compulsory licensing

provisions and introduces a price review board to monitor drug prices. These issues are still the subject of consultations between the two governments.

United States accession to the Berne Convention provided the basis for Thailand to begin to fulfill its commitment to protect U.S. copyrighted works. The Thai government has also provided assurances to the U.S. government that "preexisting" U.S. works still under copyright protection in the United States would be protected under Thai law. In bilateral consultations in March 1991 the Thai government pledged to increase its efforts to enforce its copyright laws. The government centralized most enforcement activities in a specialized police unit and set up a special prosecution division for intellectual property protection. In April the police began to raid larger audio and video targets. In July 1991 police began to seize equipment used in illegal copying. Despite these efforts, piracy of U.S. books, records, cassettes and movies remains extensive. The Thai government has indicated it will continue its efforts to increase enforcement. While enforcement remains a problem, there is also concern that the current Thai law provides inadequate penalties for infringement, broad public performance exceptions, and a 10-year limitation on translation rights. The Thai government is considering possible changes in the law.

Thailand's copyright law does not provide explicit protection for computer software. A 1984 advisory opinion by the Juridical Council stated that Thai copyright law does protect software under the "other works in the scientific domain" category, but there have been no Thai court decisions that test the advisory opinion on computer software to date. Thai government officials have told the press the government is considering adding a specific provision to the copyright law covering software protection.

8. Worker Rights

a. The Right of Association

Thailand's basic labor law is the Labor Relations Act of 1975, which applies only to the private sector. Until April 1991, the Act also applied to workers in state-owned enterprises. As amended, the 1975 act extends only to private sector employees the right to form and join unions or employee associations of their own choosing without prior authorization. No law explicitly protects workers from discrimination due to their participation in organizing new unions which have not yet been officially registered.

The 1975 Act specifically withholds from Government workers the right to form unions. Nonetheless, civil servants may and do form "employee associations", which are influential in determining salary scales, benefits and conditions of employment.

In April, the military-appointed National Legislative Assembly amended the 1975 act to exempt state enterprise workers and enacted a State Enterprise Employee Relations Act

that dissolved unions in this sector. In place of unions, workers in each state enterprise may form a single "Association" after at least 30 percent of the enterprises's employees have submitted a petition to the Department of Labor to register their association. These bodies may submit employee grievances to management and negotiate benefits, but not wages. The new act, like the 1975 act, denies all state enterprise workers the right to strike.

One of the national peacekeeping council's first actions after the February 23 coup was to ban strikes and lockouts. This ban was rescinded with the lifting of martial law in May. Like other groups, unions could not stage rallies or protests during the period of martial law. In addition, in February the Council issued a decree amending the 1975 act to require that a majority of a union's members approve strikes in a secret ballot. Previously the only legal requirement for a strike in most of the private sector was a 24 hour notice to management. The same decree also requires that the Department of Labor certify advisors selected by the Unions to represent them which is important in a country of small weak unions.

Even before the dissolution of state enterprise unions reduced total union membership by about one-half, less than 3 percent of the total work force, or about 12 percent of the industrial work force, was unionized. Almost 60 percent of the work force is employed in the largely unorganized agricultural sector.

Thai unions generally operate independently of the government and other outside organizations. The 1975 act encourages this policy by exempting union officials from prosecution in pursuing the interests of their followers, provided that the activity does not involve politics.

b. The Right to Organize and Bargain Collectively

The right to organize and bargain collectively is recognized for Thai private sector workers under the 1975 Labor Relations Act. Both labor and management usually seek to resolve potential differences informally before turning to formal collective bargaining. The 1975 Act defined the mechanisms for such negotiations and for government-assisted conciliation and arbitration in cases under dispute. Under the 1991 State Enterprise Employee Relations Act, associations may negotiate working conditions but not wages, with a government-dominated labor relations committee in each enterprise. (The Cabinet decides state enterprise wages based on recommendations of the overall state enterprise labor relations committee.) A system of labor courts created in 1980 exercises judicial review over most aspects of labor law for the private sector. However, when Thai courts determine that a worker has been unjustly dismissed, they usually order severance pay compensation rather than reinstatement. Workers may also seek redress for their grievances from a tripartite labor relations committee under the Ministry of Interior.

The state enterprise employee relations act has no explicit provision allowing public sector employees to appeal to the labor courts. Instead they may apply to an overall state enterprise labor relations committee.

THAILAND

There are several special export processing zones (EPZ's) in Thailand, with many more planned to stimulate the growth of export-oriented industry. No separate labor legislation applies to EPZ's in which wages and working conditions, in fact, usually exceed national norms. There are some trade unions and a few collective bargaining agreements in Thai EPZ's.

c. Prohibition of Forced or Compulsory Labor

The Thai Constitution prohibits forced or compulsory labor except in the case of national emergency, war, or martial law.

d. Minimum Age for Employment of Children

In January 1990, the Government raised the minimum age for employment from 12 to 13. The government's policy is to raise the minimum employment age gradually to the ILO standard of 15, although no timetable for meeting this standard has been set. The law still permits the employment of children between the ages of 13 and 15 in "light work", although the employment of children at night (10 P.M. to 6 A.M.) is prohibited. The Government has estimated that there are 100,000 children between 13 and 15 in the labor force, but the actual number is probably much greater.

Child labor continued to cause considerable domestic and foreign criticism in 1991. In June the ILO Standards Committee issued a "special paragraph" chastising the Thai government for its lack of effective implementation of laws prohibiting child labor. The "special paragraph" is the most severe rebuke the ILO can mete out to member states.

Complaints against Thailand allege that Thai standards continue to be low. Thai enforcement is inadequate despite recent increases in the number of labor inspectors, and that penalties for violations of the law are not severe enough. Police raids on sweatshops have found children under age 13 working illegally. There are continued reports of children over age 13 illegally employed in dangerous, unhealthful or otherwise harmful circunstances.

e. Acceptable Conditions of Work

A tripartite wage committee consisting of government, employer, and worker representatives in 1991 increased the daily legal minimum wage. Rates vary by region. The unskilled workers who pour into Bangkok from the far poorer countryside often are willing to work at less than the minimum wage. In rural Thailand, too, many workers are willing to work for less than the minimum wage mandated there. Government officials report that large groups of laborers estimated at about one-third of the total receive less than the legal minimum wage.

The Government has not mandated a uniform workweek for the entire labor force. Commercial employees work a maximum of 54 hours per week, employees in industry 48, and those in "dangerous" work, 42. Transportation workers are restricted to no more than 8 hours per day.

THAILAND

Working conditions vary widely in Thailand. In medium and large factories government health and safety standards are maintained. However, Thailand's large informal sector is subject to minimal inspection, and health and safety standards mandated under Thai law are generallly little understood by workers and seldom followed by employers.

f. Rights in Sectors with U.S. Investment

U.S. capital investment is substantial in several sectors of the Thai economy, including petroleum (exploration, production, refining, and marketing), electronic components assembly, and consumer products. Workers in these sectors, especially those working for U.S. and western firms, usually enjoy labor conditions superior to those of the average Thai worker: the degree of unionization is greater; wages and benefits are higher; and health and safety standards are better. Child labor is rare or non-existent among multinational firms.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. Dollars)

Category	Amount	
Petroleum		719
Total Manufacturing		461
Food & Kindred Products	33	
Chemicals & Allied Products	76	
Metals, Primary & Fabricated	(D)	
Machinery, except Electrical	(D)	
Electric & Electronic Equipment	278	
Transportation Equipment	0	
Other Manufacturing	41	
Wholesale Trade		135
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		1,315

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business August 1991, Vol. 71, No. 8, Table 11.3

EUROPEAN COMMUNITIES

1. General Policy Framework

The European Communities (EC) exercise supranational authority over many areas of economic and trade policy of the EC's 12 member states (France, Germany, Belgium, Netherlands, Luxembourg, Italy, United Kingdom, Ireland, Denmark, Greece, Spain, and Portugal). Major policy decisions are made by the various councils of the ministers of the 12 member states. The EC has responsibility for non-military trade and agricultural policy, including tariffs, multilateral negotiations, and customs practices. It also has competence in fisheries and nuclear energy, and increasingly in environment, transportation, telecommunications, and research and development. EC influence on member states' financial and investment policies has been relatively limited. Implementation of the Single Market Program (EC-92) and of economic and monetary union (see discussion below on EMU) during the 1990s will substantially increase the EC's role with regard to tax harmonization, financial services, industrial standards, and monetary and fiscal policy. Currently, members of the European Exchange Rate Mechanism (ERM) (all but Greece and Portugal) are limited in their conduct of interest and exchange rate policies. Full economic and monetary union, characterized by the irrevocable fixing of exchange rates, the adoption of a single currency and the establishment of a single, supra-national central bank, will further restrict flexibility for those member states which realize it. EMU will mean that monetary and exchange rate policies will be determined largely at the Community as opposed to the national level. The drive for economic convergence inherent in the move to full economic and monetary union also implies that member states' fiscal policies will be increasingly influenced by EC considerations.

The EC has been making steady progress toward completing the Single Market Program which is designed to create a single EC market and allow all goods, services, people, and capital to move without national restrictions across member state borders. The EC's stated policy is to accomplish this goal through liberalizing measures which will open the EC market through deregulation and reduction of barriers. As the EC has generally followed market principles in pursuing the Single Market Program, U.S. business should find greater and easier access to the larger market provided EC-92 is implemented in an open and non-discriminatory manner.

As of December 18, 1991, all 282 directives called for in the Single Market Program had been drafted by the EC Commission, and over 70 percent of these directives had been adopted by the EC Council of Ministers. However, only 49 of the 282 directives have been implemented by all 12 member states. With one year before EC-92's completion, it appears that the overall trend is towards a more liberal trading regime, although certain EC decisions are discriminatory or potentially discouraging or distorting for third countries.

2. Exchange Rate Policies

The European Monetary System (EMS) constitutes an

arrangement among the participating currencies to maintain their cross-rates within a certain band of fluctuation. This arrangement is called the Exchange Rate Mechanism (ERM) and 10 of the 12 member states participate in it (only Portugal and Greece are outside the ERM). In practice the anchor currency is the Deutsche mark (DM), which moves freely against the U.S. dollar in response to market forces. There were no currency realignments or other significant ERM developments during 1991.

The agricultural green rate system is an instrument of trade policy. Current green rates effectively devalue EC currencies 14 percent, stimulating exports and hampering imports.

Following year-long negotiations, EC heads of government reached agreement in December 1991 in Maastricht, Holland on a draft treaty on economic and monetary union (EMU). Signature is expected in February 1992, following final editing of the treaty. EC member countries are expected to ratify the EMU treaty during 1992. Implementation of the EMU treaty would result ultimately in the establishment of a single currency and a single monetary authority in the European Community. Full economic and monetary union is intended to eliminate exchange rate risk for intra-EC transactions, facilitate capital market integration, enhance the Single Market's stimulation of intra-EC trade, and promote greater harmonization and coordination of macroeconomic policy within the EC. During Stage 1 of EMU, which is currently underway, all EC members' currencies are to be brought into the ERM and all remaining restrictions on internal EC capital flows are to be lifted. During Stage 2, which is scheduled to begin in 1994, EC members will continue efforts to curb budget deficits and inflation in order to meet economic convergence criteria specified in the EMU as conditions for entering full economic and monetary union. In 1997, provided a majority of EC members are politically willing and economically prepared for full EMU, exchange rates will be irrevocably fixed, the independent, supra-national European Central Bank will be set up and a single currency will be created. If the move to Stage 3 does not occur in 1997 because not enough countries are willing or able, Stage 3 will start definitely by January 1, 1999.

3. Structural Policies

Competition Policy: The EC Commission has produced guidelines for an EC approach to industrial competition. The guidelines espouse the benefits of free markets in fostering productivity and efficiency. If the EC adheres to these principles, EC markets will be more open to non-EC enterprises.

Tax Policies: a. Indirect taxes: The EC's role in tax policy is limited to the harmonization of direct and indirect taxes in order to avoid competitive distortions. During 1991 the Community decided to harmonize VAT rates over the next few years with a goal of a minimum rate of 15 percent. Countries with a higher minimum rate than 15 percent are free to leave it at that level. The hope is that through competition, the higher rate countries will be forced to lower their minimum rate to 15 percent. The EC has agreed to adopt an EC-wide

system of collecting VAT in the country of origin by 1997.

b. Indirect taxes: The Community is concerned that widely varying business tax practices may be causing EC firms to be less competitive on world markets. Therefore, in early 1991, a blue ribbon committee, under the chairmanship of former Dutch Finance Minister Ruding, was created to look at the problems and suggest solutions. The Committee's work will not be finished until February 1992.

4. Debt Management Policies

Debt management policies are determined by the individual member governments of the Community.

5. Significant Barriers to U.S. Exports

EC Variable Levy: A basic principle of the Common Agricultural Policy, Community Preference, ensures that internally produced agricultural products have a competitive advantage over like products imported into the EC, even if the latter are produced at considerably lower costs. Import levies, equalling the differences between higher EC threshold prices and the lowest price of competing imports, plus transportation and handling costs, guarantee that imported products are priced at least as high as, and usually above, Community products. Levies apply to most agricultural commodities: cereals and rice, milk and milk products, beef and veal, sugar and olive oil. Commodities not subject to import levies include oilseeds, vegetable protein meals and non-grain feed ingredients, such as corn gluten feed; import duties on these products are bound at zero under terms negotiated in the Dillon Round.

Tariffs: In general, EC tariffs are not considered to be a major barrier to U.S. industrial exports. EC variable levies, on the other hand, present considerable tariff-like barriers to U.S. agricultural exports (see below). There are exceptions in other areas as well where EC tariffs do constitute significant barriers to U.S. trade interests: certain paper products, some wood products, aluminum products, semiconductors, computer parts, tobacco, and certain chemicals. These are being negotiated in the context of the Uruguay Round.

Quantitative Restrictions: The October 1989 EC broadcast directive came into force October 2, 1991. The directive includes a provision calling for a majority proportion of television transmission time to be reserved for European programs where practical. The United States believes that these de facto quotas are contrary to the GATT. Consultations have been held with the EC, and the United States has reserved all GATT rights to take further actions as necessary. Member states must fully implement the directive by the end of this year. Since the EC adopted the directive, several member states have passed legislation placing explicit or de facto quotas on non-EC television programs.

Enlargement Agreement: The U.S.-EC Enlargement Agreement compensated U.S. producers for approximately $420 million of

lost sales due to the increases in Spanish and Portuguese tariffs when those nations joined the Community. The Agreement was set to expire in December 1991; the EC refused formal rollover of the Agreement, but unilaterally extended compensation under the Agreement through the end of December 1992. Review of the Agreement will begin in June 1992, to seek final and mutually agreed resolution to this dispute. The United States regards this compensation as permanent; the Community does not. The United States has reserved all GATT rights.

Oilseeds: A new EC regime for oilseeds was formally adopted by the European Parliament in December 1991. Reform of the existing regime was required due to the 1989 GATT panel ruling which found the EC's position out of conformity with certain GATT obligations. The principal features of the new regime are compensatory payments paid directly to farmers, on a per hectare basis; an adjustment mechanism whereby the compensation element would not compensate for price fluctuations within 8 percent of the world price for oilseeds; and a fixed price ratio of 2.1:1 between oilseeds and cereals. The U.S. has informed the EC that in its view the new regime does not redress the impairment to the oilseeds tariff concession granted the U.S. in the Dillon Round. The EC believes the new regime satisfies all the requirements of the GATT panel. The U.S. and EC have agreed to have the original oilseeds panel reconvened to consider the adequacy of the EC reform package. The Panel's ruling is expected in March 1992.

Services Barriers: In the context of the Uruguay Round services negotiations, the United States has made a services request of the European Community. In addition to the Broadcast Directive discussed above, the major area in which U.S. exports are being restricted by the Community is in telecommunication services within the Community. For instance, the U.S. has requested that the Community allow foreign telecommunications firms to use proprietary protocols; limit monopolies on telecommunications services to public, switched voice telephony service; and ensure that non-EC competitors have access to reserved services on an equal basis. Another services barrier is the fact that U.S. nationals who fully satisfy one EC member state's accreditation requirements may not be able to obtain mutual recognition in all other member states under the same terms and conditions as an EC national.

Standards, Testing, and Certification: While the U.S. remains concerned about the standards, testing and certification procedures that U.S. companies may be required to follow to offer their products for sale in the European market, the U.S.-EC dialogue on standards, testing and certification has, on balance, been positive. In standards, the meetings between Secretary Mosbacher and EC Vice President Bangemann on June 21 culminated in the commitment of U.S and EC standards institutions to look for ways to strengthen international standards so that they can be better used by manufacturers, exporters and others that need them in U.S. and EC markets. This approach is particularly constructive because many non-European interests still cannot participate directly in the European Committee for Standardization (CEN) and the European Committee for Electrotechnical Standardization (CENELEC); and the International Organization for Standardization (ISO) and

EUROPEAN COMMUNITIES

International Electrotechnical Commission (IEC) offer only limited participation to non-Europeans at this time.

Wine Certification and Enological Practices: U.S. wine exports continue to face uncertain market access into the European Community. The U.S. and EC undertook an agreement in 1983 which resulted in the implementation of temporary EC regulations which permit U.S. wine producers: 1) to use wine treatment practices which are not approved in the Community; and 2) to use a simplified procedure in completing EC wine export certificates. These temporary regulations will expire at the end of January 1992. The U.S. and EC are presently involved in consultations in which the U.S. is seeking an EC commitment to implement the referenced regulations on a permanent basis. The EC is linking its willingness to do so to a U.S. commitment to take further steps to prevent the erosion of EC geographic wine terms. The consultations are still in progress.

U.S. Exports of Bourbon and Other Spirits: A change in the EC's definition of whiskey has disrupted the marketing of American Blended Whiskey in the EC by prohibiting the use of the designation "whiskey" in association with the product. The U.S. has requested that American Blended Whiskey, as well as Bourbon and Tennessee Whiskey, be provided the same legal protection as EC domestic products. Discussions with the Commission on this issue continue, in the context of their request for enhanced U.S. protection of several leading EC distilled products.

Canned Fruit: In July 1991, a dispute arose between the U.S. Government and the European Commission over the interpretation of the 1989 exchange of letters which had resolved the long dispute over the subsidies provided by the Commission to the European canning industry. The U.S. government contends that the level of the 1991/92 processing aids is not in conformity with the agreement. For future years, the Commission has agreed to revise the methodology which created the current problem, but it is unwilling to make the changes in the current year. The U.S. continues to seek a favorable resolution to this dispute, whether correction of 1991 aid levels or establishment of 1992 levels which compensate for the 1991 overpayment.

Government Procurement: In September 1990, the Council adopted a directive opening up procurement in the EC in four areas - telecommunications, water, energy, and transport. The directive will enter into effect on January 1, 1993. In addition to procurement by traditional government bodies, the directive also covers contracts of private entities which operate on the basis of special or exclusive licenses or privileges in these four sectors. Under the directive, tenders with a majority proportion of non-EC products in the total value of the tender may be rejected without explanation. Bids of EC origin are also granted a three percent price preference over non-EC bids. The directive provides for the extension of national treatment to third countries with whom the EC reaches an agreement.

The EC is a signatory of the GATT Procurement Code. In the current negotiations to expand the Code, the U.S. government

hopes to extend coverage to the four sectors covered by the EC directive and thereby escape its discriminatory impact.

6. Export Subsidies Policies

Agricultural Subsidies: Export subsidies (export restitutions or refunds) are widely used by the EC to offset the competitive disadvantage to EC agricultural exports manifested by high EC internal support prices. EC expenditures on export subsidies exceeded $12 billion in 1990, with cereals, beef, sugar and milk and milk products accounting for the lion's share of expense; fruits and vegetables, wine, tobacco, pork, poultry and eggs also receive the benefit of export subsidies. Export subsidies are a very effective supply control tool for the EC, enabling it to dispose of its surplus production at prices that match, and often undersell, U.S. and other exporters' agricultural exports to foreign markets. The impact on world trade is large and growing limited only by EC budget concerns. As a result, disciplining export subsidies remains a central objective for the U.S. in the Uruguay Round negotiations.

Industrial Subsidies: In recent years, the EC has taken steps to rein in certain subsidies. Examples include steel, shipbuilding and coal. A major sector where difficulties persist is civil aircraft. In this sector, the United States is continuing its effort to achieve effective discipline on the trade-distorting subsidies received by Airbus. The U.S. estimates that the Airbus Governments, France, Germany, the United Kingdom and Spain, have provided $25.9 billion in subsidies for the development and production of Airbus aircraft. These subsidies have enabled Airbus to ignore normal commercial cost considerations while pursuing world market share at the direct expense of U.S. manufacturers. Despite recent consultations with the European Community and a "conciliation" session pursuant to the GATT Subsidies Code, the issue has not been resolved.

If a satisfactory negotiated solution is not reached between the United States and the Community, the United States will ask a GATT Subsidies Code panel to rule on the matter. Also, in another Subsidies Code case brought by the United States against the Community, a panel is due to make a decision soon on the legitimacy of Germany's Airbus-related exchange rate guarantee scheme.

7. Protection of U.S. Intellectual Property

The European Commission is committed to securing a high level of protection for intellectual property rights in the EC. The Commission believes that completion of the internal market will require harmonization of the scope of IPR protection so that trade within the community will not be distorted based on the absence of or inadequate protection of rights in certain member states. The Commission has proposed directives in certain areas where inadequate IPR is seen as hindering development of EC industry (biotechnology patent, patent term restoration for pharmaceuticals, satellite and cable retransmission of copyrighted material), and has adopted

directives covering software copyright and semi-conductor topologies. Planned directives will continue to harmonize IPR at the EC level, and eventually community patent, trademark, and industrial design regimes will exist.

In the copyright area, the Council is currently considering proposals for directives establishing rental and lending rights and harmonizing neighboring rights, and creating a system for protecting works transmitted by satellite and cable retransmission. It is unclear at this time whether the directives will give full protection to U.S. rightholders and whether U.S. film producers and the works-for-hire system will be fully respected.

The EC adopted in May 1991 a directive requiring member states to protect software as a literary work within the meaning of the Berne Convention. Member states are required to implement the directive in national legislation no later than January 1, 1993. The directive differs from U.S. law by including a specific exemption from protection for decompilation carried out under certain circumstances for purposes of obtaining information necessary for interoperability. Although U.S. industry was satisfied with the final compromise reached by the Council, it remains to be seen whether the decompilation exemption will deny adequate protection for U.S. rightholders.

8. Worker Rights

Worker rights are discussed in the individual country sections of the report.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad (EC)
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category	Amount	
Petroleum		18,761
Total Manufacturing		81,264
Food & Kindred Products	8,034	
Chemicals & Allied Products	19,089	
Metals, Primary & Fabricated	3,846	
Machinery, except Electrical	17,849	
Electric & Electronic Equipment	4,544	
Transportation Equipment	8,735	
Other Manufacturing	19,166	
Wholesale Trade		15,420
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		115,445

Source: U.S. Department of Commerce, Survey of Current Business August 1991, Vol. 71, No. 8, Table 11.3

AUSTRIA

Key Economic Indicators

(Billions of Austrian Schillings (AS) Unless Otherwise Stated)

	1989	1990	1991 estimates
Income, Production, and Employment			
Real GDP (1983 prices)	1,384.2	1,452.5	1,495.6
Real GDP by sector			
Agriculture	45.9	47.4	46.7
Manufacturing/mining	395.4	420.7	430.1
Energy and water	44.4	43.4	45.4
Construction	95.1	101.1	106.2
Trades/hotels/restaurants	235.6	252.8	263.1
Transportation/communication	85.5	90.2	94.3
Banks/insurance/real estate legal services	197.2	206.5	214.8
Other private services	61.1	63.4	65.6
Public services	175.6	178.4	181.1
Import duties and VAT less imputed bank services	48.4	48.6	48.3
Real GDP growth rate (pct)	3.7	4.9	3.0
Per capita income (USD)	16,606	20,700	20,918
Labor force (1,000's)	3,438.2	3,516.2	3,603.2
Unemployment rate (pct)	5.0	5.4	5.8
Money and Prices			
Money supply (M1; year-end)	249.2	262.7	N/A
Commercial interest rates (pct, annual average)			
Call money	7.46	8.53	9.10
Secondary bond market rate	7.06	8.72	8.70
Savings rate (pct of disposable income)	12.5	13.2	12.5
Investment rate (as pct of GDP)	24.0	24.3	24.8
Consumer price index (pct)	2.5	3.3	3.3
Wholesale prices index (pct)	1.7	2.9	1.5
Exchange rate (AS/USD) (avg)	13.23	11.37	11.80
Balance of Payments and Trade			
Total exports FOB	429.3	466.1	487.6
Exports to U.S.	14.9	14.9	14.1
Total imports CIF	414.7	556.2	596.3
Imports from U.S.	18.6	20.2	24.0
Aid from U.S.	N/A	N/A	N/A
Aid from other countries	N/A	N/A	N/A
External federal government debt (year-end)	125.8	135.8	147.4
External federal debt service payments	15.5	19.8	13.0
Gold and forex reserves (yr-end)	141.6	137.9	N/A
Balance of payments	2.2	9.4	2.7

AUSTRIA

1. General Policy Framework

Austria, a member of the European Free Trade Association (EFTA) and the OECD, has a free market economy with a significant but declining state-owned sector. The state-owned sector consists of heavy industries, energy production, railroads, postal services, monopolies such as tobacco and gambling, and some banks. The Grand Coalition Government formed in December 1990 is continuing the ambitious reform program launched by the outgoing Government which pursued federal budget consolidation, deregulation, privatization, industrial restructuring and an impressive income/corporate tax reform. On July 31, 1991 almost two years after the Austrian Government applied for EC membership, the EC Commission issued its opinion (avis) stating Austria's economy would fit well with the Community and that the EC would benefit from Austria's accession. However, formal negotiations on Austria's application are not expected to start before 1993. Meanwhile, Austria will continue moving autonomously to harmonize its laws and regulations with the European Community's. Austria's participation in the European Economic Area (EEA), which the EC and EFTA have agreed to form in 1993 to eliminate economic barriers between the two groups, will give further impetus to this harmonization. Participation in the EEA will require the country to adopt about 60 percent of the existing EC directives and regulations and to amend over 1,200 existing Acts of Parliament. Given Austria's economic policies, the significant stimulus from a reunited Germany, growing exports, and strong investment levels, Austria's economy continued booming with 4.9 percent real growth in 1990.

Efforts to cut the federal budget deficit have slowed. While the government succeeded in reducing the deficit from 5.1 percent of GDP in 1986 to 3.5 percent in 1990, the Federal Government's deficit held at 3.5 percent of GDP in 1991. The budget deficit target is 3.0 percent of GDP in 1992, but defaults on loans to Eastern Europe or refinancing schemes will considerably burden the federal budget. Polish debt reduction alone will cost Austria AS 2.3 billion in 1992, the highest per capita cost among all of Poland's creditors.

With the economic transformation underway in Central and Eastern Europe, Austria has increased trade and investment activities in the region. Austria is also using its companies' long standing experience in Central and Eastern Europe and its geographical position to attract Western companies. Austria has become an important gateway for Western companies interested in that area's markets. In addition, the Austrian Government has launched several loan and guarantee programs to spur direct investments in these countries. One result is that Austria's Finance Guarantee Company (FGG) concluded a cooperation arrangement with its U.S. counterpart, the Overseas Private Investment Corporation (OPIC), to encourage U.S./Austrian joint ventures in Central and Eastern Europe.

AUSTRIA

As a member of the General Agreement on Tariffs and Trade (GATT), Austria affords most favored nation status to other members, including the United States. Austria is actively participating in the Uruguay Round and reduced custom tariffs on about 1,800 items, effective January 1, 1990, as an advance concession in the negotiations.

2. Exchange Rate Policies

The Austrian National Bank's "Hard Schilling Policy" which in effect pegs the schilling to the Deutsche mark, is designed to avoid exchange rate fluctuations vis-a-vis Germany -- Austria's most important trading partner -- and to minimize imported inflation. In contrast to the Bank's previous practice of maintaining interest rates slightly above the German ones to discourage financial outflows, the Bank raised the discount and lombard rates to new levels equaling those set by the German Bundesbank in August 1991 because Austria's economic indicators were stronger than Germany's. The linkage to the mark is not expected to change unless the reunited Germany produces a strong inflationary trend.

In the last of a series of moves begun in 1986 to free international financial flows, the National Bank announced liberalization of all cross-border capital transactions as of November 4, 1991. Austria will maintain only a few reservations to the OECD's Capital Movements and Invisible Transactions Codes, but the remaining reservations are not based on foreign exchange restrictions. Bonds issued by Austrian firms abroad and foreign bonds issued on the Austrian market remain subject to Finance Ministry approval. The requirement for such approval will be waived when the new Capital Market Law becomes effective, most likely on January 1, 1992.

3. Structural Policies

There are a number of Austrian regulations which create a somewhat rigid business climate and in some cases limit competition. Factors affecting market access and consequently competition include monopolies, business licenses, technical standards, worker safety standards, environmental protection regulations, the Cartel Law, the Price Law, the Law against Unfair Competition, and subsidy programs. The Social Partnership, the system whereby the leaders of Austria's labor, business, and agricultural institutions maintain an on-going dialog and give their concurrence to new economic legislation, means these organizations have a strong influence on the full range of economic policies. Federal purchases are made by the agency concerned on the basis of public tenders.

Government monopolies exist in a few areas. Austrian legislation establishing the salt, alcohol, and tobacco monopolies limits trade in these products. Cigarette imports from the United States were eased with

the changes in the tobacco monopoly that were implemented in September 1990. The salt and alcohol monopolies are expected to change with the European Economic Area, although Austria won a three year transition period for these monopolies under EC rules. A variety of products are subject to price controls, including milk, and sugar. Other price-controlled products are some refined oil products, electricity, building materials, metal and foundry products, scrap metal, pharmaceuticals, tobacco and cigarettes.

The personal income/and corporate tax reform implemented in 1989, has improved the Austrian business climate as companies benefit from lower tax rates. The top corporate tax rate is now 30 percent. The 1989 tax reform lowered the tax burden from 23.9 percent of GDP in 1988 to 23.1 percent in 1989. A second tax reform planned to take place over next two years is likely to lower value added tax (VAT) rates and abolish the 32 percent VAT rate on luxury goods; raise consumption taxes; and introduce a new tax on waste water and fossil energy and on registration of cars.

No government policies which discriminate specifically against U.S. investors are known. The same rules and regulations on investments apply to both foreign and Austrian investors; foreign-owned firms receive national treatment. Important regulations which affect investment include those which cover real estate acquisition, the Business Code of 1973, the Limited Liability Company Act, the Cartel Act, and the Product Liability Act. In Austria one must obtain a business license for any type of business. License holders must have a specified type of education and work experience. If a foreigner applies for a license, the principle of reciprocity is applied.

Austria's participation in the European Economic Area will require a number of changes so that about 60 percent of Austrian laws and regulations will conform with EC norms. The Austrian Government is, therefore, preparing new laws that will lift price controls, abolish licensing restrictions, and amend the country's Cartel Law.

4. Debt Management Policies

Austria's external debt management has no implications for U.S. trade. At the end of 1990, Austria's external federal debt amounted to AS 135.4 billion (7.6 percent of GDP). Thirty-five percent of the foreign debt is denominated in Deutsche marks, 35.6 percent in Swiss francs, 24.5 percent in Japanese yen, and 0.1 percent in U.S. dollars. The external federal debt service amounted to AS 20.8 billion in 1990. This was equal to 1.2 percent of GDP, 3.7 percent of total federal budget expenditures, 4.7 percent of merchandise export earnings or 2.8 percent of all earning from exports of goods and services.

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The Austrian Government enjoys an excellent relationship with domestic and foreign creditors. According to "Institutional Investor," Austria's creditworthiness is the eighth best in the world. Republic of Austria bonds are rated AAA; the Austrian Government and banks cooperate with other international creditors in rescheduling developing country and Eastern European debts.

5. Significant Barriers to U.S. Exports

In general, there are no major political, cultural, tariff, nontariff, or other barriers that inhibit or restrict trade in U.S. goods and services. There exist, however, a few Austrian regulations or requirements which may discourage or delay imports from abroad but do not represent legal barriers of a discriminatory nature.

Discretionary licenses are required for imports of some food products, including dairy products, red meats, poultry, grains (except rice), fruits, vegetables, and sugar. Imports of cement and its compounds were restricted to 200,000 tons annually as of September 1, 1991. The Austrian Government imposed the restriction because of charges that Czechoslovak producers were dumping cement in Austria.

Austria's service barriers are limited to certain restrictions existing primarily in banking, insurance, and legal services. Foreign services companies are required to obtain business licenses, as are Austrian firms. Banks must apply for a license from the Finance Ministry, which may deny the application if the proposed banking activity is "against national economic interests." A 1989 court decision, however, reduced the Ministry's authority to block the entry of foreign-owned banks. Insurance companies wishing to operate in Austria have to establish a branch office and must have at least two managers resident in Austria. Other financial services providers, such as accountants, tax consultants, and property consultants, must provide specific proof of their qualifications, such as university education or a number of years in practice. Other services companies also require a business license, one of the preconditions of which is legal residence. As a result, U.S. services companies often have to form a joint venture with an Austrian firm.

The imports of feedstuffs, plant pesticides, pharmaceutical specialities, or electrical equipment are permitted only if the products pass standards set by the Austrian Testing Institute or a government agency. Due to broad and diverse testing procedures, responses may take as long as three or four years. Textile products, clothing, steel, household chemicals, soaps, toiletries, and cosmetic preparations must be marked and labeled in German under the Austrian Consumer Protection Law and the Law against Unfair Competition.

The Austrian Government maintains no significant

investment barriers and it has a special interest in any foreign investment which creates new jobs in high-technology sectors, improves productivity, or which restructures and strengthens traditional industries. Takeovers of healthy domestic enterprises are permitted. With 30 percent of Austria's private-sector industries owned by foreigners, there is some concern that foreign companies may have too large a presence in some sectors of the economy. Nevertheless, the Government continues strongly encouraging foreign investment in Austria even though foreign direct investment in the nationalized sector is restricted and a few restrictions, such as license requirements or reciprocity, apply to foreign investments in banking and insurance. Still, obtaining approval for new operations in Austria means investors have to deal with complicated administrative procedures. It is also rather complicated for foreigners to purchase real estate, due to the different provinces' environmental regulations and land utilization plans. Repatriation of earnings, interest payments, and dividends, as well as of proceeds from disinvestment, is not restricted.

Government procurement practices are subject to the Multilateral Trade Negotiations Agreement on Government Procurement which Austria ratified and implemented. Provincial and municipal governments are not required to comply with the rules. Austria does not have a restrictive "buy-national" law, but the Government does recommend buying Austrian products. The principle of the best bidder is usually valid. Bid times are sufficiently long to allow foreign firms to submit bids on time. Federal agencies publish public tender notices in English and German, although tender documents are only available in German. For certain products, such as medical equipment and computers, intensive service and maintenance requirements may demand the presence of a representative or subsidiary in Austria.

There is no record of any burdensome administrative customs procedures or any special customs document requirements.

The import and marketing of all radio and television transmitting and receiving equipment, including cordless telephones, pagers, dialing and answering devices, modems, telecopiers, and value added telecommunications services, must be approved by the Austrian Post and Telegraph Administration (PTT). Compared with other countries, the Austrian approval policy for customer premises equipment is rather liberal. However, the approval requirement may prevent or delay imports of certain products, especially of highly sophisticated equipment.

6. Export Subsidies Policies

Austria adheres to the OECD Export Credit Arrangement and is a member of the GATT Subsidies Code. The Government subsidizes exports by providing export

promotion loans and guarantees. With the liberalization in Eastern Europe and those countries' outstanding debts to Austria, the Kontrollbank, Austria's export financing agency, has revised its guarantee policy. The most important of the changes implemented in the middle of 1991 in Kontrollbank's export guarantee system is that the previously fixed rates for guarantees now vary according to country risk and the exporter's history of losses. As a result, export guarantees, particularly for shipments to non-OECD countries, are noticeably more expensive. The Austrian Government also decided to be more restrictive in extending soft loans. The Export Fund provides a similar export financing program for small and medium-sized companies with annual export sales of up to AS 100 million. In addition, there are subsidies for exports of grain, dairy products, breeder and dairy cattle, slaughter cattle, and beef.

7. Protection of U.S. Intellectual Property

Austria is a member of the World Intellectual Property Organization as well as of 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 Patent Cooperation Treaty, the Geneva Phonograms Conventions, and the Brussels Satellite Conventions. In addition, it signed the Budapest Treaty on International Recognition of the Deposit of Micro Organisms for the Purpose of Patent Procedure.

The Austrian Government is not particularly active on intellectual property protection issues because Austrian products have not been frequent victims of counterfeiting, piracy, or patent infringements. As a result, there is no domestic industrial lobby pushing for stronger intellectual property rights.

Austria has a law against unfair competition, a patent law, a trademark law, a law protecting industrial designs and models, and since 1989, a law protecting the pattern design of semiconductors. Since both the United States and Austria are members of the "Paris Union" International Convention for the Protection of Industrial Property, U.S. investors are entitled to the same protection under Austrian patent legislation as Austrian nationals. Patents on inventions are valid up to 18 years after application. Austria is also a member of the Madrid Trademark Agreement which means an international trademark registration will also ensure trademark protection in Austria. Trademarks are protected for ten years and may be protected for another 10 years if the company renews the registration in time. Protection for industrial designs and models was extended up to 15 years under the new law effective January 1, 1991.

A levy on imports of home video cassettes and a compulsory license for cable transmission is required under Austrian copyright law. The resulting revenues are collected and distributed by marketing companies with 51

percent of the total collected going to a special fund used for social and cultural projects. United States producers cannot share in the revenues derived from the levy as the copyright law only protects those works of foreign authors covered by the relevant state treaties or whose countries offer reciprocal rights.

Austria is now working on amending the copyright law to make its laws fit with the EC's antipiracy act. There are no estimates of losses to U.S. firms caused by intellectual property infringements in Austria; any such losses are believed to be negligible.

8. Worker Rights

a. 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," Austria's unofficial tripartite forum which has significant influence on economic policy. All workers except civil servants are members of the Austrian Chambers of Labor which do research, prepare legislative proposals, and provide legal services.

b. Right to Organize and Bargain Collectively

Austrian unions enjoy the right to organize and bargain collectively. The Austrian Trade Union Federation (ATUF) is exclusively responsible for collective bargaining. ATUF leadership is democratically elected. Workers are legally entitled to elect one-third of the board of major companies. Employers are legally obligated to prove that job dismissals are not motivated by antiunion discrimination.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is prohibited by law.

d. Minimum Age for Employment of Children

The minimum legal working age is 15 and 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. Any breach of the contract can be challenged before the Labor Court. In addition, there are social welfare benefits to help those whose incomes fall below the poverty line. Over 50 percent of the workforce works a maximum of either 38 or 38.5 hours per week, a result of collective bargaining agreements.

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Health and safety standards are high and strictly enforced.

f. Rights in Sectors with U.S. Investment

Since labor laws practices are uniform throughout Austria, working conditions in the 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 Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category	Amount	
Petroleum		(D)
Total Manufacturing		63
Food & Kindred Products	(D)	
Chemicals & Allied Products	-4	
Metals, Primary & Fabricated	4	
Machinery, except Electrical	-27	
Electric & Electronic Equipment	(D)	
Transportation Equipment	(D)	
Other Manufacturing	11	
Wholesale Trade		299
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business August 1991, Vol. 71, No. 8, Table 11.3

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Key Economic Indicators

(Billions of Belgian Francs (BF) Unless Otherwise Noted)

	1989	1990	1991 (proj.)
Income, Production, Employment			
Real GNP (Billion 1985 francs)	5,495	5,688	5,818
Real GDP growth rate (pct.)	3.8	3.7	1.9
Real GDP by sector			
Agriculture	137	128	N/A
Industry	1,411	1,485	N/A
Construction	308	336	N/A
Services	3,461	3,739	N/A
Real per capita income (BF)	625,596	673,545	691,427
Size of Labor Force (1,000s)	4,229	4,251	4,256
Unemployment Rate (pct.)	8.3	8.0	8.3
Money and Prices			
Money Supply (M1)(Bil.BF)	1,308	1,282	1,360
Discount rate (pct.)	9.2	10.3	10.2
3-month Treas. bill rate (pct.)	8.79	9.6	NA
L-T Govt. bond yield (pct.)	8.61	10.06	9.25
Govt. deficit as pct. of GNP	-6.5	-6.0	-5.6
Savings rate (pct.)	14.4	14.1	14.7
Investment rate (pct.)	16.9	12.6	3.2
Consumer Price Index (pct.)	3.1	3.5	3.3
Wholesale price index (pct.)	5.7	0.6	2.4
Exchange Rate BF-$ (avg.)	39.43	33.41	34.28
Balance of Payments and Trade (Billions of BF)			
Total Exports FOB	3,943	3,943	4,143
Exports to U.S.	189	170	160
Total Imports CIF	3,884	4,002	4,203
Imports from U.S.	183	179	195
Aid from U.S.	NM	NM	NM
External Public Debt	1,129	1,111	1,124
Annual external debt service	31.3	44.0	N/A
Overall Debt Service payments	441.6	381.1	669.4
Gold and Forex reserves	452.4	455.3	725.2
Current Account	147	149	140

All figures end of year unless otherwise noted.
NM: Not Meaningful

1. General Policy Framework

Belgium belongs to the group of leading industrialized democracies. The country enjoys one of the most open economies in the world, with exports and imports together equivalent to a very high 140 percent of GNP in 1989. Belgium's greatest economic strength lies in its geographic location. Situated on Europe's northwest coast and sharing borders with four countries, including Germany and France,

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Belgium is a natural center for transit trade. Having few natural resources of its own, Belgium is reliant upon industries which transform imported goods for reexport. The principal sectors of Belgium's industrial base include pharmaceuticals, high tech, automobile assembly, textiles, steel products, chemicals, refined petrochemicals and petroleum products. Major imports from the U.S. include tobacco, aircraft and associated equipment, cars and other vehicles, coal, computers and related equipment, precious and semi-precious stones, chemicals, plastics, textiles, photographic equipment, and specialized machinery.

The Belgian economy performed well in 1990, with real GNP growth of 3.7 percent, against 2.9 percent for the European Community (EC) as a whole. For the third year in succession, Belgium exceeded the EC growth average. Belgium ran a current account surplus of 2.1 percent of GNP, one of the highest levels for all OECD members. The Belgian export results were helped by the beneficial effects of German reunification. However, Belgian exports to the United Kingdom and France declined as those countries' economies stumbled.

The effects of the Gulf Crisis on the Belgian economy, while only marginal during 1990, bit deeper in 1991. GNP growth in 1991 was significantly lower, about 1.9 percent. Declining orders and consequently higher unemployment, particularly in many small and medium-sized companies, will be lagging effects of the Gulf Crisis. The effect of the Gulf Crisis on prices was short-lived. Inflation equal to 3.7 percent in 1990 should average 3.3 percent for 1991.

Growth in investment slowed in 1990 (nine percent in 1990 vs. 16.3 percent in 1989), but its contribution to GNP growth was still substantial. In 1991, downward pressure on profits and high interest rates contributed to a less favorable climate for corporate investment.

With a direct investment position of US $9,462 billion in 1990, American investment is well represented in Belgium, with more than 1,100 companies present. In all, U.S. companies generated direct employment for some 200,000 Belgians in 1990 (five percent of the labor force). Belgium's elaborate infrastructure, extensive transportation, banking and communications systems, and its status as the capital of the EC combine to make the country a prime location for American firms seeking to establish an office or facility abroad. More than 60 percent of the purchasing power in Western Europe lies within 500 miles of Brussels.

The 1990 budget deficit equaled 6 percent of GNP, against 3.9 percent for the EC average. For 1991, the deficit target is 5.6 percent of GNP. The government faces a large domestic debt stock equal to about 120 percent of GNP, which was run up mostly in the late 1970s and early 1980s. Progress in reducing the overall net debt/GNP ratio is likely to be slow, due to high European interest rates and the large amount of short and medium-term debt.

Part of the success of the gradual decline of the Federal budget deficit can be attributed to the Regional Devolution Act of 1988, whereby Belgium's regions and communities were

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granted substantial budgetary expenditure autonomy, but only limited fiscal revenue autonomy. By not matching the fiscal resources to the devolved responsibilities, the Federal government in effect passed on part of the budget austerity burden to the regions and communities, which in turn were forced to rely on borrowings. These borrowings are not covered by a Federal government guarantee.

The government believes that it may take 10 to 15 years to bring the debt stock ratio down to 80 percent of GNP. This problem constitutes a potential stumbling block for Belgium's full participation in Phase Three of the EC's Economic and Monetary Union (EMU), which will require strict budgetary discipline (a debt/GDP ratio of no more than 60 percent and a deficit/GDP ratio of no more than 3 percent).

2. Exchange Rate Policies

Belgium participates in the EC's European Monetary System (EMS), and the Belgian franc (BF) makes up part of the basket of European currencies from which the value of the ECU (European Currency Unit) is calculated. The Belgian Franc is equivalent at par with the Luxembourg franc; the two countries formed the Belgian-Luxembourg Economic Union, or BLEU, in 1921.

In March 1990, the Belgian government abolished its system of dual exchange rates, whereby an official rate was used for capital transactions and a free or commercial rate for commercial transactions. The move, in the context of further EC capital market liberalization, did not disturb financial markets in Belgium because the difference between the official and the market rate had averaged less than one percent since 1982. Of greater consequence for the Belgian exchange rate outlook was the decision by the Belgian authorities in May 1990 to link the Belgian Franc much closer to the German Mark (DM). The National Bank of Belgium said that it wanted a maximum divergence between the BF and the DM of 0.5 percentage points (against the 2.25 allowed in theory) in a first stage. Consequently, the BF short-term interest rate differential with the DM disappeared almost overnight. The Bank will aim for full parity in a second stage.

The remarkably strong performance of the Belgian franc since mid-1990 is also related to the enormous improvement of cross-border securities trading, bringing the basic balance (current account plus long-term capital) out of the red. Belgian franc investments by non-residents in 1991 increased steeply (currently 12 times higher than in the preceding 12-month period).

3. Structural Policies

In practice, there is freedom of trade for all purposes, and no discrimination between foreign and domestic investors. There are basically no measures in force to protect local industry against foreign competitors, except in the agricultural sector. In this case, the EC's external tariff and the quota structure of the Common Agricultural Policy (CAP) apply. The Belgian Government's attitude toward free

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trade enjoys widespread support throughout the business community.

Subsidies: The national government substantially reduced its aid to business during the 1980s, particularly for steel and shipbuilding. Nonetheless, Belgium remains a heavy subsidizer by EC standards in several sectors. (Subsidies to Belgian coal producers, planned for elimination in 1992, were in fact terminated in mid-1991, well ahead of schedule.) On July 19, 1990 the EC commission announced that it was recommending the abolition of several long-standing general investment aid programs in Belgium. The Commission was particularly troubled by general investment aids which did not have any clear regional or structural objectives. Subsequently, the regions of Wallonia and Flanders announced revisions to their aid programs, in both cases to make them more effective in terms of job creation.

Investment: Foreign investments in the transportation, banking, and insurance sectors are subject to screening by the Ministry of Economic Affairs. Nonetheless, there are no difficult administrative procedures. Foreign interests may establish a Belgian company on the same basis as domestic interests. Establishing a branch of a foreign corporation or acquiring the assets or shares of an existing corporation in Belgium are fairly simple matters.

Tax structure: Belgium's tax structure was substantially revised in 1989, but the top marginal rate on personal income is still 55 percent. The corporate tax level was reduced from 43 to 41 percent in 1990, and will probably be further reduced to 37 percent in 1992. According to a recent study by the Belgian Ministry of Finance, the average effective corporate rate is around 26 percent. The witholding tax on interest income was reduced from 25 to 10 percent effective March 1990.

Despite the reforms of the past five years, the Belgian tax system is still characterized by relatively high marginal rates, a fairly narrow base due to numerous fiscal loopholes and some imbalance at the expense of labor. While indirect taxes are lower than elsewhere in the EC, both in relation to GNP and as a share of total revenues, personal income taxation and social security contributions are particularly heavy.

The United States-Belgium bilateral income tax treaty dates from 1970 and the U.S. Treasury Department is now reviewing the final draft language of a new treaty which was negotiated with the Belgian authorities. In the meantime, a protocol to the 1970 treaty was concluded in 1987 and was approved by the Belgian Parliament in 1989. The instruments of ratification were exchanged by the U.S. and Belgian governments in July 1989, and the protocol went into effect retroactive to January 1, 1988. The protocol amends the existing treaty by providing for a reciprocal reduction of the withholding rate on corporate dividends from 15 to five percent (a feature which was actively sought by the American business community).

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4. Debt Management Policies

Belgium's public sector is a net external debtor, but the net foreign assets of the private sector probably push the country into a net creditor position. Only 15.4 percent of the Belgian Government's overall debt is owed to foreign creditors. Moody's Aa1 rating of the country's bond issues in foreign currency fully reflects Belgium's integrated position in the EC, its significant improvements in fiscal and external balances over the past few years, as well as the slowdown in external debt growth. The Belgian government does not experience any problems in obtaining new loans on the local credit market. The three latest government loans were oversubscribed. Due to the reform of monetary policy in January 1991, direct financing in Belgian francs obtained from the National Bank of Belgium (NBB) has become almost impossible. The Treasury retains only a BF 15 billion credit facility with the NBB for day-to-day cash management purposes. The contracting of foreign currency loans has also been restricted since then. Such borrowing is possible only in consultation with the NBB, which ensures that these loans do not compromise the effectiveness of the exchange rate policy.

As a member of the G-10 group of leading financial nations, Belgium participates actively in the IMF, the World Bank and the Paris Club. Belgium is a leading donor nation, and it closely follows development and debt issues, particularly with respect to Zaire and other African nations.

5. Significant Barriers to U.S. Exports

In January 1993, when the EC's internal market will be integrated, Belgium will have harmonized most, if not all, of its trade rules in both commodity and services sectors with those of the other eleven EC member countries. Thus, the potential for U.S. exporters to take advantage of the vastly expanded EC market through investments or sales in Belgium should grow significantly.

Some Belgian barriers to services and commodity trade still exist, however, including:

Military Offset Programs: Belgian military investment programs frequently contain offset clauses, whereby a certain amount of the contract needs to be performed in Belgium, either directly (i.e., direct compensation on the sale) or indirectly (i.e., by giving Belgian subcontracters a share of unrelated contracts). The offset programs are complicated because of the required regional breakdowns: 53 percent must go to Flanders, 38 percent to Wallonia and nine percent to Brussels. As a consequence, many U.S. defense companies have steered clear of the Belgian defense market.

Telecommunications: Foreign suppliers of telecom equipment have encountered difficulties in gaining access to the Belgian market, especially when they do not have production facilities in the country. However, U.S. suppliers should benefit from the EC directive to liberalize public procurement in excluded sectors, one of which is

telecommunications. Further opportunities for U.S. business may also come from the opening up of the terminal equipment market and the splitting of the Belgian telecom company RTT into a commercial branch, Belgacom, and a standard setting and approval body, BIPT. Value-added and information services may also be opened to competition from the private sector. However, invisible barriers of entry are likely to persist (e.g., technical specifications tailored to those of the national champions, long and expensive approval procedures and market segments reserved for the RTT).

Broadcasting and Motion Pictures: Belgium voted against the EC broadcasting directive (which required high percentages of "domestic" programs) 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 Walloon (French-speaking) community of Belgium have local content broadcasting requirements for private television stations operating in those areas. The EC has taken the Walloon community to the European Court of Justice concerning these requirements.

Distributors of U.S. films in Belgium, as well as distributors of other films, are required by a Belgian court ruling to supply copies of a new film to small theaters for release within a few weeks of the showing of the film by large theaters. While this practice does not discriminate against U.S. producers, it does increase their costs by requiring that they make and supply additional prints.

Barriers to legal services: Starting in the early 1970s, Belgium applied a numerical limit on the number of U.S. legal consultants that were allowed to apply for a professional card and work in Belgium. With the increase in the number of U.S. legal firms in Belgium, the number of U.S. lawyers with a professional card was approaching the limit by the end of the 1980s. The government lifted the limit in October, 1990. A government review of the qualitative restrictions on the activities of foreign legal consultants is being considered.

6. Export Subsidies Policies

There are no direct export subsidies offered by the Government of Belgium to industrial and commercial entities in the country. However, both the Wallonia and Brussels regions recently granted subsidies to several civilian industries in their areas, especially in the aerospace sector. At least some of the subsidized production will go into Airbus airplanes sold on the international market. In addition, the government does conduct an active program of trade promotion. The social expenditure break (reduction of social security contributions by employers, generous rules for cyclical layoffs) offered to companies by the government, and the trade promotion activity may come close to the definition of a subsidy in the case of a company engaged in exporting.

7. Protection of U.S. Intellectual Property

The Government of Belgium is keenly interested in

intellectual property protection and actively follows the subject in the Uruguay Round negotiations. Some Belgian firms, especially textile capital equipment manufacturers, have seen their own research and development efforts pirated and are therefore eager to improve standards of protection.

Belgium is party to the major intellectual property agreements, including the Paris, Berne and Universal Copyright Conventions, and the Patent Cooperation Treaty.

Copyrights: The Belgian Copyright Law, passed in 1886, provides insufficient or outdated penalties for copyright infringement. Some authors and editors claim that many copies are made each year from legally protected works. Specific copyright or patent protection for computer software does not yet exist. The EC Commission has passed a directive protecting computer software, and Belgium is required to implement it by January 1, 1993. Even though the EC directive does not offer as much intellectual property protection as in the case of U.S. law, it does increase protection. Belgium supports the U.S. Government's position regarding the maximum protection of computer software, including the prohibition on reverse engineering.

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, signed in Brussels in 1962, 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 possible.

8. Worker Rights

a. Right of Association

Workers have the right to associate freely and to strike. With 70 percent of its labor force organized, Belgium is one of the most unionized countries in the world and has a long tradition of democratic trade union elections. Labor unions striking or protesting government policies are free from harassment and persecution.

Labor unions are strong and independent of the Government but have important informal links with and influence on many of the major political parties. Unions in Belgium are affiliated with the major international bodies representing labor, such as the International Confederation of Free Trade Unions and the World Confederation of Labor.

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b. Right to Organize and Bargain Collectively

The right to organize and bargain collectively is recognized and exercised freely. The right to due process and judicial review are guaranteed for all protected activity. Effective mechanisms exist for adjudicating disputes between labor and management.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is prohibited by law and does not occur in Belgium.

d. Minimum Age of Employment of Children

The minimum age for employment of children is 14, but there is compulsory schooling until the age of 18. New legislation has been submitted tightening conditions of child labor in show business and related occupations. The labor courts effectively monitor compliance with national laws and standards.

e. Acceptable Conditions of Work

Belgian working hours, mandated by law and through collective bargaining agreements, are among the shortest in Europe. A forty hour week is mandated by law, although many collective agreements call for work weeks of between 36 and 39 hours. There are legal minimum wage rates which are set in periodic negotiations for both public and private sector employees. By law, workers in the private sector receive at least four weeks of vacation per year and an annual bonus equal to approximately 14 per cent of their annual wage. Unemployment benefits are also guaranteed. Health and safety legislation exists, supplemented by collective bargaining agreements. Health and safety committees are mandated by law in companies with more than 50 employees. Government policies to promote employment and an extensive system of unemployment compensation and other social benefits have served to minimize serious individual hardship.

f. Worker 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. Worker rights are practiced and observed uniformly throughout the country.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category	Amount	
Petroleum		327
Total Manufacturing		4,331
Food & Kindred Products	371	
Chemicals & Allied Products	2,424	
Metals, Primary & Fabricated	151	
Machinery, except Electrical	(D)	
Electric & Electronic Equipment	211	
Transportation Equipment	(D)	
Other Manufacturing	872	
Wholesale Trade		2,177
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		6,835

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business
August 1991, Vol. 71, No. 8, Table 11.3

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Key Economic Indicators

	1989	1990	1991 1/
Income, Production, Employment			
Real GDP (billions of 1990 Lev)	47.6	42.0	32.8
GDP at current prices	39.8	42.0	185.0
Real GDP Growth Rate (pct)	-0.3	-11.8	-22
Real GDP by Sector			
Industry (billions 1990 Lev)	25.9	21.7	16.0
Agriculture	7.9	7.4	6.8
Trade and Services	13.8	12.9	10.0
Per Capita Income (US$)	2413	2214	988 2/
Size of Labor Force (1000's)	4,365	4,096	4,161
Unemployment Rate (pct)	N/A	0.2	9.0
Money and Prices			
Money Supply (M1, bil. Lev)	21.9	28.7	50.8
Commercial Interest Rate (pct) 3/	4.7	5.6	60.0
Gross Domestic Savings Rate	0.29	0.24	0.08
Gross Domestic Investment Rate	0.32	0.29	0.27
Consumer Price Index (Dec. 1990 equals 100)	60	100	520
Wholesale Price Index	N/A	N/A	N/A
Exchange Rate (year-end)			
Official	0.81	3.0	21.5 4/
Parallel	N/A	7.0	22.5
Balance of Trade and Payments (current US$)			
Total Exports (FOB) (US$ bil.)	11.09	8.46	4.66
Total Imports (FOB) (US$ bil.)	13.44	10.8	5.92
Exports to U.S. (US$ mil.)	100	227	113
Imports from U.S. (US$ mil.)	221	73.5	82
Aid from U.S. (US$ mil., fiscal year)	0	2.2	88
Aid from Other Countries (including international financial isntitutions)	0	N/A	724
External Public Debt (US$ bil.)	9.2	10.0	12.0
Annual Debt Service Paid (US$ mil.)	74.4	40.3	3.7
Annual Debt Service Scheduled (US$ mil.)	74.4	116.4	47.4
Gold and Foreign Exchange Reserves (US$ bil.)	1.01	0.12	0.45

1/ 1991 figures are estimates for year-end.
2/ Per capita incomes are calculated at following exchange rates: 1989 1.81 Lev:dollar; 1990 2.1 Lev:dollar; 1991 18 Lev:dollar.
3/ Home mortgage rate for 1989/1990 was 2.0 percent; Base lending rate from 2/1/91 to 11/7/91 moved in a range of 45 to 54 percent.
4/ Rate fluctuated between 15.5:1 and 25:1 from June-November 1991.

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Sources: U.S. Embassy Sofia; Government of Bulgaria; international financial institutions.

1. General Policy Framework

Bulgaria in December 1990 faced a serious recession. First, the previous socialist (formerly communist) government cut Bulgaria off from external trade financing by imposing a debt-service moratorium in March 1990. Second, the socialist government failed to control macroeconomic factors such as the government budget deficit. Third, Bulgaria's terms of trade and foreign markets collapsed, especially in the Council of Mutual Economic Assistance (COMECON). Finally, sanctions against Iraq hit Bulgaria particularly hard: Bulgaria could collect neither Iraq's large trade debt nor receive substantial deliveries of contracted oil.

In February 1991 the new coalition government introduced a three-part economic reform package: 1) macroeconomic stabilization in conjunction with the International Monetary Fund (IMF); 2) preparation for a World Bank structural adjustment program through passage of legislation conducive to an open economy; and 3) unilateral liberalization of the trade regime as a first step toward accession to the General Agreement on Tariffs and Trade (GATT).

Stabilization required a normal range of monetary policies: the government established internal convertibility with a floating unified exchange rate; freed almost all prices; raised interest rates; subsequently and periodically adjusted the discount rate and reserve requirements to control bank liquidity; and imposed credit controls. Exports of U.S. capital goods and other industrial inputs were adversely affected by the tight monetary policies, devaluation of the Lev, and continuing lack of external trade financing. Despite an average fall of 65 percent in the standard of living over 1991, exports of U.S. consumer goods, including automobiles, have risen given the relative weakness of the dollar versus European convertible currencies.

On the fiscal side, the government cut the cash budget deficit by reducing subsidies and outlays for military and capital projects. It created a government securities market to fund half the deficit through issuance of treasury bills. Government and business observers expect a secondary market to develop in 1992. The deficit and its monetization through central bank credits remain larger than planned owing to a heavier than expected burden of social safety net payments. While continuing its debt-service moratorium, the government has borrowed extensively from the IMF, World Bank, and Group of 24 to support its balance of payments. The government announced tax reforms to move from an unwieldy system of turnover taxes to a combination of value added tax, profit tax, and income tax. Relatively high marginal rates of the new system remain a disincentive to U.S. investment. A severely restrictive wage policy was relaxed in November 1991, leading to inflationary pressures.

Preparation for structural adjustment included passage of laws on accounting, restitution of agricultural land, protection of competition, protection of foreign investments,

and a commercial code. The government also decentralized the largest state enterprises by breaking them up. These structural changes have not yet led to creation of free wholesale markets or ended retail price maintenance: factories still set prices and margins all the way to the retail level. Distribution networks remained monopolistic throughout 1991. The government appointed in November 1991 intends to pass a privatization law and to amend the foreign investment and land restitution laws to make conditions more attractive for foreign investment.

2. Exchange Rate Policies

In February 1991 the government floated the Lev against convertible currencies at a unified exchange rate. The transferable Rouble (TR) is no longer used in Bulgarian foreign trade, but the government has had to adjust the Lev:TR coefficient for outstanding TR balances. The Central Bank sets an indicative daily U.S. dollar rate for statistical and customs purposes, but commercial banks and others licensed to trade on the interbank market are free to set their own rates. A parallel market operates openly, if illegally, offering about a four percent premium. The Central Bank lacks sufficient reserves to hold the dollar to any given range. With the Lev at an average 18 to the dollar, U.S. exports are expensive, but for goods such as autos and some machine tools the United States remains fully competitive with Western Europe and Japan.

Only few commercial banks are licensed to effect currency operations abroad. Companies may freely buy foreign exchange for imports from the interbank market. Bulgarian citizens may buy only 50 dollars' worth of hard currency per year. 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; treatment of capital gains remains ambiguous under the current foreign investment law. 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 new market-oriented laws on accounting, land reform, competition, foreign investment, and the central bank and commercial code do not inhibit U.S. exports, which are more affected by the government's tight monetary policy. However, the restrictive nature of the land reform and foreign investment laws will inhibit U.S. investment until they are amended by the new government formed November 8. The government intends quickly to pass laws on privatization, intellectual property rights and commercial banking, as well as to revise the labor code. As a first step toward large-scale privatization, the previous government decentralized ("demonopolized") the country's 160 largest state enterprises. Management and marketing inexperience in

many of the resulting autonomous firms has led to at least two potential major breaches of contract in 1991 against U.S. firms. While these cases were successfully resolved, one can expect a certain unpredictability in commercial dealings until privatization is well rooted.

Of major interest to U.S. business will be forthcoming revisions to the tax structure, including introduction of a value-added tax in mid-1992 in place of the current turnover tax and plans to consolidate and lower some rates. Aside from the turnover tax, other major taxes currently applied include a general income tax and corporate profit tax. While average tax rates are relatively low according to the IMF, marginal tax rates are too high to stimulate the economy according to U.S. experts. In 1991 most of the tax burden fell on corporate profits, which created a significant drag on companies' ability to import capital goods and inputs. The government plans to offer new private firms substantial profit-tax relief for the first three years provided that they create jobs. There is no export tax, but a temporary 15 percent import surcharge on some products and a one-half percent customs tax.

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 dollars outstanding, the government declared a debt service moratorium in March 1990. Bulgaria services three small convertible currency bond issues. Of Bulgaria's current 12 billion dollar debt, more than 80 percent is owed to foreign commercial creditors; almost half of the commercial debt is trade financing. The cutoff of trade financing by Western banks in the wake of the moratorium remains the main barrier to imports from the U.S. and elsewhere.

Debt service due in 1991 approximates 92 percent of exports. Debt to GDP ratio is 36.6 percent. Bulgaria rescheduled its official ("Paris Club") debt for one year in April 1991. Bulgaria thus has access as of late 1991 to a 20 million dollar U.S. Commodity Credit Corporation (GSM-102) line for import of agricultural commodities. The government is discussing with the IMF a three-year extended funding facility instead of its current one-year SDR 279 million standby arrangement. A three-year facility, beginning early in 1992, would permit a similar term restructuring of Paris Club debt. Bulgaria also has a structural adjustment agreement with the World Bank. The associated 250 million dollar loan, being used in part for restructuring of agriculture, is playing a key role in balance of payments support in the absence of regular commercial trade financing.

Bulgaria's negotiations with its commercial creditors ("London Club"), led by Deutsche Bank, have stalled since mid-1990. The government has refused to accept sovereign responsibility for the debt until the London Club proposes acceptable terms. The government publicly stated that it does not seek any debt forgiveness. However, international financial institutions think any workable restructuring must include substantial forgiveness. Bulgaria owes U.S.

commercial banks about 70 million dollars. The largest creditors are groups of German, Japanese, and Austrian banks, to whom Bulgaria owes more than one billion dollars each.

5. Significant Barriers to U.S. Exports

Import licenses are required for a limited list of goods. The list includes radioactive elements, rare and precious metals and stones, ready pharmaceutical products, and pesticides. Armaments and military-production technology and components also figure on the list, but are not eligible for export from the U.S. since Bulgaria continues to be included on the list of prohibited destinations for exports of defense articles and services. The Bulgarian government has declared that it grants licenses within three days of application, without fees, and in a non-discriminatory manner. The U.S. embassy has no complaints on record from U.S. exporters that the import-license regime has affected U.S. exports.

The Bulgarian government states that its system of standardization is in line with internationally accepted principles and practices. Imported goods must conform to minimal Bulgarian standards, but in testing and procedures imported goods are accorded treatment no less favorable than that for domestic products. Bulgaria accepts test results, certificates or marks of conformity issued by the relevant authorities of countries signatories to international and bilateral agreements to which Bulgaria is a party. All imports of goods of plant or animal origin are subject to veterinary and phytosanitary control, and relevant certificates should accompany such goods.

The government envisages encouragement of foreign investment in unspecified high-tech sectors, agriculture and food processing. Foreign investment in these areas is currently exempt from profit taxes for five years. Profits of subsidiaries and joint ventures with foreign participation exceeding 49 percent and 100,000 U.S. dollars or its equivalent in other convertible currency are taxed at 30 percent rather than the normal 40 percent on profits.

Under the June 1991 foreign investment law, Bulgaria grants national treatment unless otherwise provided for by law or international agreement. Foreign investors may hold up to 100 percent of an investment. However, only foreign investments over 50 thousand dollars qualify for protection under the new law. Foreigners may not own land, real estate, or natural resources. Foreign persons may freely repatriate earnings and other income from their investments at the market rate of exchange. Repatriation of capital gains is not clearly covered in the law.

Foreign investments requiring government approval include those in banking and insurance, in so-far unspecified geographic regions, in so-far unspecified sectors when the foreign share leads to foreign control, in territorial seas and on the continental shelf, or in one of the seven free economic zones.

While there are no specific local content or

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export-performance requirements nor specific restrictions on hiring of expatriate personnel, the foreign investment law leaves room for such requirements to be applied. The law contains no provision for international arbitration in the event of expropriation, disinvestment, or compensation disputes.

There is no legal requirement for the Bulgarian government to procure only local goods and services. Government procurement works mostly by competitively-bid international tenders. U.S. investors are finding, however, that neither the remaining state enterprises nor private firms are used to responding to competitive bidding to supply goods and services within Bulgaria to these investors. Moreover, in the case of purchase prices for grain, the government set an artifically low price for wheat in July 1991 and at the same time forbade wheat exports. The resulting market distortion and disincentive for local producers may in fact lead the government to seek a greater quantity of grain on world markets in 1992.

Customs duties are paid ad valorem according to the tariff schedule. Imports from the United States are assessed at the most-favored-nation (MFN) rate. A temporary import tax of 15 percent is levied on most goods. A one-half percent customs clearance fee is assessed on all imports and exports. Bulgaria applies the Single Administrative Document used by European Community members.

6. Export Subsidies Policies

The Bulgarian government does not directly subsidize exports.

7. Protection of U.S. Intellectual Property

Property rights in general in Bulgaria were minimal under the former communist regime. Bulgarian inventors and others entitled to intellectual property rights were not entitled to more than a token one-time benefit from their work. The government appointed November 8, 1991 intends to pass an intellectual property rights law in line with Western European models. In accord with the April 22, 1991 U.S.-Bulgarian trade agreement, the Bulgarian government issued Decree No. 190 of September 27, 1991 granting temporary patent protection under certain conditions for U.S. patent holders in the fields of micobiology, pharmaceuticals, cosmetics, foodstuffs and flavors, and for products produced through genetic engineering.

At least one U.S. pharmaceutical company has complained of potential patent infringement by a Bulgarian veterinary drug manufacturer. Large U.S. beverage companies have complained at misuse of their trademarks. They say that under current Bulgarian law, it is impossible to prosecute trademark violators. Post has no figures of estimated losses to U.S. firms.

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8. Worker Rights

a. Right of Association

Under the existing Labor Code, workers cannot exercise the right of free association without permission. Article 49 of the 1991 Constitution, however, grants workers the right of association in syndical organizations and unions. In practice, therefore, the Government has allowed workers freely to associate, and intends to bring the Labor Code in line with the Constitution. Article 50 of the Constitution grants workers the right to strike in accordance with conditions determined by law.

b. Right to Organize and Bargain Collectively

During the first half of 1991, wages were set by the Trilateral Commission involving the government, employers and trade untions. Collective bargaining was to have been instituted in July, but as privatization and demonopolization of state enterprises had not progressed significantly, negotiating partners were not always clearly identifiable, and the Commission is still involved in wage agreements which are negotiated only at the national level and cover only price compensation. bulgaria's Labor Code, whcih at present does not address antiunion discrimination, is expected to be amended by the new Parliament. There is as yet no law on trade unions. Economic and social life is still ruled by decrees and not by laws.

c. Prohibition of Forced or Compulsory Labor

The new Constitution states that no one may be compelled to carry out labor.

d. Minimum Age of Employment of Children

According to the unamended labor code, the minimum age for employment of children is 18. School attendance is compulsory to age 16. Increasingly underage children are employed as street vendors.

e. Acceptable Conditions of Work

The Constitution states that workers have the right to healthy and secure conditions of work, but health and safety standards are often not met. The consititution also provides the right to social security, welfare and unemployment assistance. The law establishes a standard workweek of 42.5 hours. The trilateral commission sets the minimum wage, although much of the population fell below the minimum income in 1991 due to a drop in real wages.

f. Rights in Sectors with U.S. Investment

Overall U.S. investment is relatively small as of late 1991. Of the nine sectors covered in the Trade Act report, only the electric and electronic equipment sector has an active U.S. presence as of December 1991. Conditions are comparatively better in this sector than in others.

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Extent of U.S. Investment in Goods Producing Sectors

No sector by sector data is available on investments in Bulgaria.

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Key Economic Indicators

(Millions of Canadian Dollars (Cdols) Unless Otherwise Stated)

	1989	1990	1991
Income, Production, Employment			
Real GDP (SAAR, 1/ Bills.Cdols)	565.0	567.5	562.1 2/
Real GDP Growth Rate (pct)	2.5	0.5	-1.0 2/
Real GDP by Sector at Factor Cost			
Manufacturing	95,695	90,838	86,664 3/
Finance, Insurance, Real Estate	78,569	80,024	84,120 3/
Trade	58,115	56,922	56,492 3/
Community, Business and Personal Services	62,477	64,876	63,133 3/
Transportation and Communications	39,507	40,963	41,069 3/
Construction	32,787	32,985	32,334 3/
Mining	19,828	19,783	19,620 3/
Agriculture	10,222	11,470	11,377 3/
Utilities	16,249	15,643	16,423 3/
Logging & Forestry	2,945	2,835	2,639 3/
Real Per Capita Income	14,407	14,376	13,749 3/
Total labor force (000's)	13,503	13,681	13,794 4/
Unemployment Rate (pct)	7.5	8.1	10.4 4/
Money and Prices (End of Period)			
Money Supply (M1)	39,478	38,997	N/A
Money, savings, time deposits (M2)	228,742	252,872	279,087
Bank of Canada Rate (pct)	12.47	11.72	7.67 5/
Chartered Banks' Prime Rate (pct)	13.50	12.75	8.00 5/
90-Day Commercial Paper (pct)	12.34	11.62	7.52 5/
Personal Savings Rate (pct)	10.4	10.2	10.9 2/
Annual Consumer Price Index (1986 = 100)	114.0	119.5	126.2 5/
Annual Percent Change	5.0	4.8	5.6 5/
Annual Industrial Product Price Index (1986 = 100)	109.4	109.7	108.7 5/
Annual Pct Change:	2.1	0.3	-0.9 5/
Exchange Rate (one Cdol = U.S. cents) (average annual closing)	84.45	85.71	87.28 5/
Balance of Payments and Trade			
Merchandise Exports	141,768	146,482	106,794 6/
To the U.S.	105,648	110,442	80,754 6/
Merchandise Imports:	134,673	135,557	99,922 6/
From the U.S.	93,540	92,924	69,328 6/
Merchandise Trade Balance	7,095	10,925	6,873 6/
Balance with U.S.	12,107	17,518	11,426 6/
Current Account Balance	-20,723	-22,036	-18,165 6/
Balance with U.S.	- 2,411	-408	N/A
Gold Holdings (Millions of U.S. dollars)	740.6	735.1	649.0 5/
Official International Reserves (Millions of U.S. dollars)	16,796	18,581	16,901 5/
Gross External Debt: (Billions of Cdols)	297.0	329.7	N/A

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Debt Service Payments:	30,652	32,923	23,588 6/

N/A-Not available
1/ SAAR: Seasonally Adjusted Annual Rate
2/ Embassy projection
3/ Third quarter actual data
4/ Quarterly average
5/ Actual for the year
6/ Average of the first three quarters

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 are significantly involved in the economy. They provide a broad regulatory framework and engage in considerable redistribution of wealth from high income individuals and regions to less advantaged persons and provinces. Also important are government-owned Crown Corporations such as the Canadian Broadcasting Corporation, the Canadian National Railway Co., and Petro-Canada.

Canada is a major producer of natural resources and related products. Forestry, mining, and the energy sector are leading exports. The economy is also fully industrialized and produces highly sophisticated consumer goods and capital equipment. Canada is the most important trading partner of the United States, with merchandise exports of 94.7 billion U.S. dollars (USdols) to the U.S. and merchandise imports from the U.S. valued at USdols 79.6 billion in 1990. Vehicles and parts accounted for approximately 30 percent of U.S. merchandise exports to Canada in 1990. The stock of total foreign direct investment in 1990 was Cdols 127 billion, of which U.S. foreign direct investment amounted to Cdols 79 billion. In 1988, roughly 45 percent of the assets of Canadian manufacturing companies were foreign-owned. Of this total, about 80 percent belonged to the United States.

Federal government economic policies since late 1984 have emphasized reduction of public sector interference in the economy and promotion of private sector initiative and competition. The Canadian government dismantled the highly interventionist National Energy Program and converted the restrictive Foreign Investment Review Agency into Investment Canada, which was given a mandate to encourage foreign investment. Both federal and provincial governments undertook privatization of selected Crown Corporations.

The deficit and related expansion of government debt are the most pressing problems facing fiscal policymakers. The federal government made some progress in slowing the growth of public debt after 1984, reducing the annual federal deficit from Cdols 38.3 billion in fiscal year 1985 (FY-85) to Cdols 28.1 billion in FY-88. However, it rose to Cdols 28.9 billion in FY-90 and Cdols 30.6 billion in FY-91. Government options to reduce the deficit are constrained by the high level of non-discretionary spending in the federal budget. Statutory social transfers to individuals and to provincial and local governments account for 40 percent of the FY-91 federal

budget, while public debt service payments account for an additional 28 percent of projected spending. Even reduction of subsidies for regional development and other remaining discretionary programs such as defense and foreign aid would require the government to make difficult political decisions.

The Bank of Canada is a publicly-owned, quasi-independent central bank. It is supervised by a board of directors appointed by the government and representing the private sector across the country. The board appoints and the government approves the governor of the bank, who is responsible for monetary policy. The Bank rate or interest charge on central bank advances is set 25 basis points above the average yield on 90-day Treasury bills at the weekly auction conducted by the Bank of Canada. The authorities may participate in the auction to influence its outcome. Other tools used to control the money supply include management of the government's cash deposits with the chartered banks, purchase and resale agreements with money market participants, and open market and foreign exchange operations.

Canada and the U.S. entered into a free trade agreement effective January 1, 1989 and are now negotiating the North American Free Trade Agreement (NAFTA) with Mexico. Canada is the U.S.' largest trading partner.

2. Exchange Rate Policies

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 an almost daily basis for purposes of maintaining orderly trading conditions and smoothing rate movements. Between December 31, 1987 and December 31, 1990, the Canadian dollar appreciated 12.0 percent against the U.S. dollar and by nearly 13 percent on a trade weighted basis against the Group of Ten currencies. During the same time period, Canada's official foreign exchange reserves increased from USdols 8.2 billion to USdols 18.6 billion.

3. Structural Policies

Prices for most goods and services, including land, buildings, capital equipment, and consumer goods are established by the market without government involvement. Energy prices were decontrolled in 1985 with the dismantling of the National Energy Program. There are some important exceptions, such as prices for health services, which are regulated by the government. The government completed privatization of the national airline, Air Canada, in 1989, and the privatization of the national oil company, Petro-Canada, is proceeding in stages.

The principal sources of federal tax revenues are corporate and personal income taxes, the goods and services tax, unemployment insurance contributions, customs duties, and

energy taxes. In 1987-88, the government reduced direct taxes on the energy sector and in 1988 further reform lowered corporate and personal income tax rates and eliminated or reduced exemptions and credits. This brought Canadian personal and corporate income tax rates more into line with comparable U.S. rates and reduced many of the distortions in the former income tax system. At the beginning of 1991 the government implemented a reform of the federal sales tax system, replacing the manufacturer's sales tax and telecommunications tax with a multi-stage seven per cent value-added tax on consumption. Known as the Goods and Services Tax (GST), this tax applies to most goods and services, including imports, sold in Canada.

Federal government regulatory regimes affect foreign investment (see section 5 below) and also U.S. firms in the financial services sector. Although foreign banks are subject to federal restraints on their operations and growth, U.S. banks have been exempted from most of these restrictions under the U.S.-Canada Free Trade Agreement (FTA). Provincial and federal reforms in 1987-88 enabled foreign securities firms to open offices in Canada and authorized banks to establish securities subsidiaries. In 1989 foreign firms were permitted to become primary distributors of Canadian government securities. The Mulroney government has introduced further financial sector reforms, largely to eliminate many of the remaining barriers between banks, trust companies and insurance companies.

Transportation Policies: The pro-competitive National Transportation Act and its companion legislation, the Motor Vehicle Transport Act, entered into force in 1988. While underscoring the continuing need to maintain high safety standards, this legislation introduced a greater degree of deregulation in the Canadian transportation industry. Among the provisions of the new Canadian transport laws are the following:

-the main regulatory body, the Canadian Transport Commission, was replaced by the more streamlined and accessible National Transportation Agency;

-regulation of domestic airline passenger fares and air cargo tariffs was largely eliminated;

-market entry for domestic airline operations was eased;

-a uniform, nation-wide entry test for extraprovincial trucking operators was established, thereby reducing barriers against U.S. trucking operators;

-collective rate-making among railways has been abolished and shippers have been allowed for the first time to negotiate confidential contracts with carriers.

Transportation is not included in the FTA. In October 1990 the U.S. and Canada announced a joint initiative to negotiate a new "open skies" agreement covering transborder air services.

Telecommunications Policy: Canada has a complex mixture

of federal and provincial legislation, policies and regulations regarding telecommunications. The carriers include private, governmental and mixed corporations and organizations. They are regulated either by a federal agency, the Canadian Radio-television and Telecommunications Commission (CRTC), a provincial public utility board, or a provincial or municipal government. The allocation and use of the radio spectrum is regulated by the Department of Communications.

An August 1989 decision by Canada's Supreme Court in the case of the Alberta Government Telephone Company has provided the basis for expanding federal jurisdiction over all carriers constituting Telecom Canada, the national monopoly for long distance services.

The present government has expressed its intent to introduce a policy favoring more competition in telecommunications. A new Telecommunications Act, yet to be introduced, would define basic and enhanced services. While basic services would remain closely regulated and subject to limitations on foreign ownership, enhanced services would be opened to free competition, and to unlimited foreign investment.

4. Debt Management Policies

Canada's net international investment position rose from Cdols 115 billion (26 percent of GDP) in 1984 to Cdols 217 billion (33 percent of GDP) in 1990, a relatively high figure for an industrial country.

5. Significant Barriers to U.S. Exports

Provincial legislation and Liquor Board policies regulate Canadian importation and retail distribution of alcoholic beverages. The Free Trade Agreement addresses a number of these policies with respect to wine and spirits (listing, distribution, and pricing) and provides dispute settlement procedures. The U.S. is concerned that all provinces are not adhering to the FTA and has made specific requests for information and justifications from the Government of Canada.

With respect to beer, since the FTA has entered into force, several provinces have introduced discriminatory measures in apparent conflict with the agreement. Canada has not brought its import regime into compliance with GATT rules. The United States took the matter to a GATT panel which found Canada's provincial practices to be GATT-inconsistent for the second time in four years. In December 1991, the United States Trade Representative (USTR) determined under Section 301 of the 1988 Omnibus Trade and Competitiveness Act that rights of the United States under the GATT are being denied as a result of Canadian provincial liquor board practices concerning beer, and that action shall be taken in the form of substantially increased duties on beer and malt beverages from Canada no later than April 10, 1992. The USTR will continue to consult with the Government of Canada in an effort to obtain commitments for the elimination

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or modification of these practices, such that the implementation of the subject action will no longer be necessary.

The Canadian Wheat Board (CWB) controls all imports of barley and barley products through an import licensing system. Similar restrictions were applied to wheat and wheat products but were removed from applicability to imports from the United States in May of 1991, in accordance with the provisions of the FTA. Under the terms of the FTA Canada agreed to eliminate these import license requirements when the U.S. support levels for these commodities became equal to, or less than, those in Canada.

In January 1988, Canada tightened import restrictions on dairy products by implementing a permit system to restrict imports of ice cream and yogurt. On December 4, 1989, the GATT Council adopted a dispute settlement panel's finding that the quotas and permit system are inconsistent with Canada's GATT obligations. Canada said it will not implement the findings until the Uruguay Round concludes because it believes that GATT Article XI, which addresses quantitative restrictions, should be revised in the Round. Canada continues to apply the restrictions.

Several restrictions apply to fresh fruit and vegetable imports. Domestic production of horticultural products is protected by high seasonal tariffs which are being phased out under the FTA. However, Canada has invoked a special temporary "snapback" provision in the FTA three times, on U.S. exports of fresh asparagus, peaches and tomatoes. A provision of Canada's Processed Products Regulations, under the authority of the Canada Agricultural Products Act, gives Canadian firms preferential treatment by allowing them the privilege of marketing "oversizes" (beyond prescribed package sizes) if the containers bear registered labels issued by Agriculture Canada. However, only Canadian registered establishments may issue these labels under current law. U.S. firms marketing in Canada are not eligible for registration and U.S. marketing efforts are confined to the sizes prescribed in the regulations. The government has published proposed rules to correct the problem. U.S. entities are currently studying the proposed changes before making formal comment on them. The proposed change would not apply to products imported for further processing, such as frozen tart cherries for manufacturing pies and pastry products.

Several other problems exist in the area of standards and labeling. Entry of most U.S. residential construction plywood is effectively denied because of Canadian Standards Association (CSA) plywood standards. Common standards would enable U.S. plywood products to compete in Canadian markets. A binational plywood committee consisting of experts from the U.S. and Canada has developed a draft common performance standard and forwarded it to the appropriate national standards bodies for adoption.

The FTA chapter on technical standards provides for the accreditation of U.S. certification organizations and testing laboratories in Canada. However, the Canadian accreditation agency, Standards Council of Canada, was dilatory in effecting

the necessary regulatory changes and reviewing U.S. applications, thereby placing U.S. certification and testing organizations at a competitive disadvantage vis-a-vis their Canadian counterparts.

Canada maintains annual global import quotas for chicken, turkey and table eggs. The FTA enlarged the quota quantities. On May 8, 1989, Canada imposed import quotas on broiler hatching eggs and chicks. The two governments negotiated an agreement on access levels for 1990 and 1991. The U.S. has reserved the right to pursue the issue under the GATT.

A preferred supplier relationship between Bell Canada, Canada's largest telecommunications service provider, and Northern Telecom, Canada's largest telecommunications equipment manufacturer, constitutes a barrier to U.S. export sales of telecommunications equipment to Canada.

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. Consequently, a U.S. company, in order to fulfill a service contract, may be forced to rent the equipment or pay full duties and taxes on its equipment. These regulations effectively prevent U.S. firms from competing for specialized service contracts in Canada.

Under the Canadian Goods Abroad Program, Canadian goods sent to the United States for non-warranty repairs, additions or transformations, are dutiable on the full value of the goods plus the value of the services performed abroad if the work could have been done by a Canadian firm within a "reasonable distance." These restrictions unfairly limit market acess for U.S. service providers.

Canada provides "group relief" from the Goods and Services Tax (GST) to financial institutions with regard to their purchase of actuarial, management, underwriting, and data processing services from related companies within Canada. GST "group relief" provisions do not apply to imported services, disadvantaging Canadian subsidiaries of U.S. financial institutions that normally purchase such services from a U.S. affiliate or home office.

On April 25, 1989, Canada eliminated GATT-inconsistent export prohibitions on Pacific roe herring and two species of salmon, and instituted a requirement that all roe herring and five species of salmon be landed in Canada before export. The U.S. challenged the consistency of the landing requirement with GATT and the FTA. A dispute settlement panel, established under the FTA, found that Canada's landing requirement violated the terms of the GATT and the FTA. Canada and the U.S. subsequently negotiated an interim agreement which permits direct export by Canadian licensees of a portion of the Canadian catch. However, Canada imposes an export restriction on herring which are exported to the U.S. for freezing and reexported to Canada for processing if adequate freezing capacity is available in British Colombia.

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Canada denies Canadian enterprises tax deductions for the cost of advertising in foreign broadcast media and publications when the advertising is directed primarily at Canadians. This negatively affects the operations of U.S. border television stations beaming programs into Canada.

Various restrictions on advertising aimed specifically at the Canadian market restrict U.S. access to the Canadian market for publications and print media advertising.

Canadian law requires that processing and maintaining Canadian bank operation records must be done in Canada. Legislation is pending which will allow the Superintendent of Financial Institutions to grant exemptions.

Since 1979 the Canada Post Corporation (CPC) has applied higher postal rates to foreign publications printed outside Canada and mailed in Canada, and to foreign publications printed and mailed in Canada, than to Canadian publications. The lower rates for Canadian publications cost the Canadian Government about Cdols 225 million per year in CPC subsidies to support Canada's book, magazine and cultural sectors. In April 1989, the government announced its intention to phase out two subsidies paid to reduce postal rates for Canadian publications. The Cdols 225 million annual subsidy is to be reduced by Cdols 10 million in fiscal year 1989-90, and by Cdols 45 million in each subsequent year. New postal rates announced in early 1991 began the process of eliminating the subsidy, but actually increased the discrimination against foreign publications during the transition. Canada Post also eliminated the relatively favored category for foreign publications printed and mailed in Canada, greatly increasing the mailing costs for some important U.S. publications with Canadian editions printed in Canada.

Under the Investment Canada Act and Canadian policies in the energy, publishing, telecommunications and transportation, broadcasting and cable television sectors, Canada maintains laws and policies which interfere with new or expanded foreign investment. As well, foreign investment in the banking and financial services sectors is restricted under the Bank Act and related statutes.

The Investment Canada Act requires the federal government to review and approve U.S. and other foreign investment to ensure "net benefit to Canada." The Act exempts from prior government approval foreign investments in new ("greenfield") businesses and acquisitions worth less than Cdols 5 million. The exemption excludes "culturally sensitive sectors" such as book publishing and distribution, film and video, audio music recordings and music in print or machine readable form. Also excluded as "culturally sensitive" are foreign investments to establish new businesses or acquire existing ones for the publication of magazines, periodicals or newspapers. Foreign investment in these sectors is potentially subject to review regardless of size or whether the investment is new or through direct or indirect acquisition. Indirect acquisitions outside the cultural area worth Cdols 50 million or more are also subject to review. Under the Free Trade Agreement, Canada commits to phase in higher threshold levels for review of direct acquisitions from Cdols 5 million to Cdols 150 million

in constant dollar terms by 1992. Screening of indirect acquisitions will be phased out altogether by 1992. These liberalizations to the Invesment Canada Act agreed to in the Free Trade Agreement do not extend to investments in the "cultural industries" or the oil, gas and uranium sectors.

Investment Canada enforces a federal book publishing policy known as the "Baie Comeau Policy". Canada requires that foreign-owned book publishing or distributing subsidiaries in Canada be divested to Canadians within two years if the ownership of the parent changes hands. In addition, Canada will approve new investments and direct acquisitions in the sector only if Canadians are given control within two years. Under the FTA, Canada commits to offer to purchase a Canadian subsidiary from a U.S. investor at fair open market value as determined by an independent, impartial assessment in the event of a forced divestiture pursuant to the Baie Comeau policy if no Canadian private sector purchaser can be found.

Investment Canada also has specific policies regarding foreign investment in the film distribution sector which state that:

-takeovers of Canadian owned and controlled distribution firms will not be allowed;

-investment to establish new distribution firms in Canada will only be allowed for importation and distribution activities related to proprietary products;

-indirect or direct takeovers of foreign distribution firms operating in Canada will be allowed only if the investor undertakes to reinvest a portion of its Canadian earnings in accordance with national cultural policies.

The Canadian government continues to pursue as a long-term policy goal Canadianization (50 percent Canadian ownership) of the country's oil and gas industry. Although many of the provisions of the National Energy program introduced in 1980 have been rescinded, substantial restrictions on foreign investment in the energy sector continue in force. These restrictions have been "grandfathered" in the FTA. Direct acquisition of Canadian-controlled firms continues to be reviewable. Takeovers of healthy Canadian firms valued at more than Cdols 5 million will be rejected. Purchases of unhealthy firms may be permitted subject to discussion of corporate undertakings of equity, investment and employment. Canadians must own at least 51 percent of an individual uranium property when it comes into production. While any foreign firm may begin business in Canada, bid for leases, and explore for and develop oil and gas reserves, a Canadian ownership ratio of at least 50 percent is required before a consortium can receive an oil or gas production license on Crown lands, including Canadian offshore areas on the west, east and north coasts, the Northwest Territories and the Yukon. In late 1991 the energy minister promised to loosen the rules governing foreign ownership in the oil and gas industry.

In the banking sector, the Bank Act of 1980 made

chartering of foreign banks possible for the first time. However, the Act imposed on foreign banks limitations that do not apply to domestic institutions, e.g., foreign owned banks chartered in Canada are limited to a main office and one branch, but additional branches may be opened with government approval. The Act also restricted the total asset share of foreign bank subsidiaries to eight percent of total domestic assets of all chartered banks in Canada, although a 1984 amendment to the Act raised this to 16 percent. Foreign banks are also unable to acquire a domestic Canadian bank, since no one can hold more than 10 percent of a Canadian bank's assets. Moreover, no more than 25 percent of a bank's assets can be held by a group of foreigners. (These restrictions are known as the "10/25 rule").

The FTA eliminated discriminatory restrictions on U.S. bank subsidiaries in Canada. U.S. banks are not subject to the domestic asset ceiling and U.S. firms and investors are exempt from the 25 percent limitation on equity holdings in Canadian banks. The FTA as well eliminates the federal "10/25" rule for acquisitions in the non-bank financial sector.

In the securities sector, provincial laws which regulate the sector were amended to abolish the "10/25" rules applying to investment in securities firms. In the trust and loan and insurance sectors, which are regulated by both the federal and provincial governments, foreign investors wishing to establish in either of these two areas may do so, but acquisitons of provincial firms are still subject to the provincial "10/25" rules.

As already noted, Canada reserves the right to review certain foreign investments and consider any conditions investors "volunteer" consistent with the Investment Canada Act. Once an investor "volunteers" to meet various performance requirements, the undertakings are de facto preconditions to entry. The FTA ends the imposition of most performance requirements on U.S. investors and third-country investors when U.S. trade interests would be affected. Under the FTA, export requirements, import substitution, domestic content and local purchasing requirements are prohibited.

Investment Canada offers ample administrative authority to deny national treatment to foreign-owned investors in certain sectors, e.g., book publishing, and also permits considerations based on nationality (rather than antitrust) for indirect acquisitions of some Canadian firms. Limitations on national treatment as reported to the Organization for Economic Cooperation and Development include:

-discriminatory federal and provincial provisions on income tax and land transfer taxes;

-several discriminatory government procurement practices; and

-right of establishment restrictions on new investment by already established investors.

Where GATT Government Procurement Code or FTA requirements do not apply, Canadian government entities follow

preferential sourcing policies favoring Canadian-based firms over foreign-based firms. These preferential policies include:

-restricting bids to Canadian suppliers if there is sufficient competition from Canadian-based sources;

-use of single-source procurement to favor Canadian firms; and

-application of a 10 percent price preference for "Canadian content" when evaluating competing bids.

In addition, Supply and Services Canada, the major Federal procurement agency, maintains a supplier development fund to promote new Canadian sources of supply. Canada's Federal and Provincial crown (government-owned) corporations also follow strong "buy national" or "buy provincial" policies. Products affected include telecommunications, heavy electrical and transportation-related products.

Canada pursues an "industrial benefits policy" which is administered through a procurement review mechanism. The policy is intended to insure that major government procurement projects provide long-term benefits for "the economic or social development of Canada" beyond the immediate impact of the procurement expenditures. Frequently resulting in "offsets," this policy is one of Canada's most objectionable government procurement practices.

6. Export Subsidies

The Canadian government subsidizes rail transportation of western grown wheat, barley, oats and many other agricultural commodities intended for export. In 1984, the Canadian government extended rail rate subsidies to exports of these and an enlarged list of commodities destined to the western United States. The Free Trade Agreement eliminated subsidies on agricultural products shipped to the United States through West Coast ports, though not on shipments to third markets or through Thunder Bay.

Under the terms of the FTA, Canada will terminate all export-based duty remission schemes by 1998. In the interim, Canada has excluded exports to the U.S. in calculating the duty waived.

Canada's production-based duty remission program provides for the rebate of customs duties to qualifying foreign automobile firms on their imports of automobiles and original equipment automotive parts into Canada. Under the program, duty remissions are granted in proportion to the amount of "Canadian value-added" generated by these firms in Canada. Under the provisions of the FTA, Canada has agreed to terminate the program by 1996 or any earlier date specifically agreed with participating firms and to limit application of the program to four companies. The U.S. has sought access to Canadian data to confirm Canadian compliance with this process.

CANADA

7. Protection of U.S. Intellectual Property

Because of continued inadequacy in patent protection for pharmaceuticals, the U.S. Trade Representative in 1991 again placed Canada (together with 16 other countries) on the "Watch List" under Section 301 of the 1988 Omnibus Trade and Competitiveness Act. In most other major areas of intellectual property protection, however, U.S. and Canadian authorities have similar concerns and approaches to standards and means of protection.

In general, Canada has historically been committed to a meaningful intellectual property protection regime. The Canadian Patents Act, first passed in 1869, was most recently amended on November 19, 1987. By significantly improving protection for patented drugs, this amendment was a positive step in resolving some of the complaints voiced by the U.S. pharmaceutical industry concerning alleged Canadian bias in favor of generic drugs. However, the law still contains compulsory licensing for pharmaceuticals. These provisions are discriminatory as drugs invented in Canada are exempt from some types of compulsory licensing while drugs invented abroad are not.

Another remaining concern is the lack of adequate legislation to protect semiconductor design topographies. Canadian authorities are addressing U.S. concerns in these areas in both the Trade Related Aspects of Intellectual Property (TRIPS) portion of the GATT Uruguay Round negotiations, and the trilateral NAFTA talks; Canadian and U.S. authorities agree on the need for viable standards in this high tech area.

Copyright legislation has been strengthened. The amendment of June 8, 1988 to the Canadian Copyright Act provided explicit protection to computer programs, increased criminal penalties for commercial piracy, and clarified several ambiguities in the extent of the coverage provided by the earlier copyright and industrial design protection statutes.

A further copyright amendment has been enacted acknowledging compensation rights for U.S. copyright holders whose radio and television signals are being retransmitted into Canada from the United States by Canadian cable operators. The measure, introduced in compliance with the terms of the Free Trade Agreement, fell short of U.S. expectations regarding the extent of the signal that would be subject to copyright protection. However, the law did establish a Copyright Board to adjudicate claims. In October 1990 the Board announced its schedule of compensation tariffs for 1990 and 1991. The tariffs were subsequently confirmed by the Canadian government. The copyright board is conducting hearings to establish tariffs for 1992.

Regarding multilateral efforts to strengthen intellectual property protection, Canada has generally shared the views of the United States. Most recently, Canadian authorities have been working together with the United States to bring about a stricter regulatory regime in the context of the Uruguay Round.

CANADA

8. Worker Rights

a. The Right of Association

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. All workers except certain groups of essential civil servants have the right to strike.

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. Thirty six and one half percent of Canada's non-agricultural workforce is organized into trade unions. Antiunion discrimination is banned by law, and there are effective mechanisms for resolving complaints.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is illegal and not practiced.

d. Minimum Age Employment of Children

Generally, workers must be 17 years of age to work. Provincial standards vary, but generally require parental consent for workers under 15 or 16 and prohibit young workers in dangerous or nighttime work.

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. Investments

Worker rights are the same in all sectors, including those with U.S. investment.

CANADA

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category	Amount	
Petroleum		10,691
Total Manufacturing		33,231
Food & Kindred Products	2,292	
Chemicals & Allied Products	6,420	
Metals, Primary & Fabricated	2,979	
Machinery, except Electrical	2,707	
Electric & Electronic Equipment	2,195	
Transportation Equipment	7,945	
Other Manufacturing	8,693	
Wholesale Trade		4,131
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		48,053

Source: U.S. Department of Commerce, Survey of Current Business August 1991, Vol. 71, No. 8, Table 11.3

CZECHOSLOVAKIA

Key Economic Indicators

(In Crowns or U.S. Dollars as Indicated)

	1989	1990	1991
Income, Production, Employment			
Real GDP (Billion Crowns)	736.6	730.5	N/A
Real GDP Growth Rate	1.4	-0.3	N/A
Nominal GDP by Manufacturing (Billion Crowns)	632.833	N/A	N/A
Nominal GDP by Agriculture (Billion Crowns)	60.232	N/A	N/A
Real per Capita Income (Crowns)	46,962	46,527	N/A
Labor Force (Million Workers)	7.7	7.5	N/A
Unemployment Rate (Percent)	0.0	1.0	5.99 (Oct)
Money and Prices			
Money Supply (Ml) (Billion Crowns)	311.1	291.2	346.5 (est)
Commercial Interest Rate (percent)	5.20	6.16	15.76 (Jan)
Savings Rate (percent)	3.5	-0.2	7.3
Investment Rate (percent)	2.6	5.7	N/A
Consumer Price Index (1989 equals 100)	100.0	110.0	160.7 (Jan-July)
Wholesale Price Index (1985 equals 100)	99.4	103.8	165.7 (Jan-Ap)
Exchange Rate - Official (Crowns per US$)	15.05	17.95	29.36 (Nov. 1)
Exchange Rate - Parallel (Vienna Market)	N/A	N/A	3 0.95 (Nov. 1)
Balance of Payments and Trade			
Total Exports FOB (Billion US$)	13.388	11.927	8.103 (Jan-Sept)
Total Exports to U.S.-CIF (Billion US$)	0.099	0.0947	0.067 (Jan-Sept)
Total imports (Billion US$)	14.40	13.427	8.62 (Jan-Sept)
Total Imports from U.S.-CIF (Billion US$)	0.2032	0.1773	0.1470 (Jan-Sept)
Aid from the U.S.	N/A	N/A	N/A
Aid from Other Countries (Billion US$)	0	1.195	1.470
External Public Debt (Billion US$)	7.92	8.1	9.27 (Sept)
Annual Debt Service Payments (Billion US$)	N/A	1.1	1.4 (est)
Gold and Foreign Exchange Reserves (Billion US$)	2.3	1.2	1.9 (Aug)

CZECHOSLOVAKIA

1/ All figures used are from Czechoslovak government sources or from the IMF.

1. General Policy Framework

Czechoslovakia is currently undergoing two fundamental economic transitions: movement toward a market economy and shifting its trade to the west. In 1990, Czechoslovakia liberalized foreign trade and investment, legalized private enterprise, and passed the legal framework for the important reforms which came into effect in 1991: decontrol of prices, partial convertibility and small business privatization. In January 1991, the government established internal currency convertability and devalued the crown sharply. At the same time, about 85 percent of prices were freed, while a further 10 percent were freed during the course of the year. January also marked the beginning weekly auctions of "small-scale" enterprises to private sector bidders. As of November 1991, nearly 19,000 small businesses had been privatized this way. A more complicated procedure will be used to privatize large-scale enterprises. By 1994, the government plans to privatize about 95 percent of the 4,000 "large-scale" enterprises, many of which functioned as monopolies in virtually all economic sectors. The government plans to do this in two waves; companies included in the first wave had to submit privatization plans to the government by October 1991 and their privatization should begin in early 1992. The second privatization wave is planned to begin in May 1992.

With the demise of the Council on Mutual Economic Assistance (CEMA) and traditional Soviet Bloc trading patterns, Czechoslovakia is moving rapidly toward bolstering trading relationships with the West. The government signed an association agreement with the European Community (EC) in December 1991. The government is also completely rebuilding Czechoslovakia's legal framework to make it compatible with western (particularly EC) business practices. A new commercial code will take effect in January 1992. In January 1993, a new EC-compatible tax code will be implemented. Czechoslovakia is also working on EC standardization in such areas as telecommunications, transportation, customs procedures, and environmental regulation.

To balance the economic influence of its west European neighbors, the Czechoslovak government and business sectors want to develop strong trade and investment ties with the United States. The U.S. and Czechoslovakia have now concluded a bilateral trade agreement, a bilateral investment treaty, an overseas private investment corporation agreement and have initialed a bilateral tax treaty.

Czechoslovakia's tough, IMF-endorsed economic stabilization program has been highly successful. Inflation, which was 60 percent for the first half year, was near zero for the third quarter of 1991. The current account is projected to record a $200 billion surplus, compared with a deficit of $2.5 billion projected in January 1991. The overall budget ended the year in deficit.

CZECHOSLOVAKIA

Economic reform and the shift in trading partners has been painful. Trade with the Soviet Union, traditionally Czechoslovakia's largest trading partner, fell about 40 percent in the first half of 1991. The national unemployment rate, nominally almost zero under Communism, is now 6.0 percent and rising, with levels of almost 4.0 percent in the Czech Republic and 10.3 percent in Slovakia. GDP fell about 9 percent in the first half of 1991 compared with the first half of 1990, and the decline is expected to total 12-15 percent by year end. In the first half of 1991, industrial production declined about 19 percent and retail sales about 30 percent. The Central Bank estimates that the economic decline will not bottom out until the second half of 1992, at the earliest.

2. Exchange Rate Policies

In January 1991, Czechoslovakia introduced partial convertibility of the crown under the Foreign Exchange Act of 1990. The Foreign Exchange Act permits domestic or foreign companies enrolled in the company register to freely exchange crowns for hard currency in business-related, current-account transactions. Current-account transactions include the import of goods and services, royalties, interest payments and dividend remittances. The U.S.-Czechoslovak Bilateral Investment Treaty which was signed in October 1991 provides for free transfers of all payments related to an investment (e.g. capital and earnings.) Capital-account transactions still require a foreign exchange license. Companies are obligated to exchange any foreign convertible currency they earn for crowns, but in exceptional cases, the state bank may grant permission to maintain a foreign-exchange account. Private persons do not need permission to have a foreign-exchange account.

Through a series of devaluations since 1989, the crown has decreased in value by half, making all foreign goods much more costly in terms of domestic currency. The crown is tied to a basket of trade-weighted currencies from Austria, Great Britain, Germany, Switzerland and the United States. Since January when the most recent devaluation occurred (80 percent), the crown/dollar rate has remained relatively stable at approximately 28-30 crowns per dollar. Parallel market exchange rates gradually converged during 1991.

3. Structural Policies

The transition from a centrally-controlled to a free market economy has required drastic changes in a wide range of legal and institutional structures. The major changes in 1991 are summarized below.

Prices: About 85 percent of prices were deregulated in January 1991. During the course of 1991, another 10 percent of prices were deregulated. Remaining price controls apply only to basic utility services, rents and sugar.

Taxes: The Czechoslovak tax system has been partially revised and a completely new tax code which will rely mainly on a European-style VAT and an income tax is expected to be in

place by the beginning of 1993. Currently, enterprises pay a corporate income tax of 55 percent on income over 200,000 crowns (about $66,000). Enterprises with at least 30 percent foreign ownership pay 40 percent. Enterprises must also pay a 50 percent tax on the volume of employee wages and turnover tax on sales of goods. A bilateral tax treaty with the United States has been initialed. It will be signed in 1993 after the new Czech and Slovak Federal Republic (CSFR) tax code has been revised.

Privatization: Most of the legislation for privatizing state enterprises and cooperatives is in place and implementation is underway. Many enterprises have been or will soon be restored to their pre-Communist owners. About 19,000 out of 120,000 shops, restaurants and other small enterprises have been auctioned off. Privatization of large enterprises will take place in two waves beginning in the spring of 1992. Companies included in the first wave have already submitted privatization projects to the Ministries of Privatization for approval. These projects contain information about the way in which the company is to be privatized, its assets, etc. Enterprises may be privatized through auctions or direct sale to domestic or foreign investors or through a "voucher" scheme. Under the voucher scheme, each Czechoslovak citizen will be eligible to purchase vouchers, issued by the Minister of Finance and sold for 1,000 crowns (about one week's average wage), which can be exchanged for shares in state enterprises.

Regulatory Policies: Controls requiring licensing are in place for trading in arms and radioactive and nuclear materials, as well as sensitive dual-use technology.

4. Debt Management Policies

Czechoslovakia has one of the lowest foreign debts in central and eastern Europe. As of September 1991, the gross foreign debt was US$9.27 billion, up from $8.1 billion at the end of 1990. The rise in indebtedness is well within the limits specified by Czechoslovakia's agreement with the IMF. Czechoslovakia's financing needs for 1991 are estimated to be about $2.5 billion. The government has not fully drawn its line of credit with the IMF, World Bank, the EC and various governments. It is unlikely that new credit will need to be arranged until the second quarter of 1992. In November 1991, the state bank floated its first post-Communist bond issue on the international market. It was a $200 million issue with a three year maturity date, priced 3 percent above equivalent U.S. government securities. The interest rate reflects, among other concerns, market uncertainty about the outcome of the privatization process and questions about future responsibility for obligations of the state bank, should the Czechoslovak federation split.

5. Significant Barriers to U.S. Exports

As Czechoslovakia moves toward a free market economy, nearly all artificial barriers to U.S exports have been eliminated or weakened. Restrictions on the export of high

technology western equipment under the jurisdiction of the Coordinating Committee on Multilateral Export Controls (COCOM) have been substantially reduced. Further liberalization under COCOM is anticipated as Czechoslovakia implements effective export controls for commodities to third countries. Additionally, U.S. legislative restrictions on trade with Czechoslovakia during the Communist era have been lifted. The United States granted Czechoslovakia provisional MFN status in November 1990. Czechoslovakia will soon have permanent MFN status. Also facilitating trade have been the abolition of state-owned, foreign trade monopolies in 1990 and the liberalization of foreign exchange restrictions in January 1991.

Remaining structural barriers include tariffs and controls on hard currency payments for imports. In October 1991, the Czechoslovak government amended an existing 15 percent customs surcharge for imported consumer goods and foodstuffs sold within the country. The surcharge was raised to 20 percent for commercial goods and was applied at 15 percent to private imports for personal use, with a duty free limit of $100. The Czechoslovak government has said it adopted this measure to conserve its limited foreign exchange reserves.

The government also plans to restructure its tariff rates to protect sensitive industries during the transition towards free markets and away from the Communist-era system of controlling imports administratively. In December 1991 the Czechoslovak government received a GATT waiver to increase its overall tariff base from 5 percent to 5.7 percent. While this increase appears nominal, there was substantial opposition by GATT members to a permanent increase in Czechoslovakia's tariffs because of substantial increases on tariffs on products which represent promising import markets. Czechoslovak officials have given verbal assurances that their government will participate fully in GATT to lower tariff rates over the next decade, as economic conditions in Czechoslovakia permit. There is concern in the U.S. and elsewhere that permanently higher tariffs, coupled with trade liberalization under the EC association agreement, will disadvantage non-EC exports to Czechoslovakia. The U.S. will continue to negotiate with CSFR for a phased reduction of the tariff increases on goods for which the United States is a principle supplier.

Although Czechoslovakia now has partial convertability and may move to unrestricted convertability within several years, access to hard currency for import payments remains problematic. Under current foreign exchange laws, which are implemented by the state bank, payments of over $200,000 will normally take three months. Importers must take out a one year loan for amounts between $200,000 - $500,000; a two year loan for amounts between $500,000 - $1,000,000; and a four year loan for over $1,000,000. While banking laws will be liberalized in early 1992, it remains unclear how this practice might be affected.

The promotion of U.S. investment in Czechoslovakia has been assisted by the October 1991 signing of the U.S. - Czechoslovak Bilateral Investment Treaty (BIT) and an Overseas

Private Investment Corporation (OPIC) agreement. Under the new commercial code going into effect in January 1992, government approval of foreign investment no longer will be required, except for the direct sale of government equity. While the Czech Republic government would like to restrict ownership of a limited number of profitable Czech companies to Czechoslovak citizens, the federal government and Slovak Republic take the position that all domestic enterprises now being privatized should be open to foreign investment. The number of U.S. businesses with representatives in Czechoslovakia (nearly all in Prague) has grown from three when the Communist regime fell in November 1989 to approximately 175 as of November 1991.

6. Export Subsidy Policies

The Czechoslovak government established a $100 million fund in May 1991 to assist with the transition to a market economy through the remainder of the year, of which $18 million was for general export subsidies. In November, the central bank announced that it plans to implement 30 specific measures to support exports. The details of this package are not yet known.

7. Protection of U.S. Intellectual Property

Czechoslovakia is a party to the Bern, Paris and Universal Copyright Conventions. While the Czechoslovak record on protection of intellectual property generally has been satisfactory, the U.S. government is aware of one alleged trademark violation and one alleged patent violation which are currently under negotiation between U.S. firms and the Czechoslovak enterprises. Both cases involve alleged violations by Czechoslovak enterprises over a long period of time. The Embassy notes concern on the part of some potential investors, notably the pharmaceutical and recording industry, that current intellectual property laws are inadequate protection for investment in local manufacturing. The government is currently drafting new intellectual property rights legislation.

8. Worker Rights

a. The Right of Association

The Constitutional Law of 1991 guarantees all workers in Czechoslovakia the right to form and join unions of their own choosing without prior authorization. Over 70 percent of workers are estimated to be members of labor organizations. Most workers in the CSFR are members of unions affiliated with the democratically oriented Czech and Slovak Confederation of Trade Unions (CSFOS). Workers, except those in what are described as essential services, have the right to strike. Strikes during 1991 were rare, of short duration, and affected only small numbers of workers. Mediation and arbitration of collective bargaining disputes is mandated for workers who are not permitted to strike. Unions and labor federations are independant of the government and political parties and may

affiliate with international bodies. In 1991 the government decided to expel the world headquarters of the Communist-dominated World Federation of Trade Unions, but the decision is being appealed.

b. Right to Organize and Bargain Collectively

A charge of anti-union discrimination may be filed with the Ministry of Labor and Social Affairs, and the Ministry may impose fines on those found to have violated the anti-union discrimination prohibition. Victims of anti-union discrimination may also institute proceedings in CSFR courts. The courts may issue injunctions against anti-union activities, as well as order reinstatement of dismissed workers and payment of back wages and other damages. A new collective bargaining law went into effect in Czechoslovakia in 1991. Substantial numbers of collective bargaining contracts were completed within the framework of the new law, but trade union officials noted that the ongoing process of converting government-owned enterprises to private enterprises on occasion make it difficult to identify employer representatives with whom to bargain.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is expressly prohibited in a constitutional law on basic rights and freedoms adopted in January 1991.

d. Minimum Age for Employment of Children

Generally individuals must be 16 years of age before they may work, but individuals who are 15 years of age and have completed elementary school may work. Individuals who have completed the course of study at "special schools" (schools for persons with severe disabilities) may work at the age of 14. Workers younger than 16 years of age may work no more than 33 hours per week. There is no evidence that children in the CSFR engage in street trading, maritime, plantation or domestic work, work in sweatshops, or dangerous work.

e. Acceptable Conditions of Work

A standard work week of 42.5 hours per week is mandated by law. By law, a worker is also entitled to three or four weeks paid vacation annually. Overtime may not exceed 150 hours per year or 8 hours per week, without special permission from the ministry overseeing the industry. The Slovak and Czech offices of labor safety and the federal Office of Standards and Measurement enforce health and safety standards. Under the Communist regime, advances in occupational health and safety conditions failed to keep pace with conditions in the West. Government offices charged with the maintenance of health and safety standards are attempting to correct past deficiencies. Officials believe that workplace safety conditions have continued to deteriorate since the 1989 revolution. Obsolete industrial equipment complicates efforts to improve occupational safety and health.

CZECHOSLOVAKIA

f. Rights in Sectors with U.S. Investment

U.S. investment in Czechoslovakia is still very low and is present in only three of the nine goods producing sectors listed: food and related products, chemicals and related products and electric and electronic equipment. Conditions in these sectors are comparable to conditions in other sectors.

Extent of U.S. Investment in Goods Producing Sectors

No sector by sector data is available on investments in Czechoslovakia.

DENMARK

Key Economic Indicators

(Millions of Danish Kroner (DKK) Unless Otherwise Stated)

	1989	1990	1991(P)
Income Production and Employment			
Real GDP (1989 prices)	776,015	792,045	805,500
Real GDP Growth (pct)	1.2	2.1	1.7
GDP by Sector 1/			
Agriculture	4.8	4.5	4.5
Manufacturing	18.5	18.5	18.5
Raw Materials	1.0	1.1	1.3
Utilities	1.8	1.9	1.9
Building/Construction	6.8	6.4	5.8
Market Services	47.9	48.8	49.4
Public Services	23.1	22.7	22.5
Overlap Corrections	-3.9	3.9	-3.9
Real GDP, Per Capita (DKK)	151,223	154,097	156,286
Labor Force (1,000)	2,868	2,858	2,867
Unemployment Rate (pct)	9.2	9.5	10.3
Money and Prices			
Money Supply M1 (mid-year) 2/	260,141	276,632	254,418
Commercial Interest Rate (pct)	13.4	14.2	13.2
Personal Savings Rate 3/	0.6	2.6	2.0
Investment Rate (pct/GDP)	18.2	17.7	17.3
Consumer Price Index (1980:100)	172.9	177.4	181.8
Wholesale Price Index (1980:100)	151.1	153.0	155.0
Exchange Rate (DKK/USD)	7.31	6.19	6.45
Balance of Payments and Trade			
Total Exports 4/	276,990	295,163	313,000
Services Exports	71,482	78,719	84,000
Commodity Exports (FOB)	205,508	216,444	229,000
U.S. Share	11,482	10,894	10,300
Total Imports	250,124	251,039	267,000
Services Imports	54,796	55,258	59,500
Commodity Imports (CIF)	195,328	195,781	207,500
U.S. Share	13,468	12,148	13,000
Govt. External Debt 5/	116,031	119,101	91,100
Govt. Debt Service 6/	17,174	11,306	36,700
of which interest payments	8,822	8,236	8,700
Gold and Forex Reserves 5/	44,904	63,319	55,000
Balance of Payments	-3,818	9,811	8,800

1/ Percentage by Gross Factor Income Distribution.
2/ Until end-1990 M1. As of 1991 the M1 (and M2) money supply figure is no longer available. The figure shown for 1991, which comes closest to the M1 definition, is made up of the nonbank sector holdings of coins and notes plus actual demand deposits in Danish banks (by contrast the M1 definition includes as demand deposits, deposits available upon one month's or less notice).
3/ Savings as a Percent of Personal Disposable (after tax) Income.

DENMARK

4/ Excluding EC Agricultural Export Subsidies (rebates), valued at close to three percent of total commodity exports.
5/ End of Period.
6/ Including advance payments on the principal.

1. General Policy Framework

An industrialized market economy dependent on imported raw materials, coal and petroleum coke, Denmark has pursued a liberal trade policy to maintain supply security. The standard of living is one of the ten highest in the world. There has been substantial progress in correcting some of the fundamental structural imbalances which plagued the economy throughout the 1980s. The recurrent and large balance of payments (BOP) deficits shifted into surplus in 1990, a situation expected to continue. This has allowed Denmark to begin to reduce gradually its foreign debt. The public sector deficit in 1991, although larger than expected, has been reduced to about 1.5 percent of Gross Domestic Product (GDP), compared to 5.5 percent of GDP in 1982, when the first of a series of non-socialist coalition governments took office. The annual inflation rate over the same period has been reduced from 10 percent to 2.5 percent. The major remaining problems are the high level of unemployment, and the second highest tax burden among OECD countries. Although self-sufficient in oil and gas, Denmark is not richly endowed with natural resources, and most of the Danish GDP results from value added in industry and in the production of services. More than one-quarter of the labor force is employed in the public sector, most of them providing services under the highly developed Danish social security system. Denmark has been a member of the European Communities (EC) since 1973 and is therefore subject to EC legislation in a variety of fields. The EC common customs tariff is fully applied. Denmark has implemented the largest number of EC directives of any member state leading up to the single market by the end of 1992.

Following several years of near economic stagnation, the Danish economy is now showing improvement. The GDP in 1990 increased 2.1 percent, led mostly by strong export sector performance. Prospects for 1991 are that GDP will increase by close to two percent. The improved growth rate is the result of a revival in private consumption and continued strong exports (due in part to the German reunification). The result has been a sharp improvement in the balance of payments (BOP), which in 1990 saw a surplus (almost 10 billion kroner) for the first time since 1963. The surplus for 1991 is projected to drop slightly to nine billion kroner, due to increased development assistance payments and contributions to the EC.

Since the center-right coalition governments headed by Prime Minister Schlueter first took office in 1982, their goal of reducing public spending and the central government budget deficit has been generally accomplished. The budget drifted back into deficits after surpluses were achieved in 1986 and 1987, but at more manageable levels (i.e., ranging between two and three percent of GDP, compared to 10 percent in 1982). For 1991, the deficit is projected to be 36 billion kroner, or

4.3 percent of GDP, due to continued growth in unemployment expenditures and stagnant tax revenues. The central government's deficit in 1991 will be financed entirely by domestic sales of government bonds and drawing on the Central Bank. Foreign debt will be reduced by advance payments on the principal. At the end of 1991 the central government's total debt is projected to stand at 523 billion kroner, of which 17 percent will have been borrowed abroad, compared to 25 percent at the end of 1990. The debt will also largely be held in currencies tied together in the European Monetary System, rather than in dollars.

The public sector as a whole, including local governments which have their own taxing authority, has generally had a budget surplus as local governments' budget surpluses have more than offset the central government's deficit. However, local governments are now also facing a tight financial situation, and it is projected that public sector budgets as a whole will show a deficit of about 1.5 percent of GDP in 1991.

Monetary policy is the responsibility of the Central Bank, which in principle is an independent institution. The primary tools used to regulate money supply are sales and purchases of bonds, and adjustments of conditions for commercial bank deposits with and borrowing from the Central Bank. For a long period the Danish interest rate has been kept well above that of its neighboring countries, especially Germany, in order to finance the recurrent BOP deficit. However, as a result of the Danish BOP surplus and the low inflation rate, the interest differential between Denmark and Germany in the second half of 1990 narrowed to about one percent. For the first time since the Deutsche mark was created in 1948, the Danish six-months money-market rate in October 1991 dropped below the German rate.

These developments have placed Denmark among the economic "hard core" EC countries and have triggered a significant change in the previous "reluctant" Danish attitude towards the EC Monetary and Economic Union (EMU). Denmark is now one of the EC member states that most strongly advocates the creation of the EMU with its attendant common currency and European Central Bank. Denmark supports a Central Bank unit with the primary objective of ensuring price stability, while supporting the EC's general economic policy.

2. Exchange Rate Policies

Denmark is a member of the European Monetary System (EMS), which has helped the Government maintain its stable krone policy. Since 1982, the Government has successfully opposed attempts to solve Denmark's economic problems through exchange rate adjustments, i.e., a devaluation of the krone. In August 1991 the trade-weighted krone rate was three percent lower than in August 1990, due almost entirely to increases in the values of the dollar and the yen. Following erratic developments in the size of foreign exchange reserves in 1988 and 1989, reserves have since been stable ranging between 55 and 65 billion kroner. The value of the krone against the U.S. dollar in September 1991 was about nine percent lower than in September 1990. This may have some negative impact on

U.S. exports to Denmark in the second half of 1991.

3. Structural Policies

Despite the Government's success in partially resolving Denmark's structural imbalances, a number of problems remain in connection with the implementation of the EC Single Market on January 1, 1993.

In the rigid and heavily unionized Danish labor market, changes are needed to improve the geographic and sectoral mobility of labor in spite of present high unemployment. The Government is proposing extensive labor market reform, including a tightening of the present generous conditions for receiving unemployment benefits and transferring two-thirds of the financing of the unemployment insurance system to employers and employees. At present the central government pays about two-thirds of the costs. It is not clear that the Government will be able to gain sufficient support in the Parliament to pass these changes. However, the Government projects that 100,000 new jobs will be created before 1996, particularly in the services sector, leading to a one-third reduction in unemployment.

Danes generally concede that the tax system must be overhauled to stimulate private savings and investment, and to reduce the black economy, which has grown to between 5 and 10 percent of GDP. However, the Government has been unable to pass proposals to bring the high Danish marginal income tax rates closer to those of the other EC countries. In addition, the structure of the Danish income tax system is significantly different from those of the other EC countries, as Danish employers pay practically no social security taxes. (By contrast German industrial employers pay about 20 percent of total wage costs to social security.)

Another major concern is the level of Danish Value-Added-Tax (VAT), which, at 25 percent, is the highest in the EC. However, as VAT revenues constitute some 25 percent of the Central Government's total revenues, a reduction would have severe budgetary consequences. The Government therefore has no present plans for a VAT reduction, hoping that the EC VAT rates, particularly the German, will gradually approach the Danish rate.

In order to prevent excessive border trade, Denmark currently has a waiver from the general EC principle of free border trade, which will last for five years after the 1993 beginning of the "Single Market". The Government has reduced a number of excise taxes on border trade items, which has resulted in a drastic reduction in the Danish/German border trade.

If significant tax reductions are to take place, the number of public sector employees must be reduced and the scope of activities taken on by the public sector cut back. The central government aims at reducing the number it employs by 10,000 annually during the 1990's. To that end, the Government is "privatizing" some of its business activities, including the State Life Insurance Company, Copenhagen

Airport, and the telecommunication entities. It will retain majority ownership of most of the "privatized" companies, however.

4. Debt Management Policies

Denmark's foreign debt stood at 279 billion kroner at the end of 1990, or some 34 percent of GDP. Interest payments amounted to 34 billion kroner, or almost 12 percent of gross export earnings. The debt is the result of more than a quarter-century of BOP deficits. This debt makes the Danish economy sensitive to fluctuations in international interest rates, as a one percentage point increase costs the country almost 3 billion kroner on an annual basis.

The volatility of the dollar since the mid-1980s triggered a Danish government decision in early 1988 to reduce gradually the dollar's share of the central government foreign debt. In 1984 more than 50 percent of this debt was denominated in dollars; in 1990 this ratio had dropped to less than 15 percent. The dollar debt is being shifted into debt denominated in German marks, Swiss francs, and European Currency Units (ECU).

Following a total restructuring in 1989 of Danish development assistance policy, Denmark has ceased to give soft loans to developing countries. All assistance is now given in the form of grants, and the least developed countries are gradually being released from existing loans. In support of the democratization process in Eastern Europe, Denmark in the two-year period 1990/91 granted bilateral assistance in the form of grants and investment support worth 500 million kroner and multilateral assistance of more than one billion kroner, mostly in the form of loan guarantees. The Government plans to increase the total assistance to Eastern Europe to about two billion kroner in 1992.

5. Significant Barriers to U.S. Exports

Heavily dependent on foreign trade, Denmark maintains only a small number of restrictions on imports of goods and services. For industrial goods, import restraints do not pose significant barriers to U.S. exports. Agricultural goods must compete with domestic production, protected under the umbrella of the EC's Common Agricultural Policy, as well as stringent sanitary requirements. None of the measures are directed against the United States alone. Danish restrictions on foreign direct investment are limited to arms production, hydrocarbon production, aircraft ownership, and the financial and legal services sectors.

A ban on foreign participation in Danish arms production was liberalized effective October 1990, allowing for 40 percent equity participation, but limiting voting rights to 20 percent.

Government participation in hydrocarbon exploration and exploitation is mandatory. This participation must be free of costs in the exploration phase. The Government pays its full

share of the costs of development. Responding to relaxation of license terms in other North Sea countries, the Danish terms, including government participation, for the third hydrocarbon licensing round in early 1989 were relaxed. In that round, licenses were granted in late 1989 to 21 companies, including four U.S. companies.

Foreign citizens or airlines may not directly own or exercise control over aircraft registered in Denmark, and operation of scheduled flights to, from and within Denmark requires a permit from the Minister of Transport. However, this does not preclude foreign minority portfolio investment in Danish air carriers.

Denmark, as a general rule, applies a reciprocity test to foreign direct investment in the financial sector, which has not been a major obstacle. When established, an entity receives national treatment. The Danish financial sector legislation is now being amended in preparation for the EC Single Market by 1992. Restrictions apply to direct investment in stock brokerage companies, requiring the managing director to have at least three years of experience in securities trade. However, experience in a U.S. stock exchange will probably not alone meet this requirement. Danish legislation prohibits ownership of and/or partnership in Danish law firms by non-EC and non-Nordic citizens, who have not passed the Danish legal exam.

With respect to services, the Credit Card Act has, since 1987, prevented credit card companies from operating in Denmark on international terms. This legislation prohibits credit card companies from charging vendors for costs related to the use of cards held by Danes. As a consequence, American Express stopped issuing credit cards to Danes for use in Denmark. The act will be revised in the 1991/92 Parliamentary session, but the provisions concerning vendor charges will not be changed.

6. Export Subsidies Policies

EC agricultural export restitutions (subsidies) in 1990 were approximately 15 percent of the value of agricultural exports. Government support for agricultural export promotion programs was insignificant. Denmark has no direct subsidies for its non-agricultural exports. Indirectly, however, Denmark has programs to assist export promotion, research and development, regional development, and a limited number of preferential financing schemes aimed, inter alia, at increasing exports. All these programs, however, apply equally to foreign companies operating in and exporting from Denmark. Expenditures on Government support programs for the business sector, i.e., technological assistance, product development, export promotion, and tourism, will amount to about seven billion kroner in 1991.

If a Danish or Danish-based company has income from a permanent establishment abroad or from certain other activities abroad, its Danish corporate tax is reduced by half the tax attributable to the foreign income. This has proven to be an incentive for foreign firms, including some from the

United States, to set up "regional headquarters" in Denmark. However, the Government is at present under pressure from the opposition to repeal this incentive to invest in Denmark in order to reduce the budget deficit.

In addition to this incentive, Denmark, effective June 1, 1991, reduced taxes on income earned by high-salaried foreign managers and researchers stationed in Denmark. The reduced taxation, in the form of a 30 percent gross tax, means that employment costs will be reduced by about 40 percent, putting Denmark on an equal footing with other EC countries.

On January 1, 1988 the employers' mandatory social contribution was changed from a flat fee-per-employee contribution to a 2.5 percent tax on turnover subject to VAT. As exports are exempted from VAT, the new system de facto constitutes an indirect export subsidy. On the other hand, importers, who normally have a large VAT turnover relative to the number of employees, were hit hard by the change. The EC Commission has questioned the legality of this tax, but so far no steps have been taken to force its abolition.

The restructuring of the Danish development assistance effective January 1, 1989, inter alia, abolished the distinction between untied and tied bilateral assistance. However, the principle of using 50 percent of all bilateral assistance for purchases at Danish companies was maintained.

7. Protection of U.S. Intellectual Property

Denmark is a member of the World Intellectual Property Organization and thus follows the provisions of the Paris Convention. Denmark is also a member of the Patent Cooperation Treaty (PCT), the Strasbourg Convention, and the Budapest Convention. Denmark has signed the protocol to the revised Madrid arrangement, and would like to see a linkage between this arrangement and the coming EC Trademark Agreement. Effective January 1, 1990, Denmark subscribed to the European Patent Convention. A bill was tabled in October, 1991 on Danish adherence to the EC Patent Convention, which requires relinquishing national sovereignty to the EC. Indications are that the bill will be adopted. Intellectual property is adequately protected in Denmark and U.S. business and inventors are entitled to receive national treatment. Videocassette, computer game, and computer program piracy has never been a major problem and is on the decline due in part to sharply reduced prices and to improved protection of programs.

8. Worker Rights

a. The Right of Association

Workers in Denmark, including police and the military, have the right to associate freely, and all (except those in essential services and civil servants) have the right to strike. Ninety percent of Danish wage earners belong to unions. Trade unions operate domestically and internationally free of government interference. They are an essential factor

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in political life and represent their members effectively.

b. The Right to Organize and Bargain Collectively

Workers and employers acknowledge each other's right to organize. Collective bargaining is widespread. Salaries, benefits, and working conditions are agreed on in biennial negotiations between employers and unions. Those agreements, as a general rule, are also exploited by the unorganized part of the labor market. Collective bargaining in the public sector is conducted by unions and government representatives. In cases of disagreement, an issue may be referred to the Labor Court, made up of representatives of management, labor, and an independent member. The decisions of the court are binding.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is prohibited and does not exist in the Danish Realm.

d. Minimum Age for Employment of Children

The minimum age for fulltime employment is 15 years. The law describes in detail specific limitations applicable to work which may be performed by those under 18 years of age.

e. Acceptable Conditions of Work

There is no legally mandated national minimum wage. Danes are guaranteed 5 weeks of paid vacation and a 38-hour workweek. Danish law prescribes conditions of work, including safety and health; duties of employers, supervisors, and employees; work performance; rest periods and days off; and medical examinations. The Labor Inspection Service ensures compliance with labor legislation.

f. Rights in Sectors with U.S. Investment

Worker rights are equally applied in all goods and services producing sectors in Denmark.

DENMARK

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category		Amount
Petroleum		(D)
Total Manufacturing		286
Food & Kindred Products	179	
Chemicals & Allied Products	31	
Metals, Primary & Fabricated	31	
Machinery, except Electrical	0	
Electric & Electronic Equipment	-1	
Transportation Equipment	(*)	
Other Manufacturing	46	
Wholesale Trade		566
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

(*)-Under $500,000

Source: U.S. Department of Commerce, Survey of Current Business August 1991, Vol. 71, No. 8, Table 11.3

ESTONIA

Key Economic Indicators

(Millions of Rubles Unless Otherwise Noted)

	1989	1990	1991
Income, Production and Employment			
GNP (current prices)	4,478	4,543	N/A
Real GDP growth rate (pct.)			
GDP by sector (pct):			
Industry	43.7	44.5	N/A
Agriculture	25.3	25.1	N/A
Construction	10.9	11.4	N/A
Transport Communication	6.2	6.0	N/A
Trade, other	13.9	13.0	N/A
Labor Force (000s)	611.5	795.5	N/A
Unemployment Rate	N/A	N/A	N/A
Per Capita Income	2,852	2,886	N/A
Money and Prices			
Money Supply	N/A	N/A	N/A
Central Bank discount rate	N/A	N/A	N/A
Investment rate (pct of GDP)	N/A	N/A	N/A
Savings rate	N/A	N/A	N/A
Consumer Price Index	N/A	N/A	N/A
Wholesale Price Index	N/A	N/A	N/A
Official Exchange Rate	N/A	N/A	N/A
Balance of Payments and Trade			
Total exports	191.0	155.6	94.0 1/
Exports to U.S.	8.6	5.2	1.7 1/
Total imports	639.0	613.3	245 1/
Import from U.S.	63.2	30.3	15.5 1/
External public debt	N/A	N/A	N/A
Annual debt service ratio			
(pct of exports)	N/A	N/A	N/A
Interest and principal due	N/A	N/A	N/A
Payments made	N/A	N/A	N/A
Hard currency/gold reserves			
(yr end/bil $)	0	0	0
Balance of Payments deficit	448	457	151 1/

1/ Data as of 6/91.

1. General Policy Framework

Estonia is on the verge of a profound economic transformation with the goal of moving from a formerly centrally planned economy to a market economy. An initial step in this process was the 1987 reform program of "Self-Managed Estonia" which pushed for greater economic autonomy. In February 1990, the Soviet and Baltic governments agreed to give republics greater control over foreign trade operations, acquisition of foreign credits, and the creation

of their own currency reserves.

Prices, however, remained regulated and little progress was made in gaining control of the financial and monetary system. In fact, in order to counteract the total collapse of the economy, there were moves towards strengthening the administrative regulation of the economy, such as rationing and a decree that forced enterprises to sell 80 percent of their output to the state. The Ministry of Material Resources continued to allocate inputs to Estonian enterprises. Most importantly, the inability of Estonia to gain control of key sectors of the economy, such as the banking sector, made it virtually impossible for Estonia to restructure and develop stable trading relations with the West.

After declaring its independence in August 1991, the Estonian Government introduced the 3X3X3 program which seeks to prepare Estonia for integration into the world economy. The overall economic objectives of the program are to establish a sovereign national economy and establish entepreneurship based-on private capital.

The program calls for a number of temporary agreements with the Soviet Union on issues such as currency (temporary printing of rubles until the Estonian currency is introduced), banking, customs, transportation, etc. The program also seeks the fulfillment of existing bilateral economic agreements with the Union republics. Estonia expects to trade with the republics on a ruble basis, at least initially. However, the 3X3X3 program envisions the possibility of having to conduct trade with the Soviet Union in 1992 on the basis of world prices.

An equally important aspect of the program is economic relations between Estonia and the West. The program envisions Estonian participation in the EEC, IMF, and World Bank. The Estonian Government also promises to remove restrictions on foreign involvement in the Estonian economy and to introduce favorable customs regulations.

The government's agenda also calls for reform of prices, the tax structure, ownership and property rights, monetary/banking institutions, and fiscal policy .

2. Exchange Rate Policies

Until Estonia establishes its own currency and the Estonian Bank is able to operate effectively as a central bank, it is very difficult to institute exchange rate policies. Currently, the Estonian Bank establishes an official exchange rate on a weekly basis. For example on October 30, 1991, the Estonian Bank bought $1 for 44.11 rubles and sold $1 for 47.20 rubles. At the same time, there exists a market rate which is usually higher than the official rate.

Twice a month, the Estonian Bank holds hard currency auctions where enterprises can apply to sell or purchase any freely convertible currency. Until now there have been 15 auctions and exchange rates have been almost twice as high as those established officially. During the recent auction in

October 1990, a record price of 91.20 rubles for $1 was reached. Total transactions have been significant with hard currency sold for almost 100 million rubles.

When Estonia introduces its national currency, the government will have an important policy tool at its disposal through the possibility of adjusting the exchange rate. The exchange rate will take on great importance as a way of promoting exports and economizing on the use of foreign exchange for inputs.

3. Structural Policies

Patterns of Industrial Ownership: Enterprise reform in Estonia was formalized by adoption of the Enterprise Law in November 1989. This important step allowed a pluralism of ownership forms, including private property. The adoption of a Law on Property in June 1990 further defined property rights. A Law on Leasing was adopted in October 1990. A very important step was adoption by the Supreme Council in December 1990 of a decree declaring illegal the major acts of nationalization and collectivization of the 1940s. While this in principle restored the property rights of former owners and their heirs, the actual return of property will not be automatic, but will involve formal application and proceed according to special laws. This is expected to play an important role in facilitating privatization, but it is estimated that only 10 percent of fixed capital will be subject to claims by former owners.

The government envisions three stages of privatization: 1) divestiture of enterprises in trade, services, and catering; widespread privatization of housing and farms, and the experimental privatization of a few large enterprises; 2) privatization of most remaining small and medium-sized enterprises, following a previous settlement of most questions concerning return of and/or compensation for nationalized property, citizenship laws, and residency requirements; and 3) the comprehensive privatization of large enterprises.

The privatization process will be managed by the State Property Department. The valuation of enterprises will be its most controversial task.

Price Reform: One especially difficult aspect of the overall reform has been price reform and compensation for price increases. While some legislation on prices has been adopted, it does not amount to a fundamental dismantling of the system of centralized price reform.

A Law on Prices was adopted in December 1989 and was followed by a government decree which established the temporary regulation of prices and tariffs in Estonia.

Currently there are four categories of prices: 1) prices established by the government; 2) prices established by the National Pricing Board and the Ministries (included are fuel, alcoholic beverages, tobacco products, coffee, building materials, transportation fees, drugs and medical services); 3) prices negotiated with the Pricing Board (i.e., goods which

influence the equilibrium of demand and supply and prices for products of monopoly producers); and 4) prices and tariffs for services established by the free market.

The 1989 Law on Prices is considered out of date and creates barriers to the overall development of market prices. One significant factor preventing the establishment of free market prices is the absence of an antimonopoly law.

In the absence of more concrete moves to liberalize prices completely, most price increases have been administrative. Compared with a year ago, the cost of living has become 271.8 percent more expensive. The biggest increase, 304.3 percent, was recorded for food prices. Earned income has lagged behind with an increase of only 180 percent.

Tax Policies: Estonia is reformulating its tax system. Recently, it adopted a new Corporate Income Tax Law which will be in force as of January 1, 1992. The law calls for the payment of corporate income tax by all enterprises situated in Estonia. The period of taxation is one year and the tax rate is determined on the basis of pre-tax profits. Tax rates are as follows:

Pre-Tax Profit	Tax
Up to 500,000 rubles	15%
500,001-1,000,000 rubles	75,000 rubles plus 23 percent of the sum over 500,000
Over 1,000,000 rubles	190 000 rubles plus 30 percent of the sum over 1,000,000

The tax rate for enterprises registered in Estonia but operating abroad is 10 percent. There are tax holidays of two to five years for foreign investors, depending on the size of foreign investment and degree of foreign participation. The law also introduces a value added tax which is 10 percent. Some goods and services will be exempt from the tax.

Foreign Investment: Estonia passed a law on foreign investment in September 1991 which permits the establishment of enterprises with foreign participation with no limitations.

All property brought into Estonia by foreign investors as an initial fixed capital investment is exempt from customs duties. A foreign investor has the right to repatriate foreign currency which it has received as profit from an enterprise after paying the income tax or which it has received after liquidation of the enterprise. An enterprise with at least 30 percent foreign investment has the unrestricted right to export and import. All foreign investors require a license; a decision to issue a license must be made in one month.

The number of firms with foreign participation currently exceeds 1,000. There are about 300 joint ventures, 350 international joint stock companies, three subsidiaries of

foreign companies and 140 branch offices of foreign companies. The amount of foreign capital invested in international enterprises reached almost 300 million rubles. There are expectations that the respective turnover in 1991 will reach 200 million rubles. This figure would bring the share of joint ventures in the total output of Estonian economy to 5-7 percent; in 1990 it was 2.5 percent.

4. Debt Management Policies

As a former republic of the Soviet Union it is difficult to determine the amount of Estonian foreign debt within the Soviet external debt. Discussions with the countries of the Commonwealth of Independent States (CIS) on this matter are on-going.

5. Significant Barriers to U.S. Exports

The objective of Estonian trade policy is to move towards European and World markets. The current task is to change the former trade structure which has been oriented to the Soviet market and to try to raise the quality and competitiveness of Estonian goods. In 1989, the U.S. was Estonia's third largest importer among developed countries with 4.7 percent of overall Estonian exports. (Finland, with 14 percent, and Germany, with 6.7 percent were first and second, respectively).

Estonia has high overall levels of trade, a consequence of the extreme specialization which resulted from the centralized planning process. Due to quality differentials between Estonian and world class products, as well as to transport costs and market familiarity factors, the Soviet Union will remain Estonia's natural market, at least initially.

One significant barrier to trade is that Estonia is still part of the old Soviet monetary system and the ruble is not convertible. As such, Estonia's ability to buy hard currency imports is severely curtailed. Other barriers are the absence of adequate telecommunications and banking facilities, uncertainty over tax reforms, lack of Western accounting firms and standards, and shortage of business and office space.

Foreigners' rights to hold land are unclear. The Law of Land passed the Supreme Council in October 1991, but leaves open the right of foreigners to purchase land.

6. Export Subsidies Policies

In 1991, the Estonian Government decided to liberalize its foreign trade. There are no licenses or quotas on goods exported for hard currency. A government monopoly exists only for "restricted" items (wood, cement, meat and meat products, milk and milk products, fur, potatoes, grain, liquor, tobacco products, mineral water, fish and fish products).

ESTONIA

7. Protection of U.S. Intellectual Property

As a former republic of the Soviet Union, Estonia was a member of the World Intellectual Property Organization, the Universal Copyright Convention, the Paris Convention for the Protection of Industrial Property, the Madrid Agreement Concerning the International Registration of Marks, the Patent Cooperation Treaty and the Budapest Treaty on the International Recognition of the Deposit of Micro-organisms for the Purpose of Patent Procedure.

The right of the inventor can be protected, at the choice of the applicant, either by a certificate or by patent, but only a patent provides the exclusive right for the applicant to use the invention. A certificate of authorship acknowledges the authorship of the inventor and grants the inventor the rights and advantages stipulated by the legislation in force, whereas the exclusive right to use the invention belongs to the state for 15 years. Patents have been highly taxed. Estonian patent experts are currently working on more comprehenive patent legislation.

Foreign works have enjoyed copyright protection in Estonia. At present, foreign authors and publishers can negotiate publication contracts with Estonian publishing houses.

In November 1990, Estonia formed a governmental working group to study the need for new intellectual property rights legislation. Estonia would like to join the Berne Convention and to become a member of the World Intellectual Property Organization. The working group has completed drafting a law on copyright protection in accordance with the requirements of the Berne Convention. Currently, there are some cases of copyright infringement, but effective enforcement is lacking.

The governmental workinq group is also working on improving Estonian patent and trademark law. New separate legislation will be issued on the protection of software integrated circuits, semiconductor chips, and satellite signals.

8. Worker Rights

a. The Right of Association

Soviet labor law and practice were enforced in Estonia until the August coup attempt. Since that time, Estonia has moved to reform its Labor Code to permit the formation of independent trade unions, and in January 1992 it refjoined the International labor organization. Several political strikes took place during 1991 without police interference.

The major trade union, formerly the Estonian branch of the sole Soviet labor confederation, is now a purely Estonian organization and is seeking to reform itself under the name of the Central Organization of Estonian Trade Unions (EAKL). it claims about 650,000 members orgainized in 34 unions. A smaller rival Confederation of Free Trade Unions has also been formed recently.

b. The Right to Organize and Bargain Collectively

Under Soviet law, Estonian workers did not enjoy the right to bargain collectively. Under the old system, the union was essentially an arm of the communist Party, with the function of distributing fringe benefits such as housing and vacation trips. Both the employers and the unions were organs of the State and Party system.

Although Estonian workers now have the right to bargain collectively, the private sector is only beginning to emerge, and collective bargaining is still virtually nonexistent. The EAKL still looks to the Government to resolve labor issues. Early in 1991, before Estonia declared its independence, the Estonian Government consulted with the EAKL before establishing a new minimum wage.

c. Prohibition of Forced or Compulsory Labor

Compulsory labor was common in Soviet-administered Estonian prisons prior to August. Estonia has moved quickly to improve conditions since August.

d. Minimum Age for Employment of Children

According to labor law prevailing in Estonia, the statutory minimum age for employment is 16. Minimum age and compulsory education laws are enforced by state authorities through inspections.

e. Acceptable conditions of Work

Labor conditions in Estonia are similar to but usually better than those in the Soviet Union. Under Estonian law, the maximum permitted work week is 41 hours. the average workweek is 40 hours for most white-collar workers and 41 hours for most blue-collar workers.

According to union sources, the minimum wage rate agreed to in early 1991 between the EAKL and the Government was overtaken by inflation by the end of the year. The law establishes minimum standards of occupational health and safety, which have been widely ignored.

Extent of U.S. Investment in Goods Producing Sectors

There is no sector by sector data available on U.S. investment in Estonia.

FINLAND

Key Economic Indicators

(Billions of Finnmarks (FIM) Unless Otherwise Noted)

	1989	1990	1991 3/
Income, Production and Employment			
Real GDP (1985 = 100)	395.1	396.7	377.0
Real GDP growth rate (pct)	5.2	0.4	-5.0
GDP by sector			
Agriculture	11.3	13.2	10.8
Forestry	11.5	10.8	8.9
Industry	85.5	84.6	78.3
Utilities	9.6	9.9	10.3
Construction	27.5	27.1	23.3
Communications	29.5	31.1	30.5
Commerce	43.9	42.6	39.4
Financial services	16.2	16.0	15.5
Government services	55.2	56.5	57.1
Misc services	70.0	72.2	69.9
Indirect taxes, less subsidies and bank service charges	34.9	32.7	33.0
Real per capita income (FIM 000)	79.6	79.6	75.4
Labor force (000s)	2,559	2,555	2,525
Unemployment (pct)	3.5	3.4	7.5
Money and Prices			
Money supply (M1) 1/	124.3	141.5	129.0
Commercial interest rates 2/	12.53	13.99	13.5
Household savings rate (pct DI)	2.0	3.3	6.0
Investment rate (pct of GDP)	27.7	26.3	23.5
CPI (1985 = 100)	120.0	127.3	132.3
WPI (1985 = 100)	107.3	110.8	111.3
Official exch rate ($1.00/FIM)	4.3	3.8	4.1
Balance of Payments and Trade			
Total exports (FOB)	99.8	101.3	94.2
Exports to U.S. (FOB)	6.4	5.9	5.7
Total imports (CIF)	105.5	103.0	91.7
Imports from U.S.	6.7	7.0	5.7
Aid from U.S.	N/A	N/A	N/A
Aid from other countries	N/A	N/A	N/A
External public debt (central and local govts)	23.1	25.0	33.0
Annual debt service payments (paid rather than due)	N/A	N/A	N/A
Gold and forex reserves			
Convertible and nonconvertible Bank of Finland Reserves	22.3	36.3	32.8
Balance of payments			
Current account	-24.9	-25.9	-24.0
Trade account	- 6.1	- 2.2	4.0

1/ M1 has been recalculated by the Bank of Finland to include currency in circulation, Finnmark check and postal checking account deposits, transactions account deposits as well as

foreign exchange account deposits held by the public.
2/ 3-month Helibor rate. Helibor (Helsinki interbank offered rate) is Finland's commercial banking reference rate.
3/ Estimated.

1. General Policy Framework

Finland's economy has moved sharply into recession in 1991, with a projected GNP decline of at least five percent. The recession is the result of an overheated economy, excessive debt, declining productivity, overspending on the part of the government, businesses and consumers, economic difficulties in Finland's European export markets, and the collapse of Fenno-Soviet trade. The latter had accounted for as much as 25 percent of Finnish trade and is now below five percent of total trade. The recession has accelerated discussion about how to improve lagging Finnish competitiveness, including measures to promote foreign investment, privatization, wage restraint, decreased support to agriculture, and liberalization of Finland's largely closed service sector. Some structural change will be mandated in any event when the European Economic Area (EEA) agreement between the European Community (EC) and the European Free Trade Association comes into force. Eventual membership in the EC, an increasing possibility, would bring further changes.

The current Finnish government, composed of the Center Party and the National Coalition (conservative) Party as well as two smaller parties, has not generally turned to major countercyclical spending to combat the recession. Widely expected to devalue the finnmark upon taking office in spring 1991, the government instead pegged the currency to the European Currency Unit (ECU) in June 1991. The intention was to impose monetary and fiscal discipline and force structural changes in the economy by bringing costs down through internal measures, and not by trying to restore competitiveness through devaluation. A concurrent aim was to keep labor costs down through wage restraint negotiated at the national level. The policy was not popular in all quarters, however, particularly among some of Finland's export industries and within some labor unions. In November 1991, following a massive outflow of foreign currency and sharply increased interest rates, the government agreed to a finnmark devaluation of 14 percent against the ECU. The government has not abandoned its aim of maintaining wage restraint and restoring competitiveness through economic restructuring.

Finland's economy is a mixed one, with approximately 20 percent of manufacturing capacity, and four of the 10 largest companies, in government hands. Some 10 percent of banking services and 30 percent of the service sector are government-owned as well. A government committee has studied the question of privatization, but no final decisions have yet been made. The state petroleum company Neste may be the first fully state-owned company to be privatized, at least partially, under this scenario. Employment and regional development considerations may slow down the privatization of state-owned companies in the industrial sector, however. The government has generally eschewed industrial targeting or

subsidization of production. An important exception is agriculture, where the government provides a network of production and export subsidies and protects against imports with variable levies. Finland's level of agricultural protection is among the world's highest.

Government debt is rapidly increasing due to recession-induced decreases in revenue and increases in social spending. Total government debt in September 1991 was about 40 billion finnmarks from domestic borrowing, mostly through publicly-sold bonds, and about 30 billion finnmarks from foreign sources, almost exclusively through bonds. Most Finnish companies are affected by restrictions which limit foreign ownership to 20 percent or with special permission, 40 percent. However, exceptions to these restrictions are routinely granted. The current law is being amended so that permission for foreign investment would only be required for acquisition of firms with a staff over 200 people and annual turnover exceeding 500 million finnmarks. In the service sector, various forms of insurance, including automobile collision, pensions, and life insurance, can only be obtained through Finnish companies. These provisions are expected to be changed in accord with the EEA agreement.

Finland undertook an extensive program of financial deregulation in the 1980's, including deregulation of domestic financial markets and relaxation of capital controls. Interest rate policy is the primary tool to support Finland's fixed exchange rate; Finland has maintained a positive interest differential with EC countries to attract capital. The Bank of Finland has raised commercial bank reserve requirements and undertakes open market operations to support higher rates. Prior to the November 1991 finnmark devaluation, interest rates climbed to extremely high levels and have remained in double digits in spite of a low inflation rate.

While the end of the Fenno-Soviet clearing (barter) system at the beginning of 1991 undoubtedly dealt a severe blow to Finland's economy, it is by no means the only or even the principal cause of the current recession. It has, however deepened the recession by a percentage point or two. The products sold to the Soviet Union by the Finnish side were generally uncompetitive and have not found buyers in Western markets.

2. Exchange Rate Policies

In June 1991, the finnmark was pegged to the European Currency Unit (ECU), which replaced a trade-weighted basket of foreign currencies which included the U.S. dollar. The finnmark was allowed to float within a three percent band of the established parity. The Bank of Finland actively intervened to support the finnmark by purchasing and selling foreign currency as necessary to keep the finnmark within its trading band and by ensuring that interest rates were set to keep foreign currency reserves at adequate levels.

Continued uncertainty over economic policy and the lack of an agreement over wages, however, led to repeated

speculation against the finnmark. The government was finally forced in November 1991 to float the finnmark, as rapidly increasing interest rates could not stem the outflow of finnmarks. The finnmark was floated for about a day, and an intitial parity with the ECU was set at 14 percent below the previous value, which shortly thereafter stabilized at about 10 percent. The government intends to undertake a vigorous economic restructuring program and intervene as necessary in money markets to prevent a subsequent devaluation.

3. Structural Policies

The government is gradually changing its tax policies both to stimulate economic growth and investment and to bring Finland more into conformity with European norms. In October 1991, the base rate of the turnover tax was increased from 17.5 to 22 percent. However, since the basis for the calculating the tax was also changed, the effective increase in the tax was limited to 0.8 percent. The turnover tax is now calculated on the basis of the final selling price exclusive of excise taxes. It is expected that Finland will move to a value added tax in 1994. The automobile tax, currently averaging 127 percent of the purchase price, is expected to be lowered in stages to European norms within five years. As part of the incomes policy talks underway in November 1991, it has been proposed that various business taxes also be lowered and that pension fund payments, now the exclusive responsibility of employers, be shared with employees.

In October 1991, the government submitted to Parliament a bill that would amend Finland's three-year old competition law by making it more difficult for companies to collude on prices and market shares. The maximum penalty for violations would be increased to FIM 4 million ($1 million) or 10 percent of a company's turnover. Further changes to competition law are expected as Finland moves closer to EC norms, including more aggressive anti-trust legislation.

4. Debt Management Policies

As Finland's recession has deepened, it has taken on more foreign debt. Its excellent record in repaying debt has preserved a high credit rating. Leading banks, however, have seen their credit ratings drop in response to unfavorable loan portfolios and financial difficulties stemming from a weak economy.

Finland generally takes a generous attitude toward third-world debt. It is an active participant in the Paris Club and in the Group of 24 countries providing assistance to East and Central Europe.

5. Significant Barriers to U.S. Exports

Finland relies heavily on import licenses and variable levies to protect its agricultural sector, among the most heavily subsidized in the world. The licensing system

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supports high domestic prices and ensures that supplies are used up before imports can occur. Finland often produces a substantial wheat surplus, which is disposed of on world markets through state and producer-financed subsidies. U.S. agricultural products are not treated differently than other foreign products. Imports of coal, oil, and gasoline require a license. Coal can be imported from any source, as can oil and gasoline since the end of the Fenno-Soviet clearing (barter) system in January 1991. Textile imports are subject to a licensing system if they originate outside of the Soviet Union, the EC, and EFTA. There are some restrictions for non-EC or EFTA iron and steel imports as well.

Finland's service sector is still highly protected, including insurance, tourism, air transport, and to some extent telecommunications. The banking sector has liberalized significantly, however, and foreign banks can now operate in Finland and Finns may obtain loans from foreign banks. In the insurance sector, market reservations prohibit foreign companies from providing life, pension, and certain types of auto policies. The government intends to open long-distance telecommunications to competition and introduce other reforms in the telecom area. The Finnish Broadcasting Company requires that a "sufficient" amount of broadcasting time be devoted to domestic production. The EEA agreement will require Finland to adopt the EC broadcast directive, which has a 50 percent European programming target for non-news or sports programming.

Finland is a signatory to the GATT Standards Code and is completing the process of harmonizing its technical standards to EC norms.

Finland is the process of liberalizing rules on foreign investment. However, significant restrictions remain, including a prohibition on owning real estate except for land surrounding foreign business operations. Foreign ownership of forest or recreation areas is not permitted. Ministry of Trade and Industry permission is required for all land acquisitions.

The government is taking a more liberal attitude towards foreign takeovers of Finnish companies, although Ministry of Trade and Industry permission is required in all cases. In 1989, the government announced its willingness to consider foreign investment in all sectors except natural resource exploitation (mineral extraction and forestry). In order for a Finnish company to be considered domestic and to avoid burdensome paperwork requirements when acquiring land, some companies have clauses limiting foreign ownership. In these cases only 20 percent of a company may be sold to foreigners, and with the permission of the Ministry of Trade and Industry, 40 percent. The voting power of these shares is limited to 25 percent, however. State-owned companies have monopolies in postal and telegraph services (excluding telephones) and the production, import, and sale of alcohol. There are bans on foreigners operating in the fields of cable broadcasting, public entertainment, securities and real estate brokering, private railway service, labor hiring, and private security. There are partial restrictions on foreigners operating in the fields of auditing, legal services, and auctioning. In the

case of banking and insurance, travel agencies, accommodation and catering, aviation, coastal shipping, transportation of nuclear fuel, publishing, and medical or dental services, foreigners may only operate if they establish a limited liability company or partnership for this purpose. The Ministry of Trade and Industry has special regional investment incentive programs for regions other than southern Finland.

Finland is a signatory to the GATT Government Procurement Code. In the excluded sectors, particularly defense, countertrade is actively practiced. Finland is currently seeking to purchase fighter aircraft valued at about $2.5 billion from foreign sources. One hundred percent offsets will be required. Competitive bidding is the rule in Finland.

Finland has a streamlined customs procedure, reflecting the importance of foreign trade to its economy.

6. Export Subsidies Policy

The only significant direct export subsidies are for agricultural products (grain, meat, butter, cheese, eggs). At the end of the 1980's, a limited program of interest rate subsidies was initiated to aid sale of Finnish ships facing subsidized EC competition. This led to an agreement for consultations to prevent predatory subsidization between the EC and Finland. A system of guarantees to protect metal engineering exports, principally shipbuilding products, against inflation is no longer used but still exists on paper.

Finland is a signatory to the GATT Subsidies Code.

7. Protection of U.S. Intellectual Property

Finland has a good record in passing effective legislation to protect intellectual property and in enforcing those laws. Finland and the Nordic group of countries have taken a constructive position on intellectual property in the GATT Uruguay Round negotiations and other intellectual property talks in the international arena.

Finnish patent and trademark laws are similar to those of other Nordic countries. Finland still denies product patent protection to pharmaceuticals, however. Legislation passed in 1987 initiated a transition period to product protection which will be fully implemented in 1997. The first product patent pharmaceuticals will probably not be available until the year 2000.

Finnish intellectual property practices have had a minimal negative effect on U.S. exporters.

8. Worker Rights

a. The Right of Association

The Finnish Constitution contains specific guarantees for the right of workers to form trade unions, assemble peacefully

and strike. These rights are honored in practice; trade unions are among the most powerful political forces in Finland. About 85 percent of the work force is unionized. Unions are free, independent, democratic and associate in four 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. Collective bargaining is generally conducted according to national guidelines agreed between employers, the four central trade union organizations, and the Government. Once the national guidelines are established, contracts are negotiated at the sectoral level between unions and employer organizations. Workers are effectively protected against antiunion discrimination which is prohibited by law.

c. Forced or Compulsory Labor

Forced or compulsory labor is prohibited by the Constitution and is not practiced.

d. Minimum Age for Employment of Children

Sixteen is the minimum age for full-time employment (eight hours per day). Children under sixteen may work up to six hours per day. Finland has compulsory education laws. Child labor laws are effectively enforced.

e. Acceptable Conditions of Work

Finland has no legislated minimum wage, but non-union employers are required to meet the minimum wages established by collective bargaining for unionized workers in each sector. The maximum standard legal work week is 40 hours; in practice most contracts call for standard work weeks of 37-38 hours. Finland's health and safety laws are among the strictest in the world. They are enforced effectively, both by government inspectors and actively monitored by the unions.

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.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category		Amount
Petroleum		(D)
Total Manufacturing		76
Food & Kindred Products	0	
Chemicals & Allied Products	3	
Metals, Primary & Fabricated	(D)	
Machinery, except Electrical	3	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	(D)	
Wholesale Trade		380
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business August 1991, Vol. 71, No. 8, Table 11.3

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Key Economic Indicators

(Billions of French Francs (FF) Unless Otherwise Stated)

	1989	1990	1991 1/
Income, Production, Employment			
Real GDP (FF 1980)	3,437.1	3,534.0	3,611.7
Real GDP Growth (pct)	3.9	2.9	2.0
Manufacturing (pct)	4.1	1.2	N/A
Agriculture (PCT)	2.6	1.3	N/A
Services (pct) (2)	6.9	4.3	N/A
Real Per Capita Income Income Growth (Pct)	3.4	2.4	N/A
Labor Force (millions)	24.3	24.5	24.6 3/
Unemployment Rate (pct)	9.1	8.9	9.8 3/
Money and Prices			
Money Supply (M1)	1,538.7	1,597.8	1,566.8 4/
Base Bank Lending Rate (pct)	11	10.25	10.0 5/
Savings Rate (households)(pct)	12.7	11.9	12.4 6/
Investment Growth corporate (pct)	11.5	6.9	2.0
CPI (pct, yr end)	3.6	3.4	2.8
Wholesale Price Index 7/	N/A	N/A	N/A
Exchange Rate (FF/US$)	6.38	5.45	5.75
Balance of Payments			
Total Exports (FOB)	1,143.2	1,177.2	1,050 9/
Total Exports to U.S. (FOB)	72.4	69.6	76.4 9/
Total Imports (FOB)	1,186.9	1,226.7	1,044 9/
Total Imports from U.S. (CIF)	74.0	74.6	87.9
Trade Balance (FOB-FOB)	-43.7	-49.5	-45.0
External Public Debt (FF billions)	-29.4	N/A	N/A
Gold Reserves (FF billions)	196.8	161.7	172.9 3/
Foreign Exchange Reserves (FF billions)	339.2	351.3	382.4 3/
Current Account balance	-29.6	-45.6	-34.2 8/

1/ 1991 figures are government forecasts unless otherwise specified.
2/ Marketable services, i.e., private sector services.
3/ September 1991 figure.
4/ Outstanding amount as of August 1991.
5/ October 1991 figure.
6/ Second quarter 1991 figure.
7/ France does not report comparable statistics.
8/ Cumulative figure for first 7 months of 1991.
9/ Eleven month data.

FRANCE

1. General Policy Framework

France has the fourth largest industrial economy in the world, with a GDP of around $1,119 billion in 1990, about one fifth the size of the U.S. economy. Because France is a member of the European Community (EC), it is subject to the EC's common external tariff and its Common Agricultural Policy. In addition, as the EC puts in place its ambitious program to remove all barriers to the free internal circulation of goods, services and capital by the end of 1992, competence in a growing number of economic policy areas, including certain aspects of fiscal policy and investment policy, will necessarily transfer to the EC.

France has a centuries old tradition of highly centralized administration and governmental control of its essentially market economy, including five year plans, nationalized companies in major industrial sectors, and reliance on industrial subsidies and credit control. Government influence over the economy was further extended by the Socialist government in 1981-1982 with additional nationalizations, particularly in the banking sector. Since then, however, both Socialist and Center-Right governments have accepted a reduced involvement in the economy in favor of market forces to cure the sluggish French economy and its high unemployment rate. To this end, they implemented a comprehensive program of market-oriented reform and deregulation: eliminating exchange controls and the majority of price controls, reducing subsidies, modernizing the French financial markets, particularly the stock exchange; reducing taxes, and cutting the budget deficit. Under the Center-Right government (1986-1988) this trend accelerated, and was accompanied by the privatization of 31 industrial and financial companies. The Socialist government, which returned to power in May/June of 1988, formally ended the privatization program although they have recently indicated they would sell minority shares while maintaining control of government-owned firms. Several of the largest French banks, most of the major insurance companies, the utilities, and many of the largest industrial concerns remain state-owned.

Cutting the budget deficit and restraining overall expenditure growth while lowering tax rates and increasing funding for Socialist priorities (e.g. education, justice, public housing, guaranteed minimum income, foreign aid) have been the government's principal budgetary goals since 1988. The government of France reduced the central government budget deficit as a percent of GDP from 3.2 percent (FF 151 billion) in 1985 to an expected 1.2 percent (FF 90 billion) in 1991. At the same time, the top personal income tax bracket of 65 percent was lowered to 56.8 percent in 1987. The corporate rate on distributed profits dropped to 42 percent in 1988 from 45 percent. The rate on reinvested corporate profits was further reduced to 34 percent and a single rate of 33 percent is slated for 1993. In preparation for the single European market of 1993, the government has begun to bring its high value added tax (VAT) rates more in line with European norms and has made other tax changes to limit the degree to which French firms are fiscally disadvantaged. In addition, to avoid capital outflows following the elimination of all capital controls on January 1, 1990, the government of France

made significant cuts in the tax rate on interest from bonds and other financial placements. On the other hand, the Socialist government reintroduced a wealth tax in 1989 and has steadily raised the corporate capital gains tax from 16 percent in 1989 to 34 percent, effective July 1991.

Despite the significant cuts in tax rates, tax revenues have continued to expand. In addition, growth of Social Security collections has outpaced the growth of nominal GDP. As a result, the overall French tax burden, at almost 45 percent of GDP, has not budged in the last few years and remains one of the highest among the member countries of the Organization of Economic Cooperation and Development (OECD). The government's modest budget deficit is principally financed by issuing government bonds at a weekly auction.

Until 1985, the government relied almost solely on quantitative credit controls to manage money supply. Since then, it has adopted a more flexible policy relying on open market operations and reserve requirements. The government engages in weekly repurchase operations at a fixed rate to regulate the supply of liquidity available to the banking sector. The official government intervention rates serve as benchmarks for other money market rates. Over the last few years, France has pursued a neutral to slightly restrictive monetary policy, as an integral part of its successful efforts to keep inflation under control.

Real interest rates in France are high compared to some of its principal trading partners, as the substantial decline in inflation has not been matched by declines in nominal rates. Nominal rates have failed to decline substantially due, in part, to the wariness of financial markets stemming from France's economic policies in the early 1980's which involved large fiscal deficits and several depreciations of the franc. When market conditions have been favorable, the government has given priority to reducing official interest rates in order to boost economic activity and promote employment. However, consistent with its anti-inflationary policy, the government continues to give priority to maintaining a strong franc. The government has not hesitated to raise interest rates to defend the franc within the European Monetary System (EMS), of which France is a member. (France, along with most members of the EMS, is committed to limit fluctuations of the value of its currency to within plus or minus 2.5 percent of agreed parities with the other participating currencies.)

2. Exchange Rate Policies

The actual foreign currency value of the French franc, while influenced by French monetary policy and many other factors, is set by international market forces. In an effort to influence the value of the franc, the French government often coordinates its actions with those of other governments, both within the EMS and as part of broader international economic policy coordination efforts among industrialized countries, including the United States. On January 1, 1990, France abolished its last remaining foreign exchange control, although reporting requirements remain.

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3. Structural Policies

While putting off comprehensive tax reform, the government has begun fine tuning its tax code to achieve its priorities: increasing investment, creating jobs, and improving the competitiveness of French companies in preparation for the European single market. Recent budgets have incorporated a number of tax incentives to help achieve these objectives, including lower tax rates on reinvested profits, tax exemptions for establishment of new companies, tax credits for hiring and training new workers, tax credits for research, and reductions in the professional tax rate and in taxes on transfers of corporate assets.

As a step towards achieving a single market, EC member states are negotiating the harmonization of VAT rates. With some of the highest VAT rates in the EC, the French government has begun to reduce and consolidate its VAT rates. French VAT rates range from 5.5 percent to 22 percent for luxury goods (reduced from 25 percent in September 1990). The VAT rate on cars will be cut to 18.6 percent in 1992.

4. Debt Management

France's public debt management policy is market based and highly sophisticated. Servicing the overall national debt does not limit the national capacity to import.

5. Significant Barriers to U.S. Exports

U.S. companies sometimes complain of complex technical standards in France and of lengthy testing procedures. Testing usually must be done in France, and standards sometimes appear to go beyond reasonable requirements needed to insure performance and safety.

French government agencies and state owned corporations not covered by the General Agreement on Tariffs and Trade (GATT) Government Procurement Code have traditionally followed strong "buy national" policies. Government agencies covered by the Code generally follow Code provisions but make use of the noncompetitive, single tendering exceptions. The EC is formulating new EC wide regulations concerning government procurement in services and in the sectors still excluded from the government procurement code (energy, water, telecommunications, transport) and cinema and television. French regulations specify minimum percentages of TV broadcast time and cinema showings that must be devoted to French or European productions. Recently the French government has toughened enforcement of these regulations, especially those for prime-time television broadcasts. The market share of U.S. films and television shows remains high, however.

Recent changes in French law governing the legal profession appear to make the conditions of access for non-European lawyers more difficult than under preexisting law. This matter is under discussion with the Government of France and in the Uruguay Round.

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France maintains no review or prior notification requirements on foreign investment in new economic activities. Acquisitions of French firms by non-EC companies (defined as 20 percent of the shares of a publicly owned firm; 33.3 percent for a non-quoted firm) are subject to a one month review period (which can be extended) and can be denied or delayed for reasons of national interest. In deciding whether to give such approval, the Government of France often seeks commitments from investors regarding their future conduct of the activity. (EC firms are required to make an after the fact notification, or at worst are subject to a maximum 15 day delay while their EC bonafides are verified.) France does not maintain formal local content or performance requirements.

6. Export Subsidy Policies

France is a party to the OECD guidelines on the arrangement for export credits, which includes provisions regarding concessionality of foreign aid. The French government maintains a foreign commercial service to promote French exports and to provide assistance to French business executives abroad. The government has begun examining ways to concentrate the benefits of its export promotion efforts more on small and medium-sized businesses.

7. Protection of U.S. Intellectual Property

France is a strong defender of intellectual property rights and an advocate of improving protection. It is a party to the Berne Convention on copyright, the Paris Convention on patents, the Universal Copyright Convention, the Patent Cooperation Treaty, and the Madrid Convention on Trademarks.

Until 1984, French law did not provide for injunctive relief prior to final judgment in patent infringement disputes. An amendment to the patent law that year permitted judges to grant injunctive relief in cases where the patent holder manufactures the product in France. The French patent law permits a judge to grant a compulsory license in cases where a patent is not worked in France and where the patent holder has refused to license it in France. In practice, French courts have been strict in their interpretation of this statute, and compulsory licenses have been granted in very few cases. A 1985 amendment to the French Copyright Law extended protection to computer software, although it limited protection to 25 years. It also improved the protection of video recordings.

8. Worker Rights

a. Right of Association

The Constitution guarantees the right of workers to form unions. Although union membership is approximately ten percent of the workforce, the institutional role of organized labor is far greater than its numerical strength might indicate. The French government regularly consults labor leaders on economic and social issues, and joint works

councils play a role even in industries only marginally unionized. Although not formally affiliated with political parties, unions are close to either the Communist or Socialist Parties. Both private and public employees may strike, except in cases where public safety may be threatened.

b. Right to Organize and Bargain Collectively

The principle of free collective bargaining was re-established after World War II and subsequent amendments in labor laws encourage collective bargaining at the national, regional, local and plant levels. Antiunion discrimination is illegal.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is prohibited by law.

d. Minimum Age for Employment of children

With a few exceptions for those enrolled in recognized apprenticeship programs, children under the age of 16 may not be employed.

e. Acceptable Conditions of Work

France has an administratively determined minimum wage, revised whenever the cost of living index rises two percentage points. The standard work week is 39 hours, and overtime is controlled. In general terms, French labor legislation and practice, including that pertaining to Occupational Safety and Health, are fully comparable to those in other industrialized market economies.

f. Rights in Sectors with U.S. Investment

France has two small export processing zones where regular French labor legislation and wage scales apply. Labor law and practice are uniform throughout all industries of the private sector.

FRANCE

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category		Amount
Petroleum		(D)
Total Manufacturing		11,051
Food & Kindred Products	389	
Chemicals & Allied Products	2,901	
Metals, Primary & Fabricated	368	
Machinery, except Electrical	3,642	
Electric & Electronic Equipment	481	
Transportation Equipment	664	
Other Manufacturing	2,605	
Wholesale Trade		3,025
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business August 1991, Vol. 71, No. 8, Table 11.3

GERMANY

Key Economic Indicators

(Billions of DM unless Otherwise Noted)

	1989 West Germany	1990 West Germany	1991/e West Germany	1991/e All Germany
Income, Production and Employment				
Real GNP (1985 prices)	2,046.8	2,138.7	2,206.6	2,390.0
Real GNP Growth Rate	3.8	4.5	3.2	1.2
GDP by Sector(1985 prices)				
Agric./forestry/fishing	35.3	37.6	N/A	N/A
Manufact./Mining/Constr.	787.1	821.6	N/A	N/A
Trade/Transportation	297.3	314.2	N/A	N/A
Services	589.7	620.0	N/A	N/A
General Govt/Households	264.2	269.8	N/A	N/A
Real GNP Per Capita Income (in DM)	32,979	33,823	34,450	29,880
Civilian Labor Force (mil)	29.8	30.3	30.6	39.0
Unemployment Rate/1 (Annual Average)	7.1	6.4	5.7	6.5
Money and Prices				
Money Supply (M1)	450.6	584.2 2/	-	581.1 3/
Commercial Interest rt 4/	9.42	10.28	-	11.31 5/
Savings Rate 6/	13.5	14.7	14.5	N/A
Investment Rate(pct nom GNP)	20.1	21.0	21.8	22.9
CPI, (1985 = 100)	104.2	107.0	110.7	N/A
WPI, (1985 = 100)	94.5	95.2	96.7 7/	N/A
Exchange Rate (ann avg/dol)	1.8813	1.6161	-	1.6612 7/
Balance of Payments and Trade				
Total Exports (FOB)	641.0	642.8	538.1 8/	610.6 9/
Total Exports to U.S.	46.6	46.9	34.1 8/	34.3 8/
Total Imports (CIF)	506.5	550.6	530.7 8/	594.9 9/
Total Imports from U.S.	38.3	37.0	36.3 8/	36.4 8/
Net U.S. Direct Investment	39.8	N/A	N/A	N/A
External Public Debt	206.0	224.4	-	239.6 10/
Annual Debt Service Paid/11	61.0	65.0 2/	-	84.0
Gold and Forex Reserves	72.0	78.2 2/	-	71.6 5/
Balance of Payments				
Current Account	107.6	77.4 2/	-	-32.5 9/
Capital Account	-136.2	-94.5 2/	-	20.2 9/

1/ Percent of civilian labor force.
2/ Since July 1990 inclusion of eastern Germany.
3/ As of August.
4/ Dec. avg., credits over DM 1 billion and under DM 5 billion.
5/ As of September.
6/ Bundesbank definition.
7/ January - September.
8/ January - July.
9/ January - August.
10/ As of June.

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11/ Total public sector debt service payments for external and domestic debts; adjusted for double counting among different levels of government.
e/ Estimated.

1. General Policy Framework

Germany's economy and economic policy are dominated by the demands of reunification of the eastern and western parts of the country. Reunification, accompanied by massive transfers from west to east, unleashed tremendous demand from eastern Germany. This demand was a primary force behind surging growth (4.5 percent in 1990) in western Germany in 1990 and early 1991, high government budget deficits, and rapid elimination of Germany's current account surpluses. Real German interest rates have risen sharply over the past two years, largely in response to unification strains, and the German Central Bank has adopted a vigilant anti-inflationary stance to combat price pressures emanating from unification.

Unification, which contributed to strong growth in employment and output in the western part of the country, led to sharp declines in employment and output in eastern Germany as it changed overnight from a command to a market-based economy. Much of eastern industry, handicapped by antiquated technology, poor organization, and inadequate infrastructure, was no longer viable. The first step in the transition to a market economy has been a jump from virtually no unemployment to an unemployment rate of more than ten percent. Including short time workers, who retain their jobs but work fewer hours and receive compensatory payments of up to 90 percent of full-time pay, the un- and under-employment rate in eastern Germany is well over 20 percent. It is difficult to accurately measure eastern German GNP, but industrial production is currently only 60 to 65 percent of the third quarter 1990 level. The eastern German economy is widely expected to pick up over the next year, with a growth rate of about ten percent predicted. The massive job of restructuring will take time to accomplish, however, and eastern Germany will likely continue to rely on large transfers from western Germany for many years to come.

The west German current account was in surplus by roughly DM 100 billion in 1989 and DM 75 billion in 1990, but is expected to register a deficit of close to DM 30 billion in 1991. The major factor behind this decline was a sharp increase in imports as west German demand surged and east Germans rushed to buy newly available goods from western countries (east German imports coming through west Germany are counted as west German imports in balance of payments statistics). West German exports were flat in 1990, contributing to the current account deficit. Slow growth in industrial countries and diversion of resources to eastern Germany both contributed to the export slowdown. Payments to the United States for the Gulf War also added to the current account deficit in 1991. Higher growth rates in Germany's western trading partners in 1992 should help raise German export levels in 1992, and the current account is expected to be in near balance as well.

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Fiscal policy was highly stimulative in 1990 and early 1991 as transfers to eastern Germany were financed largely by government borrowing. The combined public sector deficit (not including the social security surplus) was 3.5 percent of GNP in 1990 and is expected to be 4.6 percent of GNP in 1991, up from 1.2 percent in 1989. Since the early part of 1991, fiscal policy has become less stimulative as a result of tax increases, but substantial deficits are expected for the next few years.

The Bundesbank has maintained a tight monetary policy largely in response to inflationary pressures arising from unification. The Lombard rate is currently 9.25 percent and the discount rate is 7.5 percent. The Bundesbank is particularly concerned about the potential inflationary effects of strong wage increases in upcoming wage settlements.

In recent years a number of changes have been implemented in money and capital markets in an attempt to enhance the attractiveness of Germany as an international financial center. Liberalization, including the elimination of the stock exchange turnover tax at the beginning of 1991, has contributed to the development of a German commercial paper market. However, Germany has yet to develop capital markets commensurate with its economic size and importance.

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.

3. Structural Policies

The ramifications of German unity dominate the country's structural policies. Only recently have there been signs of a turnaround in the economy of the former German Democratic Republic (GDR). Attention is focused on the privatization of formerly state-owned firms. As of August 1991, 3,378 (of approximately 10,000) firms had been privatized. However, a number of obstacles remain in the way of privatization. Investors must be careful to check into possible liabilities associated with firms they are interested in purchasing, including old debts, warranty obligations, and liability for environmental damage.

A major barrier to investment lies in the difficulty in determining the fair value of formerly state-owned enterprises, which had never been required to calculate balance sheets. Their value is set by comparing them to similar western German assets, a system acknowledged to be imperfect at best. Another problem is the general requirement that those purchasing an enterprise promise to preserve a certain number of the enterprise's jobs. This number is determined in negotiations with the privatizing agency (Treuhandanstalt).

One problem largely resolved is that of claims by those

whose property was expropriated by the Communist regime. The German property law now shields purchasers from the claims of previous owners (under certain circumstances). Even so, caution is urged in cases in which claims are pending.

The German Government is encouraging investment in eastern Germany in a number of ways, including investment and accelerated depreciation allowances, tax reductions, regional investment incentives and numerous loan programs. Other assistance is available through European Community programs. In addition, the Treuhandanstalt has generally been willing to absorb a substantial share of the environmental clean-up costs of a site. The exact share is determined on a case-by-case basis. These benefits are available to both German and foreign firms.

To further encourage investment, the Government is investing heavily to improve the infrastructure in eastern Germany, especially transportation and communication services. As a result, the construction sector was one of the first to show signs of recovery.

Total investment in eastern Germany in 1991 is expected to be about DM 70 billion. While this is nearly 40 percent of GNP, much more investment will be needed to complete industrial restructuring - some estimate as much as DM 2-3 trillion. Significantly, a number of major investors, e.g., Daimler and Volkswagen, have opted for "greenfield" plants, which means that much of the investment in the former G.D.R. will be state-of-the-art and contribute to higher growth rates in the future.

4. Debt Management Policies

From 1970 to 1990 Germany has enjoyed current account surpluses in all but three years. As a result, Germany is a major net creditor.

5. Significant Barriers to U.S. Exports

Although trade with Germany is generally open, U.S. agricultural interests face barriers under the EC's Common Agricultural Policy (CAP). Import levies apply to most agricultural commodities, including cereals and rice, milk and milk products, beef and veal, sugar and olive oil.

Services Barriers: It is difficult to generalize about the German market for services. Conditions of access vary considerably, however, there are few complaints. Progress appears to have been made in participation of foreign companies in banking and other financial services, but it is still difficult to break into the insurance market. Increasingly, telecommunications services are being deregulated; this is not always the case in transport services.

Standards, Testing, Labeling, and Certification: Germany's regulations and bureaucratic procedures can prove a baffling maze, blunting the enthusiasm of U.S. exporters. Safety standards, not normally discriminatory but sometimes

zealously applied, complicate access to the market for many U.S. products.

The new German packaging law which will be phased in by 1995 presents considerable requirements that will make exporting and production in Germany far more complicated not only for the U.S. but also for Germany's fellow EC members. The law will require all containers to be either reused or recycled. The law presents additional burdens for exporters whose goods are transported over long distances since containers built for long distances are more difficult to recycle and reuse. The U.S. government will continue to seek consultations on this with the German government and the EC.

Government Procurement Practices: German government procurement is non-discriminatory and appears to comply with the General Agreement on Tariffs and Trade (GATT) on Government Procurement. It is, nonetheless, difficult to compete head-to-head with major German suppliers who have long-term ties to German government purchasing entities. Those areas which fall outside of the GATT Code's coverage, such as some military procurement, purchases by the Transportation Ministry, or procurement of services, are the most susceptible to these problems.

Investment Barriers: The German investment climate is very open, but some of the concerns mentioned above, such as access to services markets and standards and procurement questions also apply to investment. In addition, there is a lack of transparency in negotiating contracts for privatization of firms formerly belonging to the Communist regime of the GDR.

6. Export Subsidy Policy

Germany views itself as an advocate of free trade, while simultaneously supporting inefficient industries. Of particular interest are the subsidies provided to agriculture and to the German aerospace industry. Germany can play a pivotal role in European Community (EC) attitudes toward agricultural subsidies in the final months of the Uruguay Round of GATT trade negotiations. Airbus subsidies are still a point of contention, particularly the exchange-rate guarantee scheme with which the German government persuaded Daimler Benz to purchase Messerschmidt-Boelkow-Bloehm. As a general matter, the need to devote funding to projects in eastern Germany during the coming year may do far more than anything else to force reductions in subsidies provided in western Germany.

7. Protection of U.S. Intellectual Property

Germany is a member of the World Intellectual Property Organization and party to 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 Patent Cooperation Treaty, and the Brussels Satellite Convention.

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Intellectual property is generally well protected in Germany. The German Patent Bureau, Verwertungsgesellschaft (which handles printed material), and GEMA (the German rough-equivalent to the American Society of Composers, Authors and Publishers) are the agencies responsible for intellectual property protection. U.S. citizens and firms are entitled to national treatment in Germany.

Although the Germany passed a law to strengthen protection of intellectual property and to toughen penalties for product piracy on July 1, 1990, there remain some areas in which the United States seeks stronger German protection. One key area is copyright protection for computer software. While German law explicitly protects computer programs, judicial interpretations appear to have undermined the effective level of protection. Under several court decisions, only programs that demonstrate a level of originality beyond the skills of an ordinary programmer are protected. As a result, many business application programs are not eligible for protection under German law. Germany is on the Watch List under the "Special 301" IPR provisions of the Omnibus Trade and Competitiveness Act of 1988.

The Ministry of Justice is currently working on draft legislation to transpose the EC Software Copyright Directive into national law, which will effectively lower the current German standard for originality. The Ministry plans to circulate a draft to industry and interested parties for comment, obtain Federal Cabinet approval, and then, within the first half of 1992, forward it to Parliament for consideration. Ministry officials believe that, once this process has been completed, U.S. concerns will have been addressed.

Following the unification of Germany, the Ministry of Justice is working on draft legislation to allow mutual extension of patent rights existing in the former West and East German territories, with proposals for resolution of potential conflicts. That draft is currently being reviewed by the Parliament, and Ministry officials expect passage of the legislation in early 1992.

8. Workers Rights

a. Right of Association

The Constitution guarantees full freedom of association. The right to strike is guaranteed, except for civil servants, teachers, the armed forces and those in sensitive positions. In 1991 the ILO criticized the Government's broad definition of "essential services."

b. Right to Organize and Bargain Collectively

The right to organize and bargain collectively is guaranteed by the Constitution and is widely practiced. No Government mechanism to promote voluntary worker-employer negotiations is required because of a well-developed system of autonomous contract negotiations, now extended to the eastern states. There is a two-tiered bargaining system, whereby

basic wages and working conditions are established at the industry level and then adapted to the circumstances prevailing in particular enterprises through local negotiations. A distinguishing characteristic of German industrial relations is the legally mandated system of works councils which provide a permanent forum for continuing selective worker participation in the management of the enterprise. Workers are fully protected against antiunion discrimination.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is barred by the Constitution and is nonexistent in practice.

d. Minimum Age for Employment of Children

German legislation in general bars child labor under age 15. There are limited exemptions for children employed on family farms, delivering newspapers or magazines, or involved in theater or sporting events.

e. Acceptable Conditions of Work

While there is no minimum wage, 90 percent of all wage and salary earners are covered by legally enforceable collective bargaining agreements. The average workweek is regulated by contracts directly or indirectly affecting 80 percent of the working population. The average in the West is 37.6 hours and about 40 hours in the East. German labor and social legislation is comprehensive and, in general, imposes strict occupational safety and health standards. The resulting standards are widely considered to be very high. There is also a mandatory occupational accident and health insurance system for all employed persons.

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.

Disputes over worker rights can be referred to a complex system of labor and social courts at the local, state and federal level. The labor courts deal with labor-management issues, employer-employee disputes (such as dismissals) and all matters concerning the works constitution and codetermination laws. This system is supplemented by social courts that deal with the entire field of social legislation.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

		Amount
Petroleum		3,136
Total Manufacturing		17,489
Food & Kindred Products	1,171	
Chemicals & Allied Products	3,299	
Metals, Primary & Fabricated	1,310	
Machinery, except Electrical	4,051	
Electric & Electronic Equipment	797	
Transportation Equipment	3,374	
Other Manufacturing	3,487	
Wholesale Trade		1,505
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		22,130

Source: U.S. Department of Commerce, Survey of Current Business
August 1991, Vol. 71, No. 8, Table 11.3

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Key Economic Indicators

(Billions of Drachmas (Dr) Unless Otherwise Noted)

	1989	1990 prelim	1991 project
Income, Production and Employment			
Real GDP (1970 mkt prices)	550.1	549.3	554.8
Real GDP growth rate (pct)	3.5	-0.1	1.0
GDP (current mkt prices) millions of dollars	54,038.9	65,926.4	67,750.0
Real GDP by sector			
Factor cost	491.5	489.8	494.2
Agriculture	63.2	56.9	63.2
Mining	9.4	9.7	9.7
Manufacturing	93.2	90.8	89.7
Electricity & gas	20.4	20.8	20.6
Construction	25.5	26.5	24.9
Services	279.8	285.1	286.1
Real per capita income (Dr) (constant 1970 mkt prices)	54,197.0	53,853.0	54,093.0
Labor force (millions)	4.0	4.0	4.1
Unemployment rate (pct)	7.5	7.7	9.0
Money and Prices			
Money supply (M1) (end period)	1,517.8	1,880.8	2,000
Commercial interest rates (pct)	22-25.5	26-32	26-26.5
Savings interest rate (pct)	14.5-15	16-18	18.0
Investm. interest rate (pct) 1/	19-20	25-27	25-27
Consumer price index (yr-end) (1982 = 100)	339.6	417.0	487.0
Wholesale price index (yr-end) (1980 = 100)	433.0	512.6	590.0
Exchange rate: drachmas/US$1			
Official annual average	162.42	158.51	184.5
End period	160.3	155.6	195.0
Balance of Payments and Trade (millions of dollars)			
Total exports (FOB) 2/	5,994.4	6,364.8	6,500.0
Total exports to U.S. 3/	430.3	445.3	430.0
Total imports (CIF) 2/	15,114.7	18,692.5	18,700.0
Total imports from U.S. 3/	550.7	729.0	750.0
External public debt	18,829.5	21,930.0	21,500.0
Annual debt service	3,618.8	4,147.5	5,200.0
Gold and forex reserves 4/	4,172.0	4,274.0	5,320.0
Current account balance	-2,573.1	-3,561.7	-2,200.0

1/ Interest rate on long term loans to industry.
2/ Settlement basis.
3/ Greek customs data. 1991 data are embassy estimates based on January-September 1991 data.
4/ Aug 1991.
Sources: Bank of Greece, National Statistical Service of Greece, Ministry of National Economy, and Embassy estimates.

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1. General Policy Framework

Since taking office in April 1990, the Mitsotakis Government has put into place an ambitious economic restructuring program to redirect the Greek economy away from its statist past to a modern, market oriented form. By the end of 1993, the Government aims to: slash the net Public Sector Borrowing Requirement (PSBR) to 3 percent of Gross Domestic Product (GDP) from 20 percent in 1990; cut the inflation rate to 7 percent from 23 percent at the end of 1991; and reduce the current account deficit to 3 percent of GDP from 5.4 percent in 1990. Key elements are tax reform and an extensive privatization plan. Other elements include reform of the social insurance system, investment incentives, and labor legislation.

Results so far are mixed. The current account deficit will fall to between $2 and $2.5 billion for 1991 from $3.6 billion in 1990, largely because of heavy invisible inflows from the European Community (EC), rather than as a result of an underlying improvement in the merchandise trade account. Results for August hint that the recession may be biting into imports and cutting the chronic trade deficit. Net PSBR will stick at about 18 to 20 percent of GDP because of a failure to boost tax collections and realize non tax revenues from privatization and the sale of state real estate bonds. The current recession in Greece has also resulted in lower tax revenues in 1991. Financing needs keep interest rates high and continue to crowd out private borrowers.

Tax evasion is widespread. A "parallel" economy 30 to 50 percent as large as the official one helps explain levels of imports and consumption that are inconsistent with published national income figures. In addition, the agricultural sector is largely exempt from taxation. A multi-rate Value Added Tax (VAT), introduced in 1987, helped partially to offset lost direct tax revenue. The Government is moving to stamp out evasion and widen the tax base.

Greece's huge government deficit stems from a large public sector which has many more civil servants than an economy the size of Greece's can support. Greece's social security program is also a major drain on public spending. Finally, the state owns a number of loss-generating companies. The resulting deficits are financed primarily through treasury bills, in which banks must put 30 to 40 percent of their deposits. The Bank of Greece traditionally allocated credit by setting and earmarking reserves for the mostly state controlled banking sector. Prodded by the EC, Greece is moving to a more market-oriented credit allocation system. The Government is also encouraging private banking (domestic and foreign) and allowing state-controlled banks to operate along commercial lines.

In July 1990, the Government introduced a new investment incentives law. The law redefines the types of "productive investment" that qualify for incentives. It also puts greater emphasis on tax breaks, reducing the extent of grants and subsidies of loan interest.

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2. Exchange Rate Policies

The drachma exchange rate is managed by the Bank of Greece (BOG), which daily sets the "Fixing Rate" in a meeting with banks operating in Greece. Since a 1985 devaluation, the exchange rate has not fully compensated for the inflation differential between Greece and its main trading partners. The BOG has used exchange rate policy as an anti-inflation tool. This, and sharply rising unit labor costs, have contributed to a large trade imbalance, as imports have been sucked in and exports flattened. Over 1991, this Government has tried to speed up the rate of depreciation. The drachma has fallen 19 percent against the dollar since the beginning of the year. The aim is to put the drachma into the EC Exchange Rate Mechanism by the end of 1993.

Foreign exchange controls have been progressively relaxed since 1985. Following EC directives, Greece has liberalized capital inflows and outflows for EC residents. It has also eased restrictions on third country investors (see Section 5). There is free capital movement for investments in stocks and government bonds. Free repatriation of original capital investment is also now allowed. Greek residents may now purchase realistic amounts of foreign exchange for travel to EC countries (but there are still restrictions for travel to non-EC countries; see Section 5). As of May 1991, Greeks may freely invest in real property and securities in other EC member states, but investments in non-EC countries are still restricted. All transactions remain subject to Bank of Greece surveillance to prevent abuse.

3. Structural Policies

Tight and extensive retail price controls have been relaxed under the Mitsotakis Government. However, about one quarter of the goods and services included in the Consumer Price Index are produced by state-controlled companies, and the Government retains considerable indirect control. Remaining price controls and subsidies, e.g., public transport prices, distort the economy, but are not selective barriers to U.S. exports.

The tax system blends taxes on corporate profits and personal incomes, value added tax (VAT) on goods and services, real estate taxes, a variety of stamp duties, and special consumption taxes, e.g., on automobiles and petrol.

Distributed dividends are subject to withholding of 42 to 50 percent. Tax rates on undistributed profits range from 35 to 46 percent but from July 1990, 30 to 50 percent of undistributed profits earned in 1990 through 1993 and used for "productive investments" are exempt from taxation.

The top personal income tax rate remains at 50 percent.

The VAT is eight percent for essentials, 18 percent for most goods, and 36 percent for luxury goods. A four percent rate applies to periodicals and books. There is no discrimination against foreign or U.S. products. The 36 percent rate (which covers about four percent of goods and

services) may soon be abolished. "Special consumption taxes" are levied on various domestic and imported luxury goods, such as jewelry, electronic equipment, and automobiles.

The Government encourages "productive investment" which aids economic development through export expansion, import substitution, technology transfer, or job creation. However, while Government policy is to encourage foreign investment, complex regulations and excessive bureaucracy often discourage U.S. and other foreign investors. So, too, do regulations which strictly limit the ability of a company to lay-off workers.

Greece's privatization program has had few practical results so far. The 1991 budget included 250 billion drachmas ($1.35 billion) of revenues from the sale of state companies, but less than 50 billion were collected. Various factors have caused delays: legal problems arising from claims of previous shareholders, settlement of debts and opposition from unions, the opposition and within the Government and the new Democracy Party.

A bill to speed up privatization passed Parliament on December 13, 1991. The new law establishes a Ministerial De-Nationalization Committee (MDC) as the central authority for de-nationalization, lays out a timetable for bureaucratic deliberation, and standardizes procedures.

The law is intended to end the delays experienced so far. The MDC's authority to intervene and dictate solutions should help to expedite procedures. But several problems remain. For example, the law does not specify how state-owned companies' large debts, most of which are owed to state banks, will be settled. Nor does it say what happens if no potential buyer's offer for a company meets the officially set minimum price.

4. External Debt Management Policies

Total foreign debt at the end of 1990 was about 28 billion dollars. The Bank of Greece estimates external public debt was $21.93 billion and external private debt, 3 billion. Greece also owes about $3 billion on U.S. Foreign Military Sales loans. Debt servicing was equal to 65 percent of exports and 6.3 percent of GDP. With no new net borrowing, Greece's external debt service will probably exceed $4.2 billion per year in 1991 through 1993, and total about $21 billion from 1991 through 1995. About two-thirds of the external debt is denominated in currencies other than the dollar. Net borrowing was $1.1 billion in 1990.

The credit rating of Greece, as a member of the European Community, remains sound. It has regularly serviced its debts and has generally good relations with commercial banks and international financial institutions. It has not had an adjustment program with the IMF or the World Bank. In 1985, and again in 1991, Greece borrowed from the EC If the external debt load becomes more onerous, it might limit Greece's ability to buy U.S. products, including big ticket and military items, on credit.

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5. Significant Barriers to U.S. Exports

Audits of banks, insurance companies, government organizations, companies on the Athens Stock Exchange, and companies which for two successive years fulfill two of three criteria (assets of at least 130 million drachmas, turnover of at least 260 million drachmas, at least 50 employees) may only be performed by the government-controlled Body of Greek Sworn Accountants (SOL). International accounting firms may not join SOL. Multinational companies must keep two sets of books, one to SOL standards, the other which meets international accounting standards. This rule may soon change.

Rules governing establishment of insurance companies and the sale of insurance in Greece are also being harmonized with the EC insurance directives. In early 1990, the Greek Parliament voted to abolish Paragraph 4 of Article 13 of Law 1256/82. This article required all state property to be insured exclusively by state-owned, Greek insurance companies, all of which are subsidiaries of state banks. Article 13 also obliged state banks to "recommend" to their customers that they should insure only with the state-owned insurance companies. These legal provisions created an unfair situation for private insurers, Greek and foreign, and caused the European Commission to take Greece to the Euro-Tribunal on a charge of monopolistic, unfair competition. The EC won and Article 13 has been abolished. It may take time for banks to fully implement this change in practice.

The Greek Government, through the Ministry of Culture, financially aids local film producers. A box office admission tax of 12 percent (on top of 8 percent VAT) provides funds for subsidies to produce and promote Greek films. Greek distributors of U.S. films as well as theater owners claim that the tax is discriminatory and assert that box office receipts have been affected adversely. The Government sets a maximum price (currently $20,000) for the purchase of a film. Film rentals are set on the basis of a percentage of admission receipts.

Domestic labor laws require that all placements must be done through the official employment agency (OAED) rather than through private organizations. This creates a barrier to temporary employment franchises. However, hiring of employees may be done without the intervention of OAED provided OAED is notified within eight days of such hiring or 30 days, in the case of newly established firms.

Residents traveling abroad for family reasons or tourism may buy the equivalent of ECU 1400 (about $1,670) per trip for travel to EC countries and Cyprus, or the equivalent of $700 per trip for travel to all other countries. Foreign exchange for business travel is limited to $2,000 per trip. Greek travelers to EC countries may spend another 600 ECUs ($716) per trip on credit cards. This amount is capped at 300 ECUs (about $360) per year for travel to all other countries.

Government ownership of the national airline guarantees it indirect subsidies through periodic increases in capital by the Greek Government and through Government-backed loans. However, the Government wants the airline to run on commercial

lines, and has tentative plans to sell up to 49 percent to private buyers. At present, foreign carriers may not sell ground services to other airlines. This may change in 1992 and must change by the end of 1993 for EC airlines. A new bilateral Air Transport Agreement, signed in July 1991, significantly expands U.S. carrier rights in Greece.

As part of its liberalization of the economy, the Government has empowered many public sector companies and banks to be sold to private buyers, including foreigners. The government will sell only 49 percent of three parastatals: Olympic Airlines, the Greek Telecommunications company (OTE), and the Public Power Company (PPC). Thus, foreign investment is now, in theory, allowed in sectors from which it had been excluded, e.g., railways, telecommunications, and energy. The mineral sector is open to foreign capital from EC members, but restrictions apply to non-EC investors. EC and non-EC investors are restricted when investing in the exploitation of "strategically important" minerals, i.e., uranium, gold, petroleum, and other energy sources. The Government is considering allowing greater foreign participation in oil exploration. In the case of shipping companies and banks, foreigners may not hold majority ownership. Growing attention to environmental protection, energy conservation, industrial, mineral and energy research, and technological advancement is reflected in the extension of preferential grant rates (15 percentage points higher than normal rates) to investments in these sectors.

Generally, investment performance requirements are not implemented by specific laws or regulations, but are negotiated informally on an individual basis with investors when drafting the respective instrument of approval for each project. American investors report that local content and export requirements are elements which are seriously considered by the Greek authorities in evaluating investment proposals, but are not legally mandatory prerequisites for the approval of an investment.

The basic law governing foreign investment in Greece is Legislative Decree 2687 of 1953, which governs the importation of capital for productive investment. Investors who import capital into Greece under this law gain a measure of constitutional protection for their property rights, and preferential tax treatment. Subsequent Bank of Greece decisions have removed all repatriation restrictions for EC and non-EC investors. Still, the rights granted to third country investors are inferior to those granted EC investors in that only direct investment capital, and not portfolio or real estate investment, is given coverage for non EC investors. Although these decisions have made the capital transfer provisions of Decree 2687 obsolete, new investors from EC and non EC countries may still wish to seek the protection of Decree 2687 because the approval to invest under the law, once granted, becomes an irrevocable legal instrument.

Greek laws and regulations concerning government procurement nominally guarantee nondiscriminatory treatment for foreign suppliers in most instances. However, a series of practices have the effect of limiting awards to U.S. suppliers. These include access to tender information by some

firms before it is available to all potential bidders, lack of transparent reasons for selective tendering, and occasional discriminatory sole sourcing. Also, standards and requirements for a bid may be written to favor a particular supplier or written so loosely that any bid can be accepted or rejected depending upon the evaluation committee's interpretation. Bidders have also been allowed to change a bid after the final deadline. Reasons for not being selected are often not communicated or made clear to unsuccessful bidders.

The EC is a signatory to the GATT Government Procurement Code on behalf of all member states, but Greece has not yet joined the Code. As a non-member, Greece has not been under Code obligations, and Greek companies have not been allowed to participate in government tenders in the United States.

The Greek Government is now drafting a Presidential Decree to bring Greece in conformance with EC Directive 80/767 calling for adherence to the GATT Government Procurement Code. The decree is expected to be issued before the end of 1991. Greece has submitted a new entities list to Brussels. Adherence to the GATT code will be an important step forward in assuring U.S. companies a transparent and proper procurement process in Greece.

On February 10, 1990, the Greek Commerce Ministry published a presidential decree establishing harmonization with EC procurement policy. As Greece moves toward accession to the GATT Government Procurement Code, greater Greek compliance with EC procurement policy may be anticipated.

During bilateral discussions on government procurement, in May 1991, it was agreed that U.S. Embassy officials and the Greek Ministry of Commerce Secretary General for government procurement would consult on general procurement problems, as well as specific cases involving U.S. companies. Since the bilateral, the Embassy has received no major complaints from U.S. companies involving specific procurement problems.

Under Greek offset policy, offsets are not mandatory except in defense related contracts. While not mandatory, the Government encourages and expects offsets to accompany bids on tenders worth 250 million drachmas ($1.6 million) and over. The real impact of Greece's buy national policy is felt in the Government's offset policy where local content, joint ventures, and other technology transfers are stressed.

6. Export Subsidies Policies

Two forms of export subsidies applied prior to the introduction of the VAT in 1987: rebates of indirect taxes and export loan interest. These began to disappear after the VAT was introduced and were replaced by VAT rebates. Rebates of indirect taxes were abolished for exports to EC countries. They are still partially in force for exports to non-EC countries, but will be phased out by January 1992. Rebates on export loan interest have been abolished.

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7. Protection of U.S. Intellectual Property

This is a key trade problem for American exporters and service suppliers. Bilateral discussions between the United States and Greece on the lack of adequate intellectual property protection in Greece were held in May and December 1991. Enforcement of existing protections against piracy are lax, pirated video and audio cassettes are more prevalent than legal cassettes, and pirate broadcasters transmit American programming without paying royalties. To remedy the situation, the government will submit a new copyright bill to Parliament in January 1992. During the bill's drafting, the government took extensive comments from all interested parties, including the United States, in an effort to ensure that its provisions, including enforcement, would be comprehensive and effective. Passage of the bill is expected in February 1992. In contrast, the specific situation of the many unlicensed (pirate) TV stations remains legislatively unresolved. However, the new copyright law may well enable U.S. companies to win adequate legal settlements from "pirate" stations.

Current Greek laws extend equal protection on patents and trademarks to foreign and Greek nationals. Greece is a member of the Paris Convention for the Protection of International Property, the European Patent Organization, the World Intellectual Property Organization, and the Berne Copyright Convention. As a member of the EC, the Government's intention is to fully harmonize its laws with EC standards.

Patents: Law 1733 of 1987 harmonizes Greek laws on patents with the articles of the European Patent Convention and provides for the protection of patents for 20 years.

Copyrights: National and conventional treatment of copyrights is accorded U.S. nationals and companies under an agreement signed between Greece and the United States on March 1, 1932. Protection is also provided by domestic legislation and the 1948 Brussels text of the Berne Convention on copyrights of September 9, 1886. Illegal copying of software was made a criminal offense in 1988.

Trademarks: Greek trademark legislation is fully harmonized with that of the EC. Foreign trademarks, whether registered in the country of origin or protected as common law trademarks, can be registered in Greece without submission of a home registration certificate or other evidence of ownership. Thus, foreign trademarks can be registered in Greece as Greek trademarks independently of any prior registration abroad. Under current legislation, trademarks are protected for 10 years and may be renewed for an unlimited number of 10 year periods.

Impact on Trade: The United States believes that intellectual property rights are inadequately protected in Greece and has put Greece on a special Section 301 watch list. U.S. companies estimate that software piracy in Greece costs them millions of dollars a year. In one case of copyright infringement, a U.S. publishing company estimates its loss at over five million dollars. The Motion Picture Export Association of America estimates that its members lose

about $62 million a year due to video cassette and film piracy in Greece.

8. Worker Rights

a. Right of Association

All Greek workers except the military and police may form or join unions of their choosing. The right of association is set out in the Constitution and in specific legislation passed in 1978 and amended in 1982. Unions are highly politicized, with competing unions linked to political parties, but they are not controlled by the parties or the government in their day to day operations. There are no constraints on serving as a union official, and Greek unions are not restricted with regard to making international contacts or joining international trade union organizations. All but a few most powerful unions receive most of their funding from the Ministry of Labor's Worker's Hearth, however, the Hearth is scheduled to be eliminated in 1992. Although the courts can declare strikes illegal, the effective right to strike was legally restricted in 1991 only by the Government's power to declare the civil mobilization of workers. This provision, which was not used in 1991, is considered by the ILO to violate the standards of ILO Convention 87 on Freedom of Associations and was the subject of criticism by the ILO.

b. Right to Organize and Bargain Collectively

The right to organize and bargain collectively was embodied in legislation passed in 1955 and amended in 1990. Antiunion discrimination is prohibited, and complaints of discrimination against union members or organizers may be referred to the labor inspectorate or to the courts. There are no restrictions on collective bargaining for private workers. Civil servants, however, negotiate their demands with the Office of the Minister to the Prime Minister and have no formal system of collective bargaining.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is prohibited by the Constitution and is not practiced.

d. Minimum Age of Employment for Children

The minimum age for work in industry is 15.

e. Acceptable Conditions of Work

The minimum wage is determined through collective bargaining between the labor confederation (GSEE) and the employers' association. It is then ratified by the Ministry of Labor which gives it legal force. The maximum legal workweek is 40 hours with one month paid vacation and pay for overtime. 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 more progressive in Greece, worker rights do not vary according to the nationality of the company, plant, or project.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category	Amount	
Petroleum Refining and Distribution		37
Total Manufacturing		84
Food & Kindred Products	3	
Chemicals & Allied Products	72	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	5	
Transportation Equipment	0	
Other Manufacturing	4	
Wholesale Trade		71
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		192

Source: U.S. Department of Commerce, Survey of Current Business August 1991, Vol. 71, No. 8, Table 11.3

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Key Economic Indicators

	1989	1990	1991 3/
Income, Production, Employment			
Gross Domestic Product (bil$)	28.87	27.72	26.33
GDP Growth Rate (pct)	(1.0)	(4.3)	(6-8)
Industrial Production (pct)	(1.0)	(8.0)	(10-12)
GDP per capita ($)	2,645	2,364	2,328
Labor Force (mil)	4.8	4.8	N/A
Unemployment, year end (pct)	0.60	1.60	8.00
Money and Prices			
Broad Money (bil Ft)	706	913	N/A
Gross Savings (pct of GDP)	27.3	27.5	N/A
Gross Investment (pct of GDP)	25.9	24.5	N/A
Consumer Price Index	17.0	29.0	37.0
Ave. exch. rate ($1/Ft) 1/	59.1	63.2	73.5
Government Spending (pct GDP)	65.2	60.7	56.0
Balance of Payments and Trade			
Hard currency account (bil$)			
Exports	6.45	6.35	N/A
Imports	5.91	6.0	N/A
Trade balance	.54	.35	(.3)
Current account balance	(1.4)	.13	(.6-.8)
Total Imports from U.S. (mil$)	122.0	156.4	221.3
Aid from U.S. 2/	0.00	32.5	N/A
Total Direct Foreign investment (bil$)	.4	1.2	1.5
Gross Debt (bil$)	20.97	21.27	21.70
Debt Service Ratio	48.4	45.5	40.0
Foreign Exch. Reserves, Excl. Gold (bil$)	1.25	1.07	2.60

1/ The forint is pegged to a weighted basket of currencies in which the U.S. dollar accounts for half and West European currencies half.
2/ Hungary received $87.5 million from the Support for East European Democracy (SEED-1) bill, including $60 million for the Hungarian-American Enterprise Fund over three years: $5 million in 1990; $25 million in 1991; $30 million in 1992. SEED-2 will provide additional assistance.
3/ Estimated.

1. General Policy Framework

Hungary's first democratic government in over 40 years took office in May 1990. Its ambitious four-year reform program seeks to replace central planning with private ownership and free markets. Hungary's receptive investment climate has attracted over half of all foreign investment in Eastern Europe, led by the United States with $800-850 million by late 1991 (of some $2 billion total). Hungary is also

incorporating Western practices and business safeguards into its legal code.

The short-term result of this reform is a sharp recession. Unemployment could hit 370,000-400,000 (8 percent) by the end of 1991. Inflation for 1991 will be around 37 percent, fueled by subsidy cuts, freer prices and higher state prices. GDP for 1991 will drop 6-8 percent over 1990, industrial output 10-14 percent, and consumption 6-7 percent. Eastern export markets in the former Council for Mutual Economic Assistance (CMEA or COMECON) have collapsed following the change to hard currency payments and world market prices on January 1, 1991 although an aggressive drive to shift to Western markets raised hard currency trade above 70 percent of Hungary's total in 1990. An association agreement with the EC and a free trade agreement with the European Free Trade Association (EFTA) should go into effect in early 1992, though Hungary will still face barriers in Western markets hindering its export efforts.

Despite the short-term hardships, the commitment to marketization is already yielding positive results. Inflation is cooling rapidly. The small private sector, still omitted from official statistics, is booming, raising actual GDP and generating new jobs to cushion unemployment. There were 15,000 new private firms created in 1990 and over 12,000 more in the first half of 1991. Hungary's firm commitment to repaying its heavy foreign debt ($21 billion) has preserved its access to Western capital markets and buoyed foreign investors' confidence. By mid-1991 there were some 7,000 joint ventures in Hungary, up from only 200 in 1988.

Most economists do not expect Hungary's economy to start turning upward until late 1992 at the earliest. Meanwhile, the Government is pressing forward with its reform program. Monetary policy has been tightened, though financial discipline still is not strictly imposed on banks and enterprises. Subsidies will be cut from 9.6 percent of GDP in 1990 to 4 percent in 1993. Liberalization of imports and the abolition of the state monopoly on foreign trade have resulted in 30,000 firms and individuals engaged in foreign trade in mid-1991. Average import duties have been cut from 50 to 17 percent in two years, and should fall to 8 percent upon conclusion of the GATT Uruguay Round. Hungary aims to lower state ownership of firms from 90 percent in 1990 to under 50 percent by 1994, although privatization is going more slowly than hoped and officials are searching for ways to speed the process. Privatization of Hungary's commercial banks is slated to begin in the fall of 1991.

2. Exchange Rate Policies

The Government expects the forint (Ft) to be freely convertible by 1994, a goal which might be achieved as early as 1992 if the successful buildup of reserves continues. Hungarian officials see convertibility as a product of economic transformation, not a precondition for it. Among other things, reserves should rise to $3-3.5 billion (from $2.7 billion in October 1991), and inflation fall to around 15 percent from some 37 percent in 1991.

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Internal convertibility has already been introduced: Hungarian firms may hold hard currency accounts and convert forint profits (but not take out loans) to buy hard currency imports. Importers of all goods must put the forint value of each import transaction in a blocked bank account. Companies may repatriate hard currency profits. Joint ventures must open a forint-denominated business account at a Hungarian bank (which may be a joint venture bank, but not an offshore one). Hard currency proceeds of a joint venture must be returned to Hungary and held in forints in the company's commercial account; this exposes such firms to inflation and devaluation risks. Hard currency imports by a joint venture are subject to prior approval from the Ministry for International Economic Relations (NGKM), though this is virtually automatic for liberalized products accounting for 93 percent of imports. Commercial banks may now trade among themselves in hard currency instead of through the central bank.

The forint is pegged to a basket of 11 currencies, weighted according to the currency composition of Hungary's foreign trade turnover in convertible currencies. The forint is depreciating against this basket due to the large inflation differential between Hungary and its Western trading partners. The National Bank can adjust the exchange rate by up to five percent without asking the government for a formal devaluation. Hungary devalued the forint by 15 percent in January 1991, and 5.8 percent in November 1991. The differential between the official and black market rates has narrowed to under 10 percent. However, falling trade competitiveness may make devaluation inevitable by the end of 1991. On January 1, 1991 the transferable ruble was replaced by hard currency accounting for all transactions among former CMEA trading partners.

3. Structural Policies

Hungary has had value added (VAT) and personal income taxes since 1988. A draft tax law is presently under debate within the government in preparation for its submission to Parliament. The Ministry of Finance has announced that tax concessions for foreigners working in Hungary, eliminated in an early draft of the law, will remain intact in 1992. The basic business profit rate is 40 percent, but joint ventures with capital of over Ft 50 million (about $660,000), over 30 percent foreign participation, and at least half of revenues from manufacturing or hotel construction and management are eligible for tax reductions of 60 and 40 percent in their first and second five years of operation. These rise to 100 and 60 percent for priority export sectors, including telecommunications, tourism, agriculture and food processing, machinery and machine tools, pharmaceuticals, electronics and vehicle components. Profits reinvested into either the original firm or another existing or new Hungarian company receive a tax allowance. A January 1991 amendment to the 1988 Investment Act maintains generous tax benefits for foreign ventures. New depreciation allowances in January 1992 should reduce the tax burden on enterprises. The United States has a bilateral tax treaty with Hungary.

Pricing policies: Since January 1991, over 90 percent

of producer and consumer prices have been set by the market, up from 77 percent a year before. Price controls remain (with no distinction between domestic and foreign goods) on telecommunications, postage, milk and dairy products, transport, school textbooks, white bread, medicines and water. The Ministry of Agriculture can set minimum prices for wheat, maize, cattle and pigs for slaughter. Advance notice of price increases is required for printing paper, red pepper grist, sunflower oil and margarine. The Government can prohibit price increases by companies with a dominant market position.

Regulatory Policies: Controls requiring licensing are in place for trading in arms and radioactive and nuclear materials, as well as sensitive dual-use technology.

4. Debt Management Policies

Hungary has the heaviest per capita debt burden of Eastern Europe, seriously constraining privatization and new company formation. Gross foreign debt at the end of 1990 was $21 billion, an estimated 65 percent of GDP and about 200 percent of projected 1991 hard currency exports. The 1991 debt service ratio is estimated to be 40 percent of hard currency earnings. Annual debt service payments will be $3.5-4.2 billion through 1995. German and Japanese banks hold most of Hungary's debt; U.S. banks hold under $250 million.

However, four-fifths of Hungary's external debt is in medium- and long-term loans. Hungary's prompt repayment record and its firm refusal to request debt rescheduling or debt relief have given international investors much greater confidence in Hungary than the size of the debt suggests. In May 1990, agreement was reached with the IMF on a standby loan to help Hungary continue servicing its debt. In February 1991, Hungary signed a three-year standby credit agreement with the IMF, which requires that Hungary's 1991 current account and domestic deficits not exceed $1.2 billion and Ft 78 billion, respectively. The current account deficit will probably be only $200-300 million, while the domestic deficit is expected to be near Ft 90 billion.

5. Significant Barriers to U.S. Exports

Import licensing: Imports have been greatly liberalized to spur domestic competition and let profitable firms obtain materials needed to restructure or produce exports. As of January 1991, over 93 percent of imported goods require no import license, the main exceptions (on a "positive list") being energy and fuels, precious metals, military goods, certain pharmaceuticals, textiles, leather goods, some chemicals and mineral products, food products and telecommunications equipment. Import licenses are not needed when a joint venture imports goods using hard currency contributed by a foreign partner to the venture's incorporation capital. A global quota on consumer goods, maintained for balance of payments reasons, totals $650 million in 1991. NGKM may set quota ceilings for individual product groups, importers and countries, but quotas have

remained unfilled and NGKM has issued licenses on request. An import license may be denied on grounds of national security, compliance with international obligations or to ensure the supply of basic necessities. As of January 1991, general licenses are no longer issued, and all license applications must by law be processed in 15 days. Licenses are normally valid for 12 months. All licensing requirements are slated to be abolished by 1992.

Standards, testing, labelling and certification: Hungary is a signatory to the GATT Agreement on Technical Barriers to Trade (Standards Code). National standards, which are in conformity with international norms, are issued by the Hungarian Standardization Office. They are binding and supercede any sectoral standards issued by ministries or other government agencies. The main labelling requirement is that basic data be indicated in Hungarian; there are some specific rules for products containing alcohol or vitamins, cosmetics, and human and animal pharmaceuticals. New consumer goods, including imports, can only be introduced into Hungary if they meet national health, safety and consumer protection regulations. Domestic and foreign pharmaceuticals must be registered with the National Hungarian Institute for Pharmacy (OGYI), after which an approval for merchandising must be requested from the Ministry of Health. Veterinary drugs, also subject to registration, can only be imported by designated importers. Imports of animals and animal products require a veterinary permission from the Ministry of Agriculture.

Investment barriers: Because of the importance of foreign capital in Hungary's restructuring plans, neither investments nor services are subject to major restrictions. Poor telecommunications and transport infrastructure and unsettled housing and real estate markets are the main barriers to U.S. investment. Foreign investments currently enjoy more favorable tax treatment than domestic investments and are released from some central regulations. Joint ventures are guaranteed national treatment and protection against expropriation. There have been no cases of seizure of foreign assets in Hungary since the early 1950's, and in 1973 Hungary settled all outstanding debts for U.S. assets expropriated in the early days of Communist rule. In the area of services, foreign banks, airlines and other businesses may operate freely in Hungary, although banks continue to need special licenses and cannot be licensed for all banking activities. A 100 percent foreign-owned company is not permitted in insurance. The 1990 securities law lets foreign firms participate in stock and bond markets. Representation and service offices no longer need official permission to open, and now simply register their establishment as does any Hungarian company. A foreign-owned company may acquire any type of real estate as an in-kind contribution from a Hungarian partner, or buy it after the company is established. Acquired property can be mortgaged, leased, sold, or developed in accordance with relevant zoning and building codes. In practice, however, the lack of well-defined property rights complicates property acquisition by such companies. Property may not be acquired for speculative purposes.

Customs procedures: Although customs laws themselves

pose no significant barriers, local U.S. businesses have complained that customs officials' ignorance of regulations and lack of convenient customs facilities sometimes hinder business. Another barrier to increased U.S. exports is Hungarian firms' hesitancy to disrupt their strong ties with West European suppliers. Many U.S. firms also prefer to source Hungarian orders from West European subsidiaries.

Government procurement practices: The Hungarian government discourages countertrade, but lets individual companies decide whether to conduct it. The phase-out of import licensing has resulted in a drop in countertrade. There are no specific legal provisions for government procurement, and Hungary does not apply any local content requirements.

As of January 1, 1991 Hungary has adopted safeguard measures based on its GATT accession protocol; these allow one-year safeguard actions to be taken if any product is being imported into Hungary in such increased quantities or under such conditions as to cause or threaten serious injury to domestic producers of like or directly competitive products. Hungary has signed, and incorporated into its legal system, the GATT Antidumping Code. To date, Hungary has not taken antidumping actions, although it is reportedly considering antidumping measures against "unfair competition" from subsidized cement producers in other parts of Eastern Europe.

6. Export Subsidies Policies

Hungary is not a signatory to the GATT Subsidies Code. In 1980, Hungary declared that, except in agriculture, it did not provide any export subsidies. In 1988, a value added tax was introduced which is refunded on exports. The Export Development Program (EDP) was established in 1985 to spur exports to hard currency markets, particularly in engineering, chemicals, food, metallurgy and light industry. EDP expenditures in 1990 were an estimated Ft 8 billion. Hungary also offers export credit insurance to cover economic, political and exchange rate risks. A Trade Promotion Fund (TPF) also supports hard currency exports with loans (to 75 percent of incurred costs) or grants (to 50 percent). The TPF received Ft 4.2 billion in 1990. The General Intervention Fund (GIF) has been used to support agricultural exports and ensure the supply of basic foodstuffs, but its export support function has been cut back; its 1991 budget is only Ft 700 million.

In March 1991, Hungary set up an Investment Promotion Fund for infrastructure development, with an initial 1991 capital of Ft 1.5 billion. Joint ventures can receive grants or low-interest loans if their initial or share capital exceeds Ft 50 million, foreign participation is over 30 percent and at least half the foreign contribution is in cash in hard currency.

7. Protection of U.S. Intellectual Property

Hungary provides protection for a wide variety of

intellectual property rights including patents, trademarks, copyrights, and inventions. It is a member of the Paris Convention for the Protection of Industrial Property, the Berne Convention for the Protection of Literary and Artistic Works, and the Madrid Agreement Concerning the International Registration of Trademarks. A draft law under discussion will protect integrated circuit layout designs.

Hungary's patent protection is far from adequate. The existing patent law only protects the process by which chemical compounds are produced, not the product itself. Based on this, the Hungarian pharmaceutical sector has developed into a major industry by inventing new processes to make drugs developed outside of Hungary, then producing them for both the local market and for export. The result has been a number of disputes between Hungarian pharmaceutical firms, who have one percent of world trade, and manufacturers in other countries, including the United States. Pharmaceuticals are a key export for Hungary, earning up to $80 million in export revenues annually. The Hungarian pharmaceuticals industry has successfully blocked the government's efforts to bring Hungary's patent laws into line with those of the United States and the EC. The United States and Hungary are negotiating a business and economic treaty in which IPR issues are a central issue.

8. Worker Rights

a. Right of Association

Legislation passed in 1989 recognizes the right to organize, establishing the possibility of trade union pluralism. Excluding judicial and military personnel and the police, workers have the right to associate freely, choose representatives, publish journals, openly promote members' interests and views, and go on strike. A number of competing trade union formations have emerged. The 1989 legislation guaranteed workers the right to call strikes to defend their economic and social interests, but strike to defend their economic and social interests, but strike action has been limited and more often directed against government policies rather than employers.

b. Right to Organize and Bargain Collectively

The right to bargain collectively exists in law, although in practice wages have been excluded and are centrally negotiated in a tripartite macroeconomic policy body to control the rate of inflation. The right to bargain collectively was established in a 1969 law, which was amended in 1989 to allow collective bargaining at the enterprise and industry level. The Ministry of Labor is responsible for drafting labor-related legislation, while special labor courts enforce labor laws. the decisions of these courts may be appealed to the civil court system. Under the new legislation passed in July, employers are prohibited from discriminating against unions and their organizers. It is too soon to judge the effectiveness of this legislation. There are no export processing zones.

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c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is prohibited by law, which is enforced by the Ministry of Labor.

d. Minimum Age for Employment of Children

Labor courts enforce the minimum employment age of 16 years, with exceptions for apprentice programs, which may begin at 15. There does not appear to be any significant abuse of this statute.

e. Acceptable Conditions of Work

The legal minimum wage is established by the Interest Reconciliation Council (IRC) and subsequently implemented by Ministry of Labor decree. The average official workweek varies between 40 and 42 hours, depending upon the nature of the industry. The amended Labor Code of 1967 sets the workweek at 42 hours, but this varies slightly in some industries. Under existing law, workers receive overtime, a minimum of 15 days' paid leave per year, free health care, maternity leave, and pensions. Labor courts and the Ministry of Labor enforce occupational safety standards set by the Government, but specific safety conditions are not always up to internationally accepted standards.

f. Labor Conditions in Sectors with U.S. Investment

Labor conditions in sectors with U.S. investment do not differ significantly from those in Hungarian firms.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category	Amount	
Petroleum		0
Total Manufacturing		(D)
Food & Kindred Products	0	
Chemicals & Allied Products	(*)	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	(D)	
Transportation Equipment	6	
Other Manufacturing	0	
Wholesale Trade		(*)
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

(*)-Under $500,000

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, August 1991

IRELAND

Key Economic Indicators

(Millions of Irish Pounds (IP) Unless Otherwise Noted)

	1989	1990	1991 (est)
Income, Production, Employment			
Real GDP (1985 prices)	20,577	22,041	22,280
Real GDP growth rate (percent) (1985 prices)	3.4	6.50	1.0
GDP at Factor Cost by Sector of origin: 1/			
Agric/forestry/fishing	2,311	2,337	2,526
Industry	7,741	8,530	8,904
Distribution, transport and communication	3,691	4,426	4,390
Public admin./defense	1,238	1,363	1,324
Other domestic	7,000	7,477	7,836
Adj. for fin. services	-1,058	-1,081	-1,139
GDP at factor cost	20,923	23,053	23,841
Plus taxes on expenditure	4,368	4,444	4,503
less subsidies	-1,372	-1,803	1,324
GDP at market prices	23,919	25,693	26,490
Real Per Capita Income	5,740	6,129	6,417
Size of Labor Force (1000's)			
employed and unemployed	1,293	1,303	1,333 1/
total employed	1,101	1,120	1,123 1/
Unemployment rate (not seasonally adjusted)	17.9	17.2	20.2 2/
Money and Prices			
Money Supply (M1) year-end	2,936	3,175 2/	3,084
Associated Banks' Prime	10.75	10.25	10.25
Lending Rate	11.00	10.75 3/	10.75
Commercial Interest Rates	11.25	10.75	10.50
(between 1-3 years)		11.00 3/	10.75
Savings Interest Rate	8.25	6.00	5.50
(Investment share accounts)	9.00	8.25 3/	8.35
Investment Rate:			
1-year to maturity	10.79	10.29 3/	9.56
8-year to maturity	9.73	10.39 3/	9.54
Consumer Price Index 4/	138.9	143.6 5/	106.4
Wholesale Price Index 6/	108.1	105.1	106.4 3/
Exchange Rate (US$/IP	1.4175	1.6585	1.6144 3/
Balance of Payments and Trade			
Total Exports (FOB) 7/	14,597	14,343	15,011
Total Exports to US	1,153	1,178	1,300
Total Imports (CIF) 7/	12,284	12,480	13,300
Total Imports from US	1,973	1,815	1,900
Aid:			
International Fund for Ireland (IFI):			
Aid from U.S ('000)	7,124	11,101	N/A
Aid from Canada ('000)	261	470	N/A
Aid frc~ EC ('000)	11,346	11,702	N/A

IRELAND

EC FEOGRA (Agriculture) Aid			
- Intervention/Export Refunds	963	1,287	1,300
- Grants to farmers, headage schemes, drainage, etc.	77	91	113
- European Social Fund	139	128	293
- European Region. Devel. Fund	113	225	373
Total U.S. Direct Investment All industries (US$ mil)	5,522	6,776	N/A
Debt Service Cost	905	1,110	1,241
Gross External Government Debt (year-end)	9,168	8,862	8,750
Gold and Foreign Exchange Reserves (year-end)	2,521	3,077	3,000
Merchandise Balance 4/	2,244	1,814	1,578
Services Balance	59	264	308
Factor Incomes Balance	-3,039	-2,782	-2,539
Transfers balance	1,108	1,567	1,819
Total current account bal.	371	864	870

1/ Annual averages.
2/ December figure.
3/ July figure.
4/ Base: mid-November 1982 as 100
5/ mid-November figure.
6/ Base: year 1985 as 100
7/ Differences between trade figure are due to technical adjustments.

Sources: Central Bank Bulletin; Central Statistics Office (CSO); Economic & Social Research Institute; IMF statistics.

1. General Policy Framework

Ireland has a small open economy which is very dependent on trade. Exports of goods and services in 1990 were equivalent to 70 percent of GNP, while imports were equivalent to 61 percent of GNP. Government policies are generally formulated to facilitate trade and inward direct investment. Ireland has a market economy, which is based primarily on private ownership. Government ownership and control of companies generally occurs in those sectors which are considered by the government to be natural monopolies, those in which the state has stepped in to assist failing firms, or those of special importance to the economy. In the majority of cases, government-owned firms are operated on a commercial basis, and may be in competition with privately owned firms in the same sector. In recent years the government has taken steps to reduce its share holding in a number of companies which are considered commercially viable.

Fiscal Policy - Ireland's government debt is approximately IP 25.1 billion, of which about IP 8.9 billion is denominated in foreign currencies. The debt has generally been financed by the sale of government securities. The vast majority of the debt was accumulated in the 1970's and early 1980's, partly as a result of oil price shocks, but more generally as a result of expanding social welfare programs and government employment. The debt grew rapidly in the late 1970's and early 1980's due to large government deficits. However, the government has made considerable progress during

the past four years in reducing budget deficits and containing the growth of total debt.

There has been general cooperation by major political parties, labor and employers in the government's fiscal austerity program since 1987. A three-year national economic program formulated in 1987 by the "social partners" made major contributions to the economic resurgence and fiscal corrections which took place in the period from 1987 to 1990. Government budget deficits fell dramatically while exports, investment and consumer spending showed strong growth. A second three-year national economic pact, known as the program for economic and social progress (PESP), was agreed in early 1991. It contains similar provisions for moderate wage increases and improvements in government finances. Projections for 1991 indicate that government borrowing will be about 2.5 percent of GNP.

Irish tax policies have a major effect on personal consumption and demand for imported goods. Personal income tax rates are very high in Ireland. In the 1991 budget the government reduced the standard rate of income tax from 30 percent to 29 percent, while the highest rate was reduced from 53 percent to 52 percent. Just over 60 percent of Irish tax payers are in the standard rate bracket. Irish value added tax (VAT) rates are among the highest in the European Community (EC). In the 1991 budget, the government reduced the standard rate of VAT from 23 to 21 percent. Further reductions are expected in VAT rates as the government moves to approximate the rates of other EC countries as part of the EC's program for a single European market. The standard corporate income tax rate in Ireland is 40 percent. Manufacturing firms and many exporting firms pay only 10 percent on corporate income under special arrangements designed to boost industrial development.

Monetary Policy - Ireland's monetary policies are aimed primarily at maintaining exchange rate stability within the European Monetary System (EMS), which ireland joined in 1979. Interest rates are the predominate tool used by the Central Bank to affect monetary variables.

2. Exchange Rate Policies

Until 1979, the Irish Pound (IP) was pegged to the Pound Sterling. In March 1979, Ireland joined the exchange rate mechanism (ERM) of the EMS and broke its link to the British currency. It has, however, endeavored to maintain a stable competitive exchange rate against sterling due to the large amount of trade carried on between Ireland and the U.K. Membership in the ERM involves a commitment to maintain the Irish currency within a 2.25 percent band against other ERM currencies except for formal realignments. The Irish Pound has been adjusted downward twice since Ireland joined the EMS; 3.5 percent in 1983 and 8 percent in 1986. As part of the Common Agricultural Policy (CAP) of the EC, Ireland has maintained multiple exchange rates (known as green currency exchange rates) on agricultural goods subject to the CAP.

Under EC legislation, Ireland is committed to phasing out

all exchange controls by the end of 1992. Liberalization will occur in two stages. In the first stage, effective January 1, 1992, the government will lift the remaining restrictions on non-residents with Irish currency deposits in Ireland and on residents investing in short term foreign securities and foreign property. At the same time, the government will eliminate time restrictions on foreign currency accounts held in Ireland by residents. The second and final stage of foreign exchange liberalization will take place in late 1992, and will include the elimination of all remaining foreign exchange controls, including restrictions on residents owning deposit accounts abroad. Ireland still has exchange controls for foreign travel and for individual investment abroad. Irish residents travelling abroad are allowed to exchange up to IP 1200 automatically, and more if the amount can be justified on the basis of the traveler's itinerary. These restrictions will probably be eliminated in the second phase of liberalization planned for late 1992.

3. Structural Policies

In October 1991, the Irish Government adopted a new Competition Act. The legislation marks a shift from the previous system of restrictive practices orders and administrative control, to a system which allows claims of anti-competitive behavior to be pursued in the courts. As a result, the government has revoked price controls on petroleum products and all other restrictive practices orders, except one which deals with the grocery trade. That order is also expected to be revoked following a review of conditions in that sector of the economy.

Tax Policies - The Irish tax system for corporations favors manufacturing and exporting companies. Those companies pay income tax of only 10 percent, compared to the normal rate of 40 percent. This gap encourages the development of export and manufacturing industries, and discourages growth in other industries. The 10 percent corporate tax rate has been extended by the government to the year 2010. Personal income tax rates are relatively high, encouraging tax avoidance by people at all income levels. The standard rate, 29 percent, is assessed on single workers earning more than IP 3,400 ($5,236) and on married workers earning more than IP 6,800 ($10,472). The top rate for personal income tax is 52 percent and applies to single workers earning more than IP 9,800 ($15,092) and married workers earning more than IP 19,600 ($30,184). Many pay an additional 7.75 percent of their earnings for a variety of social security programs. The standard rate of value added tax (VAT) is 21 percent, but many essential goods, including food, have a VAT rate of zero. VAT rates and many excise taxes are the subject of harmonization efforts in the European Community.

Regulatory Policies - Government investment incentives are weighted toward high technology, export oriented companies. Capital grants by the Irish Industrial Development Authority (IDA) reportedly have tended to favor capital intensive investments over labor intensive ones.

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4. Debt Management Policies

Ireland's total exchequer debt amounts to about IP 25.1 billion, or about 110 percent of estimated 1990 GNP. While the debt has continued to grow in nominal terms, it has fallen significantly as a percentage of GNP since 1987. The foreign portion of the debt is IP 8.9 billion. As of June 1991, 19.4 percent of foreign debt was dollar denominated, 34.7 percent was in Deutsch Marks, 27.4 percent was in Swiss Francs, 8.8 percent in Japanese Yen, 6.1 percent in European Currency Units (ECU), and lesser amounts in Dutch Guilders, Sterling, Belgian Francs, and Austrian Schillings. Debt service costs in 1990 were IP 2.3 billion ($3.8 billion), about 6.8 percent of estimated Irish exports of goods and services and about 10 percent of GNP. In 1991 the government created an independent agency to manage the debt. The government expects the new agency to effect considerable savings in debt service costs through more efficient debt management.

5. Significant Barriers to U.S. Exports

Ireland maintains a limited number of barriers to U.S. services trade. Airlines serving Ireland may provide their own ground handling services, but are prohibited from providing ground handling services to other airlines.

In the insurance industry, U.S. firms are at a disadvantage compared with their competitors from EC member countries, which may establish a branch operation in Ireland without meeting the Irish requirement for a guarantee fund equal to one third of the solvency margin. U.S. and other non EC firms must establish a corporate identity in Ireland and comply with the guarantee fund requirement.

The government maintains exchange controls on foreign travel by Irish citizens, but the administration of the controls is sufficiently liberal that they pose no substantial constraint. Although they have been liberalized in recent years, Ireland still maintains some of the strictest animal and plant health import restrictions in the EC. These, together with EC import duties, effectively exclude many meat based foods, fresh vegetables and other agricultural products.

The EC has a directive which reserves a majority of television broadcast time for productions of EC origin. The language of the legislation mandates compliance by member states "where practicable". National legislation to implement the EC broadcast directive has been introduced by the irish government and took effect October 3, 1991. In most respects, it follows the language of the community's directive.

6. Export Subsidies Policies

Export subsidies relief was discontinued in early 1990. Companies manufacturing goods in Ireland benefit from a corporation tax of 10 percent on profits. Stockholders of companies eligible for this program paid income tax of only 10 percent on dividends received from the company, rather than the normal tax rate (29-52 percent). This program will be

discontinued after the year 2000. There are no tax or duty exemptions on imported inputs except for those companies located in the Shannon duty-free zone and Ringaskiddy free port, which is operational since 1986. The Shannon duty-free zone benefits from the reduced rate of Corporation tax of 10 percent, while Ringaskiddy does not.

The Irish Trade Board (Bord Trachtala), (formerly Coras Trachtala) provides a single, integrated range of marketing support services for companies selling in Ireland and developing export sales. The organization organizes group promotions such as trade visits, trade missions, buyer visits to Ireland and sectoral marketing promotions. The Government administers export credit and insurance programs for exporters in accordance with OECD guidelines. As a participant in the Common Agricultural Policy (CAP) of the EC, the Irish Department of Agriculture and Food administers CAP export refund and exchange rate programs on behalf of the EC Commission.

7. Protection of U.S. Intellectual Property

Ireland supports strong protection for intellectual property rights. The Government encourages foreign investment, especially in high-tech industries. Consequently, protection of intellectual property rights has been an important part of the government's business policy. Protection is generally on a par with other developed countries in Europe, and the government is responsive to problems which arise. However, government efforts to improve protection in a number of areas have been slowed down both by domestic legal problems and by EC legislation currently under consideration.

Patents - The government has introduced new patent legislation in Parliament, which will, if adopted, allow Ireland to ratify the European patent convention and the patent cooperation treaty. It does not, however, provide for Irish ratification of the Community Patent Convention, since that will require a referendum to amend the Irish constitution. The legislation, as drafted, would also speed up patent processing, extend the usual term of patent protection from 16 to 20 years, and allow short term patents (10 years) to certain categories of inventions. The government hopes to adopt the draft legislation by the end of 1991.

Trademarks - Existing trademark legislation in Ireland does not specifically cover service industry trademarks, although some court cases have extended protection to trademarks in service industries. the government is considering the need for new legislation to make protection explicit.

Copyrights - Copyright protection in Ireland is generally considered to be good. However, industry sources have indicated that penalties for infringement of copyrights on video tapes are not sufficiently severe to curb pirating. A review of Irish copyright legislation may be undertaken as a result of developments within the EC. In that context, the

government may consider strengthened penalties for copyright infringement.

8. Worker Rights

a. The Right of Association

Workers have the right to associate freely and to strike. The right to join a union is guaranteed by law, as is the right to refrain from joining. The Industrial Relations Act of 1990 introduced some limitations on picketing but generally renewed legal guarantees of immunity to union members and officials for industrial actions with regard to terms or conditions of employment.

About 58 percent of workers in the private and public sectors are members of unions. 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.

b. The Right to Organize and Bargain Collectively

Labor unions have full freedom to organize and to engage in free collective bargaining. Legislation prohibits antiunion discrimination. Most terms and conditions of employment in Ireland are determined through collective bargaining, which took place in 1991 in the context of a national economic pact (Program for Economic and Social Progress or PESP) negotiated by representatives of unions, employers, farmers and the government. The PESP included an agreement between the Irish Congress of Trade Unions (ICTU) and the Federation of Irish Employers establishing standard pay increases for the three year period of the PESP. In addition, the agreement provides for a one-time wage increase of up to 3 percent to be negotiated at local level during the second year of the PESP.

The Industrial Relations Act of 1990 established the Labor Relations Commission which provides advice and conciliation services in industrial disputes.

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

The minimum age for employment is 14 years with the written permission of the parents. Irish laws limit the hours of employment for 15-year-olds to 8 hours per day and 40 hours per week. Those from 16 to 17 years of age may work up to 9 hours per day and 40 hours per week. These provisions are effectively enforced by the Department of Labor.

e. Acceptable Conditions of Work

There is no general minimum wage legislation. However,

some workers are covered by minimum wage laws applicable to specific industrial sectors, mainly those that tend to pay lower than average wages. 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. As part of the national economic pact adopted in 1987, the standard work week is being gradually reduced to 39 hours. The Labor Department is responsible for enforcing four basic laws dealing with occupational safety that provide adequate and comprehensive coverage.

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 Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. Dollars)

Category	Amount	
Petroleum		-41
Total Manufacturing		4,885
Food & Kindred Products	690	
Chemicals & Allied Products	1,478	
Metals, Primary & Fabricated	129	
Machinery, except Electrical	739	
Electric & Electronic Equipment	420	
Transportation Equipment	23	
Other Manufacturing	1,406	
Wholesale Trade		(D)
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business August 1991, Vol. 71, No. 8, Table 11.3

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Key Economic Indicators

(Billions of Italian Lire unless Otherwise Stated)

	1989	1990	1991 1/
Income, Production and Employment			
Real GDP (1985 prices)	922,558	940,574	949,046
Real GDP growth rate	3.0	1.0	0.9
GDP by sector			
Agriculture	37,481	35,887	36,964
Manufacturing	329,749	334,677	329,759
Services	435,512	449,805	461,950
Services not for sale 2/	108,143	108,901	109,663
Real GDP growth by sector			
Agriculture	0.8	-4.3	3.0
Manufacturing	3.2	1.5	-1.5
Services	3.9	3.3	2.7
Services not for sale	0.9	0.7	0.7
GDP per capita (000s) (1985 prices)	16,033	16,312	16,458
Labor market (000s)	21,004	21,277	21,574
Employment by sector			
Agriculture	1,946	1,895	1,814
Industry	6,754	6,845	6,936
Services	12,305	12,565	12,824
Unemployment	2,865	2,621	2,640
Unemployment rate (pct)	12.0	11.0	10.9
Money and Prices			
Money (end period)			
Money supply (M1)	433,334	467,463	446,522(Sept)
Money supply Growth rate (M1)	12.3	7.9	8.4
Interest rates (period average)			
Treasury bills 6-month	12.6	12.3	12.4(Oct)
Effective prime rate	13.8	13.3	12.9(Oct)
Prices (average)			
Producer price index (1990 equals 100)	97.8	100.0	103.1(Aug)
Cost of living (1989 equals 100)	100.0	107.4	112.1(Sep)
Exchange rate (lire per dollar-average)	1,372	1,198	1,246(Sep)
Balance of Payments and Trade			
Total exports FOB	192,855	203,605	135,708(Aug)
Total to U.S.	16,631	15,528	8,322(Jul)
Total imports CIF	209,913	217,726	146,811(Aug)
Total from U.S.	11,454	11,103	7,272(Jul)
Bank of Italy International Reserves (end-period)	93,240	103,405	108,581(Sep)
Commercial Banks Foreign Position (end-period)	-51,537	-56,651	-77,432(Sep))

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Public external debt 3/ (trillions of lire) (year end)	35.1	48.8	N/A

1/ 1991 data are estimates by Italian Government or U.S. Embassy except where data are followed by a month thereby indicating actual data through that period.
2/ "Services not for sale" is defined as services provided by the Government which have no comparable market price. This figure is an Italian Government estimate of "market value" for these services based on "production cost".
3/ This figure does not include foreign purchases of treasury securities issued domestically.

1. General Policy Framework

The Italian economy is one of the world's largest, having undergone a dramatic transformation into an industrial power in the post-war period. Since 1982, the services sector has led economic growth while the industrial sector retooled. Industrial output returned to 1980 levels in 1987, and expanded through 1990, but has turned negative in 1991 as a consequence of the general economic downturn. A member of the Group of Seven (G-7), General Agreement on Tariffs and Trade (GATT), the International Monetary Fund (IMF) and the European Community (EC), Italy maintains a relatively open economy.

The state plays an active role in the economy, not only in the making of macroeconomic policy and rules, but also through control of industrial parastatals and major financial institutions. Nonetheless, the Italian private sector is large and dynamic. Italy has a number of major population centers, and none is predominant. The northern half of the country is more developed and enjoys higher per capita income than the southern half. The divergence in wealth is also reflected in higher unemployment in the south, which constitutes one of Italy's major economic and social problems.

Italy's large and growing public debt constitutes its most pressing economic problem. The stock of this debt exceeded the value of the gross domestic product (GDP) in 1990. The budget deficit was 10.9 percent of GDP in 1990. Despite gains in revenues associated with economic growth and a gradual widening of the tax base, increases in spending in such areas as pensions, health care and public sector salaries as well as for interest have frustrated plans to reduce the deficit and slow the rate of increase of the public debt. Interest payments are becoming an increasingly larger portion of the annual deficit. The government intends to cut the budget deficit/GDP ratio by almost two percentage points from 1991 to 1992 through a combination of increased tax receipts and spending controls.

The overall monetary policy objective is to hold the increase in M-2 (currency plus all bank deposits) and the increase in credit to the non-state sector to the increase in the forecast rate of increase of nominal GDP. This forecast usually assumes a lower-than-actual rate of inflation. Credit to the state sector is considered an exogenous variable. Within this policy framework, the Bank of Italy moved away from

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direct monetary controls in favor of indirect instruments. This is seen as essential in light of the integration of European capital markets. The principal monetary policy tool of the Bank of Italy is open market operations exercised through repurchase agreements with the banks. The central bank discount window is seldom opened. Italy's commitment to exchange rate stability within the European Monetary System complicates the management of monetary policy.

2. Exchange Rate Policies

Italy is a member of the European Monetary System (EMS) as well as its exchange rate mechanism. As such, it is committed to maintaining a flexible parity in relation to the currencies of its EMS partners. In January 1990, Italy moved the lira into the narrow band of the EMS, meaning that the lira can fluctuate no more than 2.25 percent up or down from its central rate vis-a-vis other participating currencies. In May 1990, Italy eliminated its remaining foreign exchange controls in order to align its policies with the EC's directive on liberalization of short-term capital movements. Italian residents are now completely free to engage in all manner of foreign financial transactions, so that the Italian economy is now participating in the international integration underway in financial markets.

3. Structural Policies

Structural rigidities have hindered Italy's economic growth. Rigid hiring and firing rules, downward wage stiffness and high unemployment benefits for redundant industrial workers have created a resource-distorting labor market and have had a negative impact on job creation. Inefficiencies in the delivery of public services also serve as a hindrance to growth and add to the cost of doing business in Italy. A third major area of structural rigidity is financial markets, which traditionally have been heavily regulated and slow to respond to market needs. The Italian stock market is currently depressed with low prices and modest volume of transactions. This has discouraged many businesses from raising new capital. Government financial support for maintaining existing economic activity, often through state ownership, also limits flexibility in the economy. The above, and other structural problems, have prevented stronger Italian economic growth. Much of the progress in eliminating structural barriers to higher growth has resulted from movement toward a unified European market. The elimination of foreign exchange controls is one example. Recent and proposed legislation to reform the financial system is another.

Government procurement and pricing practices are not completely guided by free market principles. Government procurement, at least in some areas, is heavily directed toward Italy-based suppliers, e.g., heavy electrical equipment, telecommunications and military hardware. Procurement procedures are not fully transparent. Taxes and customs duties do not present serious obstacles to U.S. exports (except for agricultural products), other than the usual level of bureaucratic red tape which marks all transactions in Italy.

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While Italy remains relatively open to foreign investment, acquisition of existing entities by foreign investors can become a political issue and produce national solutions. The 1990 anti-trust law gives the Government the authority to block mergers over a certain size involving foreign companies under certain conditions. Thus far, however, the anti-trust authority has not acted against foreign investment, concentrating instead on promoting increased competition in Italian markets.

Italian structural policies are increasingly being made within the framework of the unification of the European market in 1993. The degree to which these policies affect demand for U.S. exports will to a large extent be determined by the orientation of the unified market after 1993. Italy is committed to achieving economic and monetary union within the EC. The fiscal and monetary policy objectives are set with this in mind. Even so, there is still strong political opposition to the economic policies necessary for Italy to converge its economy with the other members of the EC as required by the European Monetary Union (EMU) process.

4. Debt Management Policy

Though Italy has not had external debt or serious balance of payments difficulties since the mid-1970's, its domestic public debt is extremely large. It is financed principally through domestic capital markets, with various securities ranging in maturity from three months to ten years. Major U.S. credit rating agencies downgraded Italy from their top category during 1991. Italy's foreign assets and liabiilities are substantial. Its net external position was negative in the amount of $111.2 billion at the end of 1990. Italy's banking system had claims on the heavily indebted developing countries amounting to $5.6 billion at the end of 1990. Italy's banking system is considerably less exposed to the debtor countries than those in other Group of Seven countries.

5. Significant Barriers to U.S. Exports and Investment

Government procurement is fragmented, under-publicized and almost impossible to access by U.S. exporters without a good Italian representative. In May 1991, Italy was singled out for early review under the 1988 Trade Act's Title VII procedure. Through its ownership of holding companies the Italian Government directly or indirectly controls hundreds of enterprises, including the electrical, water and gas utilities, and telephone companies. None of these is required to adhere to the terms of the GATT Government Procurement Code. Tendering procedures do not usually give satisfactory deadlines. Tenders, other than those also published by the EC, are only in Italian, and bids must be in Italian. Although not officially stated, there is a strong "Buy Italy" pressure from the electronics industry to increase the percentage of Italian-made electronic and computer equipment in the lucrative Central Government modernization plan. On large automation contracts, there have been examples of tenders awarded to the bidder offering the highest price but not the best technical qualification. Implementation of the EC utilities directive

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will change Italian procurement practices in the telecommunications, transport, water, and energy sectors, but may not improve treatment of U.S. suppliers.

U.S. agricultural exports to Italy are covered under the EC's Common Agricultural Policy (CAP). In addition, some Italian imports from the United States continue to be subject to quantitative restrictions or variable levies. Agricultural imports face numerous health and phytosanitary barriers, either at the EC or the national level, that result in the exclusion or restriction of certain U.S. products including beef, some seeds for planting, citrus (other than grapefruit), non-citrus fruit including apples and pears, and selected vegetables including tomatoes, eggplants and peppers.

Telecommunications services are still tightly regulated by the state, which maintains a monopoly on voice telephony and the infrastructure, including all switching. Enhanced services must be offered over the public switched network or through dedicated leased circuits. Resale of leased line capacity remains prohibited until 1993, when it should be liberalized in accord with the EC Directive on Telecommunications Services. Multi-user networks are officially outlawed, but sometimes tolerated where need is demonstrated. Mobile phone services are at present the monopoly of the state-owned telephone utility, SIP. The granting of a second operating license has been discussed but, as of October 1991, neither a specification nor a process for awarding a license has been set.

The Parliament in August 1990 passed a law which would require that a majority of TV broadcast time for feature films be reserved for EC-origin films, in keeping with the 1989 EC Broadcast Directive. Another law making its way through the Parliament contains regulations requiring movie theaters to exhibit EC-origin films a minimum number of days per quarter. Present regulations, widely ignored, include a 25 day-per-quarter quota.

Access to the Italian standards-setting process is limited, and Italy does not accept test data from foreign sources. In sectors such as pollution control, standards vary in each region, creating a labyrinth of certification requirements for U.S. exporters.

Some professional categories (eg. architects, lawyers, accountants) are restricted from practicing in Italy because of the requirement to either possess Italian nationality or to have received an Italian university degree. This should change as Italy adopts new EC guidelines.

Rulings by local customs authorities, often arbitrary or incorrect, can result in denial or delays of entry of U.S. exports into the country. Considerable progress has been made in correcting these deficiencies, but the problems generally arise on a case-by-case basis.

While official Italian policy is to encourage foreign investment, all industrial projects require a multitude of approvals and permits from the many-layered Italian bureaucracy, and foreign investments often receive close scrutiny. These lengthy procedures can, in and of themselves,

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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, banking and the state monopolies (e.g., railways, tobacco manufacturing and electrical power). While privatization of state-owned enterprises is under intense political debate, there seems to be little chance of foreign investors taking a major stake in these companies. Recent examples in the food and chemical sectors show that there is a strong preference for a "national" solution. The expansion of modern distribution units, such as chain stores, department stores, supermarkets, hypermarkets, and franchises, is severely restricted by local practice and national legislation which subjects applications for large retail units above a certain merchandising surface to a lengthy and cumbersome authorization process. Investment incentives consisting of tax breaks and other measures were implemented to attract industrial investment to depressed areas, especially in the south of Italy.

In September 1990, the Italian Parliament approved an anti-trust law. The new law gives the government the right to review mergers and acquisitions over a certain threshold. The government has the authority to block mergers involving foreign firms for "reasons essential in the national economy" 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 in the law applies to purchases by foreign entities of five or more percent of an Italian credit institution's equity.

6. Export Subsidies Policies

Italy subscribes to EC directives and Organization for Economic Cooperation and Development (OECD) agreements on export subsidies. Through the EC, it is a member of the GATT Subsidies Code. Italy has 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. Most programs are aimed at small-to-medium size firms. Italy provides direct assistance to industry and business firms to improve their international competitiveness. This assistance includes export insurance through SACE, the state export credit insurance body, as well as direct export credits.

7. Protection of U.S. Intellectual Property

The Italian Government is a member of the World Intellectual Property Organization, and a party to the Berne and Universal Copyright conventions, the Paris Industrial Property and Brussels Satellites conventions, to the Patent Cooperation Treaty, and to the Madrid Agreement on International Registration of Trademarks.

Intellectual property rights protection is marked by inadequate enforcement of copyrights, including widespread record, video and computer software piracy. Because of the serious piracy problems, in May 1991 Italy was again placed on

the U.S. Trade Representative's "Watch List" under the Special 301 provision of the 1988 Trade and Competitiveness Act.

In past years, software piracy has been the intellectual property problem of particular concern to U.S producers. However, the approval of the EC Software Directive should create a new set of circumstances in the European software market. In October 1991, a bill was introduced into the Italian Parliament to make the EC Software Directive a part of Italian domestic law. The Italian software industry appears to be supporting early adoption of the bill.

Italy is a net importer of intellectual property, particularly patents. We are unaware of any major cases in the last year that have arisen due to alleged patent infringement. In order to allow for an adequate period of patent protection for pharmaceutical producers, including many U.S. companies operating on the Italian market, a law was passed in the summer of 1991 permitting pharmaceutical producers to obtain a special certificate that extends patent protection beyond the usual 20 years.

It is nearly impossible to accurately estimate the value of foregone exports of U.S. intellectual property due to the problems of patent infringement, copyright piracy and counterfeiting. However, U.S. software producers put the cost of software piracy alone at around of $750 million annually.

8. Worker Rights

a. The Right of Association

The Workers' Statute of 1970 provides for the right to establish a trade union, to join a union and to carry out union activities in the workplace. Trade unions are not government controlled, and the Constitution fully protects their right to strike, which is frequently exercised. In practice, the three major labor confederations have strong ideological ties to the three major political parties and administer certain social welfare services for the Government, which compensates them accordingly.

Perhaps as the result of a 1990 law limiting the right to strike in essential public services, Italian workers went on strike much less in 1991 than in previous years. The number of hours lost to strikes declined by 40 percent in the first four months of 1991.

b. The Right to Organize and Bargain Collectively

The right of workers to organize and bargain collectively is protected by the Constitution and is freely practiced throughout the country. Labor-management relations are governed by legislation, custom, collective bargaining agreements, and labor contracts. A key element of labor-management-government cooperation affecting the industrial relations climate is the 1986 agreement on indexing wages (scala mobile) to the cost of living every six months. National collective bargaining agreements in fact apply to all workers regardless of union membership.

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The law prohibits antiunion discrimination by employers against union members and organizers. A new law in 1990 encourages workers in small enterprises (i.e., fewer than 16 employees) to join unions and requires "just cause" for dismissals from employment.

c. Prohibition of Forced or Compu sory Labor

Forced or compulsory labor, which is prohibited by law, does not exist in practice.

d. Minimum Age for Employment of Children

Under current legislation, no child under 15 years of age may be employed (with some specified exceptions). The Ministry of Labor, having consulted with the labor organizations, may, as an exception, authorize the employment on specific jobs of children over 12 years of age.

e. Acceptable Conditions of Work

Minimum work and safety standards are established by law and buttressed and extended in collective labor contracts. The Basic Law of 1923 provides for a maximum workweek of 48 hours -- no more than 6 days per week and 8 hours per day. The 8-hour day may be exceeded for some special categories. Most collective labor agreements provide for a 36- to 38-hour week. Overtime may not exceed 2 hours per day or an average of 12 hours per week.

There is no minimum wage set under Italian law; basic wages and salaries are set forth in collective bargaining agreements. National collective bargaining agreements contain minimum standards to which individual employment agreements must conform. In the absence of agreement between the parties, the courts may step in to determine fair wages on the basis of practice in related activities or related collective bargaining agreements.

Basic health and safety standards and guidelines for compensation for on-the-job injury are set forth in an extensive body of law and regulations. In most cases these standards are exceeded in collective bargaining agreements.

f. Rights in Sectors with U.S. Investment

Conditions do not differ from those in other sectors of the economy.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category		Amount
Petroleum		605
Total Manufacturing		8,535
Food & Kindred Products	516	
Chemicals & Allied Products	2,195	
Metals, Primary & Fabricated	180	
Machinery, except Electrical	4,000	
Electric & Electronic Equipment	407	
Transportation Equipment	182	
Other Manufacturing	1,055	
Wholesale Trade		1,677
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		10,817

Source: U.S. Department of Commerce, Survey of Current Business
August 1991, Vol. 71, No. 8, Table 11.3

LATVIA

1. General Policy Framework

The Latvian government says that its overriding goal is "to manage a smooth transition to a market economy, at the same time recreating the integrity of the Latvian economy as a separate unit." To this end, the government has passed a flurry of new legislation establishing the framework for a market economy. Ultimately, Latvia would like to serve as a gateway economy between Europe and Russia. But for the moment, the economic situation remains unsettled.

Changes to the Latvian constitution reintroduced guarantees of individual property rights. New types of businesses are now permitted: individually and family-owned enterprises, cooperatives, and privately and publicly held companies. Privatization of state properties will proceed in stages. The first step is the division of current ownership between Soviet-owned, republic-owned, and locally-owned properties. Enterprises nationalized in 1940 will be returned to their original owners, and the government hopes to stimulate new investment both from Latvian and foreign investors.

Other items for reform include: implementing a customs service, creating its own national currency, creating a strong central bank, reforming the taxation system, and stimulating foreign investment in Latvia.

2. Exchange Rate Policy

Latvia's Department of Foreign Trade is optimistic that the new currency, called the lat, will be put into circulation by the second half of 1992. The Latvian government expects the lat to be backed by an IMF loan and gold reserves of $120 million. Currently the Soviet ruble remains in use as currency.

In the meantime, any person or legal entity licensed by the Bank of Latvia may buy or sell hard currency at free market rates. There are 28 currency exchange points in Latvia, and market exchange rates fluctuate daily.

3. Structural Policies

Patterns of Industrial Ownership: As of September 1991, heavy industry was still primarily subordinate to Moscow. Many enterprises are no longer jointly controlled by Moscow and Latvia, but are controlled by Latvia alone. A privatization program will take place in 1991-2, during which industrial facilities will be available for purchase by both Latvians and foreigners.

A non-state sector began to emerge in 1989, after enabling Soviet legislation passed in 1988. The number of people employed in the cooperative sector jumped from 8,800 in 1988 to 198,700 in 1990, giving Latvia the largest cooperative sector of any Baltic country.

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Price Reform: Latvia plans to free prices beginning January 1, 1992, but certain goods may remain at current levels. Energy prices were reportedly freed in late October 1991. However, the price of gasoline remained controlled.

Tax Policies: Joint ventures are subject to property taxes, land taxes and excise taxes. A property tax of 1.5 percent on assessed property values, excluding land, is levied. Agricultural properties are taxed at a lower rate, and buildings financed with currency receive a three-year tax holiday. A land tax, which ranges from 15 kopeks to 1 ruble per square meter depending on such factors as location, population density and how the land is used, is also imposed. Excise taxes, ranging from 10 to 95 percent of the sales price for producers of hard alcohol, liqueur, wine, beer, tobacco products and furs, may also apply.

Foreign Investment: Latvia passed a foreign investment law on November 5, 1991. It permits foreign investors to acquire existing businesses or create new ones under the same laws that apply to local investors.

If a business is both foreign-controlled and has assets over $1 million, the Council of Ministers must approve the investment. If the business does not fall into either of these categories, the investor must simply register the business with the government. Businesses which are at least 30 percent foreign-owned do not pay tax for the first two years, and the second two years are taxed at 50 percent. There are no other restrictions on repatriation of profits; however, it remains difficult to convert local currency into dollars.

Only Latvian citizens are permitted to own land. However, other property rights are guaranteed to foreign nationals.

4. Debt Management Policies

As a former republic of the Soviet Union, it is still unclear exactly how much debt Latvia will be responsible for repaying. Negotiations on this matter are in progress.

5. Significant Barriers to U.S. Exports

The biggest problem for U.S. exports is not the existence of Latvian subsidies or other trade barriers, but the lack of an infrastructure for trade. Over 80 percent of Latvia's trade has been conducted with the Soviet Union, and foreign trade was handled through centralized state agencies. As a result, control of the economy is not completely in Latvian hands. The former Soviet Union still controls part of the customs service, for example.

6. Export Subsidies Policies

Concerned about scarcities of goods, the Government of Latvia has begun to control exports.

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7. Protection of U.S. Intellectual Property

Under the Soviet Union, Latvia was a member of the World Intellectual Property Organization, the Universal Copyright Convention, the Paris Convention for the Protection of Industrial Property, the Madrid Agreement Concerning the International Registration of Marks, the Patent Cooperation Treaty, and the Budapest Treaty on the International Recognition of the Deposit of Micro-organisms for the Purpose of Patent Procedure.

No further laws on intellectual property have been passed.

8. Worker Rights

a. The Right of Association

Soviet labor law and practice were generally enforced in Latvia. New Latvian legislation on trade unions and collective bargaining has been passed. Unions have the right to strike with some limitations.

b. Right to Organize and Bargain Collectively

Under Soviet law, workers in Latvia did not have the right to organize outside the official single trade union system, and free collective bargaining, as that term is understood, did not exist. Under new legislation passed after consultations with labor organizations, trade unions can now function independently of the managers of state-owned enterprises. However, collective bargaining is still in its formative stages.

c. Prohibition of Forced or Compulsory Labor

Prior to the Soviet coup attempt in August 1991, forced labor in prison camps was permitted; it has since been banned.

d. Minimum Age for Employment of Children

The statutory minimum age for employment of children is 16. Minimum age and compulsory education laws are, by all accounts, enforced by state authorities through inspections.

e. Acceptable conditions of Work

The Labor Code provides for a mandatory 40-hour maximum workweek, 4 weeks of annual vaction, and a program of asistance to working mothers with small children. Labor conditions in Latvia were somewhat better than in the U.S.S.R. Soviet and Latvian laws establish minimum occupational health and safety standards for the workplace. These standards seem to be frequently ignored.

Extent of U.S. Investment in Goods Producing Sectors

There is no sector by sector data available on U.S. investment in Latvia.

LITHUANIA

1. General Policy Framework

Since declaring independence last year the Lithuanians have been largely preoccupied with the political climate in their emerging nation. It is only recently that attention has started to shift to economic issues facing the country.

Lithuania intends to develop a market economy and eliminate vestiges of the centrally planned Soviet system as quickly as possible. The government is eager to encourage foreign investments and open new trade ties, particularily with the west. This is hampered by the need to extricate itself from the Soviet economy.

Lithuania has embarked on a series of price liberalizations in certain areas but has been reluctant to completely abolish price controls. The government has established a central bank which it envisions playing the same role as that of the U.S. Federal Reserve. Lithuania still uses the Soviet ruble as its unit of currency and thus is tied to its problems. Lithuania has privatized some small businesses and is allowing private citizens to own land for the first time. Lithuania is seeking to liberalize its foreign investment laws.

The Lithuanian government is following a cautious, but optimistic program of economic reform in banking and monetary policies, price structure, tax laws, land ownership laws, fiscal reform and foreign trade reform.

2. Exchange Rate Policies

At present Lithuania's currency is still the Soviet ruble. The government periodically adjusts the official exchange rate. There are plans to introduce a national currency, which may be tied to a foreign currency. Meanwhile any licensed person may buy or sell hard currency at free market prices. Both the official and free market exchange rates have been falling rapidly.

3. Structural Policies

Patterns of Industrial Ownership: Lithuania recently embarked on a program of privatization, currently limited to small scale enterprises like shops and restaurants. Lithuania's privatization program includes a voucher program which will involve all citizens. Private ownership of land is permitted, but only for Lithuanian citizens. All large manufacturing enterprises are still state owned. The government has published a limited list of companies which are open to foreign investment.

Price Reform: The Lithuanian government has begun a cautious dismantling of the centralized price control mechanism formerly imposed by Moscow. Prices on most foodstuffs and manufactured goods have already been liberalized. However, prices on energy, housing, transportation and communications will remain fixed. This is

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an effort to avoid spiraling inflation which could erode public confidence in the new government.

Tax Policies: Lithuania has begun to reform its entire tax system. The law on taxes on profits of legal entities of Lithuania, adopted July 31, 1990, established the taxable entities and regulations for taxable profits, tax rates and tax deductions, taxes due and payment rules, and the liability for proper taxation and payment of taxes. The tax rate for legal entities is 29% of the taxable profit.

Profit taxes of joint ventures are determined by the amount of foreign investment in the authorized capital and its type of activity (industrial and commercial activity). The minimum rate of profit taxes is 20 percent and the maximum is 35 percent.

Foreign Investment: The Law on Foreign Investments was adopted on December 29, 1990. This law allowed for three forms of foreign investment: ownership interests in a joint venture; firms with foreign capital; and other securities. The intent was to encourage foreign investment mainly through joint ventures with Lithuanian companies.

Joint ventures are exempt from profit tax for a term of three years from the date of the receipt of the profit. Dividends to foreign investors received in Lithuania are exempt from taxes. Income received legally by foreign investors and upon which a profit tax has been paid may be repatriated without any additional tax.

The Law on Prohibited and Limited Spheres for Foreign Investment adopted on May 2, 1991, determines the areas of economic activities where foreign investment is prohibited or limited. Foreign investment is prohibited in areas of defense and security. Foreign investment is also prohibited in state enterprises holding a monopoly in the Lithuanian market. These are defined as enterprises producing more than 50 percent of their goods in the Lithuanian market. Enterprises which exploit existing communications, electricity delivery, gas, oil and water supply, heating and sewage systems are also considered to be monopolistic.

The law also provides for the right to seek international arbitration and appears to permit 100 percent foreign ownership. Foreign representations are not legal persons and thus not foreign investors. The law gives foreign investors the right to lease land for 25 years, but implies that foreigners cannot own the land. The Lithuanian government is working to liberalize the laws affecting foreign investment and has sought guidance from the OECD in this regard.

4. Debt Management Policies

As a former republic of the Soviet Union it is still unclear exactly how much debt Lithuania will be responsible for repaying. Negotiations on this matter are in progress.

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5. Significant Barriers to U.S. Exports

The objective of Lithuanian trade policy is to move toward European and world markets. The current task is to change the trade structure which is oriented to the Soviet market and to try to raise the quality and competitiveness of Lithuanian goods. There are few direct barriers to western imports.

Lithuania has high overall levels of trade, which is a result of the centralized planning process which led to extreme specialization. A factor of overiding importance has been the dependence of Lithuania on the Soviet Union. Due to existing quality differentials between Lithuanian consumer goods and world class products, as well as transport costs and market familiarity factors, the natural market will initially remain the countries of the Commonwealth of Independent States (CIS).

A significant barrier to U.S. exports is the continued use of the Soviet ruble as the Lithuanian currency. Since this is not convertible it restricts the ability of Lithuania to buy foreign goods. Another barrier is the absence of a solid infrastructure for trade, such as telecommunications and banking facilities.

6. Export Subsidies Policies

Lithuania has become concerned about maintaining sufficient scarce goods. Therefore, the government has begun placing greater controls on exports.

7. Protection of U.S. Intellectual Property

As Lithuania was a former republic of the Soviet Union, it was a member of the World Intellectual Property Organization, the Universal Copyright Convention, the Paris Convention for the Protection of Industrial Property, the Madrid Agreement Concerning the International Registration of Marks, the Patent Cooperation Treaty and the Budapest Treaty on the International Recognition of the Deposit of Micro-organisms for the Purpose of Patent Procedure.

8. Worker Rights

While under Soviet control there were no western style trade unions operating in Lithuania. There was little interest in the creation of safe and clean working conditions.

a. The Right of Association

Prior to the August 1991 coup attempt, Lithuanian workers remained largely subject to Soviet labor law which did not permit the right to associate freely in practice. Since the coup, Lithuania has adopted legislation reconfirming the rights of workers to form independent unions and, with certain restrictions, to strike. On October 4, Lithuania was formally readmitted to the International Labor Organization.

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b. The Right to Organize and Bargain Collectively

Under Soviet law, Lithuanian workers did not have the right to organize outside the official trade union system and free collective bargaining did not exist in practice. Lithuanian legislation since the coup confirms the right to organize and bargain collectively, but plant level bargaining is only in its infancy. Since the economy is still predominantly in the hands of the state, the unions seek redress at the political level.

c. Prohibition of Forced or Compulsory Labor

Compulsory labor was a feature of Soviet-administered prisons in Lithuania; it has since been banned.

d. Minimum Age for Employment of Children

The Government has retained the minimim age for employment of children at 16 and it has added one year to compulsory education, bringing it to twelve years of schooling. Lithuanian authorities enforce minimum-age and compulsory-education laws through a system of inspections.

e. Acceptable Conditions of Work

Labor conditions in Lithuania were similar to, but sometimes better than, those in the Soviet Union. According to known Soviet statistics, wages in all categories of workers in Lithuania were above the Soviet average. By law, white-collar workers enjoy a 40-hour workweek; blue-collar staff, a 48-hour workweek with premium pay for overtime.

Soviet and Lithuanian laws establish minimum health and safety standards for the workplace. However, worker complaints indicate that these standards seem frequently to be ignored.

Extent of U.S. Investment in Goods Producing Sectors

No sector by sector data is available on U.S. investment in Lithuania.

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Key Economic Indicators

(Millions of Guilders Unless Otherwise Noted)

	1989	1990	1991 1/
Income, Production and Employment			
Real GNP (1980 prices)	386,730	399,000	407,250 1/
Real GNP growth rate	4.25	3.25	2.1 1/
GNP by sector:			
Agriculture/fisheries	17,130	18,680	18,737
Manufacturing/mining/ construction	119,970	124,270	126,749
Trade/transportation	83,930	88,780	91,563
Services	86,050	89,260	91,954
Government	48,570	48,570	48,570
Real Per Capita Income	26,130	26,778	27,150 1/
Labor Force (thousands)	6,100	6,280	6,370 1/
Unemployment rate (Pct of labor force)	5.7	4.9	4.5 1/
Money and Prices			
Total Money Supply (M1) (end of period)	119,025	125,612	125,000
Commercial Interest Rates:			
Money Market Rate	6.80	8.67	9.25 1/
Capital Market Rate	7.21	8.93	8.75
Saving Rate (Pct of NNI)			
Private	26.7	26.8	24.0
Public	-1.2	-1.6	-1.5
Investment Rate (Pct of NNI)			
Private 5/	21.2	21.2	21.0 1/
Public	2.7	2.6	2.5 1/
Consumer Price Index (1985 = 100)	101.2	103.7	107.1 1/
Wholesale Price Index (1985 = 100)	92.7	92.1	92.5 1/
Exchange Rate (guilders per dollar)	2.12	1.82	1.90 1/
Balance of Payments and Trade			
Exports (FOB)	229,874	238,966	251,524
Exports to U.S.	10,394	9,563	8,918
Imports (CIF)	222,431	228,846	237,692
Imports from U.S.	18,593	18,046	18.018
Aid from U.S.	0	0	0
Aid from other countries	0	0	0
External Public Debt	0	0	0
Annual Debt Service Payments	19,975	20,913	22,869
Gold and Foreign Exchange Reserves (end of period)	59,781	54,934	57,193
B.O.P. Current Account (transactions, billions)	17.7	19.5	20.0 1/

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Sources: Central Bureau of Statistics (CBS),
Netherlands Central Bank(NB), Central Planning Bureau (CPB)
1/ Estimated.
2/ Yield on T-bonds with longest residual maturity.
3/ Personal plus business savings.
4/ Data available as of November 1, 1991 in millions of guilders unless otherwise indicated.
5/ 3-month interbank rate

1. General Policy Framework

The Netherlands has an advanced industrial economy with four-decades of prosperity behind it. Its major economic assets are a skilled, highly productive work force, substantial reserves of natural gas and its geographic location in Northwest Europe at the mouth of the Rhine River. The Dutch are beneficiaries and supporters of the free trade principle, a philosophy which they defend in international fora like the GATT. The Netherlands is a member of the European Community and expects to benefit from the EC's efforts to build a single market by 1992. With Germany as their largest trading partner, the Dutch also expect to gain from the German reunification.

The Dutch economy grew by 3.5 percent in 1990. However, the rate of growth is expected to decline to two percent in 1991 and to a little over one percent in 1992. In an attempt to mitigate the effects of slower growth on its budget reduction program and to ensure that public sector budget reduction objectives are met, the government proposed a package of budget cuts and revenue increases. The restrictive 1992 central government budget is expected to further dampen investment and reduce consumer spending. Exports are forecast to keep pace with world trade growth despite an anticipated slowdown of the German economy. Any economic growth this year and next will therefore primarily be led by the foreign sector.

A government induced inflation flare-up (higher fuel prices and rents) is expected to boost the consumer price rise in 1991 to 3.75 percent from 2.5 percent in 1990. A growing merchandise trade surplus continues to push the current account surplus to over 4 percent of GNP in 1992.

Dutch fiscal policy for 1992 is basically restrictive. The government hopes to reduce the budget deficit to 4.75 percent of Net National Income (NNI) in 1991 and thereafter by 0.5 percentage points annually, eventually reaching its target of 3.25 percent of NNI by 1994. The draft 1992 budget provides for budget neutral income tax measures and a small revenue raising hike in indirect taxes. A tax reform plan to reduce income tax rates and simplify the Dutch tax system is currently awaiting parliamentary approval.

Dutch monetary policy is aimed at maintaining the stability of the exchange rate of the guilder vis-a-vis the German mark through appropriate adjustments in short-term interest rates and money supply. The Netherlands Central Bank (NB) exerts control over money market rates by varying the

terms of the banking community's access to NB financing.

The NB's peg to the German mark is expected to remain unchanged, given the importance of maintaining the competitiveness of Dutch exports to Germany. Under the circumstances the interest rate differentials between Dutch and German capital market rates will also continue. Dutch short term rates are forecast to average 9.25 percent, with the yield on treasury bonds hovering around 8.8 percent.

2. Exchange Rate Policies

The Dutch guilder is linked to the German mark in the European Monetary System. There is a single exchange rate. While residents of the Netherlands must obtain an exchange license for certain large international financial transactions, in practice these licenses are granted routinely and thus there is no exchange control.

3. Structural Policies

Almost all purchasing decisions are made on the basis of non-discriminatory commercial criteria. Most government procurement is done in compliance with the GATT Government procurement code. The Netherlands has no discriminatory export or import policies with the exception of those resulting from its membership in the European Economic Community.

Increased momentum toward the European Community's goal of a unified internal market in 1992 has caught the attention of growing numbers of U.S. exporters eager to take advantage of Holland's position and experience as a distribution center for Europe. It has also sparked a wave of interest in investment in Holland as non-EC firms seek to get a foothold in the EC.

4. Debt Management Policies

The Netherlands is a major creditor nation, with a current account surplus expected to reach $10.5 billion in 1991. The country has no significant external debt. The Netherlands is a participant in and a strong supporter of the IMF, IBRD, and other multilateral international financial institutions.

5. Significant Barriers to U.S. Exports

The Dutch economy is one of the most internationally-oriented in the world. The Netherlands is the sixth largest U.S. export market in the world, as well as the one with which the United States has its largest bilateral trade surplus, 8 billion dollars in 1990, with a 15 percent gain in U.S. exports. The Netherlands is the third largest direct investor in the United States, behind the United Kingdom and Japan. Dutch investment in the United States in 1990 reached over $64 billion, with U.S. direct investment in the Netherlands valued

at about $23 billion (historical-cost).

Most trade barriers that do exist result from common EC policies. Some areas of concern for U.S. exporters to the Netherlands are:

Price Restrictions: In 1991 the Dutch Ministry of Health began to limit the amount it reimburses a patient for any particular prescription drug to a sum based on an average price of therapeutically similar drugs (clustering). This legislation could undermine the benefits of pharmaceutical patent protection and discourage research-based companies from investing in the Netherlands.

Broadcasting and Media Legislation: Amendments to the Dutch Media Act relating to admitting local and foreign commercial broadcasting stations into the Netherlands are now before the first chamber of Parliament and are expected to become effective in early 1992. Draft legislation translating the EC Broadcast Directive into the Dutch Media Act is still under preparation. Article 6 of the EC directive is of particular importance to the United States since it requires that 50 percent of program content be of EC origin.

6. Export Subsidies Policies

The Netherlands practices no preferential or discriminatory export or import policies with the exception of those which result from its membership in the European Economic Community.

7. Protection of U.S. Intellectual Property

Intellectual Property Protection: The Netherlands belongs to the World Intellectual Property Organization (WIPO), is a signatory of the Paris Convention for the Protection of Industrial Property, 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 though 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 U.S. are both parties to the Patent Cooperation Treaty (PCT) of 1970, patent rights in the Netherlands may be obtained if the PCT application is used.

The enforcement of anti-piracy laws remains a concern to U.S. producers of software, audio and video tapes, and textbooks. The Dutch government has recognized the problems in protecting intellectual property and has proposed legislation to revise the Dutch copyright law to introduce higher penalties for copyright infringement.

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8. Worker Rights

a. The Right of Association

The right of Dutch workers to associate freely is well established. Just under 25 percent of the employed labor force belongs to unions. Unions, while entirely free of government and political party control, may and do participate in political life. All union members, except most civil servants, have the legal right to strike. Even Dutch military personnel are free to join unions. Disputes involving civil servantas are subject to arbitration.

b. The Right to Organize and Bargain Collectively

The right to organize and bargain collectively is recognized and well established. Discrimination against union membership 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 collective bargaining agreements which cover about 76 percent of 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

The minimum age for employment of young people is 16. At that age, youths may work full time only if they have completed the mandatory 10 years of schooling. Those still in school at age 16 may not work more than 8 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, 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. There is no legally-mandated work week; it is set by collective bargaining. The average workweek for adults is 38 hours. The legally-mandated minimum wage is subject to semi-annual living cost adjustment.

f. Rights in Sectors With U.S. Investments

The above described workers rights hold equally for goods-producing sectors in which U.S. capital is invested.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category	Amount	
Petroleum		1,636
Total Manufacturing		8,144
Food & Kindred Products	1,755	
Chemicals & Allied Products	2,142	
Metals, Primary & Fabricated	(D)	
Machinery, except Electrical	1,105	
Electric & Electronic Equipment	973	
Transportation Equipment	(D)	
Other Manufacturing	1,684	
Wholesale Trade		2,490
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		12,270

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business
August 1991, Vol. 71, No. 8, Table 11.3

NORWAY

Key Economic Indicators

(Millions of Norwegian Krone (NOK) unless otherwise noted)

	1989	1990	1991 1/
Income, Production, and Employment			
Real GDP (1989 Prices)	622,992	633,919	651,669
Real GDP Growth (Pct)	0.4	1.8	2.8
Current GDP	622,992	662,445	695,600
By Sector:			
Agriculture & Fish.	17,616	18,921	20,500
Oil, Gas, & Shipping	93,217	116,800	126,800
Manufacturing	90,203	89,500	94,500
Construction	31,514	27,653	29,000
Other Sectors	390,442	409,571	424,800
Real GDP Per Capita (1989 Prices NOK)	147,279	156,237	163,286
Labor Force (Millions)	2.16	2.14	2.11
Avg. Unemployment Rate	4.9	5.2	5.4
Money & Prices			
Money Supply (M2; EOP)	445,001	460,365	497,194
Loan Int. Rate (EOP) 2/	12.28	11.36	10.50
Savings Rate 3/	11.3	11.9	12.0
Investment Rate 4/	27.6	18.9	19.0
CPI (1979=100)	222.1	231.2	239.3
WPI (1981=100)	152.2	157.8	163.6
Avg. Exch. Rate (NOK/USD)	6.90	6.26	6.50
Balance of Payments & Trade			
Merch. Exports (FOB)	190,054	214,350	223,800
Exports to U.S. 5/	11,612	13,295	11,000
Merch. Imports (CIF)	166,503	171,147	172,300
Imports from U.S. 5/	10,491	13,665	12,500
Current Account Balance	1,398	22,612	36,700
International Res.(EOP)	93,380	92,326	93,000
Aid from U.S.	0	0	0
Aid from other Countries	0	0	0
Net External Debt 6/	130,400	91,600	73,000
Central Govt. Debt	13,615	15,800	24,800
Debt Servicing 7/	58,845	71,393	64,470

1/ Estimate.
2/ 1-Month NIBOR.
3/ National Saving/National Disposable Income.
4/ Gross Fixed Investment/GDP.
5/ Norwegian Foreign Trade Statistics.
6/ End-Year Foreign Assets Minus Foreign Liabilities.
7/ Total Interest & Principal Paid On Long-Term Debt by Private and Public Sector.

NORWAY

1. General Policy Framework

Energy remains Norways predominant resource base, with no major changes expected in the next decade. Offshore the country has crude oil reserves sufficient to last over 20 years and enough natural gas to last nearly 100 years. On the mainland the availability of abundant hydropower supports energy intensive industries such as metals and fertilizers.

In late 1991, Norway, with the other EFTA countries, reached agreement with the European Community to establish closer economic ties through the creation of a new European Economic Area (EEA). Although the European Court of Justice considers some of the elements of that agreement in violation of the Treaty of Rome, EFTA and EC negotiators are working to save the agreement. The EEA is scheduled to become effective on January 1, 1993. Participation in the EEA will require Norway to comply with a wide range of EC directives and regulations.

The small size of the population limits Norway's human resource base; a highly centralized collective bargaining process and a restrictive immigration policy limit its flexibility in increasing industrial competitiveness.

The petroleum sector and associated service industries will likely remain the engine of economic growth for the next several decades. Energy-intensive manufacturing industries will also remain prominent. Several inefficient sectors producing for the domestic market survive largely through generous subsidies. These will likely experience a painful period of adjustment in the years ahead as the Government adapts to the emerging EC single market, regardless of its final decision on EC membership.

Norway and the other EFTA countries recently negotiated an economic cooperation agreement with the EC under the framework of the European Economic Area. There is increasing speculation in business and political circles that Norway will eventually join the flock of those countries submitting an application for EC membership. Norway is currently deeply divided over the issues.

The Norwegian welfare state which redistributes a large share of the national income through taxes and subsidies. State intervention in the economy is significant. The two dominant industrial groups, Statoil and Norsk Hydro, remain state controlled. Moreover, restrictions are maintained on foreign ownership of Norwegian industry, including financial institutions. Looking ahead in the 1990's, it is realistic to expect some lessening of government intervention and control as Norway harmonizes its policies to be more in tune with the EC.

The government's dependence on petroleum revenue increased substantially over the past decade. On the expenditure side the most significant development was a rise in subsidies and social programs, financed by petroleum revenues. In 1986 budgetary pressures increased because of slumping oil prices. The subsequent recession prompted stimulatory fiscal policy. Despite the rebound in world oil

prices, the budget deficit increased significantly between. 1986 and 1991.

No general tax incentives exist to promote investment, although tax credits and government grants are offered to encourage investment in northern Norway. Accelerated depreciation allowances and subsidized power are available to industry. The Government of Norway will continue with its tax reform program in 1992, but the overall tax burden will remain roughly unchanged.

The Government of Norway controls the growth of the money supply through reserve requirements imposed on banks, open market operations, and variations in the Central Bank discount rate. The Government strives to maintain a stable exchange rate, thereby limiting its ability to use the money supply as an independent policy instrument.

2. Exchange Rate Policy

Norway is not a member of the European Monetary System but, effective October 22, 1990, the Norwegian Krone (NOK) was pegged to the European Currency Unit (ECU), the common currency unit of the EC. Prior to this move, the NOK was pegged to a trade-weighted basket of currencies in which the weight of the U.S. dollar accounted for 11 percent. The new foreign exchange rate system broke the direct link between the NOK and the U.S. dollar. The NOK is expected to fluctuate less against the major EC currencies and more against the dollar. Norwegian interest rates and inflation will tend to move toward EC levels under the new regime, and the scope of discretionary monetary policy will likely be reduced.

Norway dismantled most remaining foreign exchange controls in 1990. U.S. companies operating here have never reported problems in remitting payments.

3. Structural Policies

Norway remains highly dependent on its offshore oil and gas sector. Many parts of the mainland economy are protected and inefficient. Nevertheless, several significant reforms have been implemented in the past three years. Quantitative restrictions on credit flow from private financial institutions were abolished in 1987 and 1988 and, as noted above, most foreign exchange controls were dismantled in 1990.

A new 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. Despite progress, the Norwegian banking industry continues to struggle with structural problems, bad loan portfolios and overstaffing, which will likely require further corrective action.

Over the past three years, limited income tax reform has lowered personal income tax rates and broadened the tax base. Some progress has been made in reducing subsidies to Norwegian industry but there remains much room for further reform.

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Norwegian agriculture remains heavily protected by subsidies and non-tariff barriers which adversely affect U.S. exports.

Some steps have been taken to deregulate the service sector. However, large parts of the transportation and telecommunications markets remain subject to restrictive regulations, including statutory barriers to entry. Looking ahead, the Norwegian government remains committed to an ambitious structural reform program which may gradually improve U.S. market access. This program includes the lowering of subsidies to industry and agriculture, gradual liberalization of the import regime, and some privatization of state enterprises.

4. Debt Management Policies

Norway has embraced a cautious foreign debt policy to limit the state's exposure in foreign markets. The net external debt of the government stands presently at less than NOK 25 billion ($3.8 billion). The government's stated policy is that the domestic private sector should cover the bulk of financing requirements related to Norway's external deficits.

In the past, this policy has contributed to high interest rates, and a rapid increase in short-term foreign private debt. 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.

5. Significant Barriers to U.S. Exports and Investments

Norway supports the principles of free trade and is quick to condemn protectionism. In general, U.S. exporters experience few problems doing business in Norway. Nonetheless, some areas of tension exist. While Norway is in the process of reforming its agricultural support regime, quantitative import restrictions and producer subsidies continue to cover a wide range of agricultural products, including apples and pears.

A GATT panel has been formed at the request of the United States which alleges that the Government of Norway has discriminated against a U.S. company in its procurement of a toll ring around the city of Trondheim, in Western Norway.

The United States would like Norway to liberalize its procedures for regulating telecommunications terminal equipment. The Norwegian Telecommunications Regulatory Authority (a separate approval authority under the auspices of the Ministry of Transportation and Communications) has improved the speed and efficiency with which it approves telecommunications devices used in Norway. The Government of Norway is in the process of liberalizing its telecommunications industry to make it compatible with EC integration.

Recent deregulation of financial markets appears to have eliminated many of the barriers facing U.S. financial institutions which seek to operate in the Norwegian market.

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Norway's ongoing efforts to bring its laws into compliance with EC directives are being carried out on a non-discriminatory basis. This means that in many cases, U.S. financial institutions can look forward to continuing liberalization in the Norwegian market.

Norway maintains reservations to the OECD Code of Liberalization of Capital Movements with regard to inward direct investment. Foreign investment in Norwegian corporations is limited to 33 percent of equity. The ownership of seagoing vessels and real estate is even more restricted. Norway can expect to gradually liberalize these regulations as it brings its national laws into compliance with the EEA.

6. Export Subsidy Policies

As a general rule the Government of Norway does not subsidize exports, however some heavily subsidized products may be exported. Dairy and fishery products fall into this category. Indirectly, the Government supports the export of chemicals and metals by subsidizing the electricity costs of manufacturers. In addition, the Government provides funds to Norwegian companies for export promotion purposes.

7. Protection of U.S. Intellectual Property

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 of 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 will become available in Norway in January 1992. Only process patent protection is presently provided to pharmaceuticals.

8. 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. The right to organize is protected through the "Basic Agreement", negotiated between the National Union Organization (LO), Norway's largest trade union federation,

and the Employers' Union (NHO), is legally binding. Complaints of antiunion discrimination would be dealt with through the Labor Court. Collective bargaining is widespread, with most wage-earners covered by negotiated settlements, either directly or through understandings which extend the contract terms to workers outside of the main labor federation and the employer's bargaining group.

c. Prohibition of Forced or Compulsory Labor

Forced and compulsory labor is prohibited by law and does not exist.

d. Minimum Age for Employment of Children

children from the age of 13-18 may be employed part-time in light work which will not adversely affect their health, development, or schooling. Minimum age rules are observed in practice.

e. Acceptable Conditions of Work

Ordinary working hours are mandated by law and normally do not exceed 37.5 hours per week, with 25 working days of paid leave 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.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category	Amount	
Petroleum		2,954
Total Manufacturing		121
Food & Kindred Products	(D)	
Chemicals & Allied Products	14	
Metals, Primary & Fabricated	1	
Machinery, except Electrical	26	
Electric & Electronic Equipment	(D)	
Transportation Equipment	0	
Other Manufacturing	60	
Wholesale Trade		407
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		3,482

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business August 1991, Vol. 71, No. 8, Table 11.3

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Key Economic Indicators

(Billions of Zlotys Unless Otherwise Noted)

	1989	1990	1991
Income, Production and Employment			
Gross Domestic product (GDP) (current zlotys)	118,319	606,700	N/A
Real GDP growth rate (pct)	.2	-11.6	N/A
GDP by sector (pct)			
Industry	41.0	36.2	N/A
Agriculture	12.2	13.8	N/A
Construction	9.6	9.3	N/A
Transportation/communications	4.4	4.2	N/A
Trade	14.5	16.5	N/A
GDP per capita (000s zlotys)	2,638	15,920	N/A
Labor force (000s) 1/	17,558	16,476	N/A
Unemployment rate (percent)	.06	6.1	10.8 2/
Money and Prices			
Money supply (trillion zlotys at yr end)	69.5	189.1	263.4 2/
Central bank discount rate	3/	3/	3/
Investment rate (pct of GDP)	15.9	19.6	N/A
Savings rate 4/	6.7	6.8	N/A
Consumer Price Index (previous year equals 100) 5/	351	685	151 2/
Wholesale Price Index 6/	313	722	150 2/
Official exchange rate zlotys/US$ avg. for yr)	1,446	9,500	7/
Official exchange rate (yr end)	6,500	9,500	7/
Parallel exchange rate (yr end)	6,500	8/	7/
Balance of Payments and Trade (US$ Millions) 9/			
Total exports FOB	13,469	15,503	10,967 2/
Exports to US	387	371	263
Total imports CIF	10,279	9,230	10,924 2/
Imports from US	414	133	219 2/
External public debt	40,300	49,000	N/A
Annual debt service ratio (pct. of exports)			
Interest and principal due	62	56	N/A
Payments made	19	6	N/A
Foreign exchange reserves (yr end, US$ billions) 10/	2.5	4.9	4.2 2/
Current account, hard currency area (US$ billions)	-1.8	.7	-1.5 11/

1/ Adult work force.
2/ End-October 1991.

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3/ In 1990, the discount rate was set on a monthly basis from January until July. Monthly rates were respectively 36 percent, 20 percent, 10 percent, 8 percent, 5.5 percent, and 4 percent. The national bank shifted to an annual rate in July, which was set initially at 34 percent annually. The rate was raised to 43 percent in mid-October, and to 55 percent in December. In February 1991, it was raised from 55 percent to 72 percent, and lowered to 59 percent in May, and then to 50 percent in July, 44 percent in August, and 40 percent in September and October 1991.
4/ The savings rate is calculated using the percentage of GDP held in personal time deposits. This does not include personal hard currency deposits in Polish banks, which totalled $4.6 billion at the end of 1989, $6.3 billion at the end of 1990, and $5.6 billion at the end of October 1991.
5/ These price indices measure the rise in average price levels recorded in a given year compared to average levels during the preceding year. Poland does not officially report price growth on a January 1 - December 31 basis.
6/ The Polish wholesale index reflects ex-factory prices in socialized industry.
7/ The official exchange rate was 9,500 zloty/dollar from the beginning of 1990 until mid-May 1991. Then it was devalued to 11,100, but at the same time its fixed link with the dollar was replaced by a "basket of currencies." The structure of the basket is theoretically trade-weighted: U.S. dollar -- 45 percent, German mark -- 35 percent, Pound sterling -- 10 percent, and French and Swiss franc -- 5 percent each. In October 1991, the average official zloty/dollar rate was 11,153. Beginning October 14, the value of the zloty dropped by 45 zlotys a week against the basket of currencies adopted in May, under a new "crawling peg" system.
8/ In 1990 and 1991, the parallel exchange rate did not differ much from the official one. Before April 1991, it was lower then the official rate, while since May, it has been higher. In October 1991, the average free market rate was 11,657.
9/ Data on Polish trade has been converted to dollars at the official rate of exchange, which is not a fully market-determined rate.
10/ Beginning January 1991, this figure represents official reserves of the central bank only. This does not include official foreign exchange reserves held by Bank Handlowy. This change resulted in an adjustment of the official reserves by about $240 million.
11/ End-September 1991.

1. General Policy Framework

The Polish Government continues to push ahead with its program of stabilization and systemic transformation of the economy. The Government's program aims at radical deceleration of inflation and elimination of prevailing shortages in order to restore fundamental equilibrium in the domestic market. Other objectives include a fully convertible currency, a restructured tax system, and rapid privatization of state enterprises. The long-term objective of the program is transformation of the formerly centrally-planned economy into a western-type market economy.

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The Government's initial emphasis has been on stabilization, in order to deal with the high inflation, the deep budget deficit and other fundamental economic problems the government inherited from the previous regime. The stabilization package included the following measures aimed at radical reduction of domestic demand:

Reduction of the Fiscal Deficit: Both expenditure cuts and revenue enhancement measures have been taken to continue reducing the fiscal deficit from its level of eight percent of GDP in 1989. Cuts in government subsidies were of particular importance and resulted subsidies accounting for just under 9 percent of government expenditures in 1991, down from 18.2 percent in 1990 and 28.6 percent in 1989. The budget registered a small surplus in 1990, but has returned to deficit in 1991, reflecting a large shortfall in projected revenues, particularly from state industry. The 1991 deficit is expected to reach 3-3.5 percent of GDP.

Monetary and Credit Restraint: The Government has aimed at eliminating credit rationing, with reliance on credit markets for both private sector and government borrowing. Real positive interest rates were achieved for much of 1990 and 1991.

Price Liberalization: Ninety-five percent of prices have been converted from administratively-determined to market-determined.

The Wage "Anchor": Permissible wage increases for workers in state enterprises have been limited to a percentage of the cost-of-living increase. Private sector wages are not restricted.

The Government's program, developed in cooperation with the IMF, effectively controlled hyper-inflation in the first six months of 1990. The annual inflation figure for 1991 is expected to be 60 to 70 percent, but the trend continues downward, and in recently averaged just over 3 percent monthly. The Government has also unified the exchange rates and established convertibility for current transactions, including merchandise imports and services. The cost of economic stabilization has come at the price of recession; industrial production has declined significantly and unemployment has emerged as a significant factor (10.8 percent of the labor force at the end of October 1991).

Poland's economic transformation plans center on making its large state enterprises commercially viable and eventually privatizing them. Demonopolization of some state sectors is underway. Legislation, passed in mid-1990, established a Ministry of Ownership Transformation (Privatization) and created a legal framework for large-scale privatization of the state sector. The first five public offerings of shares in large state enterprises were completed in January 1991. An additional half-dozen large firms were privatized in this manner during the subsequent months of 1991, and another five enterprises were sold through "trade sales" to foreign investors. Simultaneously, around 800 small- and medium-sized companies have been "liquidated" and will be sold either in whole or in parts to private entities (280 cases have been

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completed). Over the longer term, the government has declared its intention to transfer half of state sector assets to the private sector over a three-year period, and to reach an ownership pattern resembling that of western Europe in five years. Privatization of banks is also planned.

Another pillar of the government's economic program has been the opening of the economy to competition from foreign trade. Tariffs have averaged 14 percent since the introduction of a new tariff schedule in August 1991, although increased tariffs on many imports were introduced on January 1, 1992. Poland is renegotiating its accession rights to the GATT, as a standard contracting party. Private trade in imported consumer goods has been an explosive area of growth. The lifting of import licensing requirements on most convertible currency transactions has encouraged growth of this sector. The private sector's share of exports rose to 14 percent for the January-September period; for imports, the private sector's share rose to 43 percent. Only 23 percent of total trade in 1990 was with Council for Mutual Economic Assistance (CMEA) partners, down from 37 percent in 1989. (The organization ceased to function in 1991.) In 1990, CMEA imports dropped 34 percent, while exports fell by 10 percent; Poland's 1990 CMEA trade surplus was 4.4 billion transferable rubles, almost double the previous year's. Hard currency exports surged by 41 percent, while imports rose by a much smaller 6 percent. Poland's leading trading partners in 1990 were: Germany (including the former GDR, 23 percent), the USSR (17 percent) the United Kingdom (6 percent), and Switzerland (5 percent). Trade with the U.S. constituted 2 percent of Poland's foreign trade turnover.

Poland is currently running a small trade deficit in its convertible currency account; the non-convertible currency account is in surplus. In 1991, the collapse of Poland's exports to the Soviet Union dealt a sharp blow to overall export performance. However, this was largely offset by strong hard currency export performance. Even so, the need to settle in hard currency for Soviet raw materials and energy prevented a repeat of Poland's 1990 trade surplus. For the January-October 1991 period, Poland posted a trade deficit of $175 million. Polish foreign exchange reserves dropped in early 1991 but stabilized and even grew somewhat in mid-year to settle at $4.2 billion at the end of October 1991.

The current government is under pressure to ease the burden of reforms. It will present its new economic program in early 1992. Initial indications show that emphasis will shift toward lifting Poland out of recession and away from fighting inflation. Details of the program will not be known until the budget is presented to Parliament in mid-March, 1992.

2. Exchange Rate Policies

The zloty has been convertible for all current transactions (merchandise imports and services) since January 1, 1990 when the official exchange rate was unified and devalued from 6,500 zlotys to the dollar to 9,500 zlotys to the dollar. There is no limit on access by companies or individuals to foreign currency to make purchases abroad (both

merchandise imports and services). Capital transactions remain controlled; consequently, a license from the National Bank is required to either grant or receive foreign exchange credits.

The National Bank of Poland (the Central Bank) introduced a "crawling peg" exchange rate mechanism beginning in October 1991. The purpose of the new mechanism is to devalue the zloty by small increments (up to 1.8 percent per month) on a daily basis to offset domestic inflation and maintain the competitiveness of Polish exports. According to the current procedure, the zloty's rate of exchange is devalued by nine zlotys per day against a basket of key international currencies. The basket includes the U.S. dollar, German mark, Pound sterling, French franc and Swiss franc. The exchange rate is adjusted to reflect shifts in the values of the currencies in the basket (i.e., to reflect appreciation/depreciation of the dollar against the mark). Prior to introduction of the new system, the zloty had been devalued only once (by 14.4 percent in May 1991) since the government introduced its stabilization program in January 1990.

The Government of Poland's exchange rate stabilization policy is supported by a $1.0 billion stabilization fund, which includes a $200 million grant from the U.S.

3. Structural Policies

Pricing Policies: Almost all subsidies on consumer goods prices have been eliminated. Subsidies remain, however, on a few items, including plant protection chemicals and fertilizers. Prices on fuels, public transportation and most rents are administratively determined and continue to be set by the government. An anti-monopoly policy is conducted to prevent domestic producers from gaining undue advantage resulting from their monopolistic position. Restriction of price increases for enterprises enjoying a monopolistic position has been applied to dissuade them from enforcing contract clauses convenient for them and dictating prices.

Tax Policies: At present, the major source of tax revenue is a corporate income tax which levies a straight-line 40 percent rate on all corporate enterprises. Poland is reformulating its tax collection system. Recently, legislation introduced a new uniform, progressive, comprehensive personal income tax which will take effect in January 1992. The Government also plans to introduce a value added tax (VAT) which will replace the existing system of "turnover" taxes. The new tax will have to be paid by importers at the border but not by exporters. The Finance Ministry has initially proposed a uniform 16 percent rate on sales value, with exemptions for some agricultural products and services. Higher excise taxes will be imposed on alcohol, fuels, jewelry, and other luxuries. The turnover tax currently contributes about 25 percent of total revenues. The Parliament has yet to take any action on the draft VAT legislation; consequently, it is now unlikely to come into force before 1993. State sector enterprises, additionally, must pay a "dividend tax" assessed on assets originally

received from the state.

Regulatory Policies: An anti-monopoly law has been passed and certain state monopolies have been or have begun to be eliminated. The government has taken bold steps to establish a transparent, market-based trade regime. Poland has decentralized foreign trade and stripped foreign trade organizations of their monopoly rights. Any individual or firm is able to engage in foreign trade after registering as a business. This has put severe pressure on Poland's outmoded customs service and infrastructure. Controls requiring licensing are in place for trading in arms and radioactive and nuclear materials, as well as sensitive dual-use technology. The second tier for non-proscribed materials relates to trading in hard or soft currencies. There are currently only a small number of import licensing requirements for non-proscribed imports in convertible currencies; these relate to imports of internationally controlled technologies. All clearance relations (trade with CMEA or with other countries based on a clearing or non-convertible account), however, need licenses, but this is now a very small fraction of Poland's foreign trade. For convertible currency exports, licenses are required only where there are quota limits on exports (i.e., textiles, steel and other commodities subject to international quota arrangements) and for a number of strategic goods such as coal, fuels and some basic food products.

4. Debt Management Policies

Poland is a heavily indebted country. At the end of 1990, its external debt obligations to western creditors reached $46.6 billion (or 4.3 times annual export earnings). With Poland's hard currency debt to the Soviet Union factored in, total debt at the end of 1990 stood at $49 billion. The debt servicing ratio (to exports) approximated 56 percent in terms of payments due. The ratio of actual payments to exports was a mere 0.6 percent, reflecting the one year moratorium on official payments negotiated under the February 1990 Paris Club rescheduling and the Government's policy of treating other creditors in an equivalent manner.

The structure of Poland's hard currency debt is unique by virtue of the high percentage of official debt, i.e., debt owed to western government entities (about $33 billion or more than 2/3 of the total debt stock). The United States accounts for only about 10-12 percent of Poland's official debt.

In March 1991, the western government creditors assembled in the Paris Club reached agreement with Poland on an unprecedented reduction in its official debt service obligations, by a minimum of 50 percent in real terms, in two stages. Thirty percent of the debt (net present value basis) will be reduced in the first stage starting in 1991. An additional 20 percent reduction will take place in 1994 if Poland has met certain criteria regarding agreements with the IMF and private creditors.

Poland is currently in the process of working out

bilateral implementing agreements with its official creditors.

The Paris Club governments have the option of further reducing Polish obligations through additional bilateral relief and voluntary conversion of up to 10 percent of outstanding claims via debt for equity, debt for nature, or other debt swaps. On this basis, the U.S. has agreed to reduce its holdings of Poland's debt by a total of 70 percent, including additional bilateral relief (10 percent) and forgiveness of another 10 percent on the condition that equivalent local currency resources are used to fund a foundation for the environment.

Poland has also entered into discussions with the "London Club," regarding the approximately $13 billion owed to its commercial bank creditors. The goal is a debt reduction agreement parallel to that achieved with the Paris Club.

5. Significant Barriers to U.S. Exports

Import Licensing: Most hard currency trade is conducted without import licenses, although the government has been under increasing pressure to resume licensing, particularly for food products. Licenses are necessary for military equipment, radioactive and inflammable items, fuel, wine, beer, hard liquor and cigarettes (individual importers are responsible for securing these licenses). Imports of vodka, some high-proof spirits, cars over 10 years old and trucks over six years old are banned. Starting May 1, 1992, transaction-specific licenses will also be required for imports of dairy products. Transaction-specific licenses are required for transactions involving barter/countertrade, leasing and technology licensing. Trade with Poland's ex-CMEA partners required licenses through May 1991, when the Ministry of Foreign Economic Relations terminated issuance of new licenses for transferable ruble trade. This trade had largely evaporated by September 1991.

Standards: Requirements for testing, labelling, certification and other standards have not presented significant barriers to U.S. exports. Existing regulations are in the process of revision to better conform with Poland's liberal trade regime and EEC standards. In the meantime, standards enforcement remains an area in need of improvement. The Ministry of Health's Central Inspectorate of Sanitation (SANEPID) inspects and tests food and cosmetics imports to ensure that they meet acceptable health standards. SANEPID has been deluged with food imports in 1990 and 1991, resulting in delayed certifications, as well as entry onto the Polish market of significant quantities of uninspected food products, usually carried by private travelers. New legislation on sanitary requirements is currently being drafted by SANEPID specialists and will likely be on the 1992 legislative agenda. U.S. companies have not encountered serious difficulties getting authorization to sell pharmaceuticals in Poland, provided these products were certified for sale in other developed countries.

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Service Barriers: Under the banking law enacted in 1989, foreign banks are permitted to establish a bank in Poland as share corporations, either with the participation of Polish enterprises or with 100 percent foreign ownership. A permit to operate is required from the president of the National Bank of Poland (Central Bank) acting with the advice of the Ministry of Finance. In such cases, a minimum investment of six million dollars is required for foreign banks; two million dollars is required for domestic banks. The law also permits foreign banks to open representative offices in Poland. Sixty-three licenses to establish new banks were issued in 1990. The bulk of these were domestic banks. Of these, private investors held a controlling share in 22 cases; other banks involved state-owned enterprises or, in some cases, government entities. Five banks with foreign capital have begun operation. Most recently, Citibank has established a fully-owned subsidiary, which opened in late 1991. Bankers Trust and several private U.S. companies have taken a stake in another new bank, and American Express has opened a limited services branch. Civil law provisions which restricted the activities of private banks have been repealed, and private banks may now open foreign currency accounts for individuals with National Bank approval. Such activities depend on the scope of the approved operating permit. The government has also taken steps to end government monopolies in other service trades, including insurance and tourism. A new insurance law enacted in July 1990 opened this sector to private and foreign competition. Polish law separates life insurance from other types of insurance and no company may engage in both. The Ministry of Finance has issued licenses establishing several private and foreign-owned insurance companies, including an American-owned firm. Foreign companies have also been playing a growing role in tourist services for the last several years, particularly in the hotel industry. Private travel agencies have also shown rapid growth, but foreign entry into the sector is still regulated by the Ministry of Industry and Trade.

Investment Barriers: Poland's investment climate was dramatically altered with the entry into force on July 4, 1991 of a new foreign investment law. The new law was intended to move far beyond its oft revised antecedents in removing bureaucratic impediments to investment in Poland. It seeks to bring treatment of foreign investors up to the standard of "national treatment." It succeeds on many counts. The new law allows foreigners to set up wholly-owned subsidiaries, establish joint ventures with public and private sector firms, register new ventures without permits (in most cases), repatriate all profits freely, bring in foreign management, receive up to three-year tax holidays for investments over two million ECU, make investments below the former $50 thousand minimum level.

The new law converted the former Foreign Investment Agency (FIA) into a new "State Agency for Foreign Investment (SAFI)," which is a share corporation reporting directly to the Minister of Privatization. Most of the former FIA's investment screening functions have been dropped, but SAFI will still be required to issue permits for investments in strategic areas such as airports and port facilities, defense

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industry, as well as real estate companies, consumer goods wholesaling and legal consultancy. According to the law, a permit can be denied if a proposed investment is deemed to threaten the economic interests of the state and or state security. Beyond SAFI's limited screening role, the organization has been turned into an investment promotion entity.

Total foreign investment in Poland amounted to $198 million through the end of 1990. Approximately $85 million in additional foreign investments were announced in the first half of 1991, although some of this was to be applied over a longer term. As of June 30, 1991, 4,286 investment permits had been issued by the FIA under previous foreign investment laws. The bulk went to German investors, with 1,362 permits, followed by U.S. investors with 363 permits. German investments constituted 27 percent of all foreign investment, with U.S. investment equal to 10 percent of the total. With the announcement of additional U. S. investments in the second half of 1991, the U.S. share of total foreign investment will no doubt increase.

It is not clear whether the new investment law will succeed in quickly attracting increased foreign investment. Other significant barriers to investment, which are not affected by the new investment law, include inadequate telecommunications and banking facilities, lack of western accounting firms (though this is rapidly improving) and standards, and shortages of business and office space. The purchase of land in Poland by foreigners is currently possible. New legislation liberalizing land acquisition requires that a permit to purchase be issued by the Minister of Interior. Periodic reporting by the Ministry to the Parliament is also required.

The Overseas Private Investment Corporation (OPIC) signed an agreement with Poland in 1989 providing for the extension of OPIC credit guarantees and political risk insurance to U.S. investors in Poland. During the visit of Prime Minister Mazowiecki to the United States in March 1990, President Bush and Prime Minister Mazowiecki signed a comprehensive Business and Economic Treaty which includes investment protection guarantees and other assurances. U.S. investors receive assurances in regard to profit repatriation under this treaty, but the Investment Law of July 4, 1991 actually provides investors with more attractive provisions in this area. While both sides have ratified the Treaty, it has not yet entered into force. The Government of Poland is currently in the process of developing implementing legislation to bring Polish laws into alignment with commitments made in the Treaty and its side letters, especially in the area of intellectual property.

Government Procurement Practices: As Poland moves toward a western-oriented market economy, improving procedures for government procurement through tendering has been declared a government objective. Current practice is that government procurement projects are normally submitted for tender. Although questions still occur, there has been some improvement in the government's tendering procedures in 1991. The government has also availed itself of OECD and

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World Bank technical assistance in this area. Poland is not a signatory of the General Agreements on Tariffs and Trade (GATT) Procurement Code, but intends to adhere in the future after certain technical issues are resolved.

Customs Procedures: After introducing a new tariff schedule incorporating the harmonized system in 1989, the government suspended tariffs on 2,000 items (mainly production inputs and semi-manufactures) in mid-1990. Tariffs were reduced by 30 to 50 percent on many other items. This tariff holiday was extended through August 1991, when a new tariff schedule, averaging 14 percent, was introduced. The new schedule was introduced on three days' notice, catching importers with shipments en route and causing some disruption to trade. Several tariff rates were raised effective January 1, 1992, including most consumer electronic goods (to 30 percent) and automobiles (to 35 percent), cigarettes, and computers. Further increases are expected to take effect on March 1, 1992, when the EC Association Agreements commercial provision takes effect. Import licenses will be required after May 1, 1992 for dairy products, beer, wine, and cigarettes. In general, customs requirements do not seem to burden most U.S. exporters, but some have complained about the service provided by overworked Customs officials. Businessmen also note difficulties resulting from slow communications between Customs headquarters in Warsaw and border customs posts. Another point of irritation for some U.S. businessmen is the high turnover tax on imports that is collected upon entry; with VAT implementation in 1992 this problem should diminish. Poland accepted the GATT agreement on customs valuation in 1989, subject to Parliamentary ratification. Faced with serious problems in enforcing transparent trade practices among the thousands of new traders entering the import/export business, the Customs Office began enforcing minimum import values for some products in 1991. A U.S.-Poland Customs Cooperation Agreement was signed in August 1990.

6. Export Subsidy Policies

Poland is a signatory of the GATT Subsidies Code, but this has not been ratified. The government has eliminated its past system of tax incentives for exporting firms, but still provides limited tax holidays to foreign investors who charter an export-oriented firm. The government has provided loans for expansion of export capacity through a recently modified Export Development Fund (EDF), but this fund will be phased out by the end of 1991. The fund also attempts to compensate for differences in domestic over world prices and exchange rate irregularities related to CMEA trade in transferable rubles. The fund is self-financing from dividends from state-owned foreign trade enterprises and windfall profits earned by exporters who use heavily subsidized inputs. Polish authorities believe this fund is compatible with standards set under the GATT. Implicit subsidies to all Polish enterprises that utilized low-priced energy and raw materials imported from CMEA countries ended in 1991 as CMEA settlements switched over to hard currency at world prices. The government has pledged to complete the adjustment of domestic energy prices to world levels by 1993.

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7. Protection of U.S. Intellectual Property Rights

Poland is a member of the World Intellectual Property Organization (WIPO), the Berne Convention for the Protection of Literary and Artistic Works, the Paris Convention for the Protection of Industrial Property and the Universal Copyright Convention; and recently ratified the Patent Cooperation Treaty. The Polish government subscribes, in theory, to most western standards of protection of intellectual property.

However, there are a number of areas including patent protection for authors, publishers, recording artists, film producers and computer software owners, where existing Polish legislation has required extensive revision to approach the level of protection ascribed to by Polish authorities. Draft legislation intended to provide necessary levels of protection to U.S. owners of intellectual property has been the subject of extended official U.S.-Polish discussions over the past year.

Only a few cases of patent infringement have been brought by American firms. Polish patent law does not guarantee the patentability of chemical compounds, as does the law in western industrialized countries, but this is scheduled to be changed in a new draft law. The lack of patent protection for chemical compounds has had implications for manufacturers of agricultural chemicals and pharmaceuticals.

Poland is a party to the Berne Convention, and in March 1990 ratified the administrative provisions of the Paris Act of the Berne Convention (the Act specifies minimum levels of protection for books, motion pictures, and music). Although Poland has stated that it intends to ratify the substantive provisions of the Paris Act, it has not done so. A 1987 law on cinematography explicitly extends protection to video-cassettes. Polish officials believe that more detailed protection is needed in order to adequately protect both video-cassettes and computer software. The level of protection for software or other new technologies has not been tested, and U.S. firms have been cautious about the transfer of software. They have noted that virtually all of it appears to be in use in Poland without reference to western copyrights. Although Polish law requires that satellite dishes be registered with the authorities, it does not address the question of pirating proprietary satellite signals for commercial recording or retransmission. This problem appears to be growing.

Polish copyright law does not include sound recordings. Piracy of musical recordings is a civil rather than criminal offense with consequently lower penalties for infractions. As a result, pirated tapes and albums are freely sold and have a wide market in Poland; significant exports of pirated products to other countries in Europe were noted in 1991. The problem of "pirate" recorded tape exports appears to be growing. Pirated video-cassettes are also widely available, and private organizations have been formed to identify producers and commercial rental operations using pirated video-cassettes and to combat this form of piracy. U.S. private industry estimates audio and video piracy is

displacing at least $40 million in U.S. exports annually. Polish officials dispute the magnitude of this figure.

The Government recognizes the need for a full review of statutes on intellectual property, but faces significant opposition and misunderstanding within the legislature and the Polish population regarding adequate intellectual property protection. Currently, new draft laws on copyrights, patents and integrated circuits have been prepared. Several rounds of U.S.-Polish consultations on these laws and Poland's commitments to protect U.S. intellectual property under the Business and Economic Treaty were held during the fall of 1991, with the Polish authorities actively engaged in trying to overcome legislative opposition to bringing Poland's laws up to international standards. Poland has stated its intention to fully accede to the Paris Act of the Berne convention, including a statement to that effect in a side letter to the pending bilateral Business and Economic Treaty; such accession is eagerly awaited by Poland's IPR trading partners. The Treaty and side letter call for the Polish government to put in place implementing legislation, including laws covering intellectual property.

8. Worker Rights

a. The Right of Association

Trade union legislation passed in 1991 establishes that all workers, including the police and frontier guards, have the right to establish and join trade unions of their own choosing. As few as 10 persons may form a trade union, and a founding committee of 3 persons must register the union at the appropriate provincial court.

Unions are independent of the government. They have the right to join labor federations and confederations, as well as to affiliate with international labor organizations. The Government and legislature are presently engaged in the process of revamping the Labor Code. New laws on employment and on trade unions and collective bargaining were passed in January and May.

The new Trade Union Act, which took effect in August is less restrictive regarding the right to strike than the 1982 version but still prescribes a lengthy procedure before a strike may be launched. The law has not yet faced a real test involving a major labor dispute. Short-term warning actions and strikes involving occupation of the workplace were common occurrences in the second half of 1991, and were usually settled by mutual compromise between the strikers and the Government, which is still the dominant employer.

b. The Right to Organize and Bargain Collectively

The May 1991 law on trade unions and collective bargaining provides for legal sanctions for antiunion discrimination. A notable weakness in the law, given Poland's ongoing transition from socialist centrally-planned to market economy, is the lack of specific provisions to

ensure that the union has continued rights of representation when a state firm undergoes privatization, bankruptcy or sale.

Wages are set in negotiations at the enterprise level between unions, management, and workers councils. Polish law does not require that wage agreements be registered with the government. Current government policy aims to liberalize investment procedures for both domestic and foreign firms rather than seeking to promote special incentives programs. Special duty-free zones exist in or have been contemplated for some 15 locations throughout Poland but have not thus far attracted much attention. There are no special labor regulations pertaining to these zones.

c. Prohibition of Forced or Compulsory Labor

Compulsory labor does not exist in Poland. Forced labor is prohibited by law.

d. Minimum Age for Employment of Children

The Labor Code forbids the employment of persons under the age of 15. The employment of persons aged 15 to 18 is permitted only if that person has completed basic schooling and if the proposed employment constitutes vocational training. The age floor is raised to 18 if a particular job might pose a health danger. The Government is alert to reports of violations to child labor laws, but its inability to monitor the growing private sector leaves officials less certain that the problem does not exist.

e. Acceptable Conditions of Work

The national minimum wage is negotiated every three months by the Ministry of Labor and Social Policy and trade unions. The maximum legal workweek is 48 hours, but in practice most Poles work a 40 hour week.

The Labor Code defines minimum conditions for the protection of workers' health and safety; a new draft of that Code was scheduled for parliamentary approval in late 1991. Enforcement is a growing problem because an ever increasing portion of Polish economic activity outside the purview of the State Labor Inspectorate, which is only prepared to monitor State firms. In addition, there is a lack of clarity concerning which government or legislative body has the responsibility for enforcing the law. The State Labor Inspectorate, which is directly responsible to the Parliament, is charged with monitoring the implementation of collective agreements and health and safety laws. But the Ministry of Labor and Social Policy is responsible for setting standards and enforcing the law. As it is, norms for chemicals, dust and noise are routinely exceeded.

f. Rights in Sectors with U.S. Investment

Fifty-three U.S. firms have opened representation offices in Poland, and over 100 joint ventures with U.S. investors have been registered in the past three years. This investment is heavily concentrated in the services area. Before 1986, foreigners were only permitted to operate small

scale "Polonia" enterprises. Approximately 80 such ventures are owned by U.S. citizens of Polish ethnic origin. Labor conditions in enterprises with U.S. investment are generally characterized by higher wages, additional pay incentives, and high safety standards. Worker productivity is higher in these enterprises. Workers in these enterprises are guaranteed the same rights, under the law, as those in Polish owned enterprises.

Worker participation in ownership of privatized enterprises, a right under the new privatization law, has rights is the same in the electronics sector as in other sectors.

Extent of U.S. Investment in Goods Producing Sectors

No sector by sector data is available on investments in Poland.

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Key Economic Indicators

(Millions of U.S. Dollars, Unless Otherwise Stated)

	1989	1990	1991 (est)
Income, Production and Employment			
GDP at current market prices	45,511	59,712	69,317
Real GDP growth rate (pct)	5.5	4.2	3.0
GDP by sector:			
Agriculture, forestry and fishing	6.6	6.1	N/A
Industry, energy and construction	37.9	38.4	N/A
Services	55.5	55.5	N/A
Per capita GDP (US$)	4,410	5,778	6,701
Labor force, Mainland only (thousands)	4,628	4,716	4,787
Unemployment average rate (pct)	5.0	4.7	4.0
Money and Prices			
Money supply (billion escudos):			
Liquid assets held by the public	7,544	8,882	10,540
M1	1,828	2,352	2,947
Interest rates (pct) (1991: October):			
Central Bank discount	14.5	14.5	14.5
Commercial lending indicative rate:			
(90 days)	20.4	23.0	22.6
(180 days)	21.1	23.4	23.0
Time deposits (180 days, minimum)	13.0	14.0	14.0
Internal savings rate (pct of GDP)	28.8	28.5	N/A
Gross investment rate (pct of GDP)	28.5	27.0	27.6
Consumer price index (annual average percentage change)	12.6	13.4	12.0
Wholesale price index	N/A	N/A	N/A
Exchange rate (Escudos/U.S.Dollar) (avg) (1991: Jan. through Sep.)	157.5	142.6	145.3
Balance of Payments and Trade			
Total Exports (FOB)	12,799	16,338	16,452
To the U.S.	761	785	555
Total Imports (CIF)	19,073	24,895	26,712
From the U.S.	846	974	804
Aid from U.S. (economic & military)	177.5	152.2	169.5
Aid from EC (structural funds)	1,121	1,557	1,979
External public debt	5,889	5,193	4,575
Annual debt service payments (1991: 12 months ended July)	4,040	5,014	5,690
Net gold and forex reserves (1991: June): (with gold at market price)	18,073	21,293	21,228
Balance of Payments (1991: 12 months ended April):			
Current account:	139	-190	-792
Goods and services	-3,682	-5,447	-6,462
Emigrant remittances	3,563	4,262	4,469
Medium and long term capital	2,798	3,041	2,651
direct investment	1,504	1,832	1,803

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Net basic balance of payments	2,937	2,851	1,859
Total nonmonetary net balance	3,848	3,948	3,471

Sources: National Institute of Statistics, Bank of Portugal, Government of Portugal, OECD, Portuguese Association of Banks and estimates by the Embassy.

1. General Policy Framework

Despite virtual full employment and one of the European Community (EC)'s highest growth rates in recent years (an estimated 4.3 percent average from 1986 through 1991), the Portuguese economy is still characterized by structural imbalances and low general development. Labor productivity is considerably lower than that of other EC countries, particularly in the agricultural sector, and wide gaps separate upper socio-economic groups from those at the bottom. Contrasts are marked also between the more developed and industrialized coastal regions and the rural hinterland, as well as between modern and traditional economic sectors. The most important manufacturing sector is textiles and apparel, responsible for about one third of total manufacturing employment and about 30 percent of total Portuguese exports. The external trade of this increasingly open economy is conducted mostly (about 74 percent) with other EC member countries.

Medium term economic policy has the objective of approaching EC average development levels. Its principal goals are modernization of the Portuguese economy and preparation for the European economic and monetary union (and particularly for the European Single Market of 1993), by increasing productivity and external competitiveness, and by upgrading quality standards.

The main macroeconomic problem is a high inflation rate (which at 12 percent is triple the average of members of the European Monetary System Exchange Rate Mechanism (ERM). Other problems include: a chronic trade deficit (compensated by substantial foreign capital inflows and emigrant remittances) and a significant fiscal deficit.

To cool the economy, overheated by demand and foreign capital inflows, the Government has relied on a restrictive monetary policy, while fiscal policy has tended to accommodate inflation. The fiscal deficit is mainly due to public debt interest repayments, a large bureaucracy, increased civil service salaries, and infrastructure investments (mostly as counterpart of EC financing). To date, monetary control measures and commercial lending interest rates ten points above the inflation rate have proved ineffective in bringing inflation down to targeted figures.

The combined effects of slower growth internationally and the appreciation of the escudo, have led to a stagnation of Portuguese exports in 1991. As a result, textiles and other export oriented industries are experiencing increased unemployment and in some cases actual bankruptcies.

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Prime Minister Cavaco Silva's party won a renewed absolute majority in the October 1991 general election. Although Cavaco Silva reappointed most of his cabinet, many observers expect tighter fiscal policy and a deepening of structural reforms as Portugal prepares for increased integration with its EC partners.

2. Exchange Rate Policies

For many years the exchange rate policy was used as a means to maintain export competitiveness. The policy was changed in October 1990 in order to simulate the future entry of the escudo in the ERM. The rate is now keyed to a basket of five major European currencies. The Bank of Portugal (central bank) repeatedly intervened on the exchange markets during the September 1990 to August 1991 period to limit the appreciation of the escudo against main European currencies to three percent.

The timing of the entry of the escudo into the ERM has been a key issue in economic policy debate. For the time being, policymakers consider that the current inflation differential vis-a-vis ERM member countries prevents such a move, because a significant part of Portuguese industry would not survive enhanced competition. This makes inflation reduction the highest priority on the economic policy agenda.

3. Structural Policies

Portuguese economic structures are being liberalized in order to modernize the country and to approach EC standards. A program of privatization of State-owned industrial and financial firms is being undertaken with the goal of reducing the size of the public sector. The backward and decapitalized agricultural sector, where markets have seldom played an important role, is being submitted to important changes and challenges. Portuguese agriculture is increasingly governed by EC Common Agricultural Policy rules which has led to increased agricultural imports from EC partners. EC structural funds are available for investments by more progressive farmers.

In order to help Portugal narrow its overall development lag vis-a-vis other EC countries and reduce structural imbalances, several major European Community assistance programs were designed for Portuguese agriculture, industry, commerce, regional development and education. These programs are financed by EC structural funds and require significant Portuguese counterpart funding. In 1991, EC structural funds totaled almost two billion dollars or 1.8 percent of GDP.

4. Debt Management Policies

External debt is decreasing in both absolute and relative terms. In 1985, outstanding external debt totaled almost 17 billion dollars or 80 percent of GDP. By June 1991, external debt was reduced to slightly more than 15 billion dollars or approximately 22 percent of GDP. Most of this is medium and

long term debt owed by the Government and public companies. Government policy is to prepay as much external debt as possible and transfer it to the domestic monetary market. Monetary authorities have taken steps to discourage domestic companies from utilizing external credits which are attractive due to much lower interest rates. These measures have enjoyed limited success.

5. Significant Barriers to U.S. Exports

As a result of Portuguese membership in the European Community in 1986, the economy has experienced rapid liberalization and restructuring. Under the terms of EC accession, Portugal agreed to a seven-year transition period, ending in December 1992, after which all barriers to trade, capital flows, and labor mobility to EC partners are to be eliminated. Portugal has only a few remaining quantitative restrictions applied to the following products: articles of rubber, paper and paperboard; special fabrics and nets; parts of footwear; iron and steel tubes and pipes; weaving machines and parts; and certain electrical goods such as fuses, plugs, lampholders and switches. Import quotas also apply to automobiles. Specific import levels are reviewed annually.

Since the re-opening of the banking system to the private sector in 1984, the Portuguese financial system has been rapidly moving towards greater liberalization and deregulation. Several foreign banks, including three U.S. banks, operate in Portugal. For the most part, U.S. banks report that they receive national treatment with their domestic competitors. In order to expand an existing network, all banks must obtain prior Central Bank approval and meet some negotiated requirements.

Since 1985, the insurance business has been open to the private sector and several local and foreign companies, including three U.S. companies, share the market. State-owned insurance firms are being privatized on a case-by-case basis.

In transportation, a new law permits Portuguese companies to compete with the state-owned airway company (TAP) on scheduled international flights. Recent reforms also permit concessions for private railway operation.

Private participation is restricted or excluded in certain sectors. These are: water, sewage, postal, main trunkline telecommunication and harbors.

The Portuguese Quality Institute (IPQ) establishes national standards and implements EC directives. The National Laboratory of Civil Engineering (LNEC) is responsible for construction standards in coordination with IPQ. The Portuguese Communications Institute (ICP) sets standards for telecommunications products.

Portugal follows EC safety regulations regarding low voltage electrical and electronic equipment. To import these products Portuguese regulations require the presentation of a certificate of conformity from the manufacturer, identifying the manufacturer, the importer and the equipment. It should

also state that the equipment meets requirements set forth by EC Directive No. 73/23/EEC. Product labeling includes the applicable International Electrical Commission standards and certifications.

Imported textiles, apparel and leather goods must carry a mark or label identifying country of origin. Textile products and apparel made from a combination of fibers must identify composition by percentage of content on the label. Since 1990 labeling on detergents and cleansing products must specify composition by percentage of its contents.

Foreign direct investment in Portugal has risen dramatically due to the fact that it is an EC member and certain projects receive incentives financed by special EC grants. Foreign investments have access to all the incentives provided for in Portuguese legislation but must legally incorporate in Portugal first. Foreign investors can own up to 100 percent of an entity and are allowed to establish themselves in all economic sectors open to the private sector. Ownership restrictions apply only to activities in the controlled sectors or in some newly privatized enterprises which limit foreign participation. Priority areas for investment, especially hi-tech activities, receive preferential financial and tax treatment.

Legislation covering government procurement makes no distinction based on nationality or source of goods and services. Portuguese government procurement follows EC directives. However, Portugal has not yet submitted to the GATT a list of agencies covered by the code. Tenders are announced in the EC journal, in the Portuguese Government's Official Gazette and in the two daily newspapers with largest circulation. All terms and conditions are included in the announcements and bidders receive adequate time to express interest. Bids from all participants meeting the established conditions are accepted. Official international tenders do not distinguish between foreign and domestic suppliers. The Portuguese Government claims that it does not require offset offers and tender documents do not include such requirements either. However, particularly in the procurement of defense equipment, offset offerings exist. The Portuguese Government claims they are unsolicited offers initiated by suppliers.

Both freely imported goods and goods subject to import restrictions require an import declaration necessary for tax purposes (imposed on CIF value of all imports). Goods subject to import restrictions need an import license which is usually granted in about 24 hours.

6. Export Subsidies Policies

Portugal does not have a program designed to subsidize exports. Current Government support for some public firms, which might be considered a form of indirect export subsidization, is primarily designed to assist these firms either in restructuring to make them attractive for privatization or to cover operating losses of some high priority public service companies. Some indirect export subsidization may also occur through the utilization of EC

grants intended to modernize selected Portuguese industries. Agricultural products also continue to receive some EC subsidies related to the Common Agricultural Policy.

7. Protection of U.S. Intellectual Property

Portugal is a member of the World Intellectual Property Organization and is a party to the Bern and Universal Copyright Conventions and the Paris Convention for the Protection of Industrial Property. Portugal grants intellectual property protection to domestic and foreign firms and favors negotiation of strong international enforcement in the GATT Uruguay Round.

Patents are granted for 15 years and are not renewable. Enforcement is sometimes weak, but the Government is concerned about violations. In 1991, Portugal enacted patent protection for chemical products, pharmaceuticals, and foodstuffs. Portugal's Patent Law also contains compulsory licensing provisions for insufficient use.

Trademarks are granted for 10 years and are renewable. Duration of copyright is life-of-the-author plus 50 years. Computer programs are not explicitly protected under copyright. The Government has taken measures to prevent unauthorized copying of video and audio cassettes and software. Nevertheless, illegal, small-scale copying is fairly widespread.

8. Worker Rights

a. The Right of Association

The Constitution ensures the right to establish unions by profession and industry and this right is respected in practice. There are two principal labor confederations, the democratic General Union of Labor (UGT), and the Communist-led Confederation of Portuguese Labor (CGTP-IN), as well as a recently organized grouping of non-affiliated unions, the Independent Labor Convention (CSI). Unions function without government interference and exercise their right to strike freely and often.

b. The Right to Organize and Bargain Collectively

Unions are free to organize without government or employer interference. Collective bargaining is guaranteed by the Constitution and practiced extensively in the public and private sectors. When collective bargaining disputes lead to prolonged strike action in key sectors (for example, health and transportation), the Government is empowered to order the workers back to work for a specific period. The Government has rarely done so in practice. When collective bargaining fails, the Government, at the request of either management or labor, may appoint a mediator. Union officials and members are protected by law against antiunion discrimination, and this law is observed in practice.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is prohibited and does not exist in Portugal.

d. Minimum Age for the Employment of Children

By statute, children under the age of 15 may not work. Minimum age for employment laws are generally respected in practice, but there are reports of abuses in the textile and shoe industries.

e. Acceptable Conditions of Work

Differentiated national minimum wage levels are set. The statutory maximum workweek is 44 hours. Workers are guaranteed 15 days of paid leave per year. Compliance with these regulations by employers is good and is monitored by regional inspectors of the Employment and Social Security Ministry. Employers are legally required to carry accident insurance and are responsible for accidents at work. Legislation concerning safety and health is considered inadequate by unions. The General Inspectorate for Labor lacks sufficient funds and inspectors to enforce existing laws effectively, and the ability of workers to remove themselves from hazardous situations is limited.

f. Rights in Sectors with U.S. Investment

U.S. capital investment is significant in the following goods-producing sectors: chemicals and related products; electric and electronic equipment; transportation equipment; and personal care products. The rights afforded workers in firms in these sectors are essentially the same as the rights afforded workers in other firms and/or sectors.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category	Amount	
Petroleum		(D)
Total Manufacturing		285
Food & Kindred Products	79	
Chemicals & Allied Products	(D)	
Metals, Primary & Fabricated	(D)	
Machinery, except Electrical	(D)	
Electric & Electronic Equipment	(D)	
Transportation Equipment	(D)	
Other Manufacturing	40	
Wholesale Trade		110
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business
August 1991, Vol. 71, No. 8, Table 11.3

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Key Economic Indicators

(Romanian Lei (RL) or U.S. Dollars as Indicated)

	1989	1990	1991 1/
Income, Production, Employment			
Real GDP (in billions of 1985 lei) (b,a)	839.7	790.8	753.1
Real GDP Growth Rate (PCT) (c)	-1.9	-7.9	-5.0
Real GDP by Sector (b,a)			
Manufacturing	443.9	381.3	364.1
Agriculture	115.7	142.4	137.8
Construction	53.2	44.9	53.8
Retail Trade	50.7	55.6	62.1
Services	63.7	66.3	N/A
Per Capita Income (US $) (c)	1567	1,227	N/A
Size of Labor Force (millions) (b)	10.9	11.1	11.2
Unemployment Rate (PCT) (a)	0.0	3.0	10.0
Money and Prices			
Money Supply (M1) (b,a)	276.9	341.3	N/A
Commercial Interest Rate (PCT) (b)	N/A	N/A	12-20
Savings Rate	N/A	N/A	N/A
Investment Rate	N/A	N/A	N/A
Consumer Price Index (Oct. 1990=100) (b,a)	94	137.7	360.0
Wholesale Price Index (b,a)	100	123.2	N/A
Exchange Rate (end of Year)			
Official	14.5	35	300
Interbank Auction Rate	N/A	N/A	300
Balance of Payments and Trade			
Total Exports (millions of Romanian Lei) (b)	167,780	135,191	203,079
Total Imports (millions of Romanian Lei) (b)	134,982	209,912	288,999
Total Exports to U.S. (U.S. Dollars) (a)	354.4	231.1	75.0
Total Imports from U.S. (U.S. Dollars) (a)	155.6	369.0	225.0
Aid from U.S. (millions of U.S. Dollars) (a)	0.025	80.9	50.5
Aid from other Countries (millions of U.S. Dollars)(a)	N/A	600	500
External Public Debt (billions of U.S. Dollars) (c)	0.8	0.8	3.2
Annual Debt Service Payments (c,a)	1.9	0	0
Gold and Foreign Exchange Reserves (c,a)	1,700	200	700

1/ 1991 figures are U.S. Embassy estimates
Sources: a - U.S. Embassy estimate or official U.S. Government source; b - Government of Romania; c - International financial

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institutions

1. General Policy Framework

Since the fall of the Ceausescu regime in December 1989, Romanian trade policies have been substantially liberalized, although the demand for U.S. exports has been mitigated by the lack of hard currency. A new bilateral trade agreement to include, inter alia, restoration of Romania's Most Favored Nation (MFN) status, was initialed on October 28, 1991. A U.S. decision on when to submit the new agreement to Congress for approval will be made in light of further progress toward democratic pluralism, especially the holding of free and fair elections.

The Romanian economy is in the midst of a prolonged downturn brought about by a painful restructuring from a centrally planned to a market economy, the collapse of the Council for Mutual Economic Assistance (COMECON) socialist trading bloc, and a severe energy shock. Real Gross Domestic Product (GDP) fell 7.9 percent in 1990 and another 5 percent in 1991. Salaries have failed to keep pace with inflation (estimated at more than 150 percent for 1991), resulting in a sharp decline in real wages and growing impatience among workers. Unemployment at the close of 1991 probably exceeded 10 percent, and the number of underemployed was even higher, reflecting a 17 percent drop in industrial output caused by shortages of imported raw materials, diminished markets for Romanian exports, and cautious monetary policies.

While some government officials foresee a resumption of economic growth (led by the agricultural sector) in 18 to 24 months, available economic indicators so far indicate at best a modest slowing in the rate of decline. However, substantial progress has been made in preparing the legal framework for major reforms in banking and finance, land use and ownership, foreign investment, taxation, and privatization of industry. The government moved to a unified foreign exchange rate in November 1991, a major step toward full convertibility of the Romanian leu. Financial and technical assistance has begun to flow in from abroad, marking the beginning of Romania's reintegration into the world economy after a long period of political isolation. The International Monetary Fund, World Bank, and European Bank for Reconstruction and Development are active in Romania.

As a result of fiscal reforms already implemented, adherence to International Monetary Fund (IMF) fiscal targets, and an unanticipated inflation-fed revenue windfall during the first half, the central government posted a relatively modest deficit for 1991. Subsidies for energy imports constituted a major share of the deficit. These will be substantially reduced with massive domestic fuel price adjustments adopted in mid-November. Taxes on salaries and retail turnover provide three-fourths of revenues. Exports are not taxed, and tax incentives exist for foreign investors. Romania is a member of the GATT and has sought to accommodate General Agreement on Tariffs and Trade (GATT) membership obligations in its new trade and tax laws.

The Romanian economy operates mainly on a cash basis, and

commercial banking is still in the early stages of development. Monetary policies can be characterized as cautious to restrictive. Tools used by the government to control the money supply include an arbitrary ceiling on credits, adjustment of the discount rate, and the volume of bills. Subsidies have been reduced drastically, and only a handful of basic commodities remain subject to price controls. A stock market is expected to open sometime in 1992.

2. Exchange Rate Policies

As a result of a series of devaluations of the Romanian leu dating from February 1990, Western imports have become increasingly costly. While the monetary value of imports has risen, the volume of imports has declined.

Under the dual exchange rate in effect at the end of October 1991, approximately 60 percent of imports were financed at the official exchange rate of Romanian lei (RL) 60 to United States dollar (US$1). This rate was used for such transactions as energy imports and capital repatriation. All other transactions were conducted at an inter-bank auction rate, which at the end of October 1991 was approximately RL 300 to US$1.

An IMF standby arrangement calls for the creation of a unified exchange rate. Government authorities postponed a planned unification scheduled to go into effect September 27, 1991, when labor unrest forced the fall of the previous government. The present transition government made exchange rate unification one of its top priorities, and put it into effect on November 11. The initial united exchange rate was 180 lei to the dollar.

3. Structural Policies

The transition to a market economy has required new laws in virtually every field: commercial code, privatization, copyright, trademark, patent, banking, labor, foreign investment, tax and social security. Laws reforming most sectors have been drafted and many have been promulgated. Most important have been the two laws to privatize 6,000 state-owned enterprises. In the first stage, most state enterprises were reorganized into commercial firms with greater autonomy to make commercial decisions. In 1992 the government should start to offer these firms for sale to Romanian and foreign interests.

The tax system is being overhauled as well. At present there is a tax on salaries, not income, and a profit tax. Several unique exemptions and incentives have been built into the laws. As a result, firms may be better off splitting into smaller subsidiary units to avoid the progressive, multi-bracketed profit tax. Individuals will be inclined to earn more non-salary income to avoid the progressive personal income tax. A value added tax system is to be introduced in 1992 or 1993. Customs duties have been simplified, and the rate reduced to a maximum of 30 percent.

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Several gaps exist in the legal framework for reform as Parliament also addresses a new constitution and political reform. Despite years of isolation under Communist rule, Romanian ministry staffs are knowledgeable about international standards and norms for laws.

4. Debt Management Policies

In an effort to reduce foreign influence, Ceausescu directed the liquidation of all foreign debt via accelerated payments and forced exports. As a consequence, by April 1989, the country's debt was virtually zero. After December 1989, foreign borrowing was resumed and by the end of the third quarter of 1991 amounted to approximately $3.2 billion.

Since May 1991, an IMF standby agreement has been in place designed to correct price distortions, ensure balance of payments viability, and stop the fall in GDP. The Fund pledged $500 million in Balance of Payments (BOP) assistance plus up to an additional $450 in contingency and compensatory assistance. Group of 24 (G-24) countries have pledged $727 million in balance of payments/stabilization support, a third of which had been disbursed at the end of the third quarter. The World Bank so far has approved loans totaling $330 million for emergency imports, technical assistance, and health care system support.

Commercial lending to Romania has been small, and no instances of bank credit rescheduling are known to the Embassy. Roughly 80 percent of Romania's export earnings are used to finance energy imports.

5. Significant Barriers to U.S. Exports

Traditionally defined trade and investment barriers are not a significant problem in Romania. Romania has no laws that directly prejudice foreign trade or business operations. However, the transitional nature of the reform process has created (or retained from the Ceausescu era) an environment not always conducive to foreign trade and investment. Chief concerns include:

Difficulty in concluding contracts: Lack of experience in Western business methods, rapidly changing laws and a dearth of legal specialists to interpret their commercial implications, frequent shuffling of persons of authority in both government and industry hierarchies, and the slow demise of the old habit of smoothing the path through personal contacts have frustrated U.S. exporters and investors in concluding contracts. U.S. companies have frequently commented that Romanians require more extensive documentation preparatory to a joint venture than any other country in the region.

Limited purchasing ability: Romania's hard currency reserves are nearly nil, undermining the country's ability to purchase needed goods and services. Countertrade, although no longer the virtual requirement for transactions as under the Ceausescu regime, still plays an important role in Romania's

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trade strategy.

High cost of doing business: For a country with low living standards, the costs associated with setting up a foreign business operation are high. Office rentals, transportation costs, telecommunications bills, and the need to import most office supplies all make doing business in Romania a costly venture. According to a recent Swiss study, Bucharest will be one of the top ten most expensive European cities by the year 2000.

Lack of support services: The modern tools of trade (telecommunications equipment, office equipment, computer hard and software) are still hard to obtain locally. Most equipment has to be imported and maintenance costs are exorbitant. Shortages of foodstuffs are frequent, energy supplies (gasoline, heating oil) are erratic, electric power fluctuations occur regularly, telephone services are overloaded, and medical care below Western standards. Only the most hardy U.S. firms to date have placed Americans in residence to manage their operations.

Investment barriers in Romania are few. The foreign investment law passed in April 1991 allows up to 100 percent foreign ownership, and permits between 8 and 15 percent per annum conversion and repatriation of after-tax profits of the original investment value. The new exchange rate regime gives firms with 100 percent ownership the right to hold foreign current accounts. Joint ventures and domestic firms are required to have all deposits in lei. The percentage varies according to the type of investment, with such sectors as agriculture and food processing, energy and telecommunications receiving the highest return as a means of encouraging investment in these sectors. Government approval of a joint venture is required, but to date this has not impeded the formation of such ventures.

The foreign investment law does prohibit foreign ownership of land. Foreigners are, however, entitled to lease property, and the Romanian partner of a joint venture may own land in the name of the venture.

Since 1990, the Romanians have registered 6,228 commercial companies with foreign capital participation, but the total value of the foreign investment is comparatively small: $248.75 million. The overwhelming majority of the investments are small; less than 1 percent of the total number of companies comprise some 52 percent of the total capital investment. U.S. company investments run the gamut from multi-million dollars to 100 dollars, but both volume and value terms are increasing. U.S. investments currently top the list in value (about $35 million) and are ranked fourth in number.

6. Export Subsidies Policies

The Romanian system does not provide outright export subsidies, but it does attempt to make exporting attractive to Romanian companies. In other words, there is no preferential financing for local exporters, no export promotion funds are

disbursed by the government, and there is no targeting of benefits for small businesses. The new exchange rate regime has 100 percent export earning surrender requirements.

In December 1990, the government passed a decree, effective January 1, 1991, providing for the total or partial refund of import duties for goods that are processed for export or are incorporated in exported products. Romania is not a signatory to the GATT Subsidies Code.

7. Protection of U.S. Intellectual Property

During the Communist era the concept of property, private or industrial, was alien to official policy. Most laws reserved property rights to the state. Nevertheless, Romania was a member of the World Intellectual Property Organization (WIPO), and Romanian experts are knowledgeable about the Western concept of property. As part of the reform process, all laws relating to patents, trademarks and copyrights are being rewritten. The patent law has been promulgated, the trademark law was expected to be enacted by the end of 1991 and the copyright law is in draft. All laws have been modeled after international standards and norms and have been reviewed by international experts. It is expected that Romania will have a modern set of intellectual property laws in 1992.

Due to the lack of legal protection and enforcement, some U.S. firms, especially computer software firms, have been reluctant to license products in Romania.

8. Worker Rights

a. The Right of Association

Parliament enacted several laws in 1991 which revised Communist-era labor legislation and guarantee the right of workers to organize and join labor unions, and to engage in collective bargaining. Some unions complained that the legal requirement that complaints be submitted to government-sponsored conciliation prior to a strike interferes with their freedom of action. However, there appear to be no serious impediments to the right of labor unions to associate freely or to engage in strikes or other labor actions to press their demands. Law 54/1991 established the right of workers to organize and join unions, recognized the legal character of labor organizations, and imposed criminal penalties for interference with these rights. According to this law, labor unions are independent bodies, free from government or political party control, with the right to be consulted on labor issues. No worker can be forced to join or withdraw from a union, and union officials who resign from elected positions and return to the regular work force are accorded protection against employer retaliation.

b. The Right to Organize and Bargain Collectively

Law No. 13/1991 establishes the collective bargaining agreement as a legally recognized contract which is the basis for setting working conditions, wages, and other obligations

of employers and workers. The right to bargain collectively is also enshrined in Article 38 of the Constitution. In addition to basic wage scales established through collective bargaining, workers and pensioners receive thrice-yearly increases indexed to prospective price increases as a result of Government Decision No. 579/1991 issued in September. The amount of the indexed increases is determined through government trade union negotiations.

c. Prohibition of Forced or Compulsory Labor

There is currently no law that prohibits forced or compulsory labor. Article 39 of the Constitution prohibits such labor, but excludes members of the military, convicts, and those working during national emergencies, from the definition of forced labor.

d. Minimum Age for Employment of Children

The Government claims to respect International Labor Organization (ILO) conventions concerning employment of children. According to Decree-Law 147 of May 11, 1990, the minimum age for employment is 16, although children as young as 14 or 15 may work with the consent of their parents or guardians and 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 wages vary and are set according to a complex scale by profession, taking into account experience and time on the job. Real incomes have declined as wages failed to keep pace with spiraling inflation despite indexation to prices. The legal workweek is 40 hours over 5 days with overtime paid for weekend work or work in excess of 40 hours. Paid holidays range from 15 to 24 days annually. Special benefits and allowances are mandated for workers engaged in particularly difficult of dangerous occupations. The Labor Code promises workers a safe working environment. However, the government lacks trained inspectors, and industry lacks financial resources to implement improvements in work place safety and occupational health.

f. Rights in Sectors with U.S. Investment.

Conditions do not differ from those in other sectors of the economy. Many Romanians hope that increased foreign investment will instill a greater sense of environmental concern and occupational health and safety in local industry.

ROMANIA

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(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	1	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		1

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, August 1991

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Key Economic Indicators

(Rubles or U.S. Dollars As Noted)

	1989	1990	1991 (est)
Income, Production, Employment 6/			
National income produced (billion rubles)	673.7	700.6	N/A
Real national income growth (pct)	7.8	N/A	N/A
GNP (billion rubles) 1/	943	1,000	N/A
Real GNP Growth (pct) 7/	5.0	-2.0	-15
GNP (billion 1990 $) 2/	2,760	2,660	N/A
GNP (bil 1982 rubles estab prcs)	815	795	N/A
GNP (bil 1982 rubles factor cost)	746	728	N/A
Real GNP growth (pct) 3/	1.5	-2.4-5.0	-13.4 7/
GNP by sector (pct) 3/			
Agriculture	20	20	N/A
Industry	32	32	N/A
Construction	8	8	N/A
Transportation	9	9	N/A
Communications	1	1	N/A
Trade	6	7	N/A
Services	21	21	N/A
Other	2	2	N/A
GNP per capita (1990 $)	9,500	9,130	N/A
Labor force (millions)	156.6	157.5	N/A
Money and Prices			
Money supply (billion rubles)	614.0	733.0	N/A
Savings (billion rubles)	340.5	386.8	N/A
Average monthly wage (rubles)	240.4	270.0	N/A
Industrial workers	263.7	293.0	N/A
Collective farmers	200.8	226.0	N/A
Savings rate (pct nat'l income)	47.6	N/A	N/A
Investment rate (pct)			
National income 4/	24.3	20.7	N/A
GNP (U.S. estimate)	32.0	31.0	N/A
Consumer prices indexes			
Official state retail price (pct)	2	5	200
Official collective farm market (pct)	9.5	29	N/A
CPI (U.S. estimate)	131	149	N/A
Balance of Payments and Trade (mils $)			
Total Exports FOB	109,299	109,000	N/A
Exports to U.S.	842	951	900
Total Imports FOB	114,698	115,000	N/A
Imports from U.S.	4,556	3,683	3,200
Hard Currency Estimates			
Exports FOB	32,931	35,600	31,000
Imports FOB	35,122	35,200	21,000
Trade balance	-2,191	400	-3,900
Net interest	-3,404	-3,500	-3,600

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Current account balance	-4,419	-1,700	1,500
Change in gross debt	8,500	4,400	-1,700
Net change in assets	-875	-6,500	-5,700
Net credits to LDCs	5,665	3,777	3,900
Gold sales	3,665	4,500	3,500
Capital account balance	7,375	11,115	5,600
Errors and omissions 5/	-2,956	-9,400	-7.1
Gross debt	50.8	59.4	57.7
Assets with Western banks	14.5	8.7	3.0
Net debt	35.3	50.7	54.7
Debt service ratio (pct)	23	25	32
Gold reserves (mils troy oz)	67.7	67.7	7.7 6/

1/ In 1988, the U.S.S.R. for the first time published data on Soviet economic growth using the Western concept of GNP. Its estimate for 1987 in current rubles is best compared with the CIA's estimate of 796 billion rubles in 1982 "established" prices. The implicit U.S.S.R GNP deflator of 0.8 percent during 1983-87 probably grossly understates the rate of inflation in the Soviet economy. The U.S.S.R.'s initial published GNP estimates were for growth only, and for the years 1986 and 1987 (4.6 percent and 3.3 percent, respectively). These growth rates were subsequently revised downward (to 4.1 percent and 3.1 percent).
2/ The ruble estimate for GNP was converted to 1982 geometric-mean (GM) U.S. dollars by multiplying the ruble value of estimated GNP by the geometric mean of two dollar-ruble ratios--one weighted with U.S. price weights and the other with Soviet weights. The U.S. GNP deflator as then applied to convert 1982 GM dollars to 1989 GM dollars.
3/ Based on estimates in 1982 rubles at factor cost.
4/ Does not include depreciation.
5/ Errors and omissions include Soviet hard-currency aid to and trade with other communist countries, trade credits extended to finance Soviet exports to developed countries, and other nonspecified hard-currency expenditures, as well as errors and omissions in other line items of the balance-of-payments accounts.
6/ Official Soviet statistics.
7/ U.S. Estimates

1. General Policy Framework

The U.S.S.R. ceased to exist on December 25, 1991. The three Baltic states, Latvia, Lithuania, and Estonia, declared their independence earlier in the year, and are presented elsewhere in this volume. Of the twelve new independent states, eleven formed the Commonwealth of Independent States, with only Georgia not joining. These twelve states are presented below, jointly, as they made up a single nation for most of 1991. Comprehensive, individual reports for each State will be presented in the Country Reports on Economic Policy and Trade Practices to be presented to Congress in February, 1993.

A year of spectacular and unprecedented change, 1991 began under the threat of a conservative crackdown in the Baltics and elsewhere in the Soviet Union, and ended with the dissolution of the Soviet Union itself into three Baltic and

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12 other independent states. The turning point came in August, when an attempted coup by conservative forces ended in the discrediting of the Communist regime, and the banning of the Communist Party.

The collapse of the economy, an important factor in the Government's loss of authority and control, accelerated during the year. By year-end, Russia and the other new countries of the region (Ukraine, Byelarus, Kazakhstan, Kyrgyzstan, Uzbekistan, Tajikistan, Turkmenistan, Azerbaijan, Armenia, Moldova and Georgia) were facing hyperinflation, failing production from superannuated plant and equipment, rising unemployment, a collapsing internal market and widespread shortages, dwindling foreign currency holdings, and daunting health and ecological problems. Moreover, fundamental market economic reforms had not been implemented; during 1991, as in previous years, piecemeal reforms helped to dismantle the central administrative system but put no effective market mechanisms in its place.

The relationship of Russia and the other new countries with the West underwent a fundamental change. Diplomatic relations with the Baltic states were restored. In relations with the Soviet Union, and then its former republics, arms control and other security issues were overshadowed by urgent appeals for economic and financial assistance from former Cold War opponents. Key Western countries, including the United States, responded by pledging support for democratic forces and reformers, and by providing debt relief and humanitarian food and medical assistance during the winter of 1991-92.

2. Exchange Rate Policies

The Soviets continued their multiple, fixed exchange rate system throughout 1991. The commercial rate remained at roughly 1.8 rubles/dollar, as compared with rates at commercial market auctions that soared from around 20 to over 100 rubles/dollar by year-end. The tourist rate remained at 6 rubles/dollar during most of the year, and then was adjusted upwards to 37 rubles/dollar and above. Convertibility for current account transactions was set for January 1, 1992, but appears to have been postponed.

The central government's attempts to liberalize its exchange rate policy were constrained by the growing shortage of foreign exchange. Some of the policies it instituted in an attempt to increase the supply appeared only to make the situation worse. The decree in late 1990 that established an all-union currency fund and required state enterprises (but not joint ventures) to surrender significant percentages of their hard currency earnings to fund debt service and other hard currency costs caused exporters to seek new ways to disguise their hard currency earnings, perhaps keeping them abroad or converting them into imported goods.

The Russian government, which by early 1992 appeared to have assumed *de facto* many of the central government's currency functions, has like its predecessor made current account convertibility a goal. The Russians may move to simplify the multiple exchange rate system that they

inherited. As of January 1992, it appeared as though they would continue to require exporters to surrender some portion of their foreign currency earnings to the Central Bank.

3. Structural Policies

Although the abrupt drop in the economy was one of the most dramatic events in 1991, it received relatively little attention either from the Soviet central government or from any of the newly-independent state governments in 1991, who instead were preoccupied with the year's momentous political changes and the struggle for political control. At year-end, fundamental market reform remained as elusive as it had at the start, despite the precipitous fall of the Communist Party.

The central government's demise was accelerated by several powerful economic factors. Inflation, estimated for the year at 250-300 percent, undercut confidence in the government, and further disrupted traditional ties between suppliers and consumers, exacerbating widespread shortages and encouraging widespread barter deals. Prime Minister Pavlov's ill-conceived attempt early in the year to confiscate part of the "ruble overhang" by recalling large denomination ruble notes withdrew only a small fraction of rubles in circulation while further alienating the public.

Inflation was increasing sharply as 1991 began, as governmental budget deficits had to be fully monetized, and monetary creation continued uncontrolled. Some inflationary pressure stemmed from earlier decisions to raise wages and pensions substantially without identifying additional revenues. The central government, however, received even less overall revenue than it had anticipated, as the collapse of its authority undermined fiscal discipline, and as republic governments failed to contribute tax revenues to the center. In part, this was because they themselves had received less money, since GNP was falling at an annual rate above 12 percent. The shortfalls also reflected republic reluctance to fund the central government. By the end of 1991, Gorbachev found himself without funding for the month of December, and no one offered to provide it.

Faced with this monetary disarray, many republics began to talk openly about introducing their own currencies, despite pressure from the central government and then Russia. By the end of 1991, there still was no currency other than the ruble, but it appeared likely that Ukraine and perhaps others would introduce either their own currencies or coupon systems that might function like currencies. Successful introduction of separate currencies will require painful fiscal measures, however; the republic governments in 1991 also resorted to widespread deficit spending, covered by the Soviet state bank, and this contributed to inflationary pressures.

Similarly, the governments of the region, including those of Russia and Ukraine, moved beyond the temporary barriers to internal trade that had sprung up in prior years to develop their own customs services and to regulate trade by means of export licenses, and other restrictions, within the territory of the former Soviet Union. For example, several food-surplus

republics cut off food exports to deficit republics, partly to stave off anticipated future shortages and partly to use the food as barter for other goods in short supply, such as fuel. While the Commonwealth of Independent States agreement cites the need to form and develop a "common economic space," such coordination may prove difficult.

If the region's new states do indeed develop separate currencies and customs regimes, trade between them will be sharply limited by the scarcity of convertible currency that in 1991 caused the central government to cut imports by 45 percent and to reach debt deferral arrangements with Western creditors.

The funding crisis also reduced military spending, although it is too soon to speak of a fundamental structural demilitarization of these economies. The substantial drops in energy and steel production may also, in the end, mean a shift away from heavy industry. So far, however, there has been no significant increase in agricultural or consumer goods production to take its place.

4. Debt Management Policies

Formerly an excellent credit risk in the eyes of Western creditors, the Soviets in 1991 were forced by hard currency shortages to seek debt deferral agreements with Western creditors. External debt was, by year-end 1991, estimated at $65-70 billion overall; in addition, there were between $5-7 billion of arrears in supplier credits.

After the coup attempt, the governments of the G-7 industrialized countries negotiated an agreement whereby a majority of the republics agreed to joint and several liabil'ty for Soviet foreign debt contracted before January 1, 1991. In return, they were granted a one-year grace period on principal repayments for medium and long-term debt, and short-term lines of credit were maintained. They were also offered the possibility of emergency financing by means of a gold swap. The 12 states then asked Western commercial banks to set up a bank steering committee with which they could to negotiate comparable terms for commercial debt.

Following granting of Special Association with the IMF and IBRD in the fall of 1991, these institutions began sending financial and banking experts to Russia and other states to help them set up Western-style financial institutions and systems.

5. Significant Barriers to U.S. Exports

As the ruble remained inconvertible, the republics' import capacity was limited by their ability to increase export earnings, and by their ability to obtain, and willingness to use, available Western credit or to draw down its dwindling reserves.

Despite the overall drop in Soviet imports, exports from the U.S. during the first 10 months of the year fell only

slightly from the previous year's level ($2.72 as compared with $2.79 billion). These figures reflect President Bush's decision, in December 1990, to make available export credit guarantees of almost $4 billion from Commodity Credit Corporation and up to $300 million from Export-Import Bank programs for U.S. exports to the Soviet Union.

In November 1991, the Congress approved the U.S.-Soviet Trade Agreement, but the Agreement was not ratified by the Soviet government before its collapse. Thus, U.S. products still do not enjoy most-favored-nation status in the territory of the former Soviet Union.

U.S. business faces stiff competition from the Western European nations and Japan, most of which ran trade deficits with the U.S.S.R., and which have been offering the C.I.S. nations sizable lines of export credits as they compete for Soviet orders for machinery and equipment, particularly for the food and light manufacturing industries.

6. Export Subsidies Policies

Not applicable.

7. Protection of U.S. Intellectual Property Rights

Throughout 1991, the U.S.S.R. was a member of the World Intellectual Property Organization, the Universal Copyright Convention, the Paris Convention for the Protection of Industrial Property, the Madrid Agreement Concerning the International Registration of Marks, the Patent Cooperation Treaty and the Budapest Treaty on the International Recognition of the Deposit of Micro-organisms for the Purposes of Patent Procedure.

While it continued to exist, the U.S.S.R. issued both patents and certificates of authorship. The right of the inventor was protected, at the choice of the applicant, either by a certificate of authorship or by a patent, but only a patent provided the exclusive right for the applicant to use the invention. Certificate of authorship acknowledged the authorship of the inventor and granted the inventor rights and advantages stipulated by the legislation in force, whereas the exclusive right to use the invention belonged to the state for fifteen years. In 1991, the Soviet government enacted more comprehensive patent legislation which was intended to provide better protection.

Following the dissolution of the Soviet Union in late 1991, the U.S.S.R. Patent Office continued to operate until January 31, 1992. On February 1, 1992, the government of the Russian Federation assumed the responsibilities for patent registration and enforcement. The newly established Patent Office of the Russian Federation has told the U.S. Government that it will now accept application documents, issue letters of protection, exchange inventor certificates and perform all other legal operations concerned with the protection of industrial property for all of the independent republics of the former Soviet Union, except Estonia, Latvia and

Lithuania. It is not yet clear whether this arrangement is acceptable to the other republics.

In 1973, the U.S.S.R. acceded to the Universal Copyright Convention. Since then, works enjoyed copyright protection throughout the Soviet Union. During 1991, foreign authors and publishers could negotiate publication contracts with Soviet publishing houses. Prior to accession to the Convention, there were instances of unauthorized publication of Soviet works abroad.

Congress approved the U.S.-Soviet Trade Agreement in November 1991. This agreement offers strong intellectual property rights protection by reaffirming commitments to the Paris Convention and the Universal Copyright Convention. It would have obligated the Soviet Union to introduce legislation to provide for adherence to the Berne Convention for the Protection of Literary and Artistic Works and copyright protection for computer software, data bases and sound recordings. The Agreement would have also provided for product and process patent protection for nearly all areas of the technology and extended comprehensive coverage to trade secrets. However, the Soviet Union ceased to exist before the Supreme Soviet was able to ratify the agreement.

Thus, by the end of 1991, adequate and effective protection of copyrights still did not exist in the former Soviet Union. The independent republics which made up the former Soviet Union appear to be prepared to assume responsibility for intellectual property rights but lack the experience to deal with complex IPR issues, the legal framework and the administrative infrastructure required for effective enforcement. The establishment of adequate copyright protection throughout the entire territory of the former Soviet Union is likely to take some time.

8. Worker Rights

a. The Right of Association

The right of workers to form and join unions of their own choosing showed little change in 1991. Although a December 1990 law made independent unions equal before the law with official unions, official unions retained inherent advantages arising from close links with enterprise directors and exclusive control over workers' vacations, recreational facilities, and other social benefits. Independent labor leaders considered the official trade union control of social functions usually performed by the state as the greatest obstacle to the growth of true, independent trade unions in the U.S.S.R. Attempts during 1991 by the independent unions to break this monopoly had little effect.

Independent labor activists reported that throughout 1991 enterprise directors, together with local government officials, police and judicial authorities applied various forms of pressure on workers who attempted to exercise their right to form and join unions. Notwithstanding the obstacles, the independent workers' movement continued to grow impressively, gaining strength in several regions and sectors

where it previously had been weak or absent altogether. The nine-week miners' strike in March and April found support in some areas of Byelarus, long considered a bastion of Communist Party stability. Although there were reports of workers forming local independent unions in many areas of the country, the coal miners in the Donbas region of eastern Ukraine and Kuzbas region of western Siberia represent the largest and most potent centers of independent organized labor in the former Soviet Union.

The U.S.S.R. formally established the right to strike in 1989, but both the Soviet and Ukrainian governments issued strike bans in the spring of 1991. Independent labor activists noted, however, that since the failed August coup, persecution of labor activists appears to have become a localized rather than systemic problem.

b. The Right to Organize and Bargain Collectively

Soviet authorities had revealed a reluctant willingness to deal with the independent labor movements. Although the government in July 1990 had conceded the Independent Union of Miners (NPG) the right to conclude wage agreements with the central government, the union resorted to another strike in March 1991 after failing to get the Government to the bargaining table. Following the 1991 strike, the Government again granted the NPG the right to negotiate on behalf of its members. However, enterprise directors often refuse to negotiate with independent unions. Outside the mining and air transport industry, the vast majority of Soviet workers still had to rely on the official unions and factory and enterprise work collective councils to express their interests. Many workers felt these representatives inadequately defended them, since they tended to side with management.

c. Prohibition of Forced or Compulsory Labor

Soviet law had contained no prohibition on forced or compulsory labor, although a "Declaration of Human Rights and Liberties" adopted by the Union Congress of People's Deputies in September 1991 expressly forbids it. Convicted criminals, including those confined for political offenses, were commonly forced to work, often under very difficult conditions and for minimal wages. Labor camp prisoners were widely known to be the main labor force for the Soviet lumber industry. Inmates at some correctional labor colonies struck over harsh work conditions.

d. Minimum Age for Employment of Children

Soviet law had established a statutory minimum age for employment of sixteen. Widespread reports appeared of child labor in the Central Asian republics.

e. Acceptable Conditions of Work

The bottom rung of the official pay scales for each industry served, in effect, as an administrative minimum wage. Soviet reform plans called for the establishment of minimum wages, usually republic by republic, but by the end of 1991 these had not been legislated.

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The Soviet Labor Code set a limit of 41 hours to be worked per week. However, in practice, workweeks can range from considerably less than this to considerably more, depending on local circumstances. Officially, workers receive other benefits in addition to their wages, such as heavily subsidized prices for basic goods and foodstuffs in state stores. However, the value of this benefit was eroded by growing shortages of basic consumer goods and food in state stores, as prices on the open markets climbed weekly.

Soviet law established minimum conditions of workplace safety and worker health. However, these conditions are generally ignored, and no effective enforcement mechanisms exist. Workplace safety issues emerged as major issues in the miners' strikes, among airline pilots and air traffic controllers and in the armed forces.

f. Rights in Sectors with U.S. Investment

In early 1987, the Soviet Union allowed direct foreign investment for the first time. Over 3000 joint ventures were reportedly signed by early 1991, including about 250 with U.S. companies. Total U.S. investment is estimated at $360 million. Because of the increasing devolution of power to republics, hard investment data is becoming increasingly difficult to obtain. Compared to the scale of the goods-producing sectors in the former Soviet economy, total U.S. direct investment is relatively insignificant.

Extent of U.S. Investment in Goods Producing Sectors

No sector by sector data is available on U.S. investment in the (former) Soviet Union.

SPAIN

Key Economic Indicators

(Millions of Pesetas Unless Otherwise Stated)

	1989	1990	1991(e)
Income, Production and Employment			
Real GDP (bil. ptas, 1985 prices)	33,919	35,160	36,039
Real GDP growth (Pct)	4.8	3.7	2.5
Agriculture	-6.9	2.8	2.5
Industry	3.4	1.6	2.0
Construction	13.7	10.4	10.0
Services	5.4	4.0	4.0
GDP per capita (US$)	9,706	12,492	13,523
Labor Force (000's)	14,379	15,036	15,049
Unemployment rate (pct)	16.9	16.1	16.0
Money and Prices			
M1 (bil. ptas)	11,155	14,114	16,000
Commercial Interest rate (pct)	14.1	14.6	12.5
Savings rate (pct of GDP)	22.1	22.2	22.5
Investment rate (pct of GDP)	25.3	25.7	26.0
Consumer Price Index (1983 equals 100)	158.3	168.6	179.6
Wholesale Price Index (1974 equals 100)	460.5	471.1	480.5
Exchange rate Ptas/US$ (average)	118.38	101.94	103.0
Balance of Payments and Trade			
Total Exports FOB (mil. US$)	41,151	50,995	53,700
US imports (mil. US$)	3,086	2,958	2,954
Total Imports CIF (mil. US$)	65,645	80,514	83,400
US exports (mil. US$)	5,908	6,763	7,923
External debt (mil. US$)	34,764	44,973	45,000
Foreign Exchange Reserves (mil. US$)	44,422	53,104	65,000
Balance of Payments (Current Account, mil. US$)	-11,636	-15,720	-22,200

1. General Policy Framework

Spain continues to experience good investment-led growth as part of the economic upturn which began in 1985. In 1991, the rate of growth will slow to 2.5 percent from 3.7 percent in 1990, as a result of the weaker international economy and a high interest policy implemented since mid-1989 to curb inflationary pressures. The goal of Spanish policy is to

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foster a competitive economy in the context of the European Community (EC) Single Market with the eventual goal of approaching EC averages on per-capita income.

Spain's 1986 accession to the EC established the framework for the present economic expansion. EC membership has required Spain to open its economy, modernize its industrial base, improve infrastructure, and revise economic legislation to conform to EC guidelines. With Spain firmly anchored in the EC, foreign investors, principally from other EC countries, have brought into Spain over $50 billion since the EC accession.

The principal challenge for Spain in the 1990's will be to adapt to the EC Single Market. Spain's overall competitiveness has suffered in recent years, principally due to inflation levels which continue to exceed EC averages and wage increases above productivity gains. With the peseta linked to other EC currencies via the European Monetary System (EMS), above average inflation leads immediately to a decline in competitiveness of Spanish goods and services.

The main source of inflationary pressure is the fiscal deficit, which will be about 2.0 percent of GDP in 1991. From the period 1986-90, Spain was able to increase both social and public infrastructure spending, due to a rapidly expanding tax base following the introduction of a value-added tax. Starting in mid-1991, public works spending was sharply curtailed because of the need to cut the deficit, and in the face of growing social program coverage and expenditures.

From mid-1989 until February 1991, the Bank of Spain maintained a high interest rate policy as the principal measure to combat inflation. While the policy had success in reducing inflation, the high yields attracted foreign capital, leading to an appreciation of the peseta. The appreciation of the peseta was also one factor in the decline in competitiveness.

2. Exchange Rate Policies

Spain joined the EMS in mid-1989, and was given a "wide band" of plus or minus six percent around the peseta's central peg to the ECU. With high interest rates, the peseta has remained five to six percent above the central peg, and in the first quarter of the year frequently bumped up against the ceiling. One condition for eventual entry into a common European currency will be to move the peseta within the "narrow band," plus or minus 2.5 percent of the central peg. To do so, Spain will have to reduce the interest rate spread with other EMS currencies.

The Government of Spain has lifted all significant foreign exchange controls for businesses, and it has announced that remaining controls, for businesses and individuals alike, will be lifted effective February 1, 1992.

3. Structural Policies

Spain's Treaty of Accession to the EC requires it to open

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its economy. By January 1, 1993, Spanish tariffs must be phased out for imports from other EC countries, and lowered to the EC's common external tariff for imports from non-EC countries. Many non-tariff barriers must also be reduced or eliminated. While areas of dispute remain (see section 5) the trend is strongly toward a more open economy. The EC program to establish a single market has accelerated Spain's integration into the EC.

Spain's membership in the EC also required liberalization of its foreign investment regulations and the foreign exchange regime. Complete freedom of capital movement will be established by 1993 at the latest, although Spanish authorities have announced that they intend to advance the timetable to the end of 1992. In July 1989 a securities market reform went into effect. The reform provides for more open and transparent stock markets, as well as for licensing of investment banking services. The reform liberalizes conditions for obtaining a stock brokerage license, but provides for a transition period through 1992.

Faced with the loss of the Spanish feed grain market as a result of Spain's membership in the EC, the United States negotiated an Enlargement Agreement with the EC in 1987 which establishes a 2.3 million ton annual quota for Spanish imports of corn, specified non-grain feed ingredients and sorghum from non-EC countries during a four year period. Since the United States and the EC could not agree on permanent compensation when the Agreement was to expire in 1990, a one-year extension was negotiated. In December 1991, the EC unilaterally extended the agreement for an additional year to end December 31, 1992. The United States remains interested in maintaining access to the Spanish feed grain market and will continue to press the EC on this issue. U.S. exports of corn and sorghum, valued at about $420 million annually, are an important part of U.S. trade with Spain.

Spain was obliged under its EC accession agreement to establish a formal system of import licenses and quotas to replace the structure of formal and informal import restrictions for industrial products existing prior to EC membership. The United States objected that the new import regime for non-EC products was illegal under GATT. In response to U.S. concerns, in September 1988, Spain initiated an automatic, computerized licensing system for Spanish imports of the affected U.S. products. Since the system became effective, no U.S. exporters have reported market access impediments to their products covered under the automatic approval system.

4. Debt Management Policies

Spain's external debt totalled $44.8 billion in June 1991. International reserves were $62.1 billion in June 1991. With a low debt service-export ratio, Spain should have no difficulty in servicing its debt.

5. Significant Barriers to U.S. Exports

Import Restrictions: Spain prohibits imports of U.S.

produce, notably fresh apples, pears, cherries, avocados and grapefruit, based on plant protection arguments. The two countries appear to be close to an agreement to allow imports of fresh apples and pears from the U.S. Northwest, but problems remain for other products. Other EC countries allow imports of these items, but Spain has not indicated any willingness to bring their overall policy into line with other EC countries before the revised EC-wide regulations are put in place sometime after 1992.

Processed Food Standards: Unusually strict regulations on processed food imports constitute an important barrier. Spanish regulations prohibit importation of processed food products whose ingredients, additives (including colorings and flavorings) and labels the Government of Spain has not approved prior to customs clearance. Thus, food products must conform to Spanish standards and be registered by importers with health authorities prior to entry. Shipments not in compliance with Spanish regulations are subject to detention and must be destroyed or re-exported.

Telecommunications: The Spanish government enacted a general telecommunications law in December 1987 which established the framework for policy and regulation of telecommunications services in Spain. The law preserves the monopoly of state-controlled Telefonica in the area of final and carrier services; it allows for eventual liberalization of certain customer premise equipment and value-added services. Impetus for policy change increasingly comes from the EC regulatory institutions in this sector. Spain has indicated that it will not liberalize its telecommunications market in advance of EC deadlines. However, the government has recently announced that it would be submitting amendments to the 1987 law and that a national telecommunications plan would soon be released. It is expected that these changes will specify additional liberalization. Government procurement biases and product-certification requirements (discussed elsewhere in this report) are problems for some U.S. suppliers.

Government Procurement: The Spanish government looks to the EC Commission, as well as other EC member states, in establishing the policies and timetables for liberalization of public procurement of goods and services. While Spain has not yet completed the process of implementing the GATT Government Procurement Code, Spain has reportedly met the Community's request for additional detailed statistical information regarding Spanish central government entity purchases, and the Community is likely to present Spain's government procurement package to Code signatories for approval by June, 1992. Although there are no discriminatory legal requirements, anecdotal evidence indicates that major award decisions by national entities are made according to the following order of priority: a) locally-made products; b) EC products; c) U.S. and other non-Asian products; and d) products from the Far East.

Offset and local content provisions are established features in competitions for major Spanish defense contracts. They are also common in large non-defense-related government awards. Typical offset commitments for defense sales reportedly range from 50 to 130 percent of the purchase price. The recent winning proposals in non-defense satellite

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communications tenders have included offset commitments in the 30 to 60 percent range of the contract value.

Television Broadcasting Stations: In line with EC policy, Spanish legislation includes restrictions on the share of non-EC programming shown on private TV, as well as restrictions on foreign ownership of the three private TV concessions allowed. These restrictions are aimed at developing the local Spanish program industry and encouraging Spanish language productions.

While the principal government-owned television networks show more U.S. programs than the quota restrictions on private channels would permit, observers are concerned that the government TV networks may eventually attempt to limit non-EC programming to a share comparable to the quota for private-TV. Given the strong public acceptance of U.S. programs, quota restrictions could limit sales opportunities.

Motion Picture Dubbing Licenses and Screen Quotas: Spain requires issuance of a license for dubbing non-EC films into Spanish for distribution in Spain. Dubbed movies are commercially more successful than subtitled original language films in the Spanish market. To obtain a license, distributors must contract to distribute a Spanish film. Spain continues to enforce screen quotas requiring cinemas to show one day of EC films for every two days of non-EC films. Dubbing licenses cost U.S. firms more than $15 million. The U.S. has raised this issue bilaterally and in the OECD.

Harmonization of Standards: Prior to Spain's 1986 entry into the European Community, certification (homologation) requirements for electrical, electronic, and telecommunications imports were difficult and compliance was expensive. Certification has been liberalized significantly since 1986. Spanish Royal Decree 105 of 1988 waived homologation requirements for products approved for sale in other EC markets. Products made in non-EC countries that are in "free circulation" in any EC country receive the same treatment as EC-origin products. Despite these improvements, problems remain for U.S. exports in two areas. First, in product areas such as telecommunications equipment and construction materials, some pre-1986 requisites remain in force. Secondly, there is a lack of clarity and consistency in that uniform norms are lacking regarding the documentary evidence needed to establish that an imported item meets the certification requirements of another EC government or that the item is in free circulation in another EC country market.

6. Exports Subsidies Policies

In order to promote exports, particularly in Latin America, Spain uses tied aid credits. However, such credits are consistent with the OECD arrangement on officially supported export credits.

7. Protection Of U.S. Intellectual Property

Spain has adopted new patent, copyright, and trademark laws, as agreed at the time of its EC accession. It enacted a

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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 EC levels of intellectual property protection. Spain is a party to the Paris, Berne, and Universal copyright conventions and the Madrid Accord on Trademarks.

The patent law greatly increased the protection accorded patent holders. In October of 1992, Spain's pharmaceutical process-patent protection regime expires and product protection takes effect. Industry sources say that the impact of the new product protection law will not be felt until early in the next century when new pharmaceutical products patents applied for after October 1992 enter the market after the 10-to-12 years research and development period normally associated with the introduction of a new product into the market. U.S. makers of chemical and pharmaceutical products complain that this provides effective patent protection for approximately eight years. The U.S. pharmaceutical industry would like to see some lengthening of the patent term.

The new 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 1991, judicial sanctions for violations increased significantly. The law provides a clear legal framework for copyright protection, and has been useful in alleviating abuses of authors' rights. For example, the home video industry trade association reports a much-improved ability to secure court orders since the copyright law was enacted.

U.S. software producers nevertheless complain of losses from business-software piracy and are taking legal action under the new intellectual property law to correct this. The Government of Spain has responded to concerns over software piracy by sending instructions to prosecutors calling for rigorous enforcement and urging private industry to pursue pirates aggressively through the courts.

In 1991, continuing Spanish enforcement efforts sharply reduced video and audio cassette piracy. Operators of small neighborhood cable networks, called "Community Video," broadcast video programs without broadcast rights, but the Spanish government has prohibited them from running cables across public ways and is attempting to phase them out. The copyright law has clearly established that no motion picture can be publicly exhibited without the authorization of the copyright holder and that "Community Video" is to be considered as public exhibition.

The trademark law is intended to facilitate improved enforcement. It incorporates by reference the enforcement procedures of the patent law, defines trademark infringements as unfair competition, and creates civil and criminal penalties for violations. Aggressive Spanish enforcement efforts in 1991 have resulted in numerous civil and criminal action; however, the infringement of trademark rights in Spain is still a problem, particularly in the textile and leather goods sector.

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8. Worker Rights

a. The Right of Association

All workers except the military services, and judges, magistrates and prosecutors are entitled to form or join unions of their own choosing without previous authorization. The only requisites for forming a union are a group of more than two workers and registration with the Ministry of Labor and Social Security. 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. About 11 percent of the Spanish work force belongs to a trade union, and there are over 200 registered trade unions.

b. The Right to Organize and Bargain Collectively

The right to organize and bargain collectively was established by statute in 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 1990 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 though 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, and union membership in these zones is reportedly higher than the average throughout the economy.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is outlawed and is not practiced.

d. Minimum Age for Employment of Children

The legal minimum age for employment as established by the statute is 16 years. 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. Persons under 18 years of age may not work at night, in overtime work, or in sectors considered hazardous.

e. Acceptable Conditions of Work

Workers in general have substantial, well-defined rights. A forty-hour work week is established by law. Spanish workers enjoy 12 paid holidays a year and a month's paid vacation. 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. Safety and health legislation is being revised to conform to EC directives.

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f. Rights in Sectors with U.S. Investment

U.S. capital is invested primarily in the following sectors: petroleum, food and related products. chemicals and related products, primary and fabricated metals, non-electrical machinery, electric and electronics equipment, and other manufacturing. Workers in those sectors enjoy all the rights guaranteed under the Spanish constitution and law, and conditions in these sectors do not differ from those in other sectors of the economy.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category	Amount	
Petroleum		116
Total Manufacturing		4,998
Food & Kindred Products	796	
Chemicals & Allied Products	841	
Metals, Primary & Fabricated	150	
Machinery, except Electrical	(D)	
Electric & Electronic Equipment	45	
Transportation Equipment	1,429	
Other Manufacturing	(D)	
Wholesale Trade		1,011
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		6,125

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business August 1991, Vol. 71, No. 8, Table 11.3

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Key Economic Indicators

(Billions Swedish Kronor (SEK) Unless Otherwise Noted)

	1989	1990	1991 (est)
Income, Production, and Employment			
Real GDP (1985 prices)	951.0	953.6	947.5
Real GDP growth rate (pct)	2.1	0.3	-0.6
GDP by sector 1/			
- Farming and fishing	14.4	14.8	13.3
- Forestry	14.9	14.8	14.5
- Mining/manufacturing	204.6	198.9	187.0
- Public utilities	23.6	24.0	24.0
- Construction	57.5	58.0	57.7
- Services	358.1	361.8	365.9
Real per capita income 2/	112,717	110,799	108,800
Labor force (000s)	4,604	4,643	4,637
Unemployment rate (pct)	1.4	1.5	2.7
Money and Prices			
Money Supply (M3) 3/	674.2	790.8	756.7
Comm'l interest rates 4/	13.75	14.45	12.20
Savings rate (pct) 5/	- 4.6	0.0	2.2
Investment rate (pct) 6/	21.2	20.4	19.0
Consumer prices (pct chg) 7/	6.4	10.4	9.2
Producer prices (pct chg) 8/	7.4	4.0	1.7
Exchange rate (SEK/$1.00) 9/	6.43	5.90	6.10
Balance of Payments and Trade			
Total exports FOB	332.1	339.9	335.2
Exports to U.S.	30.9	29.2	N/A
Total imports CIF	316.2	323.6	307.1
Imports from U.S.	25.9	28.0	N/A
Aid from U.S.	0	0	0
Aid from other countries	0	0	0
External public debt 10/	94.9	77.5	70.0
Debt service payments 11/	22.9	20.0	23.4
Forex reserves 12/	60.7	103.8	112.9
Balance on current account	-21.6	-34.5	-30.6

1/ Value added at factor cost, 1985 prices.
2/ Per capita gross national product in kronor, 1985 prices.
3/ Year end and 08/31/91. Includes treasury discount notes held by public plus accrued monies in deductible national savings scheme. Central Bank does not compile M1.
4/ Industrial bonds, 30-month adjusted rates, percent. Annual averages and average for first 8 months of 1991.
5/ Ratio of personal saving to disposable personal income.
6/ Ratio of gross investment to GDP.
7/ Change between annual CPI averages.
8/ Product prices for total industry excluding shipbuilding.
9/ Swedish kronor (SEK). Average annual market exchange rate for U.S.$1.00. Estimate for 1990.
10/ Central Government position at year end and 09/30/91 at

prevailing exchange rates.
11/ Interest and amortizations on central government external funded debt. For 1991, a forecast.
12/ Year end and 09/30/91.
Sources: Economic Research Institute, Central Bank, and Statistics Sweden.

1. General Policy Framework

Sweden is an advanced, industrialized country with a high standard of living and an extensive social services system. The Social Democratic Party, which has been in power much of the time since the early 1930s, was replaced by a four-party coalition government in 1991 elections. Sweden has a modern distribution system, excellent internal and external communications, and a skilled and educated work force. Timber and hydroelectric power are the traditional resources of the economy.

Approximately one-third of GDP is exported. Consequently, Sweden is a strong supporter of liberal trading practices. Privately owned firms account for nearly 90 percent of industrial output, with the engineering sector, which includes the production of electrical and transportation equipment, machinery, and metal goods, accounting for nearly half of all industrial production and exports. Much of the high-technology component of this production, which is growing, derives from U.S. technology.

In early 1991, approximately 680 manufacturing firms in Sweden were wholly owned or controlled by foreign entities, employing around 136,000 people, or 16 percent of jobs in the manufacturing field. When firms with foreign minority interests are included, the foreign share of employment in Sweden's manufacturing sector increases to some 23 percent. Countries with the largest foreign investment in Sweden, measured by the number of employees in foreign-owned firms in all sectors of the economy in 1989, are Switzerland, Finland, the United States, Denmark, the Netherlands, and the United Kingdom. Harmonization with EC practices will remove existing barriers to most foreign acquisitions by 1992. Sweden ranks high among the industrialized countries in R & D expenditure as a percentage of GDP.

Swedish firms are prospective customers for U.S. companies that can offer new technology, as well as quality goods and services, in a number of growth industries. These include automation (robotics, process control equipment, computer software), health-related industries (pharmaceuticals, biotechnology and medical equipment), and information technology (telecommunications systems, data processing equipment, and peripheral systems).

The country is a signatory to the General Agreement on Tariffs and Trade, a member of the OECD and the European Free Trade Association (EFTA), and its industrial products enjoy duty-free access to the European Common Market (EC). Sweden applied for membership in the EC in the summer of 1991. Like other EFTA countries, Sweden hopes the creation of the

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European Economic Area (EEA) between the EC and EFTA will result in close harmonization of Swedish legislation and practices with those of the EC.

Domestic economic policy goals are aimed at regenerating economic growth while striving for a reasonable degree of price stability and low unemployment. The policy instruments used to achieve these goals are the traditional monetary and fiscal ones, as well as an active labor market policy (retraining and structural adjustment) and regional development policy (support to economically weak areas). Over the past few decades, these policies brought the level of the country's national debt, as at mid-year 1991, to 44 percent of GDP. Roughly one-eighth is financed by foreign loans, the remainder by government bonds, treasury notes, a national savings scheme, and so forth.

In late 1991, Sweden found itself in the trough of a recession, with unemployment at the unprecedentedly high level of around 4 percent. The official outlook for 1992 remains bleak.

2. Exchange Rate Policies

Between 1973 and 1977, Sweden linked its currency to those in the European Common Market's monetary "snake" system. The krona was thereafter pegged to a trade-weighted "basket" of foreign currencies in which the U.S. dollar was accorded double weight because of its importance for international trade in such commodities as oil, pulp, and paper. Wage-cost pressures during the early 1980s, however, brought two successive Swedish devaluations of 10 and 16 percent. By 1991, there was again speculation that the krona might again be devalued. In consequence, the krona weakened against other currencies. To prevent foreign exchange from fleeing the country, the Central Bank intervened in the money market to keep interest rates high. In order to lay the ghost of devaluation permanently to rest, the Central Bank, with the Government's blessing, announced in May that the krona would henceforth be tied to the European Currency Unit (ECU) at a benchmark of SEK 7.4 to the ECU, plus or minus 1.5 percent.

Sweden applied a battery of foreign exchange controls until the international deregulation process, particularly that occurring in the EC, forced it to follow suit in the latter half of the 1980s. Following liberalization in mid-1990, the only remaining restrictions of this legacy involve the requirement that Swedish government bonds acquired by interests outside the country must be deposited in a Swedish bank or with an authorized stockbroker, and the stipulation that Swedish individuals (and some Swedish firms) are still prohibited from making deposits in foreign banks and from paying unlimited life insurance premiums to insurance companies outside the country. Various transaction requirements remain in place to maintain statistical coverage and ensure satisfactory tax control.

There are no restrictions on remittances of profits, of proceeds from liquidation of an investment, or of royalty and license fee payments. Similarly, a subsidiary or branch may

transfer fees to a parent company outside of Sweden for management services, research expenditures, etc. In general, yields on invested funds, such as dividends and interest receipts, may be freely transferred. A foreign-owned firm may also raise foreign currency loans both from its parent corporation and credit institutions abroad.

3. Structural Policies

The Swedish tax burden is the highest in the OECD, with government receipts (direct/indirect taxes and social security) equivalent to about 64 percent of GDP, versus an OECD average of 38 percent. Since 1982, approximately nine-tenths of Sweden's economic growth has been taken by increased taxes. The marginal tax rates levied on personal income inched up over the years to levels which are now recognized as being detrimental to the efficient working of the economy. A broad tax reform of 1990-91, by reducing marginal income tax rates, is increasing the real disposable income of most Swedes. On the corporate side, effective taxes are comparatively low and depreciation allowances on plant and equipment are generous, though social security contributions for the work force add a further one-third or so to employers' wage bills.

Like the situation in the EC countries, most goods and services for domestic consumption are subject to a value-added tax. The general rate was raised to an effective 25 percent of retail price in mid-1989. Beginning in 1992, lower rates will be applied to food, domestic transportation, and tourist-related services, and over time the Government intends to lower the general rate to bring it in closer harmony with levels in the EC. Trade in industrial products between Sweden and EC and EFTA countries are not subject to customs duty, nor is a significant proportion of Sweden's imports from developing countries. Import duties are among the lowest in the world, averaging less than 5 percent ad valorem on finished goods and around 3 percent on semi-manufactures. Most raw materials are imported duty free.

Until recently, two areas of the economy were particularly affected by government regulation: agriculture, and clothing and textiles. Sweden implemented a new food and agricultural policy in mid-1991 aimed at abolishing its complicated postwar system of regulating agricultural prices. Among other things, the new policy removed farm gate price guarantees. Instead, those prices are now determined by both domestic and export demand, though they continue to be supported by import levies. Funds for the subsidization of exports may no longer be raised collectively from producers, but production surpluses of grain and meat are, transitionally, still receiving government export subsidization. For 1992, there will be a grain surplus of around one million metric tons but less significant exportable amounts of other agricultural commodities.

As to clothing and textiles, Sweden removed all barriers to trade in this area in mid-1991, with the expiry of the Multi-Fiber Arrangement. Support is being provided until mid-1992 to allow the domestic industry to adjust.

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There is very little regulation of exports apart from control of arms exports and a law governing the reexport of certain high technology products. The latter control was introduced in 1987 to stop Sweden being used as a transit point for the transfer of foreign high-technology equipment. The Government has substantially deregulated telecommunications in Sweden and restructured the industry to promote competition and encourage efficiency.

4. Debt Management Policies

Sweden's external debt was incurred chiefly by central government in the aftermath of oil price hikes in the mid-1970s in order to buttress ailing industry. Shipbuilding, iron ore mining, and forestry, once Swedish industrial staples, received support over a ten-year period to retrench and restructure. Current debt policy is to incur no further debt of this kind, which in mid-year 1991 was the equivalent of around 5 percent of GDP. Management of the debt is posing no problems to the country and has no implications for the United States.

5. Significant Barriers to U.S. Exports and Investment

To help ensure free Swedish access to foreign markets, Sweden has opened its own markets to imports and foreign investments, and campaigns vigorously for free trade in GATT and elsewhere. Import licenses are not required in Sweden, except for restricted items such as munitions, dangerous chemicals, etc. Sweden enjoys licensing benefits under Section 5(k) of the U.S. Export Administration Act.

Sweden makes wide use of EC and international standards, labeling, and customs documents, in order to facilitate its own exports.

Service exports to Sweden face some barriers. Swedish financial markets have been largely deregulated in recent years, and foreign banks, as of mid-1990, are now allowed to open branches in Sweden and purchase into Swedish banks. Until recently, a foreign insurer was only allowed to sell his insurance policies in Sweden by establishing a branch office (general agency). This requirement has been changed. As of January 1, 1990, an insurance broker is allowed to provide insurance from foreign insurance companies without a branch office in Sweden. As of August 1, 1990 a foreign insurance company, after authorization by the Finance Inspectorate, may market insurance policies in Sweden through a Swedish insurance company if the companies belong to the same group or have established an agreement to cooperate.

Foreign investment is welcome in Sweden, though foreign ownership is not permitted or is restricted in air transportation, the merchant marine, and the manufacture of war materiel. In addition, a state-sanctioned monopoly protects health care. Both incoming and outgoing direct investment is screened by the Central Bank for statistical purposes.

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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-sponsored incentives to business.

Many of the Swedish corporations listed on the Stockholm Stock Exchange have a foreign ownership restriction clause in their articles of incorporation. Such clauses limit foreign ownership at any one time to a level corresponding to a percentage of the firm's share capital and of the voting strength of its shares (usually 40 percent of the share capital and 20 percent of the voting strength). Removal of or changes in such a clause can only be made at a general meeting of shareholders. The Government has no immediate plans to ban the use of foreign ownership restriction clauses.

A general control which has hitherto applied to foreign purchases into Swedish firms is that a foreign legal entity or individual must obtain official sanction to acquire shares representing a holding of equity capital or voting power in a Swedish corporation in excess of 10 percent, or to raise an existing holding above thresholds of 20, 40, or 50 percent. Approval has usually been forthcoming as long as the move was not viewed as being detrimental to the public interest.

This legislation and the requirement that foreign nationals and companies need official permission to acquire real estate for business purposes, including mining and forestry, is to be abolished in 1992.

Government procurement is usually open to foreign suppliers, and the Swedish Government has no official policy of imposing countertrade requirements.

6. Export Subsidies Policies

The Swedish Government provides basic export promotion support through its financing, jointly with Swedish industry, of the Swedish Trade Council. The Council works through Swedish embassies and trade offices in key markets, conducting a broad range of programs from preparation of promotional and technical literature to special exhibitions and seminars. The Swedish Government and Swedish industry also jointly finance the Swedish Export Credit Corporation (SEK), which grants medium- and long-term credits to finance exports of capital goods and large-scale service projects. Working with the Swedish Agency for Technical and Economic Cooperation (BITS), the SEK also provides mixed low-interest credits to LDC's with long maturity and grace periods.

The Swedish Export Credit Guarantee Board (EKN) provides insurance against losses caused by default of a foreign debtor or buyer of Swedish exports. On average the guarantees cover 85 to 95 percent of the exporter's credit risk.

Since mid-1991, government financial support for research and development, and for programs to assist regional development in economically weak areas has been the responsibility of a single agency, the National Board for

Industrial and Technical Development (NUTEK). During 1990, before the formation of NUTEK, funds totaling SEK 5.3 billion ($900 million) were channeled in various supportive measures to these areas, corresponding to 2 percent of value added in the industrial sector. Sixty percent of the support went to research and development, export promotion, and programs to assist small businesses and economically weak regions.

There are no tax or duty exemptions on imported inputs, no resource discounts to producers, nor is there a multiple exchange rate system in Sweden. Sweden is a signatory to the GATT Subsidies Code.

7. Protection of U.S. Intellectual Property

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.

Sweden strongly protects intellectual property rights. The laws are adequate and clear, enforcement is good, and the courts are efficient and honest. Sweden supports efforts to strengthen international property rights, and often shares U.S. positions in international meetings on the subject.

8. Worker Rights

a. The Right of Association

Workers have the right to associate freely and to strike. A large majority of the working population, including career military personnel and civilian government officials, belongs to trade unions. Unions conduct their activities with complete independence from the Government and political parties, although the Confederation of Labor Unions (LO), the largest federation has been allied for many years with the Social Democratic Party.

b. The Right To Organize and Bargain Collectively

Workers are free to organize and bargain collectively. Collective bargaining is carried out in the form of national framework agreements between central organizations of workers and employers, followed by industry and plant-level agreements on details. Swedish law fully protects workers from antiunion discrimination and provides sophisticated and effective mechanisms for resolving disputes and complaints. Disputes concerning violations of labor laws are in the vast majority of cases solved by informal discussions between the involved parties. Should a settlement not be possible, there is a labor court that tries cases of general interest for guidance and interpretation of the law, and its rulings in turn are followed by other courts.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is prohibited by law and does

not exist.

d. Minimum Age of Employment of Children

Compulsory 9-year education ends at age 16, and full-time employment is normally permitted at this age under supervision of local municipal or community authorities. Young people under 18 years may work only during daytime and under a foreman's supervision.

e. Acceptable Conditions of Work

There is no minimum wage law. Wages are set by collective bargaining contracts, which typically are observed even at nonunion establishments. The standard legal workweek is 40 hours or less. The amount of overtime is regulated as are rest periods. A designated and trained trade union steward monitors observance of the regulations governing working conditions. Occupational health and safety rules are closely observed. Safety ombudsmen and safety committees are required by law in large enterprises. The Swedish authorities have started a program to improve the situation for those employees in jobs that are hazardous and tend to cause long-term health problems.

f. Rights in Sectors with U.S. Investment

Sweden has long been in the forefront of labor and social legislation, and has a well-developed system to protect labor from abuses. The labor laws apply to all firms, Swedish or foreign, and apply in some form to all sectors of the economy. Among goods-producing industries, U.S. investment is mainly in the food, chemicals and related products, primary and fabricated metals, machinery, electric and electronic equipment, and wholesale trade.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category	Amount	
Petroleum		16
Total Manufacturing		1,060
Food & Kindred Products	26	
Chemicals & Allied Products	47	
Metals, Primary & Fabricated	14	
Machinery, except Electrical	(D)	
Electric & Electronic Equipment	(D)	
Transportation Equipment	26	
Other Manufacturing	86	
Wholesale Trade		344
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		1,420

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business
August 1991, Vol. 71, No. 8, Table 11.3

SWITZERLAND

Key Economic Indicators

(Millions of Swiss Francs Unless Otherwise Noted)

	1989	1990	1991
Income, Production and Employment			
GDP at current prices	289,800	316,715	366,000
GNP per capita (SF)	45,399	46,576	248,700
Percentage change in GDP	3.1	2.6	-0.7
Percentage growth			
of industrial production	2.0	2.8	1.0 1/
of new industrial orders	13.0	8.0	-1.0 1/
Labor force (industry and services) (000s)	3,048	3,089	3,230 2/
of which foreign	856	955	990 2/
Unemployment rate (avg) (pct)	0.6	0.6	1.3 3/
Money and Prices			
M1 money supply (pct change)	-5.9	-5.0	N/A
Central bank money (pct change)	-1.9	-3.7	N/A
Bank bond rates	5.36	6.98	6.73 3/
Savings rates	3.45	4.55	5.06 3/
CPI (pct change)	3.2	5.4	5.7 4/
WPI (pct change)	4.3	1.5	-0.2 4/
Exchange rate (SF/Dollar)	1.64	1.39	1.50 5/
Balance of Payments and Trade			
Total exports of goods (FOB)	84,268	88,257	64,433 3/
Exports of goods to U.S.	7,439	6,977	5,164 3/
Total imports of goods	95,209	96,611	70,986 3/
Imports of goods from U.S.	6,080	5,921	5,340 3/
Current account balance	12,235	13,500	N/A
Foreign exchange reserves (year end)	39,620	37,210	N/A

1/ Through end of June
2/ Through end of August
3/ Through end of September
4/ September rate as measured over the same month of the previous year
5/ Rate as of end of October
Sources: Die Volkswirtschaft, Swiss National Bank Bulletin, Swiss Foreign Trade Statistics, Foreign Population Statistics

1. General Economic Framework

Switzerland has an internationally oriented, open economy, characterized by a high savings rate, a large services sector, a highly skilled workforce and a developed manufacturing sector. Although Switzerland enjoyed its eighth consecutive year of economic expansion in 1990, growth rates were somewhat lower than in the two preceding years. The main economic development in 1990 was the acceleration of inflation, triggered mainly by spiraling rents which were the

result of hefty mortgage rate increases, an overheated economy, and rises in interest rates and oil prices. On an annual average, inflation rose from 3.2 percent in 1989 to 5.4 percent in 1990. The rise in prices is worrisome since Switzerland, like Germany, is usually considered a low-inflation economy.

Fiscal policy is not actively employed as a countercyclical device. In the Swiss federal system, the weight of the cantons and communities in the fiscal equation is both heavy and largely independent of federal policy. The budgeted federal share of both total public expenditures and revenues is approximately 35 percent. Recently, increased government spending (particularly for international economic assistance) and declining tax revenues have led to a deterioration of the public sector budget situation. For the first time in seven years, the federal government is expected to incur a budget deficit (SFR 1.5 to 2 billion) in 1991. Cantonal budgets, which have been in the red for several years, are expected to be equally high. The proposed 1992 federal budget anticipates a deficit of SFR 2 billion, while the combined overall public sector deficit is expected to widen to SFR 5 billion in 1992. Switzerland is likely to face budget deficits at all levels of government until the mid 1990's.

On June 2, 1991 Swiss voters rejected a government sponsored tax package which would have modernized the country's tax system and made it more "Euro-compatible" by introducing a Value Added Tax (VAT). This was the third time in 15 years that Swiss voters rejected the VAT. Analysts predict the Federal Council and Parliament will put off for the next several years any new attempt at making Switzerland's new tax package like that of its neighbors. The Government must introduce a new tax package before its present authority to levy taxes expires in 1994. With the exception of an anticipated reform in the Stamp Tax on securities transactions and the introduction of a new tax on gasoline, major revisions of the current tax system are unlikely.

The primary objective of the Swiss National Bank (SNB) is to control inflation. After introducing a restrictive monetary policy in mid 1988, recent consumer price index statistics show that inflation finally peaked and is now declining. However, monetary policy remains and is expected to remain tight until inflation is brought down further. The financial market's reaction to the policy is demonstrated by the persistence of higher short-term than long-term interest rates.

With other EFTA countries, Switzerland has concluded an agreement with the EC establishing a "European Economic Area" which is scheduled to become effective on January 3, 1993. The European Court of Justice has determined that certain sections of the agreement violate the Treaty of Rome. Renegotiation of those sections may be required. Switzerland's inclusion in a larger European Economic Area will require that the Swiss government enforce a wide range of EC directives and regulations.

SWITZERLAND

2. Exchange Rate Policies

There are no multiple exchange rates, nor any significant capital controls. The SNB's past concerns about an internationalization of the franc have diminished and capital controls have been progressively dismantled. At present, reporting requirements on foreign exchange flows are essentially for the purpose of statistical collection.

Relatively high Swiss interest rates and tight monetary and fiscal policies have been factors strengthening the Swiss franc over the past year. In recent years, the SNB has focused increasingly on the need for a stable exchange rate to maintain the competitiveness of the country's export-oriented industries. This is especially true with respect to the German mark, since Germany accounts for approximately one third of Swiss trade.

3. Structural Policies

The Swiss use market mechanisms to establish prices for most manufactured product categories. The retail trade is dominated by a few large organizations with one, Migros, accounting for 40 percent of supermarket sales. Switzerland also has a wide variety of cartel-like arrangements which are not prohibited under Swiss law. However, under the 1986 Cartel Act, a government cartel commission determines whether a cartel is in the public interest.

Government agencies use competitive bids for procurement. The Defense and the Post Telephone and Telegraph (PTT) Departments have some restrictions on foreign purchases (small arms, clothing and boots, telecommunications equipment). The PTT requires foreign vendors to have local representatives and service facilities. At the same time, the use of government subsidies in industry is rare. Except for telecommunications, the impact of Swiss pricing policies on U.S. exports is insignificant.

Although government influence on pricing is usually diluted as value is added in processing, it often remains important even at the retail level. Government offices administer retail price controls for many items (including bread, potatoes, some fruits and vegetables) and conduct price surveillance of others.

Farmers receive guaranteed prices for bread grains, sugar beets, and other basic products. Actual overseeing of prices is often delegated to private sector or mixed cartel-like organizations (e.g., "fruit bourses" for fruits and vegetables). Prices of imports are raised to domestic levels by variable import charges and by requiring importers to take over domestic products at high prices as a condition of importing.

With respect to taxation, Swiss citizens have the right of initiative and referendum at all levels of government. Although the government must introduce a tax package before its present authority to levy taxes expires in 1994, major revisions of the current system are unlikely, with two possible exceptions. Parliament has already approved the

introduction of reforms in the country's Stamp Tax on securities transactions. This measure will likely be challenged in a public referendum. The Federal Council is also discussing a 30 percent tax on gasoline. Switzerland has a bilateral tax treaty with the United States.

4. Debt Management Policies

As a net international creditor, debt management policies are not relevant to Switzerland. Switzerland participates in the Paris Club debt reschedulings and is an active member of the OECD. Switzerland will join the International Monetary Fund and the World Bank in 1992 if a threatened referendum against membership is unsuccessful.

5. Significant Barriers to U.S. Exports

Switzerland has practically no tariff barriers. It imposes no countervailing duties and has concluded no restrictive bilateral agreements. The only trade-impeding, non-tariff barriers affecting to some degree U.S. exports continue to exist in the areas of technical standards and testing requirements for industrial products, in particular for telecommunications equipment. However, these liberal trade policies do not apply to agriculture, a sector with extensive barriers.

Import licenses: Swiss licensing procedures do not hinder imports from the United States. Switzerland issues a general import license which in the case of manufactured goods is granted freely and serves basically for statistical purposes. However, this liberal attitude does not extend to imports of agricultural produce. Agriculture is the country's most protected sector. A variety of restrictions shield it from foreign competition, as described below.

Services barriers: Under a film law in force since 1962, Switzerland imposes annual quotas on the number of foreign films allowed entry into the country. The system is handled liberally and quotas granted to U.S. and local distributors are said to be generous and rarely fully used. However, the film law can prevent an accumulation of the quotas when two or more U.S. film producers wish to merge their distribution networks in Switzerland. New firms attempting to break into the Swiss market must operate through a Swiss company, and U.S. firms may not own and operate cinemas here. New legislation, in preparation since 1989 and now expected to be in place by 1993, will abolish the quota system and completely deregulate the Swiss feature film business.

In 1989, Switzerland became a signatory to the Council of Europe's Convention on Transfrontier Television. Although the Convention is not yet formally ratified, Switzerland has put its provisions into effect. An article among the provisions stipulates that signatories "wherever practicable" will use material of European origin for at least 50 percent of their programming. The effect of the Convention on purchases by Swiss television stations of U.S.-origin programs remains to be seen.

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Foreign banks wishing to set up a business in Switzerland must obtain prior approval from the Swiss Banking Commission. This is granted if the following conditions are met: reciprocity on the part of the foreign state; the foreign bank's name must not give the impression that the bank is a Swiss one; the bank must adhere to Swiss monetary and credit policy; and a majority of the bank's management must have their permanent residence in Switzerland. Otherwise, foreign banks are subject to the same regulatory requirements as domestic banks. Swiss stock exchanges have had foreign members for many years. However, personal licenses to represent professional securities traders and to trade on the floor are available only to Swiss nationals.

Insurance is subject to an ordinance which requires the placement of all risks physically situated in Switzerland with companies located in this country. Therefore, it is necessary for foreign insurers wishing to write business in Switzerland to establish a subsidiary or branch here. Government regulations do not call for any special restrictions on foreign insurers establishing in Switzerland. However, Swiss insurance companies are allowed to impose restrictions on the transfer of their registered shares to block unwelcome takeovers.

Swiss corporate shares are issued as registered shares (in the name of the holder) or bearer shares. Under current company law, Swiss corporations may impose restrictions on the transfer of registered shares. These restrictions can, and often do, include restrictions on foreign ownership. However, this practice will largely be eliminated as a result of a modification of Swiss corporation law passed by Parliament in 1991 and effective in 1992.

According to Article 711 of the Code of Obligations, the board of directors of a joint stock company (with the exception of holding companies) must consist of a majority of members permanently resident in Switzerland and having Swiss nationality.

Attorneys and lawyers, like all other members of professional classes (physicians, veterinarians, pharmacists, therapists, engineers, and architects), must pass a federal, in some cases a cantonal, examination and obtain appropriate certification before they may set up a business of their own.

Standards, testing, labelling, and certification: A large number of standards and technical regulations in force in Switzerland are based on international norms. Thus most technical equipment approved, for example, in Germany is automatically accepted in Switzerland. However, electrical household appliances must be tested and approved by the Swiss Electrotechnical Association, a semi-official body. Telecommunications terminal equipment is subject to approval by the Swiss PTT, a procedure which is often expensive and time-consuming. All drugs (prescription and over-the-counter) must be approved and registered by the Intercantonal Drug Agency. Labelling requirements in multiple languages (German, French, and Italian) also pose difficulties. These handicaps do not represent formidable barriers and can be taken care of by local distributors.

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Investment barriers: The Swiss generally welcome foreign investment and accord it national treatment. Federal and local government attitude is in principle one of detached non-interference. Investments by foreign nationals are neither actively encouraged nor hampered by significant barriers. Legislation exercising some control on foreign investment is confined to the following areas: prohibition on the purchase of real estate without prior government approval; limits on the number of foreign personnel; licensing of foreign banks and insurance companies; and restrictions concerning the number of foreign directors on the boards of corporations. There are legal restrictions on foreign participation in the hydro-electric and nuclear power sectors, the operation of oil pipelines, the transportation of explosive materials, the operation of Swiss airlines, and marine navigation.

Purchase of property by foreign nationals (and non-resident Swiss) is subject to the provisions of the Federal Law of December 16, 1983 on the Acquisition of Real Estate by Persons Residing Abroad. All property sales to non-residents (foreign or Swiss) are subject to government approval and to a quota system fixed every two years. The quota system principally applies to holiday resort apartments and houses in the country's tourist areas. The system is imposed by the Federal Government, but cantons are free to enact stricter legislation. Property sales to foreigners for commercial or industrial purposes are also subject to a permit, but provisions are far less restrictive and no ceilings are imposed. Foreigners who have settled in Switzerland are not subject to any restrictions regarding purchase of real estate after ten years' residence.

A law designed to discourage real estate speculation and stop escalating property prices was introduced in 1989. It provides for a minimum holding period of five years on the resale of residential real estate by Swiss and foreigners. Parliament is currently debating a motion to reduce this period to three years. Under existing legislation, the purchaser may not borrow more than 80 percent of the purchasing price, and pension funds and insurance companies may not invest more than 30 percent of their assets in real estate in Switzerland. By eliminating speculators from the market, the government hopes to contain housing prices and rents. (Over 70 percent of Swiss live in rented housing.)

The high percentage of foreign laborers (close to 30 percent in 1991) forces Switzerland to severly restrict the admission of foreigners seeking work. It is unclear whether Swiss authorities will be able to liberalize policies that affect managerial staff of subsidiaries of U.S. companies. While the high number of foreigners in the country is a very sensitive political issue, the Swiss obviously also have an economic interest in keeping U.S. companies in Switzerland.

Government procurement practices: Swiss authorities carefully comply with the GATT rules regarding procurement by government entities. In bidding for government contracts, foreign suppliers are treated on the same basis as local companies and are subject to the same criteria and conditions. Certain restrictions exist for defense related

items, railroad stock, and telecommunications equipment. However, steps have recently been taken toward a gradual liberalization of the Swiss telecommunications market.

Customs procedures: Although Switzerland may be the only country which applies customs duties on weight rather than value, customs procedures are not burdensome. If expressed in ad valorem terms, tariff levels on industrial products are among the lowest in the OECD area, ranging between two and ten percent for most items.

Switzerland has a highly subsidized agricultural economy that is rigidly protected by a variety of import restrictions: licensing, quotas, supplementary import charges, variable levies, conditional import rules, import calendars, etc. According to press reports, the OECD has calculated that 75 cents of every dollar of income of Swiss farmers is attributable to subsidies, import restrictions, or other government measures. On national security grounds, the Swiss Government also seeks a high level of self-sufficiency in domestic food production.

6. Export Subsidies Policies

Except for agricultural products, the Swiss government does not finance or subsidize Swiss exports. Financing of export credits is the sole responsibility of the private sector. Swiss Government support for export transactions is limited to coverage of non-commercial risks under an official export risk guarantee program, jointly funded from government and private sources. Approximately 15 percent of total Swiss exports receive such coverage. Risks covered include foreign exchange transfer difficulties, payment moratoriums, insolvency and inability to pay of private corporations due to political revolution, civil strife, and nationalization.

In agriculture, the federal government subsidizes the export of dairy products (primarily cheese) by covering the losses of quasi-governmental export organizations. Exports of processed food products (chocolate products, grain-based bakery products, etc.) are subsidized by compensating exporters for the difference between world prices and high Swiss prices for inputs (i.e., for the grain, milk butter, sugar, etc., content of the exported product). The export of temporary surpluses of domestic products is also subsidized by the government (e.g., beef, concentrated apple juice).

7. Protection of U.S. Intellectual Property

Switzerland is a member of 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 Universal Copyright Convention, and the Patent Cooperation Treaty.

Patents: 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 specification and if necessary by technical drawings. According to Articles 1a) and 2) of the Swiss Patent Law of

1954, as amended, the following items cannot be covered by patent protection: species of plants and animals and biological processes for their breeding; surgical, therapy and diagnostic processes for application on humans and animals; and inventions liable to disturb law and order and offend "good morals." Drugs, foodstuffs, and alloys are not excluded from patent protection.

Trademarks: Foreign individuals or companies engaged in trade or manufacture in Switzerland may apply for the registration of trademarks. Trademarks are protected for periods of 20 years and may be renewed for like periods. Counterfeiting has become a problem, especially counterfeiting of Swiss trademarks which enjoy an international market and reputation. This applies in particular to watches, chocolate, textiles, and apparel. Counterfeiting of foreign products in Switzerland does not appear to be widespread.

Copyright: Copyright protection is adequate, and enforcement of copyright law is efficient and prompt.

New Technologies: Provision for protecting new technologies is made under the Unfair Trading Act, revised in May 1988. Without listing specific products or processes, Article 5 of the law stipulates that efforts and achievements of others in the field of new and marketable technologies shall not be exploited commercially through technical procedures by third parties. Furthermore, the Swiss Government is interested in collaboration with other countries within the framework of WIPO to work out an international convention for the protection of new technologies. With respect to computer software protection, the Swiss Government is revising the Swiss Penal Code to include legislation dealing specifically with computer criminality and abuse of credit cards.

Lack of reliable data does not permit a definitive analysis of the impact of Swiss intellectual property practices on U.S. trade. It can be assumed that serious problems would have attracted attention and, therefore, that Swiss intellectual property practices have not significantly affected U.S. trade with Switzerland. In the context of the GATT negotiations, Switzerland is working to strengthen intellectual property rights worldwide.

8. Worker Rights

a. The Right of Association

All workers, including public sector workers and foreign workers, have the freedom to associate, to join unions of their choice, and to select their own representatives. There are no limits on the right to strike, but a unique labor peace agreement between unions and employers in existence since the 1930's has resulted in fewer than 20 strikes per year since 1975.

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.

c. Prohibition of Forced or Compulsory Labor

Although not expressly outlawed, forced or compuslory labor does not exist in Switzerland.

d. Minimum Age for Employment of Children

The minimum age for employment of children is 15 years. Children over 13 may be employed for light duties (e.g., helping in retail stores for not more than nine hours a week during the school year and fifteen hours otherwise). Youths between 15 and 20 may not work at night, on Sundays, or under hazardous or dangerous conditions.

e. Acceptable Conditions of Work

There is no national minimum wage. Salaries and wages are negotiated between employers and employees. In industry, wages are in most cases determined by agreements between major labor unions and employers' associations. The Federal Labor Act and the Swiss Code of Obligations regulate several important conditions of work. There is a maximum 45-hour workweek for blue and white collar workers in industry, offices, and retail trade, and a 50-hour workweek for all others. In practice, the workweek averages between 40 and 43 hours. Female workers may not be employed in dangerous work or, in industry, at nights or on Sundays. The law also covers occupational health and safety regulations, as well as special regulations for protection in workplaces involving hazardous activities or substances.

f. Rights in Sectors with U.S. Investment

U.S. capital in Switzerland is generally not invested in sectors which entail employment of substantial numbers of production workers. Except for special situations, e.g. employment in dangerous activities regulated for occupational health and safety or environmental reasons, legislation concerning worker rights does not distinguish among workers by sector, by nationality of employing firm, 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.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category	Amount	
Petroleum		(D)
Total Manufacturing		1,177
Food & Kindred Products	(D)	
Chemicals & Allied Products	252	
Metals, Primary & Fabricated	(D)	
Machinery, except Electrical	93	
Electric & Electronic Equipment	148	
Transportation Equipment	0	
Other Manufacturing	226	
Wholesale Trade		7,424
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business August 1991, Vol. 71, No. 8, Table 11.3

TURKEY

Key Economic Indicators

(Billions of Turkish Lira (TL) Unless Otherwise Noted)

	1989	1990	1991
Income, Production, and Employment 1/			
Real GNP (1987 producers' value)	78,469	86,208	N/A
Real GNP growth rate (pct)	0.9	9.9	2.2 2/
Per capita GNP (US$)	2,005	2,667	N/A
Per capita GNP (1000s TL)	4,286	7,027	N/A
Total GNP	235,305	394,200	N/A
Total GDP	232,259	390,082	N/A
by sector			
Agriculture	38,302	67,877	N/A
Industry	64,549	103,139	N/A
Services	122,553	205,669	N/A
Labor force (000s)	20,139	20,677	20,707
Unemployment rate (yearly average)	8.2	7.7	7.1 3/
Money and Prices			
Money supply (M1) 4/	18,232	27,354	39,430
Commercial interest rates:			
Sight deposits	12 5/	12 5/	10 13/
Time deposits			
1-month	42	37	56
3-month	51	48	68
6-month	55	49	70
1-year	62	58	70
Short-term loan rate	85	83	97
Savings rate (dom svgs/GNP) 1/	17.8	15.6 13/	N/A
Investment (fixed) rate 1/	16.3	15.5	N/A
Consumer price index (pct chg) 6/	64.3	60.4	71.1
Wholesale price index (pct chg) 6/	62.3	48.6	59.2
Exchange rate (TL/$)			
Official yearly avg	2,125	2612	N/A
Year-end rate	2,311	2,927	4,950 7/
Unofficial yearly average	N/A	N/A	N/A
Year-end rate	2,310	2,927	4,950 7/
Balance of Payments and Trade (U.S. Dols millions)			
Total exports FOB	11,625	12,960	14,500 8/
Exports to U.S.	971	968	N/A
Total imports CIF	15,792	22,302	23,000 8/
Imports from U.S.	2,094	2,282	N/A
Current acct. balance	961	-2,611	0 9/
Overall balance	2,762	1,308	N/A

TURKEY

Aid from U.S.			
Economic	60	14.26	250
Military	504.4	501.2	503.4
Aid from other countries	N/A	N/A	N/A
External public debt	41,751	49,035	45,598 10/
Debt service (paid)	7,182	7,255	4,364 11/
Gold and FX reserves	8,935	11,764	12,352 1/

1/ In 1991 the State Institute of Statistics changed the weightings and methods used to calculate national income. Previous years' statistics in this report have been restated to reflect the change. The income figures published here cannot be compared with previous years' reports.
2/ Projection
3/ April 1991 (SPO)
4/ End of year for 1989 and 1990, as of September 27 for 1991
5/ Average deposit and lending rates for October (Central Bank)
6/ For 1989 and 1990, percent change during year; for 1991, percent change between September 1990 and September 1991.
7/ As of October 23, 1991
8/ Program
9/ State Planning Office estimate
10/ As of March 31, 1991. Includes short-term debt.
11/ As of July 31, 1991
12/ As of September 13, 1991
13/ Average deposit and lending rates for Oct. 7, 1991.

1. General Policy Framework

Turkey's economy has experienced remarkable changes in the years since the historic reforms of the early 1980s. Today Turkey continues to build on the framework of a free-market economy with an export-led growth strategy and liberal foreign investment policy. The Gulf Crisis resulted in considerable economic losses for Turkey: the government originally estimated these losses at $7 billion. However, as of late 1991 the economy seemed to be on the rebound and should experience a moderate level of economic growth for the year as a whole.

In the mid-1980s Turkey was in the ranks of the fastest growing economies in the Organization for Economic Cooperation and Development (OECD). In 1987, strong domestic pressures on the Government for increased public spending led to a worsening of the budget deficit and high inflation. Since 1988 the government has taken measures to reduce the high rate of inflation, but has been unsuccessful in reducing the public sector deficit. The deficit problem was exacerbated in mid-1991 by a mammoth pre-election spending spree by the then-ruling party. Despite the onset of the Gulf Crisis, in 1990 Turkey's GNP grew by nearly 10 percent, up from less than one percent in 1989. Inflation, which fell slightly from 1989 to 1990, seems to be on the way up again, growing 66.9 percent in the twelve months to September 1991. Turkey's current account, which was $2.6 billion in deficit for 1990, should be about even this year due to climbing exports, moderate demand for imports because of the slowing economy and depreciation of the Lira, and Gulf War-related aid payments from abroad.

TURKEY

Fiscal policy: The Turkish government continues to spend far more than it takes in in revenues and tax receipts. In 1990 the public sector borrowing requirement (PSBR) was TL 26.8 trillion ($10.3 billion at the annual average exchange rate of TL 2612/U.S.$1.00), nearly seven percent of GNP (this percentage is based on the new estimate of GNP for 1990 as listed in the table -- see footnote 1/; under the old estimate the PSBR for 1990 was given as 9.4 percent). In 1991 the PSBR as a percentage of GNP is expected to increase further. This figure includes the borrowing requirements of budgetary departments, state economic enterprises, and off-budget funds. The government has incurred sizable debt to finance major infrastructure projects such as the Ataturk Dam and Southeast Anatolia Project. The Turkish government finances its deficit through domestic and foreign borrowing, including the issuance of treasury bills.

Tax evasion is a problem in Turkey. The remedy is legislation providing for stricter enforcement and penalties. In the absence of such legislation, the Turkish government seeks to generate new revenues through sales of State Economic Enterprises (SEEs) and government-held shares of private companies and through increases in value-added tax rates, import duties, and surcharges.

Monetary policy: Turkey's Central Bank continues to strive for greater autonomy over monetary policy. It enjoyed considerable success in reducing the rate of growth of the money supply (M2) from late 1989, when M2 annual growth neared 100 percent, until mid-1991, when it reached 41 percent. However, more recently, the Central Bank's grip on M2 has slipped in the face of election-driven spending by the government and annual growth is over 55 percent, although this is still below the rate of inflation. While interest rates were negative from mid-1989 to mid-1990, real interest rates have been around five percent since. Nevertheless, savings deposits are growing somewhat more slowly than inflation.

2. Exchange Rate Policies

Decree Number 32, issued by the Turkish government in August 1989, together with its February 1990 amendments substantially liberalized the foreign exchange regime. These decisions created the basis for full convertibility of the Turkish Lira in line with standards set forth in the International Monetary Fund's (IMF) Article VIII. The exchange rate is now determined by the market. In January 1990 the government eliminated the pre-licensing requirement for guarantee deposits on imports, refundable only after foreign exchange payment had been made.

During most of 1990 the demand for foreign exchange increased markedly due to the rapid growth in imports, but short-term capital inflows apparently kept up with the pace. Throughout the year the lira continued to appreciate, its effective rate rising 7 percent by year-end 1991 on a trade-weighted basis (75 percent U.S. Dollar/25 percent Deutsch mark). The appreciation of the lira directly against the dollar was almost 20 percent for the year. The United States benefitted by increasing its exports to Turkey nine

percent while Turkish exports to the U.S. declined slightly in absolute terms. Although the increase in U.S. exports was below 1989's 38 percent increase, the United States ended the year with a $1.2 billion trade surplus with Turkey. After the beginning of the Gulf crisis in August of 1991, however, the lira began to depreciate. By the end of October, 1991, it had dropped 10 percent in value compared to year-end 1990.

3. Structural Policies

Over the past decade Turkey has made substantial progress in implementing structural reforms and liberalizing its trade and foreign exchange regimes. Privatization of SEEs, which account for some 40 percent of manufacturing, continues but difficulties in reorganizing these massive enterprises and in determining share prices, as well as public opposition to block sales to foreigners, have slowed the pace. SEEs constitute a substantial drain on the economy, accounting for 45 percent of the PSBR in 1990. SEE inefficiencies in production and product pricing continue to distort the market and contribute to high inflation rates, but policies related to SEEs do not have a direct effect on U.S. exports.

Recovery of economic growth in 1990 was led by an 11 percent increase in demand made possible by significant real growth in wages and in the public sector deficit. Agricultural yields also rose 11 percent in real terms as weather conditions ended the drought of 1989. Government Decree Number 32 of August 1989 liberalized restrictions on international trade payments and capital movements. Amendments to the decree in February and March of 1990 further eased import and capital restrictions, and foreign currency reserves began to rise, resulting in a net inflow of $3.4 billion in short-term capital in contrast to 1989's net outflow of $955 million. Continuing reductions in import duties, to comply with Turkey's long-standing commitment to the European Community, have also lowered import costs.

These factors, plus a continuing real appreciation of the Turkish lira and $744 million in balance-of-payments grants to compensate Turkey for Gulf-crisis related losses, caused imports to jump more than 41 percent in value over 1989 levels. Some of this increase, however, reflected the rise in oil prices resulting from the Gulf crisis. While raw materials and capital goods continue to make up the bulk of imports, consumer goods, accounting for 11 percent of all imports, showed the greatest increase by jumping 108 percent over 1989 levels. The trade deficit thus rose to $9.6 billion and the current account deficit to $2.6 billion in 1990, although $1.5 billion of this represented Central Bank gold imports. The Turkish current account is expected to move back toward balance in 1991 despite the Gulf war, currently being projected to end less than $100 million in deficit.

4. Debt Management Policies

Turkey underwent a severe balance-of-payments crisis in the late 1970s but was able to reverse its economic decline through a concerted reform effort. By the mid-1980s Turkey's

free-market oriented, export-led strategy, adopted with substantial financial support from international lenders, turned around the debt situation. At year-end 1990 Turkey's gross outstanding external debt equalled $4[illegible].0 billion. This includes $1.9 billion in U.S. Foreign Military Sales debt that was "commercialized" in 1988 and 1989. Approximately 40 percent of the increase in the year-end debt level is explained by exchange rate movements. Debt service obligations, at $6.2 billion, were below 1989's $7.25 billion.

The Turkish debt service ratio, in fact, has dropped annually from 1988 when it was 42.6 percent of foreign exchange revenues. The ratio was 29 percent for 1990 and was even lower in 1991 despite Turkey's increased short-term borrowing during 1990, as financial markets shied away from longer-term risk during the Gulf crisis. The public sector, including state economic enterprises and local governments, remained the major borrower, accounting for about 70 percent of total outstanding debt and 95 percent of medium- and long-term debt. Bilateral official lenders, principally OECD member countries, accounted for approximately 24 percent of Turkey's 1990 external debt. Foreign commercial banks hold approximately 30 percent of total Turkish obligations and multilateral agencies hold about one-fifth. The World Bank's portfolio in Turkey was a substantial $6.4 billion at year-end 1991, with $401 million in new credits signed in calendar year 1990. Turkey also completed payments that year on its last IMF standby agreement, which had been reached in 1984.

5. Significant Barriers to U.S. Exports

Import Licenses: Turkey has made significant progress toward dismantling its import licensing system. Currently, the government requires advance permission for the import of only 17 items, including some raw materials, intermediate goods, spare parts, and tools for industry. Import certificates for products which require after-sales service are no longer required, but importers of products such as photocopiers and computers are required to supply the needed after-sales service. There are no current reports of delays in issuing the certificates.

Import Surcharges: Turkey collects import surcharges and fees to protect domestic industries, raise revenue, and fund export incentive programs. With the exception of the Support Price and Stabilization Fund surcharge, which is imposed on all imports, the number of items subject to surcharges has been reduced over time, dropping from 7,880 in 1989 to approximately 5,000 in 1990. The Support Price and Stabilization Fund surcharge currently stands at 10 percent of value, but a Government of Turkey decision taken in April 1991 permits the Undersecretariat for Finance and Foreign Trade (UTFT)to reduce this to zero on a case-by-case basis. On the other hand, increases in the Housing Fund surcharge on a variety of imported items were authorized in January of 1991. Imported goods are also subject to a municipal tax, a stamp tax, a transportation infrastructure tax, customs duties, and customs clearing fees. The 10 percent stamp tax, briefly abolished in September 1990, was reinstituted in November to raise revenue in the wake of the Gulf crisis. Also in 1991

the value added tax on imports, ranging from 1 to 12 percent, was increased to 20 percent for certain categories of goods.

Government Procurement Practices/Countertrade: U.S. firms sometimes become frustrated at the lengthy, often complicated bidding process for Turkish government tenders. While the government normally follows competitive bidding procedures, it occasionally requires ministries and public enterprises to include an offset provision in tender specifications when the estimated tender value is more than one million dollars (major military contracts are usually subject to offset requirements). U.S. firms have not complained about these offset requirements. In late 1991 delays in payments to contractors by government agencies began emerging as the latter started to experience temporary cash flow problems.

Investment: All foreign investment projects (except in the petroleum sector) are evaluated by the Foreign Investment General Directorate at the UTFT, which can independently approve foreign capital investments up to a fixed investment value of $150 million. Investments in excess of $150 million require the permission of the Council of Ministers. The United States-Turkish Bilateral Investment Treaty entered into force in May 1990. The Treaty guarantees national treatment for investors of both countries, assures the right to transfer freely dividends and other payments related to investments, and provides for an agreed dispute settlement procedure. A November 1990 decree provided for new incentives to investment in certain industries which are available to investors of all nationalities.

A law which went into effect in October 1990 affects foreign accounting firms operating in Turkey by placing limits on who can act as a certified accountant and on the ownership of accounting firms. U.S. officials have discussed with Turkish government officials the potential harmful effects on the accounting system and on new foreign investment which could arise out of this legislation.

Discriminatory tax on cola beverages: In 1988 Turkey established a tax on cola soft drinks. More than 95 percent of cola drinks sold in Turkey are produced by U.S. and other foreign firms. Imported as well as domestic inputs are used. The tax on cola beverages is 20 percent higher than the tax on all other soft drinks. U.S. industry representatives estimate annual payments of $60 million for this tax. The United States continues to urge Turkey to eliminate or reduce this discriminatory tax.

6. Export Subsidies Policies

Turkey employs a number of incentives to promote exports and the use of Turkish shipping companies. Over the past several years there have been substantial changes in the export incentives. The export tax rebate system was eliminated in 1989 in conjunction with Turkey's 1985 accession to the General Agreement on Tariffs and Trade (GATT) Subsidies Code and bilateral commitments to the United States. A partial deduction for corporate tax purposes allows exporters

to deduct 16 percent (down from 20 percent in 1989) of their industrial export revenues above $250,000 from their taxable income.

Since 1986 the Turkish government has made payments (funded by the Support and Price Stabilization Fund) for the export of certain products, but this program does not apply to textiles or steel exported to the United States. These payments are scheduled to be reduced to zero by the second quarter of 1992, but whether this will actually occur is uncertain, pending decisions by the new government which took office in late 1991.

7. Protection of U.S. Intellectual Property

As a result of inadequate protection for intellectual property, Turkey remains on the "watch list" under the "Special 301" provision of the 1988 Trade Act. Turkey has given assurances that it will modernize its intellectual property laws to conform with European Community standards. Turkey, however, has not played an active role in GATT discussions. Turkey needs improved copyright and patent protection as well as greater penalties and enforcement of existing legislation. A new patent law to protect pharmaceuticals is essential.

Copyrights: Turkey's Copyright Law (intellectual and artistic works law) dates back to 1951; a new law is currently being drafted. Unauthorized copying and sale of U.S.-origin books, motion pictures, sound recordings, and computer programs are widespread. The 1987 Cinema, Video, and Music Works Law provided greater protection for artistic works through a registration system. It has helped to reduce piracy, but enforcement has been problematic and penalties are not harsh enough to act as a deterrent. In 1991 Turkey passed a law prohibiting computer software piracy.

Patents (Product and Process): Turkey's 1880 Patent Law does not provide protection for human or veterinary drugs, for chemical products or for the processes for making them. Nor are biological inventions, including plant varieties, patentable. Turkey's Seed Registration, Control, and Certification Law does not ban unauthorized propagation of foreign firms' proprietary seed. Cases of seed pirating have been documented. The patent term in Turkey is 15 years from the date of filing, compared with the U.S. term of 17 years from the granting of the patent). Draft patent legislation has not yet been presented to Parliament. It is difficult to assess the amount of U.S. export loss attributable to the lack of adequate protection for intellectual property. The U.S. motion picture industry estimates a loss of $40 million per year. It claims that the home video market is 45 percent pirate in large cities and between 60 to 65 percent elsewhere, where enforcement is less strict. Draft legislation to amend the 1987 cinema law would make it even more difficult for U.S. industry to operate in Turkey by limiting profit remittances, banning the dubbing of foreign films into Turkish, and implementing a quota on foreign films. This legislation, which runs contrary to Turkey's liberal foreign investment policy, is still under consideration by Parliament.

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U.S. pharmaceutical company representatives hesitate to put a dollar value on potential sales lost due to the lack of patent protection for U.S. pharmaceuticals. Instead, they stress lost market share, inability to launch new products, and limits on new investments due to the lack of protection. One U.S. firm estimated that losses probably range from $30 to $40 million per year. The United States has expressed its serious concerns about intellectual property protection to Turkish officials and continues to monitor the situation closely.

8. Worker Rights

a. Right of Association

Most workers have the right to associate freely and form representative unions. Teachers, military personnel, police, and civil servants (broadly defined to include anyone working for government ministries) are not permitted to organize unions. Prime Minister Demirel sent a bill to Parliament in November which could allow teachers to organize. The leftist labor confederation, DISK, which was banned in 1980 has been allowed to reorganize. Except in stipulated industries such as public utilities, the petroleum sector, protection of life and property, sanitation services, and national defense, workers have the right to strike. The law specifies a series of steps which a union must take before it may legally strike, and a similar series of steps, including collective bargaining, before an employer may engage in a lockout. Once a strike is declared, the struck employer may respond with a lockout. If he chooses to remain open, he is prohibited from hiring strikebreakers or from using administrative personnel to perform jobs normally done by strikers. Solidarity, wildcat and general strikes are illegal. In addition, the 1984 law establishing free trade zones forbids strikes for 10 years following their establishment, although organization and collective bargaining are permitted. The ILO has criticized Turkey on the right to organize and bargain collectively, discrimination in employment, and compulsory arbitration in sectors where strikes are forbidden.

b. Right to Organize and Bargain Collectively

Apart from the public sectors 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 the workers in a particular industry, which favors existing unions. Once the union is certified by the Ministry of Labor, the employer must enter good faith negotiations with it. Antiunion discrimination by employers is prohibited by law and complaints are resolved in the labor courts system.

c. Prohibition of Forced or Compulsory Labor

The Constitution prohibits forced or compulsory labor and it is not practiced.

TURKEY

d. Minimum Age for Employment of Children

The Constitution forbids employment of children under 15. Children may work as part of vocational training at 13. In practice, many children under 13 work as street peddlers, in home handicrafts, and in many other endeavors.

e. Acceptable Conditions of Work

The Labor Ministry is legally obliged to set minimum wages at least every two years. In recent years it has done so annually. Labor law provides for a nominal 45-hour workweek and limits overtime which may be required by an employer. Most workers in Turkey receive non-wage benefits, such as transportation, a hot meal, and sometimes housing or subsidized vacations. In recent years fringe benefits have accounted for nearly two-thirds of total remuneration in the industrial sector. Occupational safety and health regulations are mandated, but limitations on resources and lack of safety awareness often result in poor performance.

f. Rights in Sectors with U.S. Investment

Conditions do not differ in sectors with U.S. investment.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category	Amount	
Petroleum		173
Total Manufacturing		117
Food & Kindred Products	22	
Chemicals & Allied Products	41	
Metals, Primary & Fabricated	-9	
Machinery, except Electrical	(D)	
Electric & Electronic Equipment	17	
Transportation Equipment	(D)	
Other Manufacturing	32	
Wholesale Trade		120
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		410

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business August 1991, Vol. 71, No. 8, Table 11.3

UNITED KINGDOM

Key Economic Indicators

(Billions of Pounds Sterling Unless Otherwise Noted)

	1989	1990	1991 1/
Income, Production and Employment			
Real GDP (1985 prices) 2/	352.8	355.8	350.5
Real GDP Growth (Pct.)	2.2	0.9	-1.9
GDP (at current prices) 2/	435.4	477.1	498.5
By Sector:			
Agriculture	6.97	7.10	7.4
Energy and Water	22.47	24.33	25.4
Manufacturing	101.08	107.00	111.8
Construction	32.36	36.08	37.7
Rents	25.15	30.72	32.1
Financial Services	80.56	87.26	91.2
Other Services	124.06	135.17	141.3
Government, Health and Education	69.72	76.67	80.1
Net Exports of Goods and Services	-19.91	-13.47	-9.6
Real Per Capita GDP('85 BPS)	7,167	7,200	7,080
Labor Force (000s)	28,486	28,509	28,477
Unemployment Rate (percent)	6.2	5.7	8.1
Money and Prices (annual percentage growth)			
Money Supply (M2)	9.2	7.9	11.0
Base Interest Rate 3/	13.9	14.8	12.3
Personal Saving Rate	7.1	9.2	10.0
Retail Inflation	7.8	9.5	5.8
Wholesale Inflation	5.1	5.9	5.8
Balance of Payments and Trade			
Total Exports FOB 4/	92.4	102.0	103.4
Exports to U.S.	12.2	13.0	11.5
Total Imports FOB 4/	117.0	120.7	113.0
Imports from U.S. CIF	13.5	14.4	13.5
Trade Balance 4/	-24.6	-18.7	-9.6
Balance with U.S.	-1.0	-1.4	-2.0
Exchange Rate USD/pound)	1.64	1.78	1.75

1/ 1991 figures are all estimates based on available monthly data in October 1990.
2/ GDP at factor cost.
3/ Figures are actual, average annual interest rates, not changes in them.
4/ Merchandise trade.

1. General Policy Framework

The economy of the United Kingdom is based on free enterprise and open competition. Throughout the 1980's, it has undertaken a methodical privatization of government-owned

enterprises and has eliminated virtually all controls on the flow of capital into and out of the country. It has an open financial services environment. The few barriers to international trade and investment which do exist include preferential treatment for UK firms in oil and gas, telecommunications and electrical equipment.

Economic policy in 1990 and 1991 has been dominated by continuing efforts to reduce inflation and new concerns over the recession that began in the last half of 1990. Core inflation (as measured by producer prices and the GDP deflator) still remains around six percent, even though the headline, retail price indicator of inflation has dropped from 10.9 percent in October 1990 to 4.1 percent in September 1991. With core inflation still high, and given the discipline of the European Monetary System Exchange Rate Mechanism (ERM), interest rates have only been reduced in a very cautious, step-by-step fashion since the advent of the recession. As of October 1991 the base interest rate was 10.5 percent, high by G-7 standards, though well down on the 15 percent of a year earlier.

In the meantime, GDP fell by 3 percent from peak to trough. The forecast for 1991 GDP is for a fall of about 1.9 percent from the full 1990 calendar year. With the current recession and prospects for weak growth in 1992, the unemployment rate has risen from 5.6 percent in early 1990 to 8.7 percent in September 1991. It is projected to approach 10 percent in late 1992.

Fiscal Policy: With strongly rising GDP producing handsome increases in tax revenue, a tight fist on expenditures, and big proceeds from privatization, the central government and public sector ran surpluses from 1987 through 1990. In 1989 the public sector surplus was 7 billion pounds, or about 1.5 percent of GDP. In 1990 the surplus fell 2 billion pounds, and in 1991 it has shifted toward a deficit of 10 billion pounds. In 1992 the deficit is likely to approach 20 billion pounds, or 3 percent of GDP.

Personal income taxes have been simplified, with just two rates of 25 and 40 percent. The Conservative government has a long-term goal of reducing the basic rate on personal incomes to 20 percent "as and when prudent to do so". If the Labor Party wins the next election, due sometime before July 1992, the top rate would go to 50 percent. Capital gains are adjusted for inflation and are generally taxed at regular income tax rates. Gains from the sale of a primary home are exempt. Corporate tax rates are 25 percent for smaller companies and 35 percent for larger ones (with incomes over 200,000 pounds).

As the government has kept a tight lid on public sector outlays, real public expenditures have grown more slowly than gross domestic product. They declined to 37.5 percent of GDP in financial year 1988, and have hovered in that region since. With the slowdown in the economy, it is likely that this figure is now closer to 40 percent.

The privatization (sell-off) of government enterprises has strongly affected budget balances. Privatization has not

only provided revenue from asset sales, it has also reduced the drain in the form of subsidies.

Monetary Policy: The U.K. manages monetary policy through open market operations by buying and selling in the markets for overnight funds and commercial paper. There are no explicit reserve requirements. For the past two years, broad money has ceased to be targeted, although the monetary base (circulating cash, coin and reserves in the Bank of England) has been targeted at 1 to 4 percent growth.

The two main indicators of monetary policy for the past few years have been the exchange rate and the base interest rate. The Bank of England controls the base rate indirectly by establishing the cost of short-term funds in the money market. For one year, from October 5, 1989, the Bank of England maintained a base rate of 15 percent. On October 5, 1990, it cut the rate to 14 percent, and the U.K. simultaneously entered the ERM. The high interest rate regime clearly cooled domestic demand, so much so that the economy shifted to recession.

Because of the Gulf War, no further cuts in the interest rate were made until February 1991. Since then, cuts have been made on a month by month basis, and rates are expected to drop to 10 percent at the end of 1991. It will be difficult to cut base interest rates much below 10 percent. First, core inflation is still running close to 6 percent. Second, wage settlements exceed 6 percent. Third, the pound is at the bottom of the ERM ladder, so the U.K. can hardly cut interest rates before others in the system do so.

2. Exchange Rate Policy

Until October 5, 1990, when the UK joined the ERM, the British pound was officially floating. Now it is pegged to the European Currency Unit (ECU) at a central rate of 0.6969 pounds per ECU, which is equivalent to a rate of 2.95 Deutsche marks per pound. Like the Spanish peseta, the pound may float 6 percent above or below its central rate as long as it does not appreciate or depreciate more than 6 percent against any other currency in the ERM. (Other ERM members are limited to fluctuations of 2.25 percent either side of their central rates.) U.K. authorities have made it very clear that they intend to defend their peg in the ERM vigorously, even if that means having to increase the base interest rate again.

3. Structural Policies

Over the past 12 years, Conservative governments have promoted structural reform to increase the efficiency and growth potential of the British economy. They have deregulated financial services, telecommunications, and transportation. They have also ended capital controls. Mortgage regulations have been liberalized and much of the public housing stock has been privatized. They have privatized producers of motor vehicles, aircraft and steel, the water utilities, and electrical power. Electric power generators and distribution companies in Wales, England and

Scotland were privatized. The electric company in Northern Ireland may be sold before summer 1991.

Subsidies designed to give British firms dominance in the market, and therefore, to keep out imports, have been slashed. In the past eight years, the government has passed four employment bills to increase labor market flexibility, democratize unions, and make unions accountable for the industrial acts of their members. These fundamental structural reforms have stimulated investment, employment, economic growth, and demand for domestic and foreign goods alike.

There still remain structural problems that impede the U.K.'s capacity to grow and consequent ability to trade. Clogged roads push up operating costs. An educational system which allows more than half of its students to leave school at age 16 amd which provides a relatively weak technical training program inhibits growth in high technology areas. And the fact that most privatized enterprises are just now beginning to feel the winds of real competition means that they still have many inefficient habits that will take time to correct.

Her Majesty's Government is aware of most of these shortcomings and is intent on eliminating them. As a consequence, the medium and longer-term future of the British economy is relatively bright, though an economic downturn has occurred in 1990-91. U.S. exports to Britain should soon resume steady growth.

4. Debt Management Policies

As a government, the UK has no meaningful external public debt. Because London is one of the foremost international financial centers of the world, British financial institutions have been major intermediaries of credit flows to the developing countries.

5. Significant Barriers to U.S. Exports

Offshore Oilfield Contracts: From the mid-1970s, the United Kingdom provided preferential treatment to British-based firms (including joint ventures with U.S. firms or British subsidiaries of U.S. firms) that provide offshore oilfield supplies and equipment services. This is done through the operation of the U.K. Department of Energy Offshore Supplies Office (OSO), which had an aggressive policy of providing a "full and fair opportunity" for British-based firms to compete for and win North Sea contracts. The cooperation of oil companies with OSO's goals is one factor among others used in awarding future exploration rights in the U.K. sector of the North Sea. In January 1985 the U.K. made this policy more discriminatory by officially encouraging oil companies to award contracts involving new offshore technology to firms with majority British ownership.

Since 1989, OSO claims its focus has shifted more toward export promotion and promotion of research and commercialization. The operation of the OSO has been raised

by senior U.S. Government officials with senior British officials. British officials have stated repeatedly that they wish to see "a level playing field", and have offered to investigate any specific complaints the United States government or U.S. industry may have. This offer has been repeated a number of times.

In the twelfth and fourteenth licensing rounds announced in June, 1991, U.S. firms received over 40 percent of the acreage awarded. British sourcing was one of the factors considered. Most U.S. energy firms will consider the large number of competitive U.K. contractors for bids and will tend to place contracts in the U.K. on a competitive basis. When U.K. yards are filled, and/or suppliers have a waiting list, orders will be placed overseas. In the years ahead, EC procurement regulations that contain an "EC preference" clause may be the biggest barrier to U.S. oilfield goods exports to the U.K.

Government Support for Commercial Aircraft: The United Kingdom is providing 450 million pounds ($900 million at the current rate of exchange) to support the launch of the Airbus A330 and A340 commercial transport aircraft programs. The new models and existing aircraft, also developed with significant government support, compete directly against Boeing and McDonnell Douglas aircraft. The United States case against Airbus in the GATT is pending the outcome of negotiations scheduled for January - March 1992 aimed at disciplining subsidies for aircraft.

Large Electrical Equipment: Previously all electricity in England and Wales was generated by the Central Electricity Generating Board (CEGB), a government-owned corporation. In Scotland, energy was generated by two government-owned utilities. No large steam turbine generator units or large power transformers in the system or any of their major parts used in the United Kingdom were imported by any of the government entities. However, in 1989 Her Majesty's Government introduced legislation to privatize the electricity industry in England and Wales.

As a prelude to privatization, National Power and Powergen, two power generating companies were created as corporate successors to the CEGB. National Power and Powergen sell power to regional distribution companies. A privatized industry offers much better sales prospects for U.S. equipment, fuel and technology (particularly "clean coal"). National Power and Powergen officials have met with U.S. firms and vendors, and prospects for U.S. sales look good, particularly for U.S. steam coal, after existing contracts with British Coal expire in March, 1993.

The twelve regional electricity companies in England and Wales were privatized in November, 1990. National Power, Powergen and the two Scottish utilities were privatized by July 1991. The Ulster utility may be sold in a "trade sale" before July, 1992. The Conservative Party has promised to privatize British Coal after the next general election. Labor opposes this.

Broadcasting and Telecommunications: The 1990

UNITED KINGDOM

Broadcasting Bill requires that "a suitable proportion" of television programs broadcast in the United Kingdom be produced locally and that a "proper proportion" be of European origin. This formalizes an existing practice of limiting the number of non-European programs on British television in accordance with an informal 86/14 percent quota agreement. Its practical effect may be to relax those limits somewhat, given the EC's "where practicable" 50 percent quota. However, it does, for the first time, formally impose legal quotas.

Since 1984, telecommunications services in the U.K. had been provided by two carriers operating as a regulated duopoly. In March 1991, the Office of Telecommunications published its "duopoly review", formally ending the restriction on the issuance of new telecommunications carrier licenses. Legislation is now in place to enable the establishment of new carriers.

6. Export Subsidies Policies

The current government strongly dislikes subsidies, and U.K. trade-financing mechanisms are not generally seen as significantly distortive of trade. Britain does have the Export Credits Guarantee Department (ECGD), an institution similar to the Export-Import Bank of the United States. The British government is in the process of privatizing the short-term insurance part of its business. The private Dutch export credit insurance company, NCM, will buy this portion of the business, although the sale is controversial.

Although much of ECGD business is conducted at market rates of interest, it does provide some concessional lending in cooperation with the Overseas Development Administration (ODA, the British equivalent of the U.S. Agency for International Development - AID) for projects in developing countries. Occasionally the United States objects to financing offered to specific projects.

The U.K.'s development assistance (aid) program also has certain "tied aid" characteristics. To minimize the distortive effects of such programs, particularly when used in conjunction with ECGD type credits through the Aid and Trade Provision (ATP), the United States negotiated with the U.K. and other developed countries the 1987 "Arrangement on Officially Supported Export Credits.

7. Protection of U.S. Intellectual Property

U.K. intellectual property laws are strict, comprehensive and rigorously enforced. The U.K. 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.

A new copyright law is designed to make copyrighting a more simplified, user-friendly procedure and permitted the

U.K. to join the most recent text of the Berne Convention. The United Kingdom's positions in international fora, such as WIPO and GATT negotiations, are very similar to U.S. positions.

8. Worker Rights

a. The Right of Association

Unionization of the workforce in Britain is not restricted, except in the security services. There is no statutory right to strike and legal immunities protecting unions engaged in lawful actions were narrowed in the 1980s. Secondary strikes and politically motivated strikes are prohibited. In 1991 the International Labor Organization (ILO) upheld complaints against government bans on unions disciplining members and antiunion discrimination, but government policy remains unchanged.

b. The Right to Organize and Bargain Collectively

The right to organize and bargain collectively is deeply rooted in common law. there is no legal obligation for employers to bargain with workers' representatives nor have collective bargaining agreements histroically been legally binding or enforceable in the courts, but collective bargaining is extensive, involving over 10.2 million workers, or approximately 40 percent of the workforce. It is illegal to deny a worker employment on the grounds that he or she is or is not a union member, except in the case of the armed forces, the police, or the security services.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is unknown in the U.K.

d. Minimum Age for Employment of Children

School attendance until the age of 16 is compulsory. Children under that age are not permitted to work in an industrial enterprise except as part of an educational course.

e. Acceptable Conditions of Work

There is no legislated minimum wage. In some low-wage industries employing approximately 2 million workers, wage councils of employers and trade union members establish minimum hourly wages and overtime rates for adult workers. Provisions are legally enforced by a team of inspectors. Minimum wage rates vary from industry to industry. The UK does not have a law limiting daily or weekly working hours.

The Health and Safety at Work Act of 1974 requires that the health and safety of employees not be placed at risk. A Health and Safety Executive (HSE) enforces health and safety regulations and may initiate criminial proceedings. In 1990, following a number of accidents, responsibility for railway safety was transferred to the HSE. A health and safety commission submits regulatory proposals to the Government, appoints investigatory committees, and encourages research and training. The U.K. system of occupational health and safety

is viewed as efficiently managed and operates with the full involvement of workers' representatives.

f. Rights in Sectors with U.S. Investment

All U.S corporations operating within the United Kingdom are obliged to obey legislation relating to workers' rights.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category	Amount	
Petroleum		11,331
Total Manufacturing		20,636
Food & Kindred Products	2,083	
Chemicals & Allied Products	3,521	
Metals, Primary & Fabricated	1,020	
Machinery, except Electrical	3,141	
Electric & Electronic Equipment	1,268	
Transportation Equipment	2,864	
Other Manufacturing	6,739	
Wholesale Trade		2,746
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		34,713

Source: U.S. Department of Commerce, Survey of Current Business August 1991, Vol. 71, No. 8, Table 11.3

YUGOSLAVIA

Key Economic Indicators

(Yugoslav Dinars or U.S. Dollars as Indicated)

	1989	1990	1991 (est)
Income, Production, Employment			
Gross Social Product - GSP 1/ (billions current dinars)	221.9	910.9	1,490
Real GSP growth rate (pct)	0.6	-7.6	-20
GSP by sector (pct)			
Manufacturing and Mining	50	43	N/A
Agriculture	12	14	N/A
Retail Services	18	19	N/A
Construction	6	8	N/A
Transport and Communications	7	8	N/A
Crafts and Other	8	8	N/A
Real per capita income (1989 dinars)	9,365	8,612	6,856
Labor Force (thousands)	15,399	15,469	15,539
Unemployment Rate (pct)	14.9	16.4	20.8
Money and Prices			
Money supply (M1) (end of year in millions)	51,216	127,241	N/A
Commercial interest rates (avg)	4,354	45	80
Investment rate (pct)	19.4	18.9	N/A
Consumer price index	1,356	688	310
Wholesale price index	1,406	534	320
Exchange rate (dinars/$)			
official (annual average)	4.53	11.26	21.06
parallel (annual average)	N/A	12.46	39.71
Balance of Payments and Trade (millions $)			
Exports (FOB)	13,560	14,391	13,255
Exports to U.S.	802	691	522
Imports (CIF)	15,002	18,798	13,504
Imports from U.S.	501	565	450
Aid from other countries	N/A	N/A	N/A
External public debt	18,569	17,791	15,760
Debt service ratio	28.0	19.2	20.7
Gold/foreign exchange reserves	6,593	7,007	3,200
Balance of payments	2,835	943	-3,800
Current account	2,427	-2,354	-4,000

1/ Gross Social Product (GSP) is the total output of goods, plus services regarded as productive. This approximates, but is 10-15 percent less than, GNP.

1. General Policy Framework

Since midsummer of 1991, Yugoslavia has been torn by a violent internal conflict. By the end of 1991, four of the six republics which constitute Yugoslavia -- Slovenia, Croatia, Bosnia-Hercegovina, and Macedonia -- had declared

YUGOSLAVIA

their independence. In December, the European Community announced its intention to recognize any Yugoslav republics which met certain criteria. Only Montenegro and Serbia continue to recognize the authority of central government institutions and regulations. The political and economic situation in Yugoslavia remains highly unstable. This report outlines the situation at the end of 1991. It is difficult to predict what form the policies discussed below will assume when the conflict ends.

As the Yugoslav Federal Government disintegrated in 1991, Yugoslavia's economy descended rapidly towards chaos. The promising economic reform program that Prime Minister Markovic implemented in mid-1989 was stymied in 1990 by the increasingly nationalist political agendas of Yugoslavia's major republics. Critical reforms in the banking system, privatization, and tax regime were derailed. In virtually every area of policy, republic legislation became more sovereign than federal law, culminating in the proclaimed secession of Slovenia and Croatia in late June 1991. Trade and tariff legislation became the de facto domain of the republic governments, whose perspectives were frequently dominated by short-term revenue needs and apparent desire to inflict economic damage on other republics. The virtual collapse of the economy and "rule of law" in Yugoslavia resulted in the suspension of trade credits and investment guarantees by foreign government agencies, as well as the suspension of assistance from the IMF and World Bank. Federal authorities were unable to exercise inspection responsibilities and in late 1991 suspended health and safety certification of Slovenian agricultural and aviation industries. The "reworking" of economic relationships between republics and with the outside world, including the U.S., cannot proceed until Yugoslavia's violent internal conflict is resolved. The European Community and the United Nations continue to undertake efforts to achieve a peaceful, negotiated solution to the crisis.

Centrifugal forces in each of Yugoslavia's six republics have left the Federal government with little influence over economic policy. Laws of one republic are not enforceable in other republics and the republics have ceased funding the federal budget.

The federal budget process has been severely distorted by the demands of the civil war, as the Yugoslav People's Army (JNA) consumes growing portions of the budget. Press reports claim that up to 80 percent of the proposed 1992 federal budget will be devoted to funding the JNA. Disagreement with the new budget priorities led Prime Minister Markovic to resign in December 1991. Since mid-1991, federal expenditures, including the increased demands by the federal military, have largely been met by inflationary money creation and the extension of credits to the federal government by the National Bank of Yugoslavia (NBY). Although inflation had been earlier rekindled by the republics' refusal to observe government spending and wage restraints, the massive federal monetary expansion to meet budget obligations and growing costs of Yugoslavia's civil war seems certain to lead to the re-emergence of hyperinflation.

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The strongest federal institution is the National Bank of Yugoslavia (NBY), whose influence is ensured by its control over Yugoslavia's remaining $3.8 billion in foreign exchange reserves. As of late 1991, it was unclear how long the NBY could continue to operate in a relatively neutral manner and carry out its mandate to meet the payments-schedule for federal debts and guarantees. Yugoslavia's external debt continued to decline in 1991, with medium- and long-term debt dropping to $14.5 billion, but foreign exchange reserves will be virtually exhausted by early 1992.

Inflation reached an annualized rate of over 700 percent in October 1991 and continued at this level through the end of the year. Year-on-year industrial production declined by almost 20 percent in 1991, following a 10.5 percent decline in 1990. Unemployment exceeds 20 percent in Yugoslavia, with pockets in the poorer republics and provinces exceeding 40 percent. Yugoslavia's civil war has resulted in a major decline in national income (GDP), with official estimates projecting a 20-30 percent decline for 1991, and an even more massive decline in 1992. Thanks to sizable tourism earnings and overseas workers' remittances, Yugoslavia enjoyed seven straight years of current account surpluses until 1990. The future of these critical sources of foreign exchange is now in doubt. In 1990 Yugoslavia suffered a current account deficit of $2.4 billion, and the 1991 current account deficit is likely to reach three billion dollars or more, leaving foreign exchange reserves at a dangerously low level.

2. Exchange Rate Policies

The foreign exchange rate for the Yugoslav dinar is set by the Federal Government (FEC) and has been pegged to the Deutsche mark (DM) since January 1990. Exchange rates for other currencies are determined by their cross rates against the DM. The current official rate of 13 dinars per DM has been in effect since April 1991, but the importance of the official rate has been eroded by the emergence of parallel "black market" exchange rates. Yugoslavia's high domestic inflation relative to Germany, and a general loss of confidence in the economy, has made the official rate increasingly unrealistic, and commercial banks are now commonly paying bonuses of 150 percent, approved by the individual republican authorities, to compete with black market rates and provide incentives for exporters. Some republican authorities are also cracking down on previously tolerated black market dealers. The rapid real depreciation of the dinar and lack of hard currency is clearly depressing Yugoslav imports, which are down 28 percent from 1990. The contracting Yugoslav domestic market and large-scale non-payment of internal obligations have encouraged Yugoslav enterprises to look abroad for sales. Encouraged by substantial foreign exchange profits, Yugoslav exports have only declined by 8 percent from the 1990 level, narrowing the visible trade deficit to a projected $700 million.

On October 7, 1991 Slovenia announced its own transitional currency, called the tolar, and initially fixed its value at 32 tolars per DM (Croatia announced a similar move "in the near future"). All dinars held by Slovenian

citizens were to be exchanged at par with the tolar over a three-day period.

Subsequently, the Slovene government allowed some dinar exchanges, but at discounts of 15 to 40 percent against the tolar. Croatia and Slovenia signed an agreement in late October to allow their businesses to make payments in each other's currencies. Although the Slovenian currency is not recognized by foreign governments, and trade with other Yugoslav republics and the world is largely carried out in hard currencies and barter, Austrian and Italian banks bordering Slovenia are accepting the tolar in limited quantities to satisfy cross-border trade needs.

3. Structural Policies

The key structural issues facing Yugoslavia and its constituent republics are radical reform of the bankrupt banking system and large scale industry, privatization of the economy, and comprehensive tax reform. Without these reforms, Yugoslavia and the republics face continuing economic decline. The tragic civil conflict has deepened the economic crisis, however, and shattered interrepublic economic linkages. Many would argue that the war was, in part, triggered by the unwillingness of short-sighted republic leadership to address, in a comprehensive fashion, Yugoslavia's structural economic problems.

Within the limits imposed by the economic collapse, foreign exchange constraints and lack of trade financing, Yugoslav firms were largely free to trade internationally. As a result of the Markovic government's reforms, almost 90 percent of items Yugoslavia imports were theoretically free of quota restrictions. These are federal regulations, however, which have become subject to unpredictable modification by the individual republics. Many Yugoslav industries, such as agriculture and steel, have historically received heavy subsidies in the form of credits and price supports. The chaotic and conflicting legal environment, coupled with a disintegrating Yugoslav market, has penalized foreign investors and damaged productive domestic industries as well.

4. Debt Management Policies

Yugoslavia's medium- and long-term foreign debt obligations at the end of 1991 were estimated to have been $14.5 billion, down from a 1983 peak of $23.5 billion. Yugoslavia has a sizable credit exposure in Africa and the Middle East ($3 billion), and the USSR (bilateral clearing debt of $1.4 billion). Efforts to accelerate payment of the Soviet debt through increased barter trade (especially in petroleum) have been only partly successful. Iraq owes Yugoslavia approximately $2 billion, and repayment prospects in the wake of the Gulf War appear bleak.

Although Yugoslavia underwent a series of debt reschedulings beginning in 1983, debt servicing has not been a problem for Yugoslavia over the past two years, with the ratio of debt service payments to export earnings declining to about

20 percent. The NBY has consistently sought to meet obligations to official creditors stemming from Paris Club reschedulings, and federal guarantees of republican debts. However, with foreign exchange reserves dropping below $4 billion and the strong likelihood of a major deterioration in the 1992 balance of payments, Yugoslavia will be forced to approach official and private creditors for debt relief. The excessive growth of public spending and higher than expected inflation in the third quarter of 1990 caused the IMF to suspend drawings under a March 1990 standby agreement, and there is no prospect that a new standby agreement can be contemplated while Yugoslavia's civil war continues. The issue of allocating responsibility for existing debt is likely to be a major difficulty in establishing new government structures and "reworking" the economic relationships between the Yugoslav republics.

5. Significant Barriers to U.S. Exports

Yugoslavia's federal import surcharge was lowered from 21 percent to 16 percent in 1990. However, this figure is still relatively high, as the import surcharge is added to the nominal duty rate to calculate the total tariff rate. Agricultural commodities imported under foreign commodity credits (i.e. most U.S. agricultural goods) face only a one percent levy. Agricultural products are subject to variable surcharges which are triggered if the import price, inclusive of customs duty and 16 percent import surcharge, is still lower than the domestic producer's price. The surcharge is then levied to equalize the two. Quantitative estimates of the levies' impact on U.S. producers are unreliable. Particularly for agricultural goods, U.S. exports are affected more by price and bilateral arrangements, i.e. countertrade, than by levies. Because of the current crisis, Yugoslav importers were unable to take advantage of U.S. agricultural credits in 1991.

Import quotas apply to certain agricultural products. Quota levels are established in consultation with end-users. As a result of the 1988-89 liberalizations, quota restrictions are now negligible on the major traditional U.S. exports to Yugoslavia: soybeans, soybean meal and oil, cotton, hides, skins, and some grains. Items still on the quota list comprise "big-ticket" items such as aircraft, heavy construction machinery and equipment, and computer system elements. U.S. officials continue to urge a reduction of levies in GATT Balance of Payments consultations and bilateral discussions.

In general, Yugoslavia accords "national treatment" to foreign investors. The 1988 Foreign Investment Law opened all sectors of the Yugoslav economy to foreign investors except for rail and air transport, communications, and media and publishing. Although foreigners may now purchase buildings and have use of adjoining land, they are not permitted to purchase direct title to land. Rules governing the repatriation of capital and profits have been aligned to match OECD norms, but in practice companies have found conversion of local currency to hard currency in 1991 to be increasingly problematic.

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In addition, Yugoslav republics have been instituting regional regulations which inhibit or effectively preclude trade with firms in other regions of Yugoslavia. Tax schemes have also been implemented that create a disadvantage for goods produced in other republics (some by U.S. owned firms). This market parcelization tends to constrain direct U.S. exports, and has negative impact on earnings of U.S. investors. Policies on investment incentives and performance requirements are not uniform at federal, republican, provincial, and municipal levels. During 1991 U.S. firms reported that pressures to accept offset sales were intensifying.

Yugoslavia is a signatory to the Antidumping, Customs Valuation, Import Licensing, Technical Barriers, and Subsidies Codes of the GATT. It has not accepted, but observes the Bovine Meat and Civil Aircraft Codes. Yugoslavia has not signed the GATT Government Procurement Code. U.S. companies have not raised concerns that Yugoslav health, testing, or other regulatory standards pose significant trade barriers.

6. Export Subsidies Policies

A ten percent federal subsidy payment for exports of goods was removed in December 1990, but a three percent subsidy on net exports of services remains. Significant increases in subsidies for agricultural exports, particularly wheat, were announced in 1991. Restricted access to foreign currency and the resulting high demand has artificially boosted pressures to export. The opportunity to profit from foreign exchange earnings has resulted in sales of goods in hard currency countries at prices 35 percent below domestic levels. The decline in foreign exchange reserves and a growing tendency to reduce market access of importers through "administrative" measures in certain republics has depressed imports in some sectors where U.S. firms are highly competitive.

While enforcement of intellectual property rights (IPR) is weak, and there remain shortcomings in Yugoslavia's IPR legislation, the federal government has been increasingly attentive to U.S. IPR concerns. Yugoslavia is a signatory to the Bern Copyright, Paris Industrial Property, and Universal Copyright Conventions, and is a member of the World Intellectual Property Organization. While Yugoslavia made substantial progress in 1990 in strengthening protection of intellectual property rights (IPR), U.S. firms cite shortcomings in IPR legislation and enforcement as an important disincentive to introducing U.S. products or new investment in Yugoslavia. Despite repeated U.S. interventions, the 1990 legislation for patent provisions failed to establish "product" protection for animals, plants, and biotechnological items. The U.S. also identified problems in Yugoslavia's legislation in the use of overly broad criteria in granting compulsory licenses and licensing arrangements under the Foreign Trade Law. The U.S. continues to have problems with Yugoslav practices regarding protection for phonograms, trade secrets, and lay-out designs for integrated circuits. The U.S. has been addressing IPR

problems in Yugoslavia in the context of the "Special 301" watch list, and in the context of negotiations of a Bilateral Investment Treaty.

Yugoslav shortcomings in the IPR field include the failure to enforce copyright laws to curtail book, video, and audio piracy. However, pirated videos and records have limited sales on the domestic market due to poor quality. Moreover, financial problems of Yugoslav film companies and distributors, in part due to declining cinema attendance and revenues, have led to a decline in imports of foreign films. At present, there is no defensible estimate of the value of forgone U.S. earnings attributable to video piracy.

Yugoslav involvement in computer software development has not evolved to the point where officials have a strong inducement to create standards adequately protecting software under copyright law. At present, Patent Bureau officials "interpret" the Patent Law as conditionally protecting software, but enforcement is weak. Computer software is not addressed explicitly in either the amended Patent or Copyright Law and is, therefore, subject to replication without compensation in the Yugoslav market.

8. Worker Rights

a. The Right of Association

All workers, except military personnel, are entitled to form or join unions of their own choosing without previous authorization. Workers are no longer formally obligated to register with and pay dues to the official unions. However, pressure toward conformity, and the advantages of some material benefits, still operate to encourage official union membership in many enterprises. In 1991, there was a blossoming of new trade unions throughout Yugoslavia as the centralized national federation structure eroded. Workers, in both blue and white collar work places, left the old pro-government federation and formed independent local and republic-level groups of their own, particularly in Slovenia, Croatia, and Serbia. Individual managers and enterprises, including government media organs, often used explicit and implicit pressures including coercion and firing threats to discourage workers from attempting to participate in such organizing activities. Despite the fact that the Yugoslav federal government formally recognized the Independent Trade Unions of Kosovo (ITUK) in May 1991, the new organization continued to face major barriers at the local level in representing a work force which has suffered from official repression and repeated mass firings on ethnic grounds. Throughout 1991, especially in Croatia and Serbia, union organizations were concerned that labor agitation during a time of inter-republic war would expose them to charges of disloyalty and treason. In Montenegro, such accusations were made against several pro-labor political groups. The right to strike is recognized and was widely exercised throughout Yugoslavia.

b. The Right to Organize and Bargain Collectively

Yugoslavia is in the early stages of a process of moving

rom a system of socially-owned property to one in which economic privatization may become a reality. Under the former system of social ownership, wages were essentially set by the workers themselves, although political pressure from the Communist Party was frequently a factor. Under new labor legislation, unions face a difficult task in pinpointing management responsibility and ensuring accountability of authorities in the negotiation and execution of labor agreements. These problems will worsen as Yugoslavia's economy deteriorates in the face of civil strife and political disintegration. Protection for unions and union members is provided by both federal and republic law, but laws have not caught up with the recent changes.

c. Prohibition of Forced or Compulsory Labor

The Federal Constitution prohibits forced labor, and this prohibition appears to be respected.

d. Minimum Age of Employment of Children

The minimum age for child labor is 16, although in village and farm communities, younger children often assist with family agricultural obligations. Enforcement is the responsibility of the Federal and Republican Secretariats for Labor, Health, and Social Policy.

e. Acceptable Conditions of Work

The official work week in Yugoslavia is 42 hours and there are generous sick leave and vacation benefits. However, a number of enterprises have actually operated far fewer hours during 1991's deepening economic crisis, and widespread enterprise insolvency has resulted in nearly half of the labor force receiving salaries at varied intervals, or in amounts well below those stipulated in wage agreements. Minimum wage rates are guaranteed by federal law, but growing inflation is likely to erode the viability of the wage minimums.

Yugoslavia is now facing a serious problem of displaced persons fleeing from areas of conflict. By the end of 1991 over 500,000 displaced persons had registered with the Red Cross as having fled their homes.

Yugoslavia has extensive federal and republic laws and regulations governing worker safety. Enforcement of work safety rules, however, is lax.

f. Rights in Sectors with U.S. Investment

Rights in sectors with U.S. investment do not differ in any material way from those in other sectors of the economy.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category	Amount	
Petroleum		2
Total Manufacturing		(D)
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	(D)	
Other Manufacturing	0	
Wholesale Trade		0
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, August 1991

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Key Economic Indicators

	1989	1990	1991 1/
Income, Production, Employment			
GDP (1991 US$ billions)	134	133	140
Real GDP growth rate (pct)	-4.6	-0.7	5.0
GDP growth by sector			
Agriculture 2/	-2.9	9.8	7.0
Industry 2/	-7.1	-4.6	10.0
Minerals 2/	3.2	-1.5	3.0
Services 2/	-2.6	0.9	2.0
Real per capita GDP (1991 US $)	4,133	4,048	4,203
Size of labor force (millions)	12.1	12.3	12.5
Unemployment rate (pct)	7.6	8.8	6.4
Money and Prices			
Money supply (M1) 3/	4,960	886	115
Commercial interest rates 4/	40.0	6.7	1.2
Savings rate 2/	7.6	10.2	11.0
Investment rate 2/	9.4	8.6	13.8
Consumer price index 3/	4,923	1,344	75
Wholesale price index 3/	5,386	798	63
Exchange rate (australes per US$)	1,314	5,122	9,950
Balance of Payments and Trade (US$ billion)			
Exports (FOB)	9,573	12,339	10,500
Imports (CIF)	-4,149	-4,078	-6,500
U.S. Exports (FAS)	1,037	1,179	785 5/
U.S. Imports (Customs value)	1,398	1,509	684 5/
Aid from other countries	N/A	N/A	N/A
External public debt 5/	58.4	56.2	57.5
Debt service payments paid 6/	650	1,511	1,582
Foreign exchange reserves 7/	3,419	5,874	6,243
Balance of payments	-6,258	679	-719

1/ Estimated
2/ As percent of GDP
3/ Percent - measured year end to year end
4/ Nominal monthly rate in percent at year end
5/ US$ billions; including interest arrears
6/ Includes net service paid by public sector to international financial institutions and on BONEX
7/ Estimated - includes gold, SDRs, foreign exchange and outstanding ALADI balances

1. General Policy Framework

After decades of instability that culminated in two bouts of hyperinflation in 1989-90, Argentina, under the administration of President Menem, has undertaken a wide-ranging reform program. Shortly after Menem took office in July 1989, during an acute economic crisis, the Congress passed two laws that cut the government's fiscal deficit and began the process of deregulation and privatization. In April

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1991 the Congress passed the Convertibility Law, which introduced an exchange rate tightly linked to the U.S. dollar, and placed even greater emphasis on fiscal discipline. In October 1991, Menem signed a decree to remove the vestiges of the statist controls that have inhibited the Argentine economy, although implementation of this decree will take time. These four laws, and many other less dramatic actions, have succeeded in bringing inflation down to below two percent per month.

A deficit in the fiscal current account is due to continued deficits run by state enterprises (which are to be privatized) and to on-going deficits in the social security system. These deficits are financed through a combination of the sale of state assets through privatization, borrowings from international financial institutions and limited sales of sovereign bonds on the Eurobond market. The central government itself is running a slight surplus in its cash flow, due to the fact that it is not fully servicing its external debt to commercial banks.

Under the Convertibility Law, the government can only issue local currency that is fully backed by international reserves. Thus, the central bank controls the money supply by either buying or selling dollars.

2. Exchange Rate Mechanisms

Under the Convertibility Law, the central bank is required to sell dollars on demand at the exchange rate of 10,000 australes per one U.S. dollar. It has also chosen to buy dollars at the bottom of a one percent intervention range, thereby ensuring that the exchange rate never drops below 9,900 australes per one U.S. dollar. With the large inflow of foreign exchange from abroad attracted by the high return on financial instruments denominated in australes and the normal remonetization of the domestic economy following hyper-inflationary periods, the market lately has tended to trade at the bottom of this range.

The fixed exchange rate and the differential in rates of inflation between Argentina and its trading partners, including the United States, has tended to make imports increasingly competitive in the domestic market.

3. Structural Policies

Argentina is still in the early phase of what will likely be a long and difficult process of structural reform. The problem of "Argentine costs", those unique costs that have made Argentine goods uncompetitive in the face of international competition, is being addressed but has not been eliminated. This process of reform will likely tend to encourage imports from the United States and elsewhere, as companies invest in capital goods to remain competitive and consume larger amounts of inputs to meet rising demand both at home and abroad. Companies should also import more finished goods to satisfy rising effective demand at home.

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Few prices remain in Argentina that are not set by market forces. Present trends, if continued, will be for the government to provide fewer subsidies and to lift controls, leaving increasingly fewer regulated prices; controls will likely remain, however, on prices where market imperfections exist (such as natural monopolies).

The government is forced by prevalent evasion and inefficient tax administration to focus principally on taxes that are easily collected. Thus, it has come increasingly to rely on the value-added tax and other taxes on consumption, as well as import tariffs for revenue. It recently eliminated the last export tax, in part to make up for the appreciation pressures resulting from the inflation differentials.

4. Debt Management Policies

During the 1980s the federal government assumed the medium- and long-term external debt obligations of the private sector. Presently, 92 percent of the total debt is the responsibility of the public sector. The government has serviced its debt with the international financial institutions and has managed its obligations to official creditors through partial payments and four Paris Club reschedulings. It has, however, not fully serviced its commercial bank debt which has consequently generated some $7-8 billion in arrears. A Brady Plan-type restructuring of this commercial bank debt, involving both the arrears and some $25 billion in principal outstanding at end-1991, could occur in 1992.

The International Monetary Fund approved a stand-by arrangement in July 1991. Argentina has begun negotiations for a three year Extended Funding Facility shortly. The World Bank has several policy-based loan programs approved and is disbursing against them.

5. Significant Barriers to U.S. Exports

Barriers to U.S. Exports: Overall, the government has taken significant steps to open the economy to imports during the last year. Import licensing requirements have been removed. Most goods entering Argentina are taxed at one of three rates. A tariff of 22 percent is applied to most finished products, intermediate products are taxed at 13 percent, and raw materials enter at the rate of 5 percent. The average tariff has fallen from 22 percent early in 1991 to the current level of 11 percent.

The government is moving toward the removal of quantitative limits on imports. Imports of electronics goods face a price reference system, which is run by Argentine customs. While the system was designed to counter the practice of underinvoicing, it can also be used to value goods at an artificially high level. There is also a discriminatory tariff on the import of Spanish language books printed in non-Spanish speaking countries, although legislation has been introduced to remedy this situation.

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Barriers to U.S. Services: While there are plans to open the insurance sector, currently 60 percent of reinsurance must still be placed with the national reinsurance company. The insurance registry for new firms is closed, because the government determined the market was "saturated." Marine insurance for exports and imports is reserved for Argentine companies. U.S. airlines must pay high fees for poor ground handling services provided by a government designated monopoly at Argentine airports. All public works projects must be insured by the government-owned insurance company. While U.S. banks are well represented in the local market and operate on the basis of national treatment, the establishment of a new bank is not a transparent process, leaving open the possibility of discrimination. Goods imported by the government or receiving special tariff exemptions had to be shipped on Argentine-flagged ships (or U.S. flag ships in our bilateral trade) until President Menem's omnibus deregulation decree of November 1, 1991. This decree and subsequent measures appear to have eliminated these cargo reserve requirements and are opening trucking and port services to private, competitive providers. Argentina's postal service (ENCOTEL) requires applicants for a domestic courier service license to make substantial investments. In addition ENCOTEL charges a high fee on outbound international courier shipments, although it did eliminate the fee on inbound shipments.

Investment Barriers: The Argentine government has few restrictions on foreign investors, since the restrictions were reduced in 1989. Foreign investors enjoy national treatment in all sectors except air transportation, shipbuilding, nuclear energy, fishing, and establishment in border areas. Even these sectors are not immune to policy reform and privatization; e.g., the Government of Argentina in November 1991 sold the Tandanor shipyards to a Dutch-French consortium. The U.S. and Argentina signed a bilateral investment treaty on November 14, 1991. The treaty awaits ratification by both Congresses.

Government Procurement Practices: The "Buy Argentine" restrictions have been modified. A preference for Argentine suppliers will be shown only when all other factors (price, quality, etc.) are equal.

Customs Procedures: The administrative procedures for customs are extensive and time consuming, raising costs for importers.

6. Government Support for Exports

On September 20, the United States and Argentina signed an agreement committing the Argentine Government to the elimination of its few remaining subsidies for industrial exports.

7. Protection of Intellectual Property Rights

The Argentine patent law was promulgated in 1864 and is inadequate. No protection is provided for pharmaceutical

products, and other serious flaws exist, such as a stringent working requirement and a maximum patent term of only 15 years. The law, in certain respects, is inconsistent with the Paris Convention (Lisbon Act) which Argentina has signed. The Government of Argentina has submitted to the Congress new legislation which corrects the current law's inadequacies and is responsive to U.S. concerns.

The Argentine copyright law does not provide explicit protection for computer software, although protection has been available through the courts. Argentine law also does not provide protection for semi-conductor works or trade secrets.

The U.S. initiated a Section 301 investigation in September 1988 in response to a petition from the Pharmaceutical Manufacturers Association (PMA) regarding the lack of patent protection for pharmaceuticals. The petition was withdrawn in September 1989 based on progress in this area.

8. Worker Rights

a. The Right of Association

Although the vast majority of union leaders are allied with the ruling Justicialist Party and are active in the Peronist movement, trade unions are independent of both the government and the Party. The Right of Association was enhanced by laws passed in 1987 and 1988 which restored some laws and rights suspended by previous military governments. Unions have the right to strike, subject to compulsory conciliation and arbitration by the Labor Ministry. Workers have the right to receive their salaries while on strike until the Labor Ministry orders compulsory conciliation. State-owned enterprise employees dominated the strike scene in 1991. Most of these strikes were in response to the government's structural adjustment policies which centered on the state and state-owned sectors. The government announced the possibility of declaring politically-motivated strikes illegal. The President also used new legislation to break a 45-day wildcat railroad walkout. The Buenos Aires telephone workers have a complaint pending with the ILO stemming from government actions during a 1990 strike.

b. The Right to Organize and Bargain Collectively

The law that required collective bargaining on an industry-wide basis was modified in a recent decree. Now bargaining can also occur at the level of the firm. Antiunion discrimination is prohibited by law, and well-developed mechanisms are in place and functioning to resolve complaints.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is illegal in Argentina and is not practiced.

d. Minimum Age for Employment of Children

The law prohibits the employment of children under 14

years of age, except in the family. Minors of ages 14 and 15 may work in restricted types of employment, but not more than 6 hours a day or 35 hours a week. The same law applies to minors 16 to 18 years of age, although competent authority may allow exceptions. Violations are tried before the appropriate courts. Enforcement of child labor laws has declined as the severe economic crisis has led many families to have as many members employed as possible.

e. Acceptable Conditions of Work

Argentina offers comprehensive protection of workers' rights. The maximum workday is 8 hours; the workweek is 48 hours. Premiums must be paid for work beyond these limits. There is an official monthly minimum wage which was most recently increased in March 1991. Rules governing vacations, minimum wages, and occupational health and safety are comparable to those in western industrial nations, and are enforced by the government and labor unions in the formal economy. However, Argentina has a large underground or informal economy which employs an undetermined number of people, including children.

f. Rights in Sectors with U.S. Investment

There is no officially designated export processing zone in Argentina. National law makes no distinction between worker rights in nationally-owned enterprises, and those in the sector influenced by U.S. investment.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category	Amount	
Petroleum		437
Total Manufacturing		1,566
Food & Kindred Products	345	
Chemicals & Allied Products	450	
Metals, Primary & Fabricated	110	
Machinery, except Electrical	325	
Electric & Electronic Equipment	52	
Transportation Equipment	-64	
Other Manufacturing	348	
Wholesale Trade		121
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		2,124

Source: U.S. Department of Commerce, Survey of Current Business August 1991, Vol. 71, No. 8, Table 11.3

BAHAMAS

Key Economic Indicators

(Millions of U.S. Dollars)

	1989	1990	1991
Income, Production and Employment			
Real GDP	2,497	2,522	N/A
GDP growth Rate	2.0	1.0	N/A
GDP by sector (pct of total):			
Tourism	50.0	60.0	N/A
Finance	8.0	10.0	N/A
Manufacturing	1.4	3.0	N/A
Agriculture	4.0	5.0	N/A
GDP per capita (U.S. Dollars)	9,987	9,902	N/A
Labor force	127,400	N/A	N/A
Unemployment rate (pct)	12.4	14.0	16.0
Money and Prices			
Money supply (M1)	300.7	328.4	324.6
Commercial interest rate (pct)	9.0	9.0	9.0
Savings rate	N/A	N/A	N/A
Investment rate	N/A	N/A	N/A
Consumer price index	112.6	120.4	129.0
Consumer price index (pct change)	4.4	6.9	7.3
Wholesale price index	N/A	N/A	N/A
Exchange rate (US$:B$)	1:1	1:1	1:1
Balance of Payments and Trade			
Total exports (FOB)	2,567.4	2,813.5	N/A
Non-oil (est)	250.1	287.8	N/A
Exports to U.S.	462.2	506.1	550.3
Total imports (CIF)	3,005.2	3,022.5	N/A
Non-oil (est)	1,109.3	1,036.2	N/A
Imports from U.S.	773.3	800.7	750.0
Aid from U.S.	0	0	0
Aid from other countries	0	0	0
External public debt	151.5	188.2	201.5
Debt repayment	55.4	51.0	60.3
Gold reserves	N/A	N/A	N/A
Foreign exchange reserves	146.9	159.5	170.1
Balance of Payments			
Current account	-170.6	-180.1	-183.0
Merchandise exports (FOB)	259.6	281.3	306.1
Merchandise imports (CIF)	1,151.9	1,131.5	1,142.2
Services (net)	650.8	701.6	727.4

1. General Policy Framework

The Bahamas is a politically stable, middle-income developing country. The economy is based on tourism and financial services, which account for approximately 60 percent and 12 percent of gross domestic product (GDP) respectively.

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The agricultural and industrial sectors, while small, have recently been the focus of government efforts to expand and produce economic growth and diversification in the economy.

The United States remains the Bahamas' major trading partner. U.S. firms exported over $800 million worth of goods and services to the Bahamas in 1990. The Bahamian Government actively encourages foreign investment, with free trade zones on Grand Bahama and New Providence. Capital and profits are freely repatriated, and investors are offered relief from personal and corporate income-taxes. The Government of The Bahamas is committed to maintaining parity between the Bahamian and the U.S. dollar. Designation under the Caribbean Basin Initiative (CBI) trade program allows qualified Bahamian goods to enter the United States duty-free.

The Bahamas continues to run a fiscal deficit due to investment in capital projects by the government and public corporations. The recurrent deficit for 1990 was $59.7 million and is projected to be $60 million for 1991, while the overall budget deficit in 1990 was $101.5 million. Deficits are financed through bond issues, treasury bills, short-term advances from the banking system, and Central Bank financing. On November 6, 1991, the government enacted legislation to increase revenue by further increasing some import duties, the gasoline tax, taxes on remittances of foreign currency, and the departure tax on cruise ship visitors. Total 1990 national debt was $912.8 million, and is expected to reach $1 billion for 1991.

Domestic financing through commercial bank loans and the issuance of government securities continued to increase in 1991. The National Insurance Board, a Bahamian pension fund, purchased $317.5 million in treasury bills and government-registered stock through August 1991.

The Bahamas' primary monetary consideration is foreign exchange reserves, needed to purchase essential imports and finance the repatriation of corporate profits. The Central Bank has asked banks to limit credit expansion in order to preserve foreign exchange reserves, and liquidity remained tight in 1991. Bank lending came to a virtual halt between January and September 1991.

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 is committed to maintaining parity. The Central Bank monitors, but does not impede, the flow of foreign exchange into and out of the Bahamas. Foreign exchange reserves rose to $159 million in 1990, due partly to tighter liquidity.

3. Structural Policies

Price controls exist on 13 bread basket items, gasoline, utility rates, public transportation, automobiles and auto parts. Inflation accelerated from 3.8 percent in June 1990 to 7.6 percent in June 1991.

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Recognized internationally as a tax haven, the Bahamas does not impose income, inheritance or sales taxes. Customs duties range from 1 to 200 percent and are a principal source of government revenue, as they are applied to nearly all imported goods. Other revenue sources include fees on business licenses and work permits, property taxes, and airport and harbor departure taxes. A gambling tax is also levied. To increase revenues, the airport departure tax was raised from $7 to $13 per person in 1991, and the government has proposed raising the harbor departure tax from $7 to $20 per person in 1992.

In October 1991, the government implemented legislation to attract and promote investment. The Investment Incentives Act (IIA) divides the Bahamas into four economic zones for the purposes of development. The Act simplifies the foreign investment approval process and provides that approved developers are eligible for duty exemptions on supplies for manufacturing and administrative purposes. It also grants exemption from real property tax and license fees over a scheduled period.

Other trade and investment incentives include the International Business Companies Act, the Industries Encouragement Act, the Hotels Encouragement Act, the Agricultural Manufactories Act, the Spirit and Beer Manufacture Act, and the Tariff Act. The International Business Companies Act simplifies procedures and reduces costs for incorporating companies. The Industries Encouragement Act provides duty exemption on machinery, equipment and raw materials used for manufacturing purposes. The Hotels Encouragement Act grants refunds of duty on materials, equipment and furniture required in construction or furnishing of hotels.

The Agricultural Manufactories Act provides exemption for farmers from duties on agricultural imports and machinery necessary for food production. The Spirit and Beer Manufacture Act grants duty exemptions for producers of beer or distilled spirits on imported raw materials, machinery, tools, equipment, and supplies used in productions. The Tariff Act grants one-time relief from duties on imports of selected products deemed to be of national interest. The newly-implemented investment promotion program for the 21st century is designed to attract individuals and groups of persons with special skills who will establish enterprises offering employment and joint venture business opportunities for Bahamians. It provides permanent residence status to investors who meet its terms.

Under the Hawksbill Creek Agreement, most of the area within Freeport on Grand Bahama island has been designated a free trade zone. Investors are guaranteed exemption from any income, capital gains, real estate, property, emergency and stamp taxes, and customs duties on imports to be used in their businesses. In the Freeport free zone, tax and duty-free storage of goods is granted, as well as transshipment, manufacturing, processing and warehousing activities. This agreement expires in 1992.

Although the Bahamas encourages foreign investment, specific businesses are reserved exclusively for Bahamians and

others for joint ventures which include Bahamian owners. 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.

4. Debt Management Policies

The Bahamas' national debt reached $912.8 million in 1990, with debt service of $51 million accounting for 10.5 percent of total government revenues. National debt is expected to reach $1 billion in 1991, with a debt service of $60 million. The Bahamas maintains a good international credit rating.

5. Significant Barriers To U.S. Exports

The Bahamas provides an $800 million market for U.S. companies. There principal barrier to the import of U.S. goods is a substantial duty applied to all imports. Deviations from the average duty rate often reflect policies aimed at import substitution. Tariffs on items which are also produced locally are at a rate such as to provide protection to these local industries. The government's quality standards for imported goods are similar to those of the United States.

6. Export Subsidies Policies

The Bahamian Government does not provide direct subsidies to industry. The export manufacturing industries encouragement act provides exemptions to approved export manufacturers from duty for raw materials, machinery and equipment, and the approved product is 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 is a party to the Paris Convention for the Protection of Industrial Property, and the Berne Convention for the Protection of Literary and Artistic Works (older versions for some articles of the latter are used). It is also a member of the Universal Copyright Convention.

8. Worker Rights

a. Right of Association

The Constitution specifically mentions labor unions in granting the rights of free assembly and association. Unions operate without restriction or governmental control, and are guaranteed the right to maintain affiliations with international trade union organizations and to strike. Strike votes are overseen by the Ministry of Labor and must be passed by a simple majority of union members before a strike can commence.

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b. Right to Organize and Bargain Collectively

Workers are free to organize and collective bargaining is extensive for the 30,000 workers (25 percent of the work force) who are unionized. Collective bargaining is protected in law and freely practiced, and the Department of Labor is responsible for mediating disputes. The Industrial Relations Act mandates that employers recognize trade unions. Legislation pending before parliament, the Employment Protection Bill, addresses unfair dismissal and places greater burdens of proof for dismissal on the employer.

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 14 years effectively discourages child employment.

e. Acceptable Conditions of Work

While the Fair Labor Standards Act has minimum wage provisions, there are no legislated minimum wage levels. Wage levels in the tourist-oriented economy provide a decent standard of living for workers.

The Fair Labor Standards Act limits the regular workweek to 48 hours and provides for at least one 24-hour rest period. Overtime payment (time and a half) is required by law for hours in excess of the standard.

The Labor Department 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. These inspection visits are normally announced ahead of time. The National Insurance Program provides for compensation for work-related injuries. An employer is also required by law to find suitable alternative employment for an employee who is injured on the job but is still able to work.

f. Rights in Sectors with U.S. Investment

Worker rights apply equally in all sectors of the productive economy.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category		Amount
Petroleum		235
Total Manufacturing -		60
Food & Kindred Products	(D)	
Chemicals & Allied Products	(D)	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	(*)	
Wholesale Trade		394
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		689

(D)-Suppressed to avoid disclosing data of individual companies

(*)-Under $500,000

Source: U.S. Department of Commerce, Survey of Current Business August 1991, Vol. 71, No. 8, Table 11.3

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Key Economic Indicators

(Millions of U.S. Dollars)

	1988	1989	1990
Income, Production, Employment			
Real GDP (1974 prices)	438.75	454.55	440.45
Real GDP Growth Rate (percent)	3.5	3.6	-3.1
Real GDP (1974 prices, by sector)			
Sugar	17.70	14.10	14.75
Other agriculture	15.90	14.10	17.80
Mining	3.35	3.10	3.25
Manufacturing	42.85	45.15	43.95
Utilities	12.65	13.05	12.20
Construction	30.95	33.45	30.05
Wholesale & retail trade	88.30	90.50	86.00
Tourism	61.55	67.75	63.20
Transport & communication	32.40	34.45	34.45
Business & gen. services	75.05	77.75	75.70
Government	58.70	59.30	60.20
Real Per Capita Income	N/A	N/A	N/A
Size of Labor Force ('000)	123.8	124.5	124.8
Unemployment Rate	17.4	15.5	15.0
Money & Prices			
Money supply (M1)	288.35	257.3	300.8
Commercial Interest rate	9.0	11.0	10.25
Savings rate	N/A	N/A	N/A
Investment Rate (percent)	20.3	22.6	21.9
Consumer Price Index (1980=100)	164.4	174.6	179.9
Wholesale price index	N/A	N/A	N/A
Exchange rate (fixed US$1=BDS$2)	2/1	2/1	2/1
Balance of Payments & Trade (current $ million)			
Total exports	177.1	187.2	210.55
Total exports to U.S.	37.8	36.4	25.95
Total imports (CIF)	581.95	677.15	703.95
Total imports from U.S.	200.9	234.65	234.0
Aid from U.S.	N/A	0.494	0.715
Aid from other countries	N/A	N/A	N/A
External public debt	576.75	551.8	539.85
Annual debt service payments	125.95	105.45	151.5
Gold & foreign exchange reserves	175.4	134.1	75.0
Balance of payments	49.2	-84.6	-100.0

1. General Policy Framework

Barbados, the easternmost of the Caribbean Windward

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Islands, is only 166 square miles in area (14 miles wide and 21 miles long) with a population of about 254,000. Independent since 1966, it is a Westminster-style parliamentary democracy with a market-oriented system based on private ownership and international trade. The smallness of the economy makes it extremely vulnerable to international market forces. The economy is based on tourism and agriculture, with sugar as the main crop. Offshore banking and financial services, transportation and communications, and light manufacturing are also important for the economy. Mining and quarrying are limited, but Barbados produces enough petroleum and natural gas to satisfy nearly half of its domestic needs. The island produces an adequate supply of drinking water primarily from underground springs.

Barbados is in the grip of an economic crisis which began in mid-1990. A severe downturn led to a contraction of GDP of about 3.3 percent in 1990 and a loss of foreign reserves of over U.S. $50 million. Negative real growth of about 1.5 percent was recorded in the first half of 1991. Tourism, construction, manufacturing and agriculture suffered reversals that contributed to the recession. A high fiscal deficit fueled by pre-election government spending and an over-valued currency have led to foreign exchange losses and the depletion of reserves. In an effort to deal with this situation, Barbados opened negotiations with the International Monetary Fund (IMF) in mid-1991. The government's goal is to conclude an IMF standby arrangement and structural adjustment program. The economic austerity measures seek to stimulate economic recovery and to avert a devaluation of the Barbados dollar (US$1 = BD$2) by drastically reducing local consumption, dampening demand for foreign exchange, and reducing the fiscal deficit. As part of the adjustment process, some para-statals are to be privatized; i.e., the telecommunications, dairy, ground transport, cement production, flour-milling, and other traditional sectors. Government will likely maintain equity roles in tourism facilities, utilities, housing, the airport and seaport.

Barbados' trade policy is generally laissez-faire. Special incentives for direct foreign investors and exporters are available. Barbados imports more than it exports, and has a serious balance of trade problem. The U.S. remains the major trading partner along with Canada, the U.K. and the Caribbean Common Market (CARICOM) countries. Current economic pressures are forcing Government to look again at some of its import substitution protections for local manufacturing industries. The generally high local factor costs (wages, utilities, taxes) threaten the viability of many firms. The amount of resources dedicated to capital works projects and social safety net programming by necessity will also be reduced. The many problems related to the economic crisis combine to reduce local production and to limit the quantity of U.S. goods bought for consumption or manufacturing inputs.

A continuing credit squeeze (since 1989), increases in industrial rents, higher energy costs, new indirect taxation, and rising utility/water rates, have hurt consumers, retailers and wholesalers. With inflation rising, a continuing balance of trade and payments deficit situation, increasing unemployment, and reductions in public sector support

services, it is clear that the local economic prospects for the next few years are dim and that there is no clear path to recovery.

2. Exchange Rate Policies

A central goal of the Government is to avoid a currency devaluation. The Prime Minister, who is also Minister of Finance, remains committed to the fixed exchange rate regime (US $ 1 = BDS $ 2). The economic pressures focused on Barbados may yet compel a devaluation of the local dollar which is believed to be overvalued by 30 to 50 percent. The Ministry of Finance makes monetary and foreign exchange control policies, but the Central Bank (BCB) executes the latter via its Exchange Control Division. Foreign monetary transactions are subject to exchange controls, except in the generally exempt offshore business sector. The country's foreign reserve pool has been depleted to the point that normal business transactions are difficult. Current exchange rate policy, the scarcity of foreign reserves, and the structural adjustment process have reduced the local tendency to import a wide variety of U.S. industrial inputs, machinery, capital equipment, high value food items and consumer goods.

3. Structural Policies

Government policy favors productive foreign investment, with an emphasis on tourism and manufacturing because of their employment and foreign exchange generating potential. The offshore business (insurance, banking and financial services) sector emerged as a key growth area in recent year. Tax and other concessions are offered to offshore companies engaged in international trade such as investment, insurance, banking and trusts, shipping and foreign sales corporations. No capital gains or estate duty taxes are applied, and exemptions from exchange controls exist for certain offshore investors.

The trade-oriented character of the Barbados economy normally offers significant potential for U.S. exports and direct investment, but near-term prospects are limited. After the structural adjustment process has run its course (two to five years), Barbados hopes to return to its previous economic status and relationships. Pricing policies are essentially market driven with some government intervention for essential products. Price controls or subsidies are employed for key consumer goods, i.e., for food and energy. Local prices for most commodities tend to be higher than the U.S. average.

Barbados has concluded a Bilateral Double Taxation Treaty and has a Tax Information Exchange Agreement (for access to 936 Program funds) with the United States, as well as an extensive tax treaty network with other developed countries. Business convention expenses are deductible for U.S.-based companies and customs duty reductions and exemptions on imports are available for use in targetted business sectors. Foreign investors are eligible for all available tax incentives including full exemption from all income and withholding taxes for investors in offshore industries. Export-oriented manufacturing firms may receive tax holidays,

and tourism investors can take advantage of tax concessions for capital construction or major refurbishment of hotels.

Public sector purchasing decisions are based on both sole source contracts and a competitive bidding system. However, the government is not obliged to accept the lowest bid for public works projects or for critical government procurement. All foreign investors receive equal treatment, and there is no discrimination against U.S. corporations or private investors.

4. Debt Management Policies

The international recession of 1990/91 and the local economic crisis has magnified problems of debt service and debt management. By the end of 1990, the national debt was US $928.3 million, 9.5 percent higher than 1989. The government deficit in the first half of 1991 was over US $40.7 million. The deficit has been financed mainly from local sources (BCB, insurance companies and pension funds) in the absence of foreign lenders willing to make loans to Barbados in 1991. The 1990 fiscal deficit (net of amortization) was US $114.6 million or 7.8 percent of GDP, compared with US $39.7 or 2.7 percent of GDP in 1989. A 3.2 percent decline in revenue, juxtaposed to a significant increase (13.5 percent) in government spending, contributed to this increase. The foreign exchange reserves at year end (1990) were US $50 million lower than 1989, equal to 1.6 months of imports compared with 2.7 months of imports the year before. By mid-1991, foreign reserves had been reduced to the equivalent of less than one month of imports.

The financial services sector continued on its moderate growth path. Commercial bank deposits increased by 16.7 percent compared with 2.9 percent in 1989. This growth was in response to high interest rates since December 1989. Commercial bank loans rose by only 4 percent compared with 14.3 percent in 1989, reflecting BDB controls on credit to the personal and distributive sectors since October 1989. Inflation averaged 3.1 percent in 1990, half 1989's rate, and nominal wages in most sectors increased faster than the inflation rate.

The major foreign exchange earning sectors except agriculture contracted in 1990. Energy production expanded, and the small mining/quarrying industry grew by 5 percent, after a decline in 1989 of 6.4 percent. The tourism sector, Barbados chief foreign exchange earner, contracted. After a bad 1990 tourist season arrivals for the first half of 1991 were 8.5 percent below 1990. Cruise ship arrivals rose by 2.8 percent, much slower than last year and not enough to offset declines in long-stay arrivals. Sugar production in 1991 was about 65,670 tons (equal to US $33.1 million) the lowest level in 40 years, even though sugar prices were better than the previous year. The 1992 harvest is estimated to yield only around 50,000 tons. The official rate of unemployment in 1990 was 14.7 percent (13.7 percent in 1989). This figure understates the rate of unemployment and underemployment and does not count the thousands of public and private sector workers dislocated in late 1991.

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The fiscal deficit, now nearly eight percent of GDP, is financed mostly from domestic sources. The Government has had difficulty accessing new loans from international banks. Government's reliance on domestic financing to service the deficit has limited local credit to other users. The limited foreign financing available in 1990 came mainly from a 25 year, 30 million pound sterling bond raised on the London market in December, at 13 percent interest. Barbados received approximately US $39.75 million in disbursements from multilateral development bank funding. In the past, Barbados has had good relations with its creditors, but now finds itself unable to meet payments on outstanding debts and for normal consumption. It was successful in getting a postponement on a major payment on a yen bond issue recently, but has not been involved in a commercial bank or Paris Club official debt rescheduling program.

An aura of economic confusion and uncertainty settled over Barbados in 1991. The inability to carry out normal business and economic relations brought much economic activity to a precarious point. Indirect taxation became the Government's main source of revenue. Taxes on income, property and profits increased in 1991 along with indirect consumption taxes and stamp duty taxes on imports. A value added tax may go into effect in 1992.

5. Significant Barriers to U.S. Exports

The foregoing description of major changes has implications for the regulatory environment and administrative procedures affecting trade and finance. The recent introduction of the Caricom Common External Tariff will also affect U.S. exports. There are still limited restrictions, including licensing, on certain imports to protect local and CARICOM goods. Certain industries are permitted duty-free importation of key inputs. Import duties based on tariff classification and composed of three types of levies: customs duties, consumption taxes and stamp taxes. The rate of duty is expressed as a percentage of the value of the goods, including transport costs. Foreign sales corporations, international business corporations and banks can receive concessions or total exemptions from customs duties on key inputs. The Fiscal Incentives Act and the Shipping Incentives Act include articles in which approved enterprises may receive licenses to import plant and equipment, machinery, spare parts, or raw materials free of customs duties. The Hotels Aids Act also offers exemptions from customs duties to import building materials and equipment to build/refurbish approved hotel projects.

Few restrictions or barriers to foreign investment exist. No industries are closed to foreign investment. Prior government approval is required in the form of a license in order to invest in utilities, broadcasting, banking and insurance enterprises. No percentage or other restrictions on foreign ownership of a local enterprise or participation in a joint venture exist. One hundred percent ownership is permitted. Non-residents require BCB permission to purchase real property, which is usually granted. However, a property transfer tax is levied on real property transactions.

Employment generating, export-oriented enterprise investment receives priority. Locally-sourced labor is generally available except for specialized professions for which work permits for expatriates are usually granted. Customs clearance administrative proceedings are sometimes burdensome. No special documents are required, but occasionally excessive red tape and capricious judgments by officials can slow down the clearance process for importing essential inputs.

6. Export Subsidies Policies

Barbados gives priority to investments which will export goods, such as apparel, gloves, hand tools, bicycles and parts, costume jewelry, hardware, electrical appliances/devices, leather goods, lighting fixtures, electronic assembly, eyeglasses and frames, footwear, furniture, games and toys, sporting goods, luggage, medical supplies, optical devices, umbrellas, auto parts, etc., including data processing enterprises. The Government provides special incentives to export industries, i.e., ten year tax holiday followed by seven percent tax rate thereafter; exemption from import duties: full repatriation of capital, profits and dividends; pre-built factory space in ten fully-serviced industrial parks with subsidized rents; cash grants for worker training; free advisory and support services from the Barbados Industrial Development Corporation (BIDC). International business corporations also receive incentives to establish a variety of non-manufacturing offshore operations: i.e., tax rates of only 2.5 percent on profits of data processing companies; full tax exemption for U.S. foreign sales corporations; and a tax rate not exceeding 2.5 percent for international business companies and offshore companies in banking and insurance. The BIDC also engages in export promotion with offices in Miami, New York, London and Tokyo. Bulk users of utilities (gas, water and electricity) are eligible for resource discounts and other types of export guarantee schemes provide letters of credit and credit insurance for exporters.

7. Protection of U.S. Intellectual Property

Barbados is a signatory of the Paris Convention of Intellectual Property Rights (IPR) and the Madrid Accords, and is a member of the United Nations World Industrial Property Organization (WIPO). The law of Barbados does not promote domestic industries at the expense of foreign industrial-intellectual property rights holders. However, Barbados has only limited experience with IPR matters and very few industrial designs or patents have been registered. There have been no recent court challenges or settlements for patent, trademark or copyright infringements although infringement occurs in sub-sectors of the economy: i.e., video cassette rentals/sales; t-shirt production of unlicensed copyrighted images; software piracy; satellite signal piracy; etc. Due to the above-mentioned lack of experience and the relatively small scale of infringement, IPR matters have not been a major priority in recent years.

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Separate statutes on the books govern IPR protection. The industrial Designs Act (Chapter 309A; statutory instrument supplement number 34) provides for registration of industrial designs for exclusive use by the registrant for five years which may be renewed for two additional consecutive five year periods. The Patents Act of 1981 (Act 1981-55, statutory instrument 1984 number 84) allows for patents protection for 14 years. The Trademarks Act of 1981 (Act 1981-56, statutory instrument 1984 number 85) protects trademarks for an initial period of ten years with renewal possible for 10 year periods. The Copyright Act (1981) protects copyrights during the life of the author and for seven years thereafter. The WIPO organization sent a consultant to Barbados in 1990 to review current IPR statutes and administrative/enforcement procedures, and WIPO was to recommend improvements sometime in 1991.

8. Worker Rights

a. Right of Association

Workers in Barbados have the right to form and belong to trade unions and to strike, and freely exercise these rights. Trade unionists' personal and property rights are given full protection under the law. Major anti-government demonstrations and industrial actions took place in 1991 in opposition to the Government's IMF austerity program. The industrial action was partially resolved by negotiation, but general dissatisfaction with the IMF program continues. Strikes are not illegal in public services (except for strategic utilities like water and power), and policemen, teachers, doctors, civil servants and other public workers participated in the demonstrations and industrial action mentioned.

b. Right to Organize and Bargain Collectively

The rights to organize and to bargain collectively are provided by law and respected in practice. Over 25 percent of the working population is organized, and wages and working conditions are negotiated through the collective bargaining process. Although employers have no legal obligation to recognize unions, most do when a majority of their employees vote in favor of organization.

c. Prohibition of Forced and Compulsory Labor

Forced or compulsory labor is prohibited by the Constitution and does not exist.

d. Minimum Age of Employment of Children

The legal minimum working age of 16 in Barbados is generally observed. Minimum employment age limitations are reinforced by compulsory primary and secondary education policies.

e. Acceptable Conditions of Work

Minimum wages for specified categories of workers are

mandated and enforced by law. The standard workweek is 40 hours in five days, and workers are guaranteed a minimum of three weeks of annual leave. All workers are covered by unemployment benefits legislation, and by national insurance (social security) legislation. A comprehensive government-sponsored health program offers subsidized treatment and medication. Under the Factories Act, there is effective enforcement for safety and health violations and followup to ensure that problems cited are corrected by management.

f. Rights in Sectors with U.S. Investment

U.S. investors are heavily represented in the electric and electronic equipment sector of the economy. Employees of such enterprises are generally unionized. Workers in U.S.-owned automated data processing centers are generally not allowed to organize, but receive well over minimum wage. No under-age children are hired, and conditions of work are satisfactory. Unions which try to organize workers in these semi-export-
processing zones are turned away by management. Employees have expressed interest in collective bargaining participation.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category		Amount
Petroleum		88
Total Manufacturing	8	
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	(D)	
Transportation Equipment	0	
Other Manufacturing	(D)	
Wholesale Trade		(D)
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, August 1991

BOLIVIA

Key Economic Indicators

(Millions of U.S. Dollars Except Where Indicated)

	1989	1990	1991 1/
Income, Production, Employment			
Real GDP percent change	2.7	2.7	4.0
Real GDP per capita percent change	0.1	-0.1	1.3
Nominal GDP	5,480.8	5,581.8	5,978.8
Sectoral GDP Percentage	100.0	100.0	100.0
Agriculture	21.6	20.8	N/A
Manufacturing	13.0	13.2	N/A
Trade Services	13.0	12.9	N/A
Public Administration	8.7	9.0	N/A
Mining	8.1	8.9	N/A
Transportation/Commun.	8.5	8.6	N/A
Oil Industry	6.3	6.4	N/A
Others	20.8	20.2	N/A
Unemployment rate (pct) 5/	7.2	8.1	N/A
Money and Prices 2/			
Money supply (M1) (millions of Bolivianos)	706.0	988.0	1,231.9
Fiscal deficit (percent/GDP)	5.1	3.3	2.6
Inflation (12 months)	16.5	18.0	15.0
Commercial Bank Deposits 6/	589	797.4	1,141.7 7/
Interest Rates on Dollars			
Loans Avg. percent	24.3	22.2	19.8 7/
Deposits Avg. percent	16.0	14.4	11.4 7/
CD's Time Deposits Avg. percent	16.2	15.2	8.4 7/
Exchange Rate (Bs/USD)			
Year-end	2.98	3.40	3.74
Average	2.69	3.18	3.56
Balance of Payments and Trade 2/			
Total exports (FOB)	819.2	920.7	933.5
Exports to the U.S. 3/	119.9	203.2	N/A
Exports - Natural gas	213.8	225.3	250.5
Exports - Tin (CIF)	126.5	106.2	72.7
Other mineral exports (CIF)	276.9	295.0	312.5
Total imports (CIF)	619.5	715.6	756.8 4/
U.S. imports 3/	144.2	138.5	N/A
U.S. Assistance	99.3	148.7	120.2
Total Foreign Aid	439	499	N/A
Current account balance	(179.9)	(195.2)	(261.8)
Capital account balance	0.9	111.8	111.9
Central Bank gross reserves (year-end)	373.3	375.7	437.1 7/
Central Bank Net reserves (year-end)	18.6	132.3	258
Foreign Debt 8/			
Total	3,491.6	3,768.5	3,366.1 9/
Disbursements	338.0	323.5	177.0 9/

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Capital	140.6	138.7	75.6 9/
Interest	85.9	89.6	60.1 9/

1/ Estimated data (Central Bank of Bolivia and UDAPE) and/or targets set by the GOB and the IMF.
2/ Central Bank of Bolivia and UDAPE.
3/ U.S. Department of Commerce
4/ This figure is twice the amount registered in the first half of 1991.
5/ Based on surveys of urban areas. Data does not consider under-employment.
6/ Superintendency of Banks.
7/ As of October 31, 1991.
8/ External Sector/Foreign Debt of the Central Bank of Bolivia.
9/ As of September 30, 1991.

1. General Policy Framework

In 1985 the Government of Bolivia initiated a series of economic reforms to arrest hyperinflation and open the economy. The currency was allowed to float, commercial banks were allowed to set their own interest rates, import and investment permit requirements were eliminated, economic activities which had been reserved for government corporations were opened for private investment, and the government entered into an IMF standby program. The Paz Zamora administration, which took office in 1989, has institutionalized and advanced these market-oriented economic reforms. Furthermore, the Bolivian government has successfully completed a series of IMF programs since 1986. The IMF expects Bolivia to fulfill the commitments made under a three year Enhanced Structural Adjustment Facility Program (ESAF), due to expire in July 1991, and is already talking to the Bolivian government about a fourth ESAF year.

The results of the economic reforms have been a dramatic drop in inflation (to less than 20 percent each year since 1986), steady economic growth (between 2.5 and 3.0 percent annually starting in 1987) and growing amounts of private investment. The economy is expected to grow about 4 percent in 1991 with inflation of less than 15 percent. Commercial bank deposits have doubled since 1989 to over 1.1 billion dollars, indicating a return of flight capital. Exports and imports have grown sharply with private firms now accounting for over half of export earnings, as opposed to 5 percent in 1985. Including estimates of smuggled exports, Bolivia has run trade surpluses in the last two years. These trade surpluses and large inflows of foreign aid have resulted in growing foreign exchange reserves. Net reserves in the central bank had reached 258 million dollars by October 1991, about three months worth of imports. The positive growth from 1986 offset the decline of the economy during the first half of the decade so that by 1990 the GDP and export figures were back to approximately where they had been in 1980. Meanwhile the population grew by 13 percent to an estimated 6.3 million resulting in a fall in GDP per capita during the decade to about 880 dollars in 1990.

In compliance with the IMF programs, the government has

reduced the budget deficit of the non-financial public sector (which includes central, regional and municipal governments along with the parastatal corporations) from the high of 5.1 percent of GDP in 1988 to an estimated 2.6 percent in 1991. Central government expenditures fell slightly from 20.8 of GDP in 1988 to 20.3 percent in 1990 while revenues rose from 15.7 to 18.3 percent during that same period. Central government revenues increased mainly from improved tax collection (7.9 percent of GDP in 1990) but also from larger transfers from public enterprises (8.4 percent of GDP) and from larger foreign grants (1.4 percent of GDP). Budget deficits have been covered by the foreign loans and the sale of certificates of deposit by the central bank. With the budget deficit shrinking, the value of certificates of deposit in circulation had grown only slightly to 184 million dollars by November 1991 and the interest rate offered on the certificates had declined from 16.2 percent in 1989 to 8.5 percent by October 1991.

The money supply, both M1 and M2, has grown slowly since 1985 with M1 averaging around 5 percent of GDP. However, the published figure for money in circulation (323 million dollars of bolivianos) is misleading since there are also millions of U.S. dollars in circulation and dollars are a legal means of exchange. Banks are allowed to keep dollar accounts and make dollar loans. Over 80 percent of the 1.1 billion dollars worth of deposits in Bolivia's 16 commercial banks are presently in dollars. The new investment law allows contracts to be written in dollars. Interest rates fell sharply in 1991 as growing confidence in Bolivia's financial stability led to excessive liquidity in the banks and as government borrowing has decreased. By November 1991 the average rate on dollar deposits had fallen to 11.4 percent and the average rate on dollar loans was down to 19.8 percent from 16 and 24.3 percent respectively in 1989.

2. Exchange Rate Policies

The official exchange rate is set daily by the government's exchange house, the Bolsin, which is under the supervision of the Central Bank. The Bolsin holds daily auctions of dollars. The directors of the Bolsin meet every day to set a floor rate below which they will not accept bids and the number of dollars to offer for sale. The floor rate is the official exchange rate. Bids are sealed and successful bidders pay the role in their bids. The spread between the highest and lowest bids is generally less than two percent. The boliviano has depreciated in line with the differential between domestic inflation and inflation in Bolivia's major trading partners. Currency exchanges in banks, hotels, exchange houses and on street corners are legal. The parallel market exchange rates are seldom more than one percent different from the official rates.

3. Structural Policies

In 1990 the government reduced tariffs from 16 to 10 percent for all imports except for capital goods for which the tariff is 5 percent. In addition, the government charges a 10

percent value added tax and a 2 percent transaction tax on sales of all goods, whether imported or produced domestically. There are excise taxes on some consumer products including cars. Import permits are required only for sugar and wheat. The government sets the prices of only two commodities; gasoline and a type of bread commonly consumed by the poor.

In late 1990 and early 1991, the Bolivian Congress approved three laws that the executive branch had supported in order to promote private investment. The Investment Law establishes many guarantees, such as repatriation of profits, freedom to set prices, and convertibility of currency, that had been previously been implemented by Presidential decree. The law essentially guarantees national treatment for foreign investors and authorizes international arbitration. The Hydrocarbons Law authorizes YPFB, the government-owned oil company, to enter into joint ventures with private firms and to contract companies to take over YPFB fields and operations, including refining and transportation. The Mining Law created a tax on profits, which is creditable in the United States, and opened up the border areas to foreign investors as long as their Bolivian partners hold the mining concession.

All government purchases over 10,000 bolivianos (about 27,000 dollars) are, by law, handled by one of three private purchasing agents. The purchasing agents publish bid specifications, evaluate, and rank order bids for the government office or corporation making the purchase.

4. Debt Management Policies

The Bolivian government owes over 3.7 billion dollars to foreign creditors. About half of that is owed to international financial institutions, mainly the World Bank and the Inter-American Development Bank, and the other half is owed to foreign governments. Bolivia's bilateral debts have been rescheduled three times now by the Paris Club, the last time on Trinidad terms and covering payments coming due over an 18 month period. Furthermore, several foreign governments have forgiven substantial amounts of bilateral debt. In September 1991, the U.S. government forgave $371 million owed by the Bolivian government including 100 percent forgiveness under Section 572 of all old A.I.D. loans and an 80 percent reduction of Bolivian PL-480 debt, equal to the elimination of $31 million under the Enterprise for the Americas Initiative. (All U.S. assistance to Bolivia has been on a grant basis since the early 1980s.) Subsequent to the EAI debt reduction agreement, an Environmental Framework Agreement was signed by the United States and Bolivia, to allow interest payments on the new EAI obligation to be paid in local currency and deposited into a special environmental fund which will support grass-roots environmental projects in Bolivia.

The Bolivian government has reduced the debt it owes to commercial banks from over $700 million in 1985 to about $185 million by mid-1990. The government bought back many of the debt claims at 11 cents on the dollar and has exchanged other debt claims for investment bonds which will mature with the full face value of the debt claim in 25 years. Most of the

investment bonds have already been redeemed for private investment projects in Bolivia. The government is now in negotiations with its commercial bank creditors to eliminate the rest of the commercial bank debt.

5. Significant Barriers to U.S. Exports

There are no significant barriers to U.S. exports to Bolivia and the minor barriers to U.S. direct investment apply to all foreign investors, not just U.S. investors. Import licenses are only required for sugar and wheat. The flour millers buy wheat, which is donated by the U.S. government (about 20 million dollars per year under the PL-480 Title III program), from the Bolivian government. However, the millers do not import any wheat directly from the U.S. since domestic production of wheat is growing and Argentine wheat is generally cheaper.

In January 1992, the Bolivian government will eliminate the tariffs on all but 100 products coming from the other four members of the Andean Pact (Venezuela, Colombia, Ecuador and Peru) which means that similar products coming from the United States will be at a slight price disadvantage. However, less than 10 percent of Bolivia's current trade is with those Andean countries. In addition, currently imposed tariffs are relatively low. Capital goods entering from the U.S. are taxed at 5 percent, and a uniform rate of 10 percent applies to all other products. Andean Pact members have also agreed to implement a common external tariff structure with duties for most products ranging from 5 percent to 20 percent. The Andean Pact dramatically increased the time schedule for adopting the external tariff from 1995 to 1992.

Bolivia became a member of GATT in August 1990 but has not yet signed any of the GATT codes, e.g. those on government procurement, standards, or customs valuation.

There are no limitations on foreign equity participation and dozens of Bolivian companies are wholly owned by U.S. investors. The new investment law essentially guarantees national treatment for foreign investors. The only restriction on foreign investment is that foreigners may not obtain mining or petroleum concessions within 50 kilometers of the borders. However, Bolivians with mining concessions near the borders may have foreign partners as long as they are not from the country adjacent to that portion of the border.

6. Export Subsidies Policies

In early 1991 the government eliminated a certificate rebate program under which the exporters of "non-traditional" goods received certificates equal to 6 percent of the value of the export. The certificates were to offset the 10 percent value added tax charged on all purchases in Bolivia. The certificate program was replaced with a "drawback" scheme which rebates either 2 or 4 percent of the value of most "non-traditional" exports. There are no other direct or indirect subsidies for exports.

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7. Protection of U.S. Intellectual Property

Intellectual property protection is very limited in Bolivia. The 90 year old law governing patents and trademarks provides limited protection. For example, there are no provisions restricting the copying of videocassettes or computer programs, nor are there restrictions on satellite signal piracy. The Bolivian Congress is debating a law on commercial films that would prohibit the duplication of videocassettes. The Ministry of Industry, Commerce and Tourism has started drafting a new law on patents and trademarks, but the government plans to wait for the outcome of the Uruguay Round negotiations on intellectual property rights as well as for the Andean Pact's policy decisions on IPR before submitting any legislation to Congress. In December 1991, the Andean Pact adopted Decision 311, which replaced Decision 85 governing IPR in the region.

Despite the inadequate legal and administrative protection of intellectual property, there are no specific complaints from any U.S. firm about piracy of films, pharmaceuticals or patents. It is impossible to estimate the losses to U.S. firms caused by the duplication of video cassettes or the pirating of satellite signals for television broadcasting. Most of the duplicated videos appear to be coming from other countries. In any case, the market for these products in Bolivia is very small since only a small fraction of the 6.5 million people own televisions.

8. Worker Rights

a. The Right of Association

Bolivian workers are permitted to establish and join organizations of their own choosing, and they are free to elect their own leaders. Civil servants have the right to organize, but not strike, as do employees of banks and public markets. The government may dissolve unions by administrative act but has not done so in recent history. The ILO criticized these laws in 1991. Strikes are permitted in the private sector and frequently occur. While solidarity strikes are illegal, a solidarity strike in 1991 was not prosecuted. Unions are not truly independent of political parties and member-leadership relations are undemocratic. The Bolivian Workers Central (COB) belongs to the communist-dominated World Federation of Trade Unions.

b. The Right to Organize and Bargain Collectively

Bolivian workers have the right to organize and bargain collectively. The law does not extend this right to government workers, but the distinction is largely ignored in practice, as virtually all government workers are unionized. Negotiations between employers and labor leaders are common, but agreements are usually unwritten. The law prohibits antiunion discrimination by employers against union members and organizers.

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c. Prohibition of Forced or Compulsory Labor

The law prohibits forced or compulsory labor, and the law is generally complied with and enforced. No cases of forced or compulsory labor came to light during 1991.

d. Minimum Age for Employment of Children

The law prohibits the employment of persons under 18 years of age in dangerous, unhealthy, or immoral work. Bolivia's 50-year-old labor code is ambiguous on the conditions of employment for minors from 14 through 17 years of age. However, even the existing legal provisions concerning employment of children are not enforced. Children are not generally employed in factories or businesses.

e. Acceptable Conditions of Work

In urban areas, only half the labor force enjoys an eight-hour workday and a workweek of five or five and one-half days. Like many other labor laws, the maximum legal workweek of 44 hours is not enforced. Minimum wage and certain fringe benefits are established by statute or presidential decree. Although most workers earn more than the minimum, approximately 20 percent of the workforce which is employed in the informal economy are not covered. In accordance with IMF guidelines, government workers have not received increases exceeding the inflation rate and private employers have followed suit. Responsibility for the protection of workers' health and safety lies with the Labor Ministry's Bureau of Occupational Safety. Labor laws that provide for the protection of workers' health and safety are not well enforced. Although the state-owned mining corporation COMIBOL has a special office charged with mine safety, the mines, often old and operated with antiquated equipment, are particularly dangerous and unhealthy.

f. Rights in Sectors with U.S. Investment

Probably 70 percent of U.S. investment in Bolivia is in the petroleum industry. Worker rights in the petroleum industry 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 strong labor unions in that industry.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category		Amount
Petroleum		125
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		(D)
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, August 1991

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Key Economic Indicators

	1989	1990	1991
Income, Production, Employment			
GDP (Bil.dol)	370.0	355.0	358.0 13/
Real GDP Growth (percent)	3.6	-4.0	0.8 1/
Real GDP Sectoral Growth (percent)			
Agriculture	2.2	1.0	3.0 1/
Industry	3.9	-8.0	-0.8 1/
Service	3.7	1.5	1.6 1/
GDP Per Capita (dollars)	2,593.0	2,489.0	N/A
Unemployment rate (Yr.end pct.)	2.4	4.8	4.04 2/
Money and Prices			
M-1 (Bil.cruz. yr.end)	103.1	1,651.0	6,139 3/
Comm. Interest Rate (Ave. Monthly Rate)	62.2	28.5	24.0 4/
Gross Savings Rate (Pct. GDP)	22.5	21.0	N/A
Gross Domestic Investment (Pct. GDP)	22.4	20.5	N/A
Consumer Price Increase (Pct.)	1,764.9	1,650	382 5/
Wholesale Price Increase (Pct.)	1,748.8	1,509	359 6/
Official Exch. Rate (Cruzeiro/US$) (annual pct. incr.)	1,401.3	1,091	505 7/
Parallel exch rate (annual pct. incr.)	2,039.9	470	617 8/
Balance of Payments and Trade			
Total Exports (Bil.dol)	34.4	31.3	21.9 9/
Total Imports (Bil.dol)	18.3	20.1	13.4 9/
Total Exports to U.S.	8.0	7.2	N/A
Total Imports from U.S. (Bil. dol.)	4.8	5.1	N/A
U.S. Aid (Mil. dol)	8.9	9.4	N/A
Total Aid	N/A	N/A	N/A
Total U.S. Investment (Bil. dol.)	11.4	11.6	N/A
Total Foreign Debt (Yr.-end bil. dol.)	115.1	124.0	118.4 10/
Ann. Debt Serv.(bil dol)	15.5	9.2	N/A
For. Exchange Less Gold (Bil. dol.)	7.3	8.7	8.1 11/
Gold (Bil dol)	N/A	N/A	N/A
Current Account (Bil. dol.)	1.6	2.2	1.8 12/

1/ Forecast by the IPEA/Ministry of Economy.
2/ As of September 1991.
3/ As of September 1991.
4/ Cost of money for working capital for 30 days average for October 1991.

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5/ National consumer price index (INPC-FIBGE) last twelve months ending in September 1991.
6/ Wholesale price index (IPA-FGV) last twelve months ending in Sept 1991.
7/ Commercial dollar rate, last twelve months ending in October 1991.
8/ Parallel dollar (Sao Paulo market), last twelve months ending in October 1991.
9/ January-August 1991.
10/ As of March 1991.
11/ As of August 1991.
12/ January-June 1991.
13/ Estimate.

1. General Policy Framework

Brazil has a population of 155 million on a landmass which constitutes 48 percent of South America.

Upon assuming office in March 1990, President Collor immediately announced his intention to implement sweeping economic reforms designed to stop inflation and integrate Brazil into the developed world economy. Although Collor's first two economic programs have significantly reduced trade barriers, the failure to reduce substantially Brazil's large fiscal deficit has resulted in the continual resurgence of inflation and a lack of confidence in the government's economic policy.

With inflation running at a monthly rate near 25 percent in October 1991 and accelerating, the government is hoping to implement a tax reform program prior to the end of 1991 which would substantially reduce the fiscal deficit, enable Brazil to obtain an IMF program, reschedule its external debts owed to commercial banks and Paris Club creditors, and regain private-sector confidence in the ability of the government to maintain a stable economic environment.

Given Brazil's history and the current lack of support for President Collor in the Congress, the domestic and external financial markets are highly skeptical that the government will be able to achieve all of these objectives and that structural inflation can be reduced from the monthly double-digit range.

Monetary Policy: Brazil has made many attempts during the 1980s to tighten monetary policy in an effort to reduce inflation. However, these attempts were compromised by the failure of the government to correct a large fiscal deficit, forcing the Central Bank to soften its policies. In March 1990, the Collor government introduced a stabilization program (Collor I) which included price controls and the blocking of about two thirds of the financial assets in the economy for a period of 18 months. These measures initially stopped inflation (then approximately 90 percent per month) and substantially slowed economic activity. Concerns about negative growth led the government to prematurely release a large portion of the blocked assets.

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By mid-1990 the monthly inflation rate was around 10 percent and by the end of the year it was in the 20 percent range.

On January 31, 1991 the Collor government introduced another package of measures designed to reduce inflation (Collor II). The package included wage and price controls. It also eliminated the generalized "overnight" market, which was complicating monetary policy, through the imposition of a graduated tax on early withdrawals. The program initially brought monthly inflation below 10 percent. However, the failure to reduce the structural fiscal deficit, intermittent tightening and loosening of monetary policy, the unfreezing of prices and wages by the third quarter, and the unfreezing of remaining blocked accounts resulted in monthly inflation rising above 20 percent by the fourth quarter.

Large fiscal deficits and uneven monetary policy are the underlying factors causing inflation in Brazil. During the first Collor plan, the government managed to reduce the operational fiscal deficit from nearly 7 percent of GDP in 1989 to a surplus of 1.3 percent of GDP. However, the bulk of the improvement was made through a series of one-time measures that did not address the structural deficit. Among such measures were the payment of negative real interest rates on the blocked financial assets and government securities, the payment of low real wages to public-sector employees, and a one-time financial assets tax. The operational deficit in 1991 is expected to be on the order of 3 percent of GDP and is on a rising trend. The government has presented a series of tax reform proposals designed to simplify and increase revenues in an effort to improve its fiscal position. This program passed the Congress at the end of 1991.

2. Exchange Rate Policies

Brazil has three exchange rates: a commercial rate, the tourist rate and the underground, but officially tolerated, parallel rate. Import-export transactions utilize the commercial rate, while the tourist and parallel rates are generally for individual transactions. During 1991 the Central Bank intervened in the commercial market on a daily basis to allow the cruzeiro to depreciate against the dollar in small, uneven increments. The Central Bank also strived to maintain the spread between the parallel and commercial rates at about 12 percent. Private arbitrage generally keeps the tourist rate slightly below the parallel rate. Increases in the spread between the parallel and commercial rates had generally been seen as an indicator of future expectations of inflation and depreciation of the commercial rate, but the parallel rate is heavily influenced by short-term speculative movements.

During most of 1991, depreciation of the various rates was not enough to offset increasing inflation; throughout most of the year the Brazilian currency was viewed by many economists to be at least 20 percent overvalued in relation to the the U.S. dollar. However, in the last quarter of 1991, the commercial rate was devalued by 15 percent in real terms, so that, as of November, the exchange rate became more closely

aligned with international purchasing power parities. However, the spread between the parallel and commercial rates has widened, reaching a peak of 42 percent in late October, indicating future volatility in the exchange markets.

3. Structural Policies

In August 1991 the government began to return the remaining blocked financial assets, and, in the third quarter, reduced price controls decreed under the two Collor plans. Although the government has spoken of the possibility of selectively reimposing some price controls, prices are now largely determined by market demand.

Tax policies were undergoing a major review at the time of writing. The Collor Administration has proposed a four-tier personal income tax that would raise the marginal rate to 35 percent and eliminate many exemptions. At the same time, other bills in Congress could establish a unitary personal income tax and a comprehensive value-added tax.

While Brazilian tariffs remain relatively high, rates were substantially reduced in March 1991, especially for machinery and raw materials. The current trade-weighted average tariff rate is approximately 32 percent, with a maximum rate of 85 percent, down from 105 percent in 1990. At present, only 600 items of traded goods enjoy bound Most-Favored-Nation status in Brazil, about 5 percent of the total, compared to an average of 90 percent among GATT members.

4. Debt Management Policies

Brazil's external debt totalled about $120 billion at the end of 1990. About half of this amount represents commercial bank medium and long-term loans. In July 1989, Brazil stopped servicing payments on medium and long-term debts owed to commercial banks. By the end of 1990, interest arrears owed to banks totalled nearly USD 9 billion. In January 1991, Brazil resumed paying 30 percent of interest payments falling due to banks. In April 1991 Brazil and its commercial bank creditors agreed on a program that involved payment in cash of 25 percent of the arrears outstanding as of December 1990 and the issuance of 10-year bonds for the remainder.

Brazil is currently negotiating with its creditor banks on a Brady Plan package that would reschedule medium and long-term debts and eliminate remaining arrears. Brazil also wants to renegotiate its bilateral official debt under a Paris Club accord. Both, however, are contingent on an agreement with the IMF on a stabilization program which was approved in January 1992. A major condition for IMF approval was the passage by the Brazilian Congress of a tax package to help close the fiscal deficit.

As of November, Brazil's debt service ratio (total external debt service payments to exports) was approximately 45 percent, while the ratio of interest payments to exports of goods and services was about 24 percent; Brazil's debt ratio

(total external debt to GNP) was about 30 percent.

5. <u>Significant Barriers to U.S. Exports</u>

Import Licenses: Although Brazil requires licenses for virtually all imports, the Collor Administration has generally abandoned the country's long-standing practice of using them as a non-tariff barrier to protect domestic industry except in the case of computer and digital electronics equipment which will be subject to restrictive licensing until October 29, 1992. At that time, licensing is expected to become automatic. Licenses are now used for statistical and exchange-control purposes and are issued automatically within five days by the Banco do Brasil. Plans call for all private banks to be authorized to issue import licenses by March 1992; a pilot program already allows five private bank branches to do so.

Services Barriers: Restrictive investment laws, lack of administrative transparency, legal and administrative restrictions on remittances and the occasionally arbitrary application of regulations and laws limit U.S. service exports to Brazil. Service trade possibilities are also affected by limitations on foreign capital participation in many service sectors. Foreign companies are prevented from providing technical services unless Brazilian firms are unable to perform them. Brazilian cargo reserve laws restrict maritime competition.

Financial services, in particular, are severely restricted under the 1988 Constitution, though the full extent of those restrictions will remain unclear until implementing legislation is passed, probably during 1992. As of November 1991, no new foreign banking investments are allowed, and existing foreign banks are prevented from doing business with parastatal companies or from acting as depositories for federal tax receipts.

Foreign participation in the insurance industry is impeded by limitations on foreign investment, market reserves for Brazilian firms in areas such as import insurance, and the requirement that parastatals purchase insurance only from Brazilian-owned firms. Further, the lucrative reinsurance market is reserved for the state monopoly, the Reinsurance Institute of Brazil (IRB).

Investment Barriers: In addition to the restrictions on insurance and financial services investments mentioned above, foreign investment is prohibited in other sectors, including petroleum production and refining, public utilities, media, real estate, shipping and various "strategic industries." In still other sectors, Brazil limits foreign equity participation (such as in computer and digital electronics equipment), imposes local content requirements and links incentives to export performance.

In September 1991, the Collor Administration proposed several amendments to the national constitution, two of which, if passed by Congress, would rescind state monopolies in the petroleum sector and remove the limit on foreign equity

participation in mining. In November it was still uncertain whether the amendments would eventually be passed by Congress.

Brazil restricts dividend and profit remittances in an effort to spur domestic reinvestment. Annual remittances by foreign firms exceeding 12 percent of registered capital are taxed at steeply graduated rates to a maximum of 60 percent. As of November 1991, the Brazilian Congress was considering a major revision of the law governing foreign remittances which would considerably reduce the overall tax rate. As with the proposed amendments on state monopolies, the situation was inconclusive, but with indications that the revision would eventually be approved.

As part of the Collor I economic stabilization plan, almost all Brazilian financial accounts were frozen in March 1990. The government also blocked an estimated $1.5 billion in deposits awaiting foreign remittance for a period of six weeks, then allowed their release over the following six months. The government has stated its intention not to impose another remittance block despite increasing inflationary pressures.

Brazilian governments in the past have not hesitated to apply price controls on a wide range of industrial products in attempts to fight inflation. Established foreign investors in Brazil, notably in the auto and pharmaceutical industries, have complained that formerly inflexible price controls forced them into unprofitable production and resulted in lower investment levels. Although the Collor Administration has abolished controls on most items, it has threatened to impose selective price controls on those products having increases out of proportion to production costs.

Informatics: In 1984 Brazil approved a law codifying and extending policies followed since the 1970's to promote a national computer industry. The informatics sector is broadly defined to include not only computers and parts, but all other devices incorporating digital technology. The law granted Brazil's executive branch the authority to restrict imports and foreign investment in this sector through October 1992. U.S. export and investment losses resulting from Brazil's restrictive informatics policies have been substantial, although no reliable quantitative estimates are available.

The restrictive Brazilian informatics law was the subject of a U.S. initiated Section 301 investigation between 1985 and 1989. Upon assuming office, the Collor Administration undertook to revise the informatics policy with the aim of lowering domestic acquisition costs and improving user access to imported or locally-manufactured foreign technology. The administration proposed a new law which was passed by Congress in September 1991 and signed by President Collor in October. The law upholds the October 1992 date for ending the restriction on imported informatics products and allows foreign firms to enter the market (although full foreign ownership is still limited by the new law) without being compelled to set up Brazilian majority-owned joint ventures, as required under the previous informatics law.

Data Processing and Telecommunications: In July 1991

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Brazil partially opened up the market for telecommunications, allowing private sector use of public telephone lines for domestic and international data communications, and the installation of private satellite receivers. Other changes during 1991 include the expiration of the market reserve for telephone switching equipment, and the new informatics law, which will make it easier to import telecommunications-related computing equipment both immediately and after 1992.

Common Market of the South (MERCOSUL): In August 1990, Brazil, Argentina, Paraguay and Uruguay jointly signed a treaty establishing a timetable for creation of the Mercosul common market. The target date for complete economic integration is 1995, by which time the four countries aim to harmonize tariffs, industrial and transportation standards, intellectual property and consumer protection codes, and institute similar tax regimes. The Brazilian Congress ratified the treaty in October 1991.

The United States has encouraged the creation of Mercosul and, in June 1991, embraced it as part of the Enterprise of the Americas Initiative under the "Four plus One" agreement, whereby the U.S. and the four countries in Mercosul will consult closely on trade and investment relations. However, the effects that Mercosul might have on U.S. exporters and investors are still unclear. Manufacturers with local operations may find advantages in rationalizing production facilities among the four countries and welcome harmonization of tariffs, consumer codes and other laws to the extent that it simplifies access to the larger market. Others, particularly exporters to the Mercosul countries, fear that possible "upward" harmonization of non-tariff barriers could restrict their access to existing markets.

Government Procurement: Federal, state and municipal governments in Brazil, as well as related agencies and companies, follow a "buy national" policy. Brazil rescinded a law prohibiting foreign-owned firms from bidding on public sector contracts financed by international financial institutions. However, some state-controlled firms still specify contracts as open only to "national" firms.

Although Brazil now applies "buy national" policies informally, the Brazilian constitution mandates government discrimination in favor of "Brazilian companies with national capital." However, these Constitutional provisions have not been implemented. The Collor Administration has proposed a constitutional amendment which would substantially alter the definition of "national capital," which might reduce or eliminate the the threat of discrimination against subsidiaries of foreign companies in government procurement contracts.

While federal agencies and parastatals have been given additional leeway under the Collor Administration to import foreign manufactured goods, there is still evidence of the tendency to exclude non-Brazilian suppliers whenever possible. One example is the new informatics law, which calls for government procurement from non-Brazilian companies only if nationally made equipment/services are not competitive.

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Brazil is not a signatory to the GATT Code on Government Procurement.

6. Export Subsidies Policies

While Brazil had a broad range of export subsidy programs for manufactured goods and processed agricultural products, all were abolished in mid-1990 with the advent of the Collor Administration.

In 1991 the government established PROEX, an export-import financing fund. In October 1991, interest rates for export credits were 8 and 8.5 percent for, respectively, developing and developed countries. These rates, and other rules affecting export incentives, are considered to broadly conform to the Organization for Economic Cooperation and Developement guidelines.

7. Protection of U.S. Intellectual Property

The Collor Administration has made a commitment to modernize Brazil's intellectual property code to bring it more into line with developed country standards. In March 1991 the government submitted a draft bill to Brazil's Congress for a law that would address some, although not all, of the concerns expressed by foreign governments and companies, as well as by an increasing number of Brazilians who recognize the need for effective protection of intellectual property rights. As of November 1991, Congress was considering the bill; a date for possible approval of the law remained uncertain.

Patents: Brazil currently does not provide either product or process patent protection for metal alloys, chemical compouhds, food and chemical/pharmaceutical substances, or biotechnological inventions. The government bill would recognize all but the latter category, for which another bill is being drafted. However, the bill includes onerous compulsory licensing provisions, does not contain transition protection for previously non-patentable subject matter which has not yet been placed on the Brazilian market, allows for parallel importation of patented products and includes a "working requirement."

Trademarks: All licensing and technical assistance agreements (including franchising), as well as trademark licenses, must be registered with the National Institute for Industrial Property (INPI). Without such registration, a trademark or patent may be cancelled for non-use. As a signatory of the Paris Convention, Brazil theoretically respects well-known, internationally recognized trademarks. In practice, bogus trademark registrations have regularly occurred, often resulting in protracted legal actions by the legitimate trademark owners. A recent reorganization of INPI's trademark office may help to reduce this problem. The government bill also attempts to rectify this by providing a more ample definition of "well-known trademarks."

Copyrights: While Brazil's copyright law, including specific legislation on computer software, generally conforms

to world standards, it is often vitiated by weak enforcement. An estimated 50 percent of the Brazilian home video market, for example, is lost to pirated tapes -- sold or rented publicly by retail shops and street vendors. As of November, a government bill amending the penal code and establishing stronger penalties for copyright violations is pending congressional approval. American film industry representatives believe that the law, if passed, will facilitate the seizure and destruction of pirated material.

Impact on U.S. Trade: A Section 301 investigation was initiated following the submission of a petition by the Pharmaceutical Manufacturers Association (PMA). The investigation focused on the lack of patent protection for pharmaceuticals. In 1988, 100 percent ad valorem tariffs were imposed on $39 million worth of U.S. imports from Brazil. Those sanctions were ended in June 1990 after the current Brazilian administration announced its commitment to revise the industrial property code to extend patent protection to pharmaceuticals. The PMA has claimed that its member companies' losses exceeding $100 million in Brazil due to inadequate protection of intellectual property rights. The U.S. motion picture industry estimates its annual losses from piracy in Brazil to be on the order of $50 to $80 million per year. Software distributors for both imported and domestic products estimate that their losses due to piracy amount to 250 percent of the $80 million sales in 1990.

8. Worker Rights

a. The Right of Association

Brazil's Constitution and Labor Code provide for union representation for all Brazilian workers. The right to strike is protected by the constitution and is vigorously exercised. However, essential services must remain in operation during a strike. Workers must notify employers at least 48 hours before a walkout. Abuse of the right to strike is punishable under the law. Although a court declared one strike abusive in 1991, the courts have been applying this law with more discretion. Brazil has three central labor orgainizations with international affiliations.

b. The Right to Organize and Bargain Collectively

The right to organize is guaranteed by the constitution and trade unions are legally mandated to represent workers. The government encourages labor and management to resolve differences through collective bargaining. Nevertheless, a system of special labor courts continues to exercise normative powers over the settlement of labor disputes, thereby discouraging direct negotiation.

c. Prohibition of Forced or Compulsory Labor

Although the constitution prohibits forced labor, enforcement of labor laws is often lax. There have been cases of forced labor involving migrant workers in jungle areas.

d. Minimum Age for Employment of Children

The minimum working age under the constitution is 14, except for apprentices. For youths under 18, laws regulate night work, prohibit employment in unhealthy, dangerous, or morally harmful occupations, and require primary school attendance. However, enforcement is lax. It is estimated that 34 percent of all children between the ages of 10 and 14 are economically active, many in violation of the law.

e. Acceptable Conditions of Work

The Constitution and labor laws establish minimum salaries and maximum workweeks and regulate worksite conditions. However, enforcement leaves much to be desired. Some 40 percent of the economically active population, including minors, earns no more than the minimum monthly salary. Worker health and safety laws are poorly enforced and, according to the latest available statistics, Brazil ranks first worldwide in the rate of workplace accidents.

f. Rights in Sectors with U. S. Investment

Conditions in sectors with U.S. investment do not differ from those in the rest of the economy.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category		Amount
Petroleum		650
Total Manufacturing		11,286
Food & Kindred Products	870	
Chemicals & Allied Products	2,172	
Metals, Primary & Fabricated	1,232	
Machinery, except Electrical	2,169	
Electric & Electronic Equipment	742	
Transportation Equipment	1,520	
Other Manufacturing	2,581	
Wholesale Trade		302
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		12,238

Source: U.S. Department of Commerce, Survey of Current Business August 1991, Vol. 71, No. 8, Table 11.3

CHILE

Key Economic Indicators

(Billions of 1977 Chilean Pesos, Unless Otherwise Noted 1/)

	1989	1990	1991
INCOME, PRODUCTION, EMPLOYMENT			
Real GDP	470	480	504 9/
GDP (billions of dollars)	25.5	26.0	27.3 9/
Real GDP Growth Rate	10	2.1	5 9/
Agriculture, Livestock and Forestry	38	40	N/A
Fishing	5	4	N/A
Mining	36	35	N/A
Manufacturing	99	99	N/A
Electricity, Gas and Water	12	12	N/A
Construction	27	28	N/A
Trade	85	86	N/A
Transportation/ Communication	30	33	N/A
Services	139	141	N/A
Real Per Capita Income (Thousands of Chilean pesos)	36	36	38 9/
Real Per Capita Income (thousands of dollars)	1.9	1.9	2.0 9/
Labor Force (millions) 3/	4.7	4.7	4.7 2/
Unemployment Rate 3/	6.3	5.7	7.0 4/
Money and Prices			
Money Supply (M1) (billion Chilean pesos)	412	484	688 9/
Commercial Interest Rates			
Deposits (Nominal Monthly Rate)	2.05	2.83	1.46 5/
Loans and Discounts (nominal monthly rate)	2.58	3.34	1.87 5/
Gross Domestic Saving	16.20	17.20	17.50
Investment Rate (Pct of GDP)	17.2	17.5	16.2 9/
Consumer Price Index	21.4	27.30	20.0 9/
Wholesale Price Index	22.8	25.7	18.0 9/
Exchange Rate (official)	267	313	360 9/
Exchange Rate (parallel)	261	305	350 9/
Balance of Payments and Trade (billions current US$ unless noted)			
Total Exports FOB	8.1	8.3	8.7 9/
Total Exports to U.S.	1.5	1.5	N/A
Total Imports CIF	6.5	7.0	7.2 9/
Total Imports from U.S.	1.5	1.4	N/A
Aid from U.S. 6/	0.1	0.9	N/A
Aid from other countries	N/A	N/A	N/A
External Public Debt	16.3	17.5	17.4 7/
Annual Debt Service Payments (paid)	1.6	1.5	N/A
Gold and Foreign Exchange Reserves	2.9	5.3	5.7 8/

CHILE

Balance of Payments	0.4	2.4	0.4 8/

1/ National accounts available only in 1977 Chilean pesos. Translation of these figures into 1977 dollars distorts the structure of GDP. (Exchange rate: USD 1 = Ch pesos 26.54)
2/ As of July 1991
3/ Year-end values
4/ June-August 1991
5/ January-June 1991
6/ May 1991
7/ As of July 1991
8/ As of August 1991
9/ Projection

1. General Policy Framework

Chile has been successful in recent years in maintaining the confidence of the international financial community. Significantly, these gains were achieved during a period of major political transition. In its first year in power, Chile's new government worked successfully on several fronts to advance its integration in the world economy. Chile restructured its 1991-94 debt maturities on commercial terms and obtained a $200 million Eurobond issue that was subscribed by twenty of the world's most prominent banks. The economy attracted $1.1 billion in direct foreign investment in 1990, and posted a trade surplus of $1.3 billion with the dynamic economies of East Asia. The internationalization of the economy has not been painless. The foreign investment boom and the country's generally liberal foreign exchange regulations unleashed a dollar inflow that has complicated monetary and exchange rate policy.

High copper prices and a tax increase in 1990 enabled the Aylwin government to cover its expenses during 1990 and 1991. The first two budgets prepared by the the Aylwin government (for 1991 and 1992) reflect the continuation of generally sound fiscal policies. President Aylwin's economic team has taken pains to ensure that its budget projections are based on conservative economic estimates, and that new expenditures are financed with new sources of revenue. The absolute size of the government relative to the total economy continues to shrink; in the 1992 budget proposal, both revenues and expenditures are slated to increase more slowly than the expected rate of economic growth. At the same time, however, the government has attempted to fulfill its campaign pledges to increase social spending. The 1991 budget increased real spending on social programs by 15 percent, and the 1992 budget proposal envisions another real increase of nine percent. Although most estimates of the 1991 central government budget deficit do not exceed one percent of GDP, the government will be hard pressed to contain the deficit unless the state copper company (CODELCO) continues to make substantial contributions to the revenue base. If transfers to the state's Copper Stabilization Fund are included, CODELCO's contribution to government revenues equalled six percent of GDP in 1990, the equivalent of 23 percent of government spending.

CHILE

2. Exchange Rate Policies

To maintain the competitiveness of its export-driven economy, Chile uses a crawling peg to determine the official foreign exchange rate. Each month's peg is based on a formula that measures inflation differentials between Chile and its major trading partners in the preceding month. Inflation trends in the United States are particularly important. This is true not only because the United States is Chile's largest trading partner, but also because Chile conducts virtually all of its international trade in dollars.

Parallel market and interbank rates are allowed to float freely within a band of five percent above and below a midpoint. This midpoint, called the "acuerdo" rate, is the Central Bank's reference point, and is adjusted daily to reflect the inflation differentials noted above. When the parallel and interbank rates fall below the band's lower limit (implying an appreciating peso), the Central Bank is obliged to buy the market's excess dollars. When they exceed the band's upper limit, the Bank must sell dollars to maintain its rate. With few interruptions since October 1990, the peso has been at the limits of the band, forcing the Central Bank to buy dollars.

3. Structural Policies

Pricing Policies: In general, the Government of Chile does not interfere in Chile's markets and does not have specific pricing policies. State enterprises purchase at the lowest possible price, regardless of the sourcing of the material. U.S. exports enter Chile and compete freely with other imports and Chilean products. Import decisions are generally related to price competitiveness and product availability.

Chile has used loans from the World Bank and Inter-American Development Bank to improve its economic infrastructure (roads, electric generation, etc.) which offer direct support to exporters by lowering in-country transportation costs and by providing reliable low-cost energy supplies.

Tax Policies: The most significant tax is the 18 percent value added tax, which affects all sales transactions carried out within Chilean borders and accounts for 10.5 percent of total government revenue. There is an 11 percent ad valorem duty on all imports. In general, personal taxes are relatively low. Business taxes are similar to those levied in the United States.

Regulatory Policies: Government regulation of the Chilean economy is limited. The most heavily regulated areas of the economy are the banking sector, utilities, the securities market, and pension funds. There are no government regulations per se that affect the market for U.S. exports to Chile (although other government programs, like the price band system for some agricultural commodities described below, do

indeed displace U.S. exports). The sector most directly affected by Chilean government programs is construction. Large infrastructure projects and government-financed housing programs affect the direction and scope of investment in this sector. Government efforts in this regard are likely to intensify because President Aylwin recently announced that the Government of Chile will spend the equivalent of $2.3 billion on infrastructure improvements over the 1991-94 period.

Monetary Policy: Inflation increased to 27 percent in the Aylwin government's first year, but the economic team reduced the rate to about 20 percent in 1991. Control over the money supply is complicated by the existence of large "quasi-fiscal" deficits associated with the Central Bank's bailout of the Central Government and private banks in 1982-83. These underperforming assets are valued at more than $11 billion, about 43 percent of the Central Bank's asset base.

4. Debt Management Policies

Chile's debt management remains effective. The government negotiated a favorable rescheduling with its creditor banks of its 1991-94 debt maturities. Concluded in September 1990, the agreement:

-- Rolled over amortizations of $1.8 billion due over the 1991-94 period into a new package, which Chile will pay down from 1995-2005.

-- Allows the government to pay interest in annual rather than semi-annual installments until amortization resumes in 1995. Finance Minister Foxley maintains that this will save the government $190 million.

-- Amended language on Chilean debt contracts so that Chilean debtors have greater flexibility to reduce or swap their obligations.

-- Provided for a new money infusion of $320 million. A group of banks will form a club to purchase Chilean government Eurobonds. Chile received a tranche of $200 million in March 1991, and will receive the balance of the yield in March 1992. The bond carries a 1.5 percent coupon (i.e., Libor plus 1.5), and will have a five year life, including a grace period of two years.

As of July 1991, Chile's external debt stock stood at $17.4 billion (this figure includes $1 billion of Central Bank debt to the International Monetary Fund). The value of this debt on the secondary market has climbed over the last few years, and surged again after the conclusion of the rescheduling. It now sells for 90 cents on the dollar (at the beginning of the debt swap program in 1985, Chilean debt sold for only 30 cents on the dollar).

The appreciation of Chilean debt's value signals an end to the country's pioneering Chapter XIX "debt swap" program. Operations authorized by Chapter XIX of the Central Bank's Foreign Exchange Regulations totalled $15.8 million in the first semester of 1991, compared to a first semester 1989

figure of $723.1 million. The decreasing stock of swappable debt partly explains this decline. The rising value of Chilean debt is even more important. Because they reduce the profit realized in a swap operation, rising debt values attenuate foreign investors' motivation to conduct a Chapter XIX operation. In June 1991, Chile became the first country in the region to qualify for and receive a reduction of its PL-480 debt owed to the U.S. government under the Enterprise for the Americas Initiative, which offers reduction of bilateral debt in exchange for economic reform by debtor countries. The total stock of Chile's PL-480 debt was reduced by 40 percent, eliminating approximately $16 million in obligations owed to the United States. Currently under negotiation is the Environment Framework Agreement, which will allow interest payments on the new EAI obligation to be paid in local currency to fund environmental and conservation projects in Chile.

5. Significant Barriers to U.S. Exports

Chile generally has few barriers to U.S. exports. Additionally, foreign firms operating in Chile enjoy the same protection and operate under the same conditions as local firms. Nevertheless, treatment in some areas, especially agricultural commodities, diverges from this norm.

To limit under and over invoicing of exports and imports, the Central Bank keeps reference prices on a large number of items. It thus can detect gross underinvoicing (in the case of large scale exports) or gross overinvoicing (in the case of large scale imports).

Import Licenses: According to the new legislation governing the Central Bank, there are no legal restrictions on licensing. Import licenses are granted as a routine procedure.

Investment Barriers: Trade-related investment measures are applied only to the automobile industry. Manufacturers from the United States (GM) and France (Renault) are assisted by a differential tax provided in exchange for agreeing to meet export targets to stay in business in Chile. Automobiles and trucks are charged a tax that varies with the vehicle's value and number of cylinders.

Principal Nontariff Barriers: Chile generally has few barriers to imports. All tariff levels are GATT-bound at 35 percent, and the Chilean rate is currently 11 percent. Chile moved to a unified tariff system in 1975. The original ad valorem rate of 35 percent was gradually reduced to 10 percent after 1979. During the recession of 1982-83, the government hiked tariffs back to 30 percent. With the recovery, rates were again reduced. The Aylwin government has continued to reduce tariffs. In June, it cut these rates from 15 to 11 percent. Tariffs are lower than 11 percent for certain products from member states of the Latin American Integration Association (ALADI), most products from Mexico (which has a free trade agreement with Chile), products imported by diplomats and the Chilean military, a few products subject to GATT bindings of zero, and ten products of developing countries under the global system of trade preferences (GSTP)

among developing countries.

One of Chile's most egregious nontariff barriers is the import price band system for certain agricultural commodities. Wheat, vegetable oils, and sugar imports are levied with specific duties (on top of the across-the-board 11 percent duty) in the form of an "import price band system." An additional surtax is also applied in some cases. The combined effect of the specific duty and the 11 percent general duty varies according to international price levels. Currently, the wheat ad valorem tariff derived from the price band exceeds the GATT-bound tariff rate of 35 percent. These duties have discouraged Chilean importers from purchasing higher priced, higher quality U.S. wheat.

For sugar, when international prices fall below the import price floor, the price band calculations (specific duty) plus the 11 percent tariff and 18 percent Value Added Tax (VAT) are applied to imports. When international prices are within the price band, the 11 percent tariff and the 18 percent VAT are applied. When international prices exceed the price ceiling, only the VAT is charged for sugar imports.

For vegetable oil, a complex specific duty system is derived from the price band. The Government of Chile assesses the specific duty to imported oil according to the current lowest international FOB price. In addition, the 11 percent tariff is applied.

Chilean wheat producers and some milling groups are actively lobbying for the establishment of a wheat flour price band (wheat flour imports are already subject to a 10 percent surtax). The agricultural sector claims that, in the absence of a price band system, wheat flour imports from Argentina will overwhelm the local industry.

Chilean rice producers also continue to lobby for a price band. A price band would discriminate in favor of inefficient small-grain rice producers at the expense of long-grain rice imports that consumers prefer.

Duty surcharges determined by the Comision de Distorsion de Precios (Price Distortion Commission) apply on products that receive a subsidy from the exporting country. Once determined, the surcharge normally applies to all countries, not only to offenders. Dried milk powder imports are an exception to this rule. During 1990, only imports from Poland were required to pay a surtax of $240 per ton. In 1991, all imports from Eastern Europe paid a surtax of $160 per ton. Imports from other countries are not required to pay this surtax because their FOB export prices conform more closely with international market prices.

Potential surcharges range from five to 20 percent, well under the bound tariff ceiling established by the GATT. In practice, raw cotton must pay an eight percent surcharge, and the following products have surcharges of five percent: corduroy cloth, tires and inner tubes, floor coverings and sacking cloth.

Animal Health and Phytosanitary Requirements: Chile

occasionally uses animal health and phytosanitary requirements in a nontransparent manner that has the effect of impeding imports. The Chilean Government is slow to respond to requests for phytosanitary and animal health requirements for products or commodities new to Chile. No public comment process or announcement of proposed rule changes precedes the promulgation of these requirements.

Government Procurement Practices: The government has a "Buy Chile" policy only when conditions of sale of locally produced goods (price, delivery times, etc.) are equal to or better than those of equivalent imports. In practice, given that a large number of products categories are not manufactured in Chile, purchasing decisions by state owned companies are made among competing imports. Requests for public and private bids are published in the local newspapers.

6. Export Subsidies Policies

The Chilean government generally does not provide exporters with direct or indirect support such as preferential financing or export promotion funds. The Chilean government does, however, offer some nonmarket incentives to export. For example, paperwork requirements are simplified for nontraditional exporters. Small nontraditional exporters also qualify for the government's simplified duty drawback system. Through this mechanism, the government returns to producers an amount equivalent to three to ten percent of the value of their exports. This figure represents an estimate of the duties actually paid for imported components in the exported merchandise. Alternatively, qualifying exporters can apply for the return of all paid duties. The government also provides exporters with quicker tax returns on the VAT than other producers receive. The U.S. Government has found Chile's subsidies for non-traditional exports countervailable under U.S. countervailing duty law.

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.

7. Protection of U.S. Intellectual Property

The term of protection for residents in Chile is the author's life plus 30 years. For foreigners, the term is life plus 50 years.

Patents: The absence of pharmaceutical patent protection in Chile was a long-standing source of conflict between the United States and Chile. The past government approved an industrial property law which failed to adequately address the concerns of the United States, but this law was never implemented. Subsequently, in 1990, the Aylwin government drafted new industrial property legislation which was approved with some restrictive amendments by the Congress in September. The Aylwin Government, using a line-item veto,

excised these amendments, thus ensuring that the new law would provide intellectual property rights protection for pharmaceuticals. The veto was sustained, and the new law took effect when it was published along with its implementing regulations in the official register on September 30, 1991. The new law does not meet U.S. Government concerns in certain areas. It lacks a "pipeline" provision providing protection to pharmaceutical products that have been patented abroad but not yet marketed, and it contains a relatively short (15 years from the date of patent grant) patent protection term. Furthermore, the law does not provide protection to plant and animal varieties. Despite these deficiencies, the new patent law represents a landmark in Chile's intellectual property policy. Chile also recently signed the Paris Convention on Intellectual Property.

Copyrights: Chile's copyright law does not measure up to current Berne Convention standards. The term of protection in Chile is the author's life plus 30 years, whereas the Berne standard is life plus 50 years. Video and audio tapes have been protected by Chilean law within the last few years, but piracy does exist. Chile does not provide adequate and effective protection for semiconductor maskworks or trade secrets.

Impact of Chile's Intellectual Property Practices on U.S. Trade: Estimates of damages to U.S. pharmaceutical companies are not available; however, there have been a significant number of complaints from pharmaceutical firms. Video and audio tapes have been protected by Chilean law within the last few years. No major problem is apparent in the food and drink industry regarding lack of IPR patent protection (in this area, process protection is available, although product patent protection is not).

8. Worker Rights

a. Freedom of Association

Private sector workers and employees of state-run enterprises in Chile have the right to form and join unions, and approximately 12 percent of the work force is organized. The Labor Code does not allow Government employees to form trade unions but, with the exception of the police and military, they may form "associations" which have legal status.

Reforms to the Labor Code in 1991 removed most restrictions to the right to strike. Even before passing the labor reforms, the government restored the right to strike at copper mines and most other entities which had previously been included on a list of strategic enterprises.

In June 1991, the U.S. Trade Representative restored GSP benefits which had been suspended in February 1988 because of Chile's failure to take steps to afford internationally recognized workers rights to Chilean workers.

b. The Right to Organize and Bargain Collectively

The climate for collective bargaining improved with the

passage of the new labor reforms, but the process is strictly regulated. Public sector wages are set unilaterally by the Government and there is no formal bargaining. Other vital services, like the bus companies, are not allowed to strike, but can take disputes to neutral arbitration. In the private sector, unions have the option, when negotiations reach an impasse, of using an arbitrator, but most would prefer to take legal steps toward a strike. Bargaining can occur at other than the company level, formally specified by law, but all parties must agree on the venue. Negotiations by "unions of transient workers," defined as the merchant marine, port workers, construction workers, and artists, "do not have the legal status of a labor contract," according to the revised Labor Code.

Chilean law protects the right of workers to form unions, although these laws are ineffective in small workplaces. An employer must pay a 20 percent penalty to the worker if the courts rule that he was fired without due cause, but they do not require that the worker be rehired.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is implicitly prohibited in the Constitution and Labor Code, and there have been no complaints on this issue since the mid-1970's.

d. Minimum Age for Employment of Children

Child labor is regulated by law. Young people aged 14 and 15 may be employed only with the permission of their parents or guardians and if they have completed their schooling, and then only in restricted types of labor. Those aged 16 to 18 can be employed in a larger variety of jobs and at expanded hours, but only with permission of their parents or guardians. Enforcement of these regulations in the formal sector is good, but economic factors have forced many children to seek part-time and full-time employment in the informal economy which is generally difficult to regulate.

e. Acceptable Conditions of Work

Minimum wages, hours of work, and occupational safety and health standards are regulated by law. The normal work week is 48 hours long. There is a minimum wage, and lower paid workers also receive a family subsidy which is designed to raise their earnings an acceptable level. When the wage was raised in 1991, the tripartite committee agreed in principle that future wage increases would be tied to increases in productivity. The Ministry of Labor has inspectors to enforce laws covering wages and hours of work, but they are not always effective.

f. Acceptable Conditions of Work

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 export processing zones or other special districts where different laws apply.

CHILE

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category		Amount
Petroleum		(D)
Total Manufacturing		275
Food & Kindred Products	42	
Chemicals & Allied Products	144	
Metals, Primary & Fabricated	-143	
Machinery, except Electrical	0	
Electric & Electronic Equipment	(D)	
Transportation Equipment	(D)	
Other Manufacturing	180	
Wholesale Trade		54
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business
August 1991, Vol. 71, No. 8, Table 11.3

COLOMBIA

Key Economic Indicators

	1989	1990	1991 (proj)
Income, Production, Employment (Billions of 1975 pesos; 1975 peso rate: 32.96 = USD 1)			
Real GDP	703.8	733.4	744.4
Real GDP Growth Rate	3.2	4.2	1.5
GDP by Sector:			
Agriculture	152.0	162.2	167.0
Mining	31.4	33.9	34.2
Manufacturing	146.6	156.3	157.8
Construction	26.6	24.8	25.1
Commerce	65.2	66.9	67.3
Transportation	49.6	50.8	51.8
Government Services	62.9	65.3	66.9
Other Sectors	162.2	167.1	170.3
Real Per Capita GDP (pesos)	21,718	21,894	22,152
Labor Force (Millions)	11.9	12.0	12.1
Unemployment Rate (percent)	8.9	10.0	10.5
Money and Prices (Percentages)			
Money Supply Growth (M1)	29.1	25.8	30.0
Commercial Interest Rates	36-42	34-38	35-39
Savings Rate	33.9	36.7	37.8
Investment Rate	19.6	19.0	N/A
CPI Increase	26.1	32.4	27.0
WPI Increase	25.6	25.0	24.0
Exchange Rate (Peso/US$) 1/			
Official	430.0	564.0	700.0
Parallel	435.0	550.0	625.0
Balance of Payments and Trade (Millions US$)			
Total Exports (FOB)	6,028	6,675	7,476
--to U.S.	2,477	2,793	2,990
Total Imports (CIF)	4,548	5,149	6,100
--from U.S.	1,719	1,861	2,196
Aid from U.S	4	15	50
Aid from others	N/A	N/A	N/A
Total U.S. Investment	2,340	2,360	2,473
External Public Debt	13,296	13,680	13,700
--Debt Service Payments	2,906	3,150	3,330
International Reserves (Net)	3,867	4,501	7,100
Balance of Payments			
Current Account	(192)	530	1,500
Trade Balance	1,480	1,526	1,376
Net Services & Trns	(1,481)	(1,450)	(650)
Capital Account	480	(180)	430

1/ Year end.

Source: Central Bank, National Planning Department, National Department of Statistics.

COLOMBIA

1. General Policy Framework

Colombian economic policy is traditionally conservative, generally based on free-market principles. During 1991, the Colombian government accelerated the economic liberalization plan ("apertura") which had been initiated in February of 1990 under former President Barco. The chief achievements of the program include substantial tariff reductions, the virtual elimination of prior import license requirements, liberalized foreign investment regulations, reform of the labor code and decentralization of the financial sector. A new Ministry of Foreign Trade was created to coordinate foreign trade policy and will begin operation in January of 1992. Further significant components of apertura are beginning to be implemented, including privatization of ports and railroads, and de-monopolization of the telecommunication sector. Under the administration of President Gaviria, the pace of apertura has accelerated substantially.

Two state-owned companies dominate the petroleum and coal industries (ECOPETROL and CARBOCOL), but operate in partnership with domestic and foreign private companies rather than as monopolies. The Gaviria administration plans to reduce its fiscal deficit and create greater economic efficiency through a vigorous privatization program. Among the projects already well advanced are: abolition of the monopoly of the state telecommunication company (Telecom) concerning domestic telephone and value-added services; reprivatization of five state banks (three have been sold in the period July-October 1991) in which the Government intervened during the 1982-83 financial sector crisis; elimination of monopolistic management of the nation's ports (Law 1 of 1991) by the Colombian port company (Colpuertos), and drafting of a privatization plan which targets December 1992 for the sale of the ports it now manages; separation of maintenance and operation from administration functions of the country's rail system, and opening the former to private or mixed company management in conjunction with the Colombian railroad company, Ferrovias; concentrated efforts to sell the state's equity in 27 companies over the next four years, under the direction of the Industrial Development Institute (IFI) (six have already been sold, another 10 are in negotiation); and the scheduled sale of over 20 hotels owned by the Colombian government. Additionally, the new foreign investment regulations (Law 9 of 1991 and CONPES Resolution 51) permit foreign investment in public utilities with the prior approval of the National Planning Department.

The Colombian government's fiscal, monetary, and debt management policies have remained conservative. Colombia has not restructured its commercial bank debt; instead, the country has successfully refinanced maturing principal payments. In April 1991, the Colombian government signed a four-year, USD 1.775 billion "Hercules" refinancing package with its commercial creditors.

The Colombian government intends to reduce the

consolidated public sector fiscal deficit to 0.5 percent of GDP in 1991 through a combination of revenue increases and limiting expenditures. (The fiscal deficit in 1990 was 2.0 percent of GDP, down sharply from 7.0 percent reached in 1986.) Tax revenues have increased 61 percent over last year's levels thus far in 1991, primarily by means of improved collection, an increase in the value-added tax from 10 to 12 percent, expanding the range of transactions subject to the VAT, and by imposing a three percent tax on some foreign exchange transactions. These new fiscal revenues offset the reduction in import duty and surcharge revenues resulting from the Colombian government's economic liberalization program. The government avoids money creation to finance the deficit, using instead a flexible combination of domestic and external borrowing.

Following the collapse of the International Coffee Agreement in 1989, Colombian coffee export volume grew by 26 percent in the 1989-90 crop year. However, 1990-91 exports have leveled off. The continued relatively low price of coffee has caused a severe fiscal drain on the national coffee fund, from which producers are paid the difference between the internal support price and the world export price. The fund could be depleted within one year if coffee prices do not rise to the $1.00/lb. level. The increase in oil prices due to the Gulf Crisis caused the value of oil exports to surpass that of coffee in 1990 for the first time. Coal exports also increased, as did those of non-traditional products such as bananas, flowers, and leather goods.

Financial sector reforms enacted in 1991 resulted in a complete liberalization of Colombia's foreign exchange regime. On June 21, the Central Bank closed its foreign exchange window and turned over all transactions with the public to the commercial financial system. To slow down the monetization of foreign exchange inflows, the Central Bank began emitting 90-day exchange certificates by which it purchased the excess of foreign exchange balances from the commercial banks. The maturity on these certificates was later extended to 365 days.

Inflation remains a persistent problem in Colombia, reaching 32.4 percent in 1990. Despite maintaining a highly restrictive monetary policy, the government has had difficulty reducing inflation primarily due to the massive inflows of capital attracted by high real interest rates, a limited tax amnesty, and tight internal credit policies. At the end of the third quarter of 1991, reserves reached $7.1 billion, an increase of $2.4 billion from December 1990. Monetary authorities have experimented with various restrictive monetary policies, including a 100 percent marginal reserve requirement (imposed for 9 months), an increase in average reserve requirements, large open market operations, and real appreciation of the peso.

2. Exchange Rate Policies

Decree Law 9, approved in January 1991, completely revised Colombia's foreign exchange regime. Colombia now

has essentially a free-market exchange system. Although the Central Bank establishes an official exchange rate, based on a crawling-peg daily devaluation of the peso, it is basically only a reference rate. This crawling peg devaluation of the official exchange rate is intended to adjust for the relative inflation rates between Colombia and its major trading partners in order to maintain the real exchange rate. However, all commercial transactions are now conducted at free exchange rates determined by the financial markets. The discount on the foreign exchange certificates issued by the Central Bank is the best indicator of the free market exchange rate. The Colombian government may intervene in the financial markets to keep the peso within a ten percent band of the official rate by buying and selling exchange certificates.

3. Structural Policies

Prices: The pricing system in Colombia is essentially free-market. The major exceptions are price controls on a small number of products including pharmaceuticals, gasoline, and public utilities. Colombian government policies regarding the retail prices of certain pharmaceutical products have to some degree reduced U.S. imports and discouraged U.S. investment in this sector, although in mid-1990 some of these price controls were relaxed. In the agricultural sector, a government procurement agency (IDEMA) establishes price bands for a small group of commodities, attempting to moderate market price swings for those products through selective imports. The support price for coffee, which has a major macroeconomic impact, also is negotiated periodically between the coffee federation and the government. Controlled prices are regularly adjusted in line with inflation.

Taxation: Colombia enacted a comprehensive tax reform in December 1990, which lowered corporate and remittance taxes, increased the valued added tax, and tightened up tax collection procedures. These reforms have substantially increased tax revenues. Major sources of government revenue consist of personal and corporate income taxes, a value-added tax, and taxes on international trade. Taxes on income account for one-quarter of total revenues, those on goods and services for about 45 percent, and those on foreign trade for about 28 percent. Draft tax reforms to be introduced to the new Congress in December 1991 will likely increase the VAT again another two or three percentage points.

Colombia maintains certain tax incentives in order to promote investment and non-traditional exports. These include an exemption of duties on free trade zone imports and imports for use in export industries (the Vallejo Plan for capital goods), and a tax rebate for exporters of certain products in the form of a certificate representing a percentage of the value of an export sale which can be used to pay indirect taxes (CERT). However, the tax incentive for capital goods imports under the Vallejo Plan mechanism has lost importance in light of the recent dramatic duty reductions on capital goods. The number of

export products to which these rebates apply, and the applicable rates have been sharply reduced during 1991. The Colombian Goverment committed to phasing out both the Vallejo Plan and the CERT program in its subsidy commitment with the United States. Colombia acceded to the GATT Subsidies Code in July 1990.

Regulatory Policies: The import licensing regime, which previously constituted the greatest impediment to increased imports from the United States, has been virtually eliminated as a result of the apertura program. Of the 6,828 tariff lines in the Colombian harmonized schedule, only two percent now require a prior import license. The government has made an effort to legalize a massive black market in smuggled consumer goods by offering a duty amnesty on existing contraband inventories in addition to beginning a program de igned to collect value added taxes on the informal sector of the economy. The contraband market is estimated to be in the range of one billion dollars annually, a very high proportion of which consists of consumer products from the United States and Asia.

4. Debt Management Policies

Colombia has not had to reschedule its official external debt. Total external debt fell slightly by mid-year 1991 to $16.3 billion; public debt accounted for $13.7 billion of the total. Most of the public debt is to the World Bank and Inter-American Development Bank ($5.7 billion) or to other governments ($2.5 billion). Debt service on public external debt was $3.1 billion in 1990, equivalent to about 46 percent of export earnings. Colombia has consistently paid interest and principal on its official debt. However, certain sectors, primarily the public electrical utilities and the state coal company, Carbocol, are experiencing problems in servicing debts.

In April, 1991, the Colombian government signed a four-year, $1.757 billion refinancing package with its commercial bank creditors. The "Hercules" syndicated loan/bearer bond issue represented a major success of the Gaviria administration in refinancing 90 percent of commercial bank debt maturing in 1991-94 at favorable terms.

5. Significant Barriers to U.S. Exports

Import Licensing: Colombia's prior import licensing requirement was previously the country's most significant import restrictio. In 1991, the government of Colombia eliminated most prior import licensing requirements. Some 98 percent of tariff lines are now under the free import regime, same day automatic registration. The remaining two percent product categories subject to prior import licensing include certain chemicals which could be used to produce cocaine, munitions, some agricultural commodities, and medicines which require Ministry of Health certification. Government imports, donations, and non-refundable imports also require prior permit approval.

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Import Duties: Colombia substantially reduced import duties in 1990 and 1991. There are presently four duty levels (with limited exceptions): 0, 5, 10 and 15 percent. The zero duty level (which now comprises 40 percent of total tariff items) includes raw materials, intermediate and capital goods not produced in Colombia, and certain consumer goods. The 5 and 10 percent levels include raw materials, plus intermediate and capital goods with registered production in the country. The 15 percent level is composed essentially of finished consumer goods. Exceptions to these tariff levels include automobiles (75 percent, to be progressively reduced to 50), pick-up trucks and jeeps (50 percent), and agricultural products subject to the "price-band" system. In addition, Colombia provides preferential tariff rates for wines from countries belonging to the Latin American Integration Association (ALADI). By the end of January 1992, Colombia must revamp its tariff structure to correspond with the just-established Andean Pact common external tariff range.

Import Surcharges: The import surcharge was cut in half during 1991, from 16 percent to 8 percent on the CIF value of the import. A value added tax of 12 percent is also assessed against most imports. Higher VAT rates (usually 20 or 35 percent) are applied to a few items, such as automotive vehicles and pleasure boats.

The average total duty (tariff plus import surcharge) is now 14 percent (down from the previous 25 percent); 21 percent for consumer goods, 12 percent for raw materials and intermediate goods, and 12 percent for capital goods. By sectors, average effective protection to local industry as a result of the above measures is 45 percent for consumer goods, 21 percent for raw materials and intermediate goods, and 18 percent for capital goods.

Services Barriers: (a) Motion Pictures: In June 1989, The Colombian Government adopted a resolution enforcing and implementing an agreement with the United States on film, video, and television imports and royalty remittances. The agreement reformed the film royalty remittance system, setting an annual budget for film remittances and providing for automatic approval of film remittances up to $40,000, videos up to $5,000 and television programs up to $4,000 per 60 minutes of transmission. As a practical matter, however, requests to exceed the remittance levels are regularly approved.

(b) Banking: Law 9 and Conpes Resolution 49 (January 1991) opened up Colombia's financial sector to foreign investment. The new laws permit foreign investors to own up to 100 percent of financial institutions.

(c) Franchising: Colombian laws impede franchising by requiring disclosure of trade secrets and other confidential information and requiring that the franchising agreement be approved by the exchange authority in order to secure remittances. Levels of royalty remittances depend on the level of know-how transferred to the franchisee in the contract.

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(d) Maritime Transportation: As a result of the apertura program, cargo reserve requirements have been reduced and the government will likely implement further reforms in early 1992. At present there are no cargo reserve requirements for exports, with the exception of green coffee. (A minimum of 50 percent of green coffee must be transported on Colombian flag ships.) Ten percent of bulk imports and 50 percent of general cargo imports are subject to the same requirement, with the exception of items required for national defense, those under the Plan Vallejo drawback system, and for free industrial zones, newsprint and minor imports. Previous measures designed to restrict the availability of permits to offer shipping services to few companies have been lifted, and permits are now given to small shippers with minimum requirements. Limits on chartering activity, once restricted to a percentage of tonnage capacity, have been eliminated.

(e) Insurance: Insurance for all Colombian imports must be placed in the Colombian market; this restricts market access to foreign insurers and reinsurers for this class of business.

Standards, Testing, Labelling, and Certification: Certificate of origin is not required, except for imports coming from ALADI (LAIA) and Andean Pact member countries. Special authorization certificates issued by the various ministries are necessary (sanitary, purity or of free sale) for certain imports into Colombia. For example, specific labels are required for the approval of import licenses for food and pharmaceutical products. Also, imports of controlled drugs and chemicals must be approved by the Ministry of Health. Other registration requirements exist for the importation of input materials for assembly industries. The importation of U.S. wine coolers has been restricted because the alcohol content is below ten percent, the level regarded by the Ministry of Health as necessary to kill bacteria in the product. The decree restricting the import of wine coolers is presently under review by the Government.

Investment Barriers: Colombia, a leader within the Andean Pact to liberalize foreign investment rules, has implemented liberalized foreign investment regulations. Conpes Resolutions 49 and 51 provide for national treatment of foreign investment. The measure also increases the level of allowable annual remittances, which had been limited to 25 percent of the previous year's registered capital but which now may equal all net profits. Post-remittance review by the Superintendent of Foreign Exchange automatically takes place when remittances exceed 25 percent of the previous year's registered capital to ensure that the remittances were indeed net profits. Additionally, the Colombian government may also place restrictions on remittances if the level of international reserves falls below the equivalent of three months' imports. Remittance taxes will be reduced over the next four years from 20 to 12 percent.

The Colombian government has approved regulations for the operation of country investment funds, allowing foreign

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capital to invest directly in the Colombian stock market.

Some barriers to foreign investment remain. Foreign direct investments in certain fields (mining and petroleum exploration and extraction, public services) require prior authorization from the National Planning Department and/or the Ministry of Mines and Energy. The Colombian government maintains trade related investment measures (TRIMs) only in the automobile assembly sector, but these were liberalized in 1991 to permit assemblers to choose an optimal mix of export and local content requirements for "trade balancing" purposes.

At present, Colombia does not have bilateral investment treaties with other countries, but these are under consideration. The Colombian government has signed investment insurance agreements such as that with the U.S. Overseas Private Investment Corporation (OPIC). OPIC provides political risk and currency convertibility coverage to U.S. firms investing in Colombia. The Colombian government signed on to the World Bank's Multilateral Investment Guarantee Agency (MIGA), but the Colombian Congress has not yet ratified the agreement.

The new Colombian constitution permits expropriation by administrative means in specific cases where the Congress has determined the public good will be served. The articles were included to avoid problems with eminent domain which have hampered large public works projects in the past. However, not until implementing legislation is passed by the new Congress will the parameters of this type of expropriation be clearly defined.

Price Controls: The Government of Colombia maintains price ceilings for selected consumer and essential goods such as cooking oil, coffee and pharmaceuticals, based on studies of production costs. The Government has also established a "price-band" system, which sets floor and ceiling prices for wheat, barley, corn, milled rice, sorghum, soybeans, sugar and dry milk. Reference prices, which fall between floor and ceiling prices, are determined each week by the Ministry of Agriculture. If imported agricultural products are priced below reference levels, Colombia uses variable levies to offset the difference, thus protecting local producers.

Government Procurement Practices: In 1987, Colombia enacted law 222, requiring government-to-government contracting for some major public works projects. Because the U.S. government cannot participate in commercial contracts with foreign countries, U.S. businesses have been prevented from participating as primary contractors. Other barriers imposed by law 222 include: requiring that a foreign contractor associate or subcontract with a Colombian firm for at least 40 percent of the value of the contract; increasing the value of the foreign proposal by 20 percent when evaluating it and comparing it with other proposals; and requiring foreign bidders to list all costs and expenses while local bidders are exempt from this requirement.

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U.S. bidders on certain infrastructure projects and equipment sales have been unable to compete with other foreign bidders due to maximum financing rates set below U.S. Eximbank rates by the Ministry of Finance. In recent cases where U.S. firms have presented a package of mixed credits (Eximbank/suppliers) with overall rates that meet government requirements, the packages were still deemed unacceptable by governmental entities.

The elimination or modification of Decree 222 continues to be a high priority. Although pressure from the Colombian contractors' association has made modification of Decree 222 difficult, the Colombian government is nonetheless preparing draft legislation to revise the restrictive rules of the law.

6. Export Subsidies

The Colombian government assists exporters of manufactured and processed agricultural products via tax rebates (CERT), duty exemptions on import of capital goods and raw materials used for export production (Plan Vallejo). These measures have been rendered less important in light of the significant import duty reductions during 1991. Preferential rates for export financing are being phased out, and Proexpo, the export financing fund, was converted into an import-export bank offering market rates. The Colombian government, as part of its commitment to gain U.S. support for accession to the Gatt Subsidies Code in 1990, has pledged to phase out these subsidies over a five-year period.

7. Intellectual Property Rights

The Colombian government attitude toward better protection for intellectual property rights (IPR) improved dramatically in 1991. Colombia worked to reform Andean Pact Decision 85, which had been a major block to IPR protection throughout the Andean Pact. At the December 1991 summit, the Andean Pact adopted Decision 311, which replaces Decision 85. Colombia is on the U.S. "Watch List" due to inadequate IPR protection. Colombia has generally opposed the efforts of the United States and other developed countries to expand the GATT Uruguay Round TRIPS negotiation mandate to include elaboration of substantive standards on intellectual property. A major impediment to progress has been the inefficiency of the Colombian patent and trademark office.

Colombian copyright protection is extensive, although enforcement, while improving, continues to be lax. Satellite piracy continues to be widespread with little or no governmental control. The government has been more successful in enforcing sanctions against video cassette pirates, and a 1989 agreement to provide film royalty remittances is operating smoothly.

Patents: Colombia presently does not provide patent protection for pharmaceutical products, agricultural and

food products, for certain biological procedures, or for any invention that affects the country's development. The new patent term is 15 years. Although compulsory licenses have rarely been granted, Colombian law in certain instances allows a third party to obtain a compulsory license to work the patent. Compulsory licenses can be granted at any time for patents affecting public health or national development. Colombia does not consider restrictions on imports of basic inputs justification for failure to meet the working requirements, nor is importing the patented product considered adequate working of the patent. Colombia is not a member of the Paris Convention for the Protection of Industrial Property, but is considering acceding.

Trademarks: Colombia's trademark protection requires registration and use of a trademark in Colombia. Trademark registration is valid for only 15 years. Colombia does not consider import restrictions justification for failure to meet the use requirement. Trademark owners do not have a cause of action against importation of products from other Andean Pact countries that bear their trademarks without authorization.

Copyrights: Colombia has a modern and extensive copyright law, but lack of adequate enforcement remains a serious problem. Areas for improvement include increasing the term of protection for sound recordings and copyrighted works of juridical persons (presently only 30 years) and providing protection for semiconductor mask work layout designs. The U.S. motion picture industry has reported that pirated video cassettes comprise 80 percent of the market in Colombia. These pirated video cassettes are usually smuggled from Puerto Rico, Venezuela, Panama, and the United States. Limited efforts have been made to improve enforcement. Colombia belongs to both the Berne and the Universal Copyright conventions.

New Technologies: Computer software enjoys explicit copyright protection under a law enacted in 1989. The Colombian copyright office joined forces with national and multi-national software producers and distributors in an anti-piracy campaign in 1991. Piracy of satellite broadcast signals increased in 1991, particularly due to increased theft of international news reports during the Gulf War. The Ministry of Communications has not taken adequate steps to insure that broadcasters have entered into contracts guaranteeing payment of royalties prior to the award of broadcast rights. Biotechnology protection is being studied by the Ministry of Agriculture, but is not expected to be part of the reform of Andean Pact Decision 85.

8. Worker Rights

a. The Right of Association

The rights of workers to organize labor unions and to strike are explicitly recognized in the Constitution. The 1991 amendments to the Labor Code make official recognition automatic for labor organizations which sign up 25 members

in a workplace, and increase the penalties for restricting freedom of association. Under the new Colombian Constitution non-essential public employees now have the right to strike.

b. The Right To Organize and Bargain Collectively

The right to organize and bargain collectively is protected by the Colombian Constitution, although in practice many private sector workers have limited bargaining power because of high unemployment and weak union organization. The use of strikebreakers is legally prohibited. The revised Labor Code empowers national federations to assist their affiliates directly in collective bargaining. Antiunion discrimination is illegal and enforced by administrative labor inspections.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is legally prohibited, and this prohibition is respected in practice. The 1991 Constitution specifically forbids slavery or any treatment of human beings resembling servitude.

d. Minimum Age for Employment of Children

The law prohibits the employment of children in most jobs before the age of 14. Education is compulsory between the ages of 5 and 15. However, a 1987 Ministry of Labor study estimated that 800,000 children between 12 and 17 are working in Colombia, mostly in the informal sector without government permission or labor code protection.

e. Acceptable Conditions of Work

The government annually sets a national minimum wage in consultation with labor and business leaders. The law provides for a standard workday of 8 hours and a 48 hour workweek. Workers' occupational safety and health are extensively regulated. Enforcement of all work condition regulations is weak.

Despite government enforcement efforts, maintenance of occupational safety conditions and observance of minimum salary levels are among the labor regulations most frequently violated in Colombia.

f. Rights in Sectors With U.S. Investments

All companies with local or foreign investment must abide by Colombian legislation protecting worker rights. The main sectors of the economy with U.S. investment are the petroleum, coal mining, chemical, and the manufacturing industries. Although worker rights conditions in those sectors do not differ in theory from those in other sectors of the economy, in practice they are superior to other sectors because of the large size and degree of organization of the enterprises involved. All companies in which U.S. capital is invested are noted for maintaining labor conditions that are above the national standard. Outstanding examples in these sectors are the imposition of

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shorter than average working hours, payment of the highest wages and salaries in Colombia, and compliance with occupational health and safety standards well above the national average. No company in which U.S. capital is invested has been accused of violating any of the basic premises of Colombian labor law.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category	Amount	
Petroleum		(D)
Total Manufacturing		799
Food & Kindred Products	201	
Chemicals & Allied Products	198	
Metals, Primary & Fabricated	(D)	
Machinery, except Electrical	(D)	
Electric & Electronic Equipment	(D)	
Transportation Equipment	(D)	
Other Manufacturing	306	
Wholesale Trade		18
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business August 1991, Vol. 71, No. 8, Table 11.3

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Key Economic Indicators

(Millions 1966 Colones Unless Otherwise Indicated)

	1989	1990	1991 1/
Income, Production, Employment			
Real GDP	11,827.3	12,228.8	12,408.6
Real GDP Growth (pct)	5.7	3.4	1.5
Agriculture	2,265.9	2,362.6	2,421.7
Industry	2,609.8	2,647.2	2,692.2
Electricity/Water	356.8	378.9	391.0
Construction	489.7	487.1	433.5
Commerce	2,004.5	2,047.9	2,072.5
Transportation/Commun.	989.5	1,056.8	1,082.2
Financial	773.2	858.7	879.3
General Government	1,048.7	1,059.3	1,075.7
Others	1,289.2	1,330.3	1,360.5
Real GDP per capita (1966 colones)	4,142.0	4,183.0	4,136.0
Real GDP per capita (U.S. dollars/1990 rate)	1825	1892	N/A
Labor Force (thousands)	987.0	1017.0	1,090.0
Unemployment (percent)	3.8	4.6	5.0
Money and Prices			
Money Supply (M1) (millions of colones)	63,057.0	67,804.0	77,787.0
Lending Rate (pct) 2/	33.1	41.6	40.1
Deposit Rate (pct) 3/	25.0	34.6	30.0
Gross Domestic Investment (percent of GDP)	23.1	22.1	20.8
Consumer Price Index (percent change Dec-Dec)	10.0	27.3	25.0
Wholesale Price Index (percent change Dec-Dec)	10.7	25.9	23.0
Colon to U.S. dollar Exch Rate (Yearly average official)	82.1	92.3	120.0
Colon to U.S. dollar Exch Rate (yearly average parallel market)	84.2	98.2	125.0
Balance of Payments and Trade (millions U.S. dollars)			
Exports to U.S.	578.5	586.1	N/A
Imports CIF	1,746.6	2,037.0	1,871.0
Assistance from U.S.	114.8	74.2	51.6
Assistance from other countries	25.2	25.5	117.1
Foreign investment	88.9	135.0	N/A
U.S. investment	66.7	101.2	N/A
Foreign public debt	3,800.9	3,269.2	N/A
Annual debt service paid	282.0	225.0	285.0
Gold Reserves	3.1	4.2	N/A
Net international reserves	756.9	470.8	730.4 5/
Current Account Balance	-439.0	-583.8	-276.4

1/ Estimate based on October 1991 data.
2/ Average of private and state-owned banks.
3/ Average of 6 month deposit rates of private and state-owned

banks and Government Bonds.
4/ Includes value added by "maquilla".
5/ As of July 15, 1991

1. General Policy Framework

Costa Rica's economic performance in 1991 has been mixed. The trade balance has improved, delays of 15 days or more for foreign exchange access eliminated, the Paris Club debt rescheduled, and international reserves increased. Costa Rica has not been able to meet the IMF program fiscal deficit target of 0.5 percent of GDP. This figure will probably be 2 percent or more in 1991. Nevertheless, the expected 2.0 percent in 1991 is a significant improvement over the 5.2 percent GDP deficit in 1990. Disappointingly, inflation has remained more than twice the program target, nearly 30 percent versus a hoped for 12 percent. The GDP is expected to grow no more than 1.5 to 2 percent in 1991 versus 3.4 percent in 1990.

Costa Rica implemented a tight monetary policy in 1991, increasing reserve requirements, raising interest rates for government bonds, imposing import deposits, and limiting local currency monetization of external funds. On the fiscal side, Costa Rica temporarily increased the sales tax from 10 percent to 13 percent, and increased the price of public sector services and petroleum products. Despite increased revenues, there is still a fiscal gap. Costa Rica has been unable to substantially control public expenditures to close the gap. Planned reductions in public sector employment were slowed by political and legal considerations. As a result, the structural fiscal deficit remains the fundamental cause of economic instability.

To control import growth, Costa Rica first sought to reduce the money supply by increasing reserve requirements. Costa Rica complemented this effort with substantial weekly mini-devaluations and the use of import deposits and surcharges. Import deposits (currently 30 percent) were scheduled to be eliminated at the end of December, but still remain; surcharges were reduced to 2 percent in August.

From January-September of 1991, the trade deficit reached $148 million compared to $401 million in the same period of 1990. This reduction is due to a combination of higher exports and lower imports. The expected trade deficit for 1991 (about $300 million including the value added by "maquilla"), however, will exceed the IMF program deficit by US$130 million.

2. Exchange Rate Policies

Costa Rica has a unified exchange rate for all commercial purposes. Since May 1990, Costa Rica has employed a system of mini-devaluations designed to offset the effect of domestic inflation vis-a-vis the value of the U.S. dollar. Although Central Bank authorities claim that the intent was also to devalue the colon slightly, internal inflation has grown at such a pace that there has been little real

devaluation of the colon. As of November 1991, the weekly devaluations of the colon were 45 centimos a week or approximately one and one-half percent a month.

Foreign exchange is available from the Central Bank for the purchase of imports and the repatriation of profits and royalties. Purchasers must deposit 30 percent of the value of foreign exchange desired in local currency and wait from 10 to 60 days for its supply by the Central Bank. Approximately 25 percent of all foreign currency needs are met in the parallel foreign exchange market where dollars receive a premium of two to five percent above the Central Bank rate. The parallel market is technically illegal but tolerated by local authorities.

3. Structural Policies

Pricing policies: The Costa Rican Government has authority to set producer, wholesale and retail prices and margins for virtually all goods. In practice, Costa Rica sets the prices for a number of agricultural products including milk, eggs, rice, corn, wheat, flour, and beans. Currently prices for basic grains are equal to or exceed world prices and thus do not impair the competitiveness of U.S. exports. Costa Rica has indicated that it intends to eliminate the fixing of certain prices and margins over time. They propose to fix only the prices of public services and goods and services produced under monopolistic conditions, and up to 15 products included in the "basket of essential goods."

Regulatory Policies Affecting Automobiles and Light Trucks: Passenger cars imported into Costa Rica are subject to four levies: 1) a 25 percent tariff on pickups and a 100 percent tax on automobiles; 2) a Central Bank surcharge of 17 to 152 percent of CIF based on a Government of Costa Rica determination of the car's market value; 3) a consumption tax of 0 to 75 percent based on the dollar value and engine size; and 4) a 13 percent sales tax levied on the customs determined value plus levies 1-3 above.

As applied, these levies keep large cars out of the market and discriminate against U.S. autos and light trucks. U.S. vehicles are assessed higher duties and tax rates. Light trucks, although having identical capacities and meeting identical U.S. standards are classified differently in Costa Rica and assessed markedly different taxes. For example, Costa Rica taxes Japanese pickups, classified as weighing more than one ton, 46.38 percent. U.S. pickups, classified as 3/4 ton trucks, are taxed 187.63 percent. The U.S. has suggested that Costa Rica adopt a standard, either Japanese or American, by which like vehicles will be classified and treated the same. On October 21, 1991, the Costa Rican government stated that, to remedy the discriminatory aspects of the taxation system on U.S. automobiles, it would explore a unified ad valorem tariff on vehicle CIF price without any distinctions made on the basis of engine size.

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4. Debt Management Policies.

The 1991 IMF stand-by program seeks to reduce the Costa Rican current account deficit from 11 percent of GDP (1990) to 3.5 percent of GDP in 1991. This assumes an increase in net international reserves, including a reduction in arrears. Additional reserves should come from the Paris Club rescheduling (US$136 million); bilateral credits from Mexico (US$35 million), Venezuela (US$35 million), and Taiwan (US$30 million); multilateral financing (about US$220 million, including US$120 million from the World Bank); and AID ESF (US$25 million).

On July 17, 1991, the Government of Costa Rica reached an agreement to reschedule the Paris Club debt. Under the new terms of the Paris Club negotiation, Costa Rica will repay $175 million of the total debt ($893 million) over an extended ten-year period, with a five-year grace period. This agreement and the anticipated sums above will improve the capital account in 1991.

5. Significant Barriers to U.S. Exports.

Tariffs and Taxes: Under the terms of Costa Rica's accession to the GATT, it agreed to implement a more transparent, unified and lower tariff and tax system. Imports from other Central American Common Market (CACM) countries enter duty free, thus enjoying a significant advantage over similar U.S. goods. In addition to customs duties ranging from 1 to 100 percent ad valorem, U.S. goods are also subject to an array of taxes and surcharges including a 10 to 75 percent consumption tax levied on certain items, a 13 percent sales tax, a 2 percent surcharge, and border charges. Starting January 1, 1992, many U.S. basic grain exports will face a Central American price band system, including the application of variable levies.

Central Bank Import Deposits: To purchase foreign currency (usually U.S. dollars), Costa Rican importers must deposit a set percentage of purchase value as an essentially interest-free loan to the Costa Rican Central Bank. The importer must then wait two weeks or more to receive the currency. The delay (known in Spanish as "la presa") and level is set by the Central Bank to help manage foreign currency reserves.

The Central Bank may also impose import surcharges to conserve foreign exchange. These surcharges do not require legislative approval and can be changed with relative ease.

Services Barriers: Offshore banks may locate in Costa Rica, but operations are restricted to long term (over 180 days) savings, bond issuance and international services. These banks cannot offer checking accounts. Insurance of all types is provided exclusively by a state-owned monopoly, the National Insurance Institute, which specifies all charges and agent fees.

Government Procurement Practices: The Costa Rican government procures largely through open public bidding,

although its law also permits private tenders and direct contracting of goods and services for small amounts or in cases of national emergency. At times, tenders have contained unreasonable requirements prejudicial to otherwise qualified bidders, including U.S. companies, such as a requirement that a company must have previous Latin American experience in order to qualify or may not be the holding company of a parent company. While Costa Rica has agreed to review bids when arbitrary requirements were noted, there have been considerable delays in awarding the contracts. In addition, three appeals are permitted for each public tender, so that offers must be re-submitted after the resolution of each appeal, often with new specifications. Original offers may not be re-submitted. In short, not only does the appeal system considerably delay the process, but it also involves costs to companies for the preparation of re-submissions.

Investment Barriers: Access to Foreign Exchange: Most difficulties faced by foreign investors stem from an inefficient bureaucracy which slows approval of documents necessary for many transactions. For example, even though no unusual restrictions are imposed on the repatriation of earnings, royalties or capital, delays in receiving dollars for these transactions or for imports can be quite lengthy. These delays can add considerably to an investor's operating expenses.

Investment Disputes: While there are no recorded cases of Costa Rican expropriation of commercial or manufacturing properties, individual landowners have lost their lands to squatters. In addition, Costa Rica has expropriated lands adjacent to national parks. The civil and commercial codes provide for arbitration of commercial disputes. However, the procedures as established by law are cumbersome and rarely used. In practice, cases are usually settled in court. Costa Rican law does not recognize the jurisdiction of other than Costa Rican courts.

Article 45 of the Costa Rican Constitution stipulates that no property can be expropriated without previous, prompt and fair payment. Costa Rican law does not discriminate between nationals and foreigners in this regard. However, when dealing with land disputes, conflicts take a long time to be resolved. Constitutional guarantees notwithstanding, almost all investment disputes involving U.S. citizens center on expropriation of American - owned land.

Tourism Investment: Costa Rican Tourism Institute (ICT) is vested with the authority to declare areas within 200 meters of the coast "Touristic Zones". Once permission is obtained from the ICT, the developer then requests the concessions. According to this Law, concessionaires must be Costa Rican citizens. Foreign tourism-related enterprises must have at least 50 percent Costa Rican capital in order to obtain concessions.

6. <u>Export Subsidies Policy</u>.

The Government of Costa Rica provides tax incentives to nontraditional exporters and to companies which generate

foreign exchange, such as tourism. Costa Rica is reforming these incentives to remedy the economic distortions they cause, reduce their budget impact, and to reduce their inconsistency with international practices. On October 7, 1991 a decree was published, whereby a 25 percent tax is levied on negotiable tax rebate certificates (CAT).

7. Protection of U.S. Intellectual Property.

Costa Rica is a signatory of almost all major international agreements and conventions on intellectual property, trademarks, copyrights, and patent protection, and a member of the World Intellectual Property Organization (WIPO). However, while Costa Rica has a basic framework for the protection of intellectual property rights, there are significant deficiencies in existing laws and enforcement.

Patents: Costa Rica's 1983 patent law is inadequate in several critical areas. The patent term is short. Patents are granted for 12 years with no extensions. In addition, there are many products granted only a one year patent when determined "in the public interest". These exceptions include medicines, substances and articles for therapeutic applications, pharmaceuticals, chemical and agricultural fertilizers, agrichemicals, and all beverage and food products.

There is no patent protection for plant or animal varieties, any essentially biological process, or microbiological products and processes. Inventions that are contrary to law, morality, public health or public safety are also excluded from protection. Moreover, Costa Rica has a broad compulsory licensing regime that forces a patent owner to license others if the invention is not locally manufactured. In fact, the patent owner has no right to prohibit infringing imports until local manufacture has begun. Costa Rica also provides for dependent patent compulsory licensing and for expropriation of patent where deemed in the public interest.

Costa Rica is not a member of the Paris Convention for the Protection of Industrial Property, the primary international agreement for extending national treatment to foreign patent applicants.

Copyrights: Costa Rica's copyright law dates from 1982. Copyright relations with the U.S. derive from both countries' adherence to the Berne Convention for the Protection of Literary and Artistic Works and the Universal Copyright Convention. U.S. sound recordings are protected pursuant to the Geneva Phonograms Convention.

Costa Rica's copyright law is generally adequate. Deficiencies include lack of express protection for computer programs and databases, a lack of clarity in the scope of protection for works embodied in satellite transmissions, and excessively detailed provisions governing the contractual relations between copyright owners and users.

More significant problems lie in enforcement. According

to the industry, all pending actions against pirates have stalled while the constitutional court hears a challenge to the manner in which the 1982 copyright law was enacted. Sources fear the latter case could take as long as four years to be decided. Meanwhile, pirate cassettes flourish.

Penalties provide little deterrence to copyright violations. Fines are as little as 50 dollars. Prison terms are from 1 to 12 months, with courts frequently suspending sentences. Criminal charges are brought only on the complaint of an injured party who bears the burden of keeping the case active.

Industry sources report that illicit audio cassettes represent 20 to 25 percent of the market. Video tapes are almost 100 percent pirate produced. Many pirate audio and video tapes are produced regionally. The unauthorized reception and transmission of satellite signals is a significant problem. Two cable systems have recently signed contracts with U.S. providers and a third has expressed interest.

Trademarks: Costa Rica's trademark protection regime is established under the Central American Treaty on Industrial Property, an agreement between Costa Rica, Guatemala, and Nicaragua. Trademarks, service marks, trade names and slogans can be registered. There is no requirement of actual use in Costa Rica, registration is granted for 10 years from the date of registration and renewable for like periods.

Counterfeit goods, particularly articles of apparel and handbags, are widely available. These goods enter easily from other countries in the CACM. Fake goods often compete with goods manufactured in Costa Rica with the authorization of the trademark owner.

The Motion Picture Export Association of America (MPEAA) filed public comments with the U. S. government in July 1991, noting piracy of U. S. television signals, and a video market that is 100 percent pirate. MPEAA member companies' losses were estimated at $1,080,000.

8. Worker Rights

a. Right of Association

Workers are free to join unions of their choosing without prior authorization. Approximately 15 percent of the work force is organized. Unions are independent of government control and are generally free to form federations and confederations, exemplified by the merger of three Social Democratic labor federations in 1991, and to affiliate internationally.

The American Federation of Labor and Congress of Industrial Organizations (AFL-CIO), the ICFTU, and other trade union organizations, however, have contended that trade unionism's right of association has been hurt by the "solidarismo" movement in Costa Rica, an alternative to traditional trade unionism which espouses cooperation between

employers and employees. Solidarista Associations are financed in part by employers and are allowed under Costa Rican law to offer a wide range of services and engage in profit-making activities, which unions are not permitted to do. In June 1991, the International Labor Organization (ILO) Committee of Freedom of Association (CFA) concluded that the interfere. a of Solidarista Assocations in trade union activities, including collective bargaining, is in conflict with the principle of full independence for workers' organizations in carrying out their activities. The CFA noted the Government's agreement to enact legislation to ensure the real separation of functions between unions and Solidarista Associations.

The law restricts the right of public sector workers to strike and imposes penalties on those who do. Nevertheless, they strike with some frequency, and fines imposed are often dropped as part of a strike settlement.

There are no restrictions per se on the rights of private workers to organize and strike. The Labor Code contains clauses, however, that allow employees to be fired for nonspecific reasons. Some employers have used these provisions as license to fire workers who seek to strike. Very few private sectors employees are union members and there were no private sector strikes of any consequence in 1991.

b. The Right to Organize and Bargain Collectively

The right to organize is protected by the Constitution; much of the 1943 Labor Code, however, is outdated. One clause permits workers to be discharged "at the will of the employer," provided the worker is paid the required compensation. This has often been used to fire labor organizers. Public sector workers cannot engage in collective bargaining because the Public Administration Act of 1978 makes labor law inapplicable in relations between the Government and its employees. The Government has promised the ILO that it will enact remedial legislation to protect union organizers, and proposals to modernize the Labor Code were under consideration in the Legislative Assembly at the end of 1991. Collective bargaining is allowed in the private sector but, due to the dearth of unions, this is more a de jure than de facto right.

c. Prohibition of Forced Labor

The Constitution prohibits, and there are no known instances of, forced or compulsory labor.

d. Minimum Working Age for Children

The minimum working age is 12. There are special regulations in force for workers under 15 and for women regardless of age. Although the regulations are fairly well enforced in the formal sector of the economy, child labor appears to be an integral part of the large informal economy.

e. Acceptable Conditions of Work

The Constitution provides the right to a minimum wage.

COSTA RICA

A national wage board, composed of three members each from government, management, and labor, sets minimum wages and salaries for all occupations and sectors. The Constitution sets normal work hours at eight for daytime and six hours for night work, with weekly totals of 48 and 36 hours, respectively. Non-agricultural workers receive an overtime premium of 50 percent of regular wages for work performed in excess of the daily work shift. Agricultural workers are not paid overtime if they work beyond normal hours. A 1967 law governs health and safety at the workplace. Industrial, agricultural, and commercial firms with 10 or more workers are required to have a joint safety committee. The law allows the Government to inspect workplaces and to fine employers for violations. However, a shortage of labor inspectors, especially outside of San Jose, limits the government's ability to ensure that minimum conditions of safety and sanitation are maintained.

f. Rights in Sectors with U.S. Investments

There are U.S. investments in the following sectors: textile/apparel, food and related products, chemicals and related products, electric and electronic equipment, transportation, other manufacturing and wholesale trade. Worker rights are insured uniformly within these sectors as described above.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category	Amount	
Petroleum		2
Total Manufacturing		159
Food & Kindred Products	51	
Chemicals & Allied Products	49	
Metals, Primary & Fabricated	(D)	
Machinery, except Electrical	0	
Electric & Electronic Equipment	22	
Transportation Equipment	0	
Other Manufacturing	(D)	
Wholesale Trade		-1
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		160

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, August 1991

DOMINICAN REPUBLIC

Key Economic Indicators

	1989	1990	1991 (proj)
Income, Production and Employment			
Real GDP (1970 pesos)	3,655.7	3,468.4	3,329.7
Real GDP growth rate	4.1	-5.1	-2.0
GDP per sector			
Agricultural:	548.7	514.9	482.8
Agriculture	317.9	283.2	266.9
Livestock	205.8	206.8	193.9
Forestry and fishing	25.0	24.9	22.1
Mining	139.3	124.1	105.4
Manufacturing	603.7	550.3	655.9
Construction	347.5	293.5	230.6
Electricity	61.4	54.6	52.5
Commerce	536.8	497.4	522.8
Transport	220.4	203.0	196.8
Communications	68.7	77.4	79.5
Financial Services	205.6	222.6	196.3
Housing	227.9	228.2	241.1
Public Administration	349.0	358.4	303.3
Other Services	344.7	344.0	332.0
Real Per Capita Income (US$)	961.0	999.0	959.4
Labor Force (Millions)	2.9	3.0	3.1
Unemployment Rate	28.5	29.2	30.0
Money and Prices			
Money Supply (M1) (In millions of pesos)	5,911.7	8,304.8	8,362.9
Com'l Interest Rates (Prime)	30.0	43.0	34.0
Gross Nat'l Savings Rate	15.6	13.3	13.0
Investment Rate	N/A	N/A	N/A
CPI (percent change)	41.2	100.6	9.0
Wholesale Price Index	N/A	N/A	N/A
Exchange Rate (pesos:USD)			
Official (Average)	6.30	8.54	12.50
Parallel (Average)	6.98	11.12	12.50
Balance of Payments and Trade (Millions of US$):			
Total Exports (FOB)	924.5	704.0	775.1
Total Exports to U.S.	1,963.8	1,807.1	1,751.4
Total Imports from U.S.	842.0	830.0	804.4
Aid from U.S.	45.8	24.3	15.8
Aid from Other Countries	205.0	N/A	N/A
External Public Debt	4,068.5	4,481.8	4,673.1
Annual Debt Service (PAID)	569.2	367.7	372.6
Gross Monetary Reserves	122.8	68.8	167.3
Balance of Payments	-451.5	-507.0	-147.7
Exports to U.S. - incl. FTZ (1/)	1,636.9	1,725.4	1,899.7
Imports from U.S. - incl. FTZ	1,646.4	1,658.2	1,607.1

1/ FTZ - Free Trade Zone (In Bond)

DOMINICAN REPUBLIC

1. General Policy Framework

In response to an unprecedented consumer price inflation of 101 percent in 1990, the Central Bank of the Dominican Republic (DR) has followed a stringent monetary policy since mid-1990 with dramatic results. The Dominican government enacted a series of market-oriented fiscal and monetary reforms which reduced aggregate demand (including foreign imports), curtailed inflation and restored exchange rate stability. Policies were enacted to strictly enforce existing commercial bank reserve requirements, to phase out off-budget deficit financing for parastatal companies, and to eliminate net domestic financing (printing paper money). Real GDP fell by 5.1 percent in 1990 and is projected to fall by roughly two percent in 1991. Some local economists and business observers, as of late October 1991, are projecting a fall in real GDP of 4 percent or more for the year.

Important fiscal measures were taken such as eliminating major consumption subsidies and lowering public works spending. During the summer of 1990 the government stanched a major fiscal drain on its resources by raising the prices of sugar, flour and petroleum products to world prices. The retail price of gasoline was raised from US$.95 to US$1.60 per gallon and has been maintained at this level. Public works spending dropped dramatically in the last half of the year with the construction component of real GDP falling by 15 percent for the entire year. These measures reduced the public sector deficit by roughly one percent of GDP to 5.3 percent by the end of 1990.

The Draconian contraction in the money supply successfully reduced consumer price inflation to less than 0.2 percent during the first half of 1991. On July 5 the Dominican Government signed a letter of intent for a 19 month Standby Agreement with the IMF. Most of the painful contractionary steps usually associated with an IMF agreement had already been taken by the time the letter of intent was signed. Although real growth is expected to be negative in 1991, the stage has been set for renewed growth next year.

The electricity sector remains the weak link in the Dominican economy. Serious labor, maintenance and bill collecting problems at the government electricity company contributed to the decline in the electricity sector. During the last quarter of 1990 fossil fuel supplies were disrupted by a shortage of foreign exchange in official coffers. The electricity company has been unable to provide adequate service, greatly increasing energy costs to private sector producers who must depend on high cost emergency generators. The government has publicly announced its intention to privatize the state electricity company, but to date only limited progress has been made in this direction.

2. Exchange Rate Policies

The most important economic reform implemented by the Dominican government in 1991 was a flexible exchange rate policy. Exchange rate problems and balance of payments difficulties plagued the Dominican economy for much of 1990.

DOMINICAN REPUBLIC

Relatively high inflation and a fixed exchange rate policy led to an increasingly overvalued peso. By March 1990 the differential between the official exchange rate and the parallel rate reached 50 percent. The gap between official and free market prices discouraged the private sector from converting its dollars into pesos via official channels. Over the course of 1990 the peso was devalued three times (in April, August and October), but each devaluation was insufficient to reach market-clearing levels. A lack of hard currency in the Central Bank contributed to a serious shortage of critical imports, even including petroleum in the last quarter of 1990. The lack of dollars in official channels also exacerbated the government's difficulties in making payments on the external debt.

On January 24, 1991 the Dominican Government, with strong encouragement from the IMF, enacted a new exchange rate system which allowed a floating (i.e., market determined) peso for most transactions. Under the new rules importers are able to obtain hard currency directly from the commercial banks rather than from the Central Bank. Pro forma Central Bank approval is still required but the process is not cumbersome. The result has been a dramatic improvement in the availability of foreign exchange and access to basic imports. Widespread fears of a run on the peso proved unfounded due in large part to the government's increasing monetary restraint and reduced inflationary expectations. Bolstered by a stringent monetary policy, the exchange rate stabilized by the end of the first quarter of 1991. On July 5, 1991 the Dominican Government completely unified the exchange rate using the market-determined peso for all transactions. In its letter of intent to the IMF, the Government pledged not to interfere with the market-based exchange rate during the course of its 19-month IMF Standby Agreement.

3. Structural Policies

On September 12, 1990 the Dominican Government enacted a major tariff reform (by presidential decree) which was based on recommendations made by United Nations Development Program tax reform experts affiliated with Harvard University. The decree reduced and simplified the tariff schedule to six categories with seven tariff rates ranging from 5 to 35 percent, replaced quantitative import restrictions with tariffs, transformed all tariffs to ad valorem rates and imposed a temporary surcharge over three years (30 percent in the first year, 20 percent the second and 10 percent the third). The government stopped issuing new tariff exonerations and eliminated tariff exonerations for tourism investments, mining companies and import substituting industries. To enhance revenue collections, a 15 percent foreign exchange surcharge and a 2.5 percent foreign exchange commission were imposed.

The largest source of tax revenue is international trade (40 percent), followed by taxes on goods and services (33 percent) and taxes on income and profits (26 percent). The income tax rate is currently 46 percent for most companies (depending on size) and as high as 75 percent for individuals. The value added tax covers many consumer

purchases and is currently six percent. Tax evasion is generally believed to be widespread and improved tax collection is a high priority for the Balaguer administration. The Secretary of Finance recently announced plans to reduce and simplify income taxes for both individuals and companies, to impose a new capital gains tax and to eliminate a number of investor tax exemptions. These proposals have not yet gone into effect but will have a significant impact on U.S. direct investment. The Finance Secretary has stated publicly that the proposed tax changes will not affect the free trade zones which are free from tariffs and exempt from corporate income tax for 20 years.

In response to serious problems in the electricity sector, the Dominican government recently announced plans to purchase electricity from private suppliers and to move toward privatizing the state electricity company (CDE). As these plans develop, in coordination with a US$148.8 million IDB loan for rehabilitating the CDE, U.S. exporters will have an opportunity to sell energy-related products and services. Prospects for privatizing other government-owned companies, such as the state sugar company (CEA) and firms in the consortium of 22 smaller state enterprises (CORDE) are doubtful in the near term. However, efforts are being made to reduce parastatal deficits and eliminate consumption subsidies. Beginning in the summer of 1990, the government eliminated a major fiscal drain on its resources by raising the prices of sugar, flour and petroleum products to world prices. The retail price of gasoline jumped from US$.95 to US$1.60 per gallon and has remained pegged at this level as an "informal" tax on gasoline consumption. A few basic agricultural imports, such as wheat and vegetable oil, are licensed by government parastatals. Price controls have been largely abolished and the few controls remaining are not vigorously enforced. In October 1990 the National Wage Board raised all private sector wages less than RD$3,000 (US$348 at the average 1990 exchange rate) per month by 60 percent. However, in the July 5, 1991 letter of intent to the IMF the government stated it would avoid mandating blanket private sector wage increases and would exercise restraint in setting minimum wage levels.

4. Debt Management Policies

Throughout most of 1990 the Dominican Government had problems servicing its US$4.2 billion foreign debt. Arrears grew steadily to roughly $1.5 billion by the end of 1990, with total debt about $4.5 billion (63.4 percent of GDP). The debt servicing problem was largely due to a severe shortage of hard currency in official channels. The Government's reluctance to allow a devaluation commensurate with the unprecedented rate of domestic price inflation led to an overvalued peso. In late January 1991, the Government floated the peso for most transactions and hard currency rapidly began to accumulate in the Central Bank. Since the beginning of 1991, the Government has made considerable progress in catching up on its debt arrears and is current with multilateral lenders (including the IMF, World Bank, and IDB). The Dominican Republic also has made sufficient progress in paying off arrears on U.S. bilateral debt that it is not currently subject to

Brooke-Alexander restrictions and U.S. aid programs once again operate normally.

The Government rescheduled bilateral official debt at the Paris Club, November 22, 1991. Following a rescheduling of official debt, the Government is expected to reach an arrangement with private creditors on the US$1 billion commercial debt. Dominican government debt is currently trading at about 27 percent of face value in New York. Roughly 55 percent of the commercial debt is held by five international commercial banks (three of which are based in the United States). These banks have expressed interest in the possibility of swapping some of their Dominican debt for ownership in privatized government enterprises. However, progress to date on privatization has been limited and Dominican government debt policy appears to be taking a "buy back" approach. The Dominican monetary authorities enacted a resolution in June 1991 empowering the Central Bank governor to purchase government debt at no more than 25 percent of face value. Under these circumstances, negotiations between the Dominican government and the creditor banks may be protracted.

Dominican government debt to the U.S. government is US$898 million and constitutes roughly 21 percent of total. An IMF Standby Program has been in place since July 5, 1991 and negotiations with the commercial bank creditors may begin following a Paris Club debt rescheduling. The Dominican government is developing a financial sector reform package with the IBRD which may facilitate a Structural Adjustment Loan, and investment regime reforms are under consideration.

5. Significant Barriers to U.S. Exports

The Dominican Republic is a member of the GATT and accepts all GATT codes. Importers are required to have a general import license, but commodity-specific licenses generally are not required. Government controls remain in place for petroleum imports. A few basic agricultural imports, such as wheat and vegetable oil, are licensed by government parastatals. With these exceptions, competition among importers is encouraged. It is estimated that the 1991 U.S. share of the Dominican Republic's imports will be at 1990 levels. U.S. exports to the Dominican Republic will account for approximately 46 percent of all imports, and the U.S. share of manufactured goods will reach 67 percent.

The largest single obstacle to US exports to the Dominican Republic until 1991 was an overvalued peso and the resultant lack of hard currency. The Dominican Government's exchange rate reforms have eliminated this problem and dollars are readily available to local importers.

Standards, tests or labels are not used to keep out U.S. products. The tariff reform implemented in September, 1990 constituted a significant simplification in tariff rates and procedures. Importers report that time-consuming and burdensome administrative hurdles, as well as inconsistent tariff valuations, must sometimes be overcome in moving goods through customs. Local laws have provided excessive indemnity to Dominican agents or distributors dismissed by a foreign

company, regardless of their effectiveness.

Barriers to investment include percentage limits on foreign ownership of most utilities (with the exception of the telephone system), news media companies and financial institutions, as well as requirements that foreigners obtain special permission for large real estate purchases. Companies subject to the foreign investment law can remit profits up to only twenty-five percent of their registered capital per year. Foreign insurance companies are denied national treatment because tax authorities assume their profits are at least 25 percent of their premium income.

6. Export Subsidy Policies

There are no export subsidies currently in effect, although exporters can receive a value-added tax rebate.

7. Protection of U.S. Intellectual Property

The Dominican Republic has signed the Paris and Universal Copyright Conventions. Laws exist to protect U.S. trademarks, patents and copyrights. Problems have arisen in the enforcement of these laws, particularly in television piracy by local cable companies. The Embassy has repeatedly brought these concerns to the attention of the government officials responsible for enforcing these laws. These officials have taken steps to enforce U.S. copyrights but progress has been gradual and limited in scope. The Motion Picture Export Association of America (MPEAA) filed public comments with the U.S. Government in July 1991, describing piracy of U. S. television signals and a video market that is 100 percent pirate. MPEAA member companies' losses were estimated at $720,000.

8. Worker Rights

a. The Right to Association

The Constitution provides for the freedom to organize labor unions and to strike, and for the private sector to lock out employees. The Executive Branch has prepared a revised Labor Code but has not yet submitted it to the Congress which will correct deficiencies in the present antiquated Labor Code. Organized labor constitutes about 12 percent of the total labor force. The membership is concentrated in three major confederations and several other less significant confederations and independent unions. The labor movement is highly politicized. In 1991, the Government extended recognition to unions in the export production zones, although this development was not sufficient to prevent continued antiunion discrimination in these zones. The Labor Code restricts the right to strike, and includes prohibitions on sympathy or political strikes and on strikes in the public, and state-owned, sectors, such as sugar plantations. Nevertheless, 1991 saw strikes by government doctors, nurses and teachers as well as general strikes.

DOMINICAN REPUBLIC

b. The Right to Organize and Bargain Collectively

The current Labor Code prohibits workers from being dismissed for participating in union activities. In general, the Government respects the rights of workers to organize and bargain collectively. There have been problems, however, in the free trade zones where there has yet to be a collective bargaining agreement. Companies have been accused of firing union activists by using provisions in the current Labor Code which have come under criticism from the International Labor Organization (ILO). In another area, a 1990 dispute between the state-owned Dominican Electric Corporation and its union (SITRACODE) led to massive firings of SITRACODE members by the electric corporation. This prompted an ILO complaint in 1991.

c. Prohibition of Forced and Compulsory Labor

The Dominican Government has been the target of criticism by the ILO and non-governmental human rights groups for the treatment of sugar cane workers employed by the State Sugar Corporation (CEA). In 1989 the human rights group "Americas Watch" filed a Generalized System of Preferences (GSP) petition urging the revocation of the Dominican Republic's GSP privileges for violations of worker rights in areas including forced labor. In April 1991, following a review by the GSP Subcommittee of the Trade Policy Staff Committee, the United States Trade Representative (USTR) announced that the Dominican Republic was found to be taking steps to afford internationally recognized worker rights. During the sugar cane harvest which began in late 1990 and continued into 1991 there was little credible evidence of systematic forced or compulsory labor. Forced labor has not been a problem in other areas.

d. Minimum Age for Employment of Children

Dominican law prohibits the employment of children under 14 and restricts the nighttime employment of youths aged 14 to 18. In practice there are large numbers of minors working illegally. In early 1991 the ILO found that "the lack of labor to cut sugar cane has resulted in plantations resorting to child labor for this activity." Subsequently the CEA and the Government repatriated a number of such children to Haiti and the CEA has issued orders prohibiting the hiring of children under pain of dismissal. Nevertheless, sugar cane workers have reported that children still often accompany their parents into the fields.

e. Acceptable Conditions of Work

The Constitution contains the legal authority for the Government to set minimum wage levels and the Labor Code assigns this task to the National Salary Committee. Workers are entitled to 24 hours of rest after six days of work. In practice, a typical workweek is Monday through Friday plus half a day on Saturday. However, for manual and unskilled labor, longer hours are not unusual, and agricultural workers reportedly have much longer work shifts with little rest. Safety and health conditions at places of work do not always meet legal standards.

DOMINICAN REPUBLIC

f. Rights in Sectors with U.S. Investment

U.S.-based multinationals active in the free trade zones represent the principal source of U.S. investment in the Dominican Republic. Section 8B covers the right to organize and bargain collectively in the free trade zones. In the other categories of worker rights, conditions in sectors with U.S. investment do not differ in any meaningful respect from the conditions in sectors lacking significant U.S. investment.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category	Amount	
Petroleum		(D)
Total Manufacturing		70
Food & Kindred Products	(D)	
Chemicals & Allied Products	20	
Metals, Primary & Fabricated	(D)	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	35	
Wholesale Trade		(D)
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, August 1991

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Key Economic Indicators

	1989	1990	1991
Income, Production and Employment			
GDP (billions, U.S. dollars) 1/	10.1	10.9	11.5
GDP Growth Rate (percent)	0.6	2.3	2.5
GDP/Capita (U.S. dollars) 1/	963	1,007	1,038
GDP by Sector (percentage)			
Agriculture, Fishing	13.7	13.2	N/A
Petroleum, Mining	11.8	15.1	N/A
Manufacturing	22.7	22.8	N/A
Construction	4.6	3.7	N/A
Services	43.5	41.7	N/A
Other	3.7	3.5	N/A
Size of Labor Force (millions)	3.4	3.5	3.6
Unemployment Rate 2/	8.0	12.0	N/A
Money and Prices			
Money Supply (M1, pct. growth)	32.2	44.6	50.0
Commercial Interest Rates (est.)	50.0	53.0	53.0
Savings Rate (pct GDP)	17.1	19.0	19.0
Inflation (CPI, year-end)	54.2	49.5	49.0
Official Exchange Rate 3/	527	768	1,040
Parallel Exchange Rate 3/	568	822	1,080
Balance of Payments and Trade			
(Millions of U.S. dollars unless otherwise noted)			
Exports (FOB)	2,354	2,714	2,925
Imports (CIF)	1,693	1,711	1,950
Exports to U.S. 4/	1,474	1,377	1,485
Imports from U.S. 4/	643	680	780
Aid from U.S. 5/	32.3	23.0	21.0
Aid from other countries	N/A	N/A	N/A
External Public Debt (bil.)	11.2	11.7	12.4
Annual Debt Service Payments (bil)	1.8	1.5	1.5
Net Foreign Exchange Reserves	203	603	575
Balance of Payments			
Current Account	-472	-136	-150
Trade Account	661	1,003	975
Service Balance 6/	-1,230	-1,239	-1,225
Transfers	97	100	100
Capital Account	854	538	178
Investment	80	82	N/A
External Debt	402	-455	N/A
Arrears	492	823	N/A
Other	-120	88	N/A
Change in Reserves	379	400	-28

1/ Sucres converted at the average intervention rate for the year. Because of real appreciation of the sucre against the dollar in 1990 and 1991, dollar figures overstate growth of GDP and GDP/capita.
2/ Open unemployment. Underemployment estimated at 40-60 percent.
3/ Exchange rates cited are annual averages.

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4/ U.S. data, may vary from Ecuadorian data.
5/ Data are for fiscal year.
6/ Includes interest accrued but not fully paid.

1. General Policy Framework

The Ecuadorian economy grew 2.3 percent in 1990, below the population growth rate but an improvement over 1989 when growth was 0.6 percent. Growth in 1991 is expected to be around 2.5 percent. The balance of payments performance in 1990 was strong as net international reserves increased three-fold to $603 million. In 1991, reserves have fluctuated around $550 million (three months of imports). In 1990 both growth and reserves were boosted by higher oil revenues because of the Gulf crisis. On the down side, inflation has remained at around 50 percent as the effort to bring it down lost momentum. In addition, Ecuador has accumulated over $1.6 billion of arrears to commercial banks since early 1987.

Government spending patterns have been uneven in the past three years, with periods of fiscal austerity alternating with increased spending. In recent years the government has run small public sector deficits or surpluses, but the uneven spending cycles have contributed to inflation. Deficits are usually financed by foreign borrowing, limited sales of government securities, and accumulation of arrears. The Central Bank has not financed the government deficit in recent years, although it has indirectly financed some parastatals through loans from national development banks.

Monetary creation on the part of the Central Bank has been a major source of inflation. The Central Bank has incurred significant losses in recent years because of a wide variety of subsidies that it offers, and has printed money to cover the losses. For 1991, the money supply increased at the rate of 50 to 60 percent, higher than inflation. Since the Central Bank cannot control its own sources of monetary growth, it has pressured private sector banks, with limited success, to limit private sector credit expansion.

2. Exchange Rate Policies

Ecuador has two functioning exchange rates, the intervention and free-market rates. Public sector transactions, as well as private sector imports and exports, are conducted at the intervention rate, which is set by the Government. Exporters are required to surrender their foreign exchange earnings to the Central Bank for sucres. Foreign exchange is allocated to importers on a weekly basis; usually there is sufficient foreign exchange available so importers do not need to resort to the free market. Residual transactions are conducted in the free market. Foreign currency is readily available in the free market, and there are no restrictions on the movement of foreign currencies into or out of Ecuador.

There is a weekly mini-devaluation of the intervention rate against the U.S. dollar, with an occasional larger devaluation (usually three to six percent) to make up for any

slippage. This policy has, for the most part, kept the sucre competitive, although there has been some real appreciation against the dollar in the last two years. The spread between the intervention and free rates in late 1991 has been less than five percent. At times in the past year the spread has widened to 10-15 percent. This policy has kept the sucre relatively competitive.

3. Structural Policies

Since taking office the Borja government has made a number of structural reforms, introducing several changes each year. The most current reforms are particularly notable because many observers did not expect the Borja government to undertake many initiatives in the second half of its term. Even with these reforms, domestic and foreign investment probably will be limited in the upcoming year, since more needs to be done to liberalize the economy and encourage investment. In addition, political uncertainties created by the upcoming 1992 presidential elections most likely will inhibit investment.

The most notable reforms have been in the area of trade. Maximum tariffs and trade dispersion have been reduced and most non-tariff surcharges have been eliminated. Ecuador agreed to enter Andean free trade in July 1992, six months behind the other members of the Andean Pact. Other major reforms include a new tax law, an in-bond industry law, liberalized foreign investment regulations, and a revised mining law.

A bill that will make Ecuador's highly restrictive labor code somewhat more flexible is now before Congress. The administration has drafted a number of other important reforms and plans to submit them to Congress before the end of 1991. The draft laws would simplify procedures for exporters, reduce loss-making demands on the Central Bank, unify the public sector budget and provide the basis for a more modern capital market.

4. Debt Management Policies

Ecuador and the International Monetary Fund negotiated a stand-by agreement in December 1991 to cover the following year. The previous stand-by expired in February 1991. Ecuador rescheduled 1991 and 1992 interest and amortization payments to the Paris Club in early 1992. Ecuador's previous rescheduling agreement with the Paris Club expired in 1990.

Ecuador stopped servicing its debt to the commercial banks in 1987, and began paying about 30 percent of interest due in June 1989. It began discussions with commerical bank creditors in August 1989, but they have been unable to reach agreement.

At the end of 1990, total outstanding external debt was 11.8 billion dollars, with accumulated interest arrears accounting for 1.6 billion dollars. Over half the debt, 6.8

billion dollars, and almost all the arrears, are owed to commercial banks.

5. Significant Barriers to U.S. Exports

For 1991, tariffs for most products ranged from two to 35 percent. Some agricultural inputs enter duty free, while automobiles carry a 50 percent tariff, although the importation of cars and light trucks is prohibited. Tariffs should be reduced in 1992, as part of either Ecuador's three year program to reduce tariffs or the Andean Pact's efforts to establish a common external tariff for the Pact members. Ecuador's tariff schedule is based on the GATT's Harmonized System of Nomenclature, although Ecuador is not a member of the GATT. Most non-tariff fees on imports have been eliminated; there are plans to eliminate the remaining fees, which total three percent.

All imports must have a prior import license, which is issued by the Central Bank. Licenses are usually made available for all goods, although obtaining them can be a bureaucratic hassle. All foreign exchange transactions for imports and exports must take place through the Central Bank at the intervention rate.

Foreign ownership of banking is limited to 49 percent, although three banks with 100 percent foreign ownership (including one U.S.-owned bank) are allowed to operate. The operations of these banks are somewhat more restricted than those of local banks. Foreign airlines (including one U.S. cargo and two U.S. passenger carriers) operate in Ecuador, but the government limits their operations to protect the state-owned airline.

In 1991 Ecuador's foreign investment regime was liberalized. Foreigners may invest in most sectors without prior governmental approval. Foreign investment is prohibited in the media and limited to 49 percent of bank shares. Foreign investment in public services must obtain prior governmental approval. Cargo preference laws require use of Ecuadorian flag vessels where available. Ecuador has lagged in implementing Andean Pact decisions favoring freer competition in air and maritime services. The government has been slow, and sometimes reluctant to resolve investment disputes.

Government procurement practices do not usually discriminate against U.S. or other foreign suppliers. However, bidding for government contracts can be cumbersome and time-consuming. Many bidders object to the requirement for a bank-issued guarantee to ensure execution of the contract. Shipments to Ecuadorian government agencies must be made via Ecuadorian flag vessel or airlines.

Customs procedures can be difficult but are not usually used to discriminate against U.S. products.

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6. Export Subsidies Policies

The government subsidizes exporters through an exchange rate program known as the "Advanced Sale of Foreign Exchange." Under the program, exporters sell dollars (usually borrowed) to the Central Bank in anticipation of earning those dollars at a later date through exports. The dollars are converted at the intervention rate prevailing at that time. When the exportation actually takes place, the Central Bank compensates for any depreciation of the sucre against the dollar that has taken place since the dollars were sold to the Central Bank.

This complex procedure provides exporters with local currency working capital at dollar interest rates. Since local interest rates exceed 50 percent, and dollars can be borrowed for about 15 percent, the indirect subsidy is large. The government has reduced the program by limiting the advance sales of dollars to 60 days before exporting; previously it had been 270 days. There are no other direct subsidies or preferential interest rates for exporters.

7. Protection of U.S. Intellectual Property

Ecuador is not a member of the World Intellectual Property Organization but does accord protection to foreign-registered property. However, intellectual property rights protection, as governed by Decision 85 of the Andean Pact, is inadequate. Among other limitations, pharmaceutical products cannot be patented, although the manufacturing process of these products is protected. In addition the patent system requires local manufacturing of the patented process or local use of the patented process when the patent is to be renewed five years after patent registration. The Andean Pact adopted Decision 311, which replaces Decision 85, at the December 1991 summit. Illegal registration of patents and trademarks is a problem, since the government lacks the resources to effectively monitor and control such registrations.

Copyright infringement is common, and audio and video recordings as well as computer software are pirated. A proposed reform of the copyright law that would improve protection and enforcement against piracy has been bogged down in the congressional approval process.

8. Worker Rights

a. Right of Association

Under the Ecuadorian Constitution and Labor Code, most workers enjoy liberal rights to form trade unions. Ecuador has ratified the International Labor Organization's (ILO) Convention 87 on freedom of association and protection of the right to organize. Workplaces with 30 or fewer employees are not required to permit unions, and most government ministry workers are not permitted to form labor unions. However, unions are permitted in parastatal enterprises. Approximately 12 to 15 percent of the work force is organized. In 1990, the

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Government approved a maquila (in-bond) processing law. Since the maquila law permits management to contract workers temporarily, formation of trade unions will be difficult in practice, although the maquila law does not prohibit unions. Employees of state-owned enterprises such as hospitals and public utilities may not strike, although in 1991 medical workers, doctors and provinical workers struck.

b. Right to Organize and Bargain Collectively

Ecuador has a highly segmented labor market, with a minority of workers in skilled, usually unionized positions, and the vast majority, about 60 percent of the economically active population, either unemployed or underemployed in the so-called informal economy. Most rural labor is not organized. The Ecuador Labor Code requires that all private employers with 15 or more workers belonging to a union must negotiate collectively when the union so requests. The Labor Code prohibits discrimination against unions and management is required to grant meeting space and time off for union activities. In 1990, the ILO stated that the Labor Code inadequately protected against antiunion discrimination, which often takes place at the time of hiring. The Labor Code provides for resolution of labor conflicts through an arbitration and conciliation board comprised of one representative of the Ministry of Labor, two from the union and two from management.

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 for 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 to 18 are required to have the permission of parents or guardian to work. In practice, these standards are not enforced. In rural areas most children leave school at about 10 years of age to contribute to household income as farm laborers. In the city many children under age 14 work in family-owned businesses and in the informal sector.

e. Acceptable Conditions of Work

The Labor Code provides for a 40-hour work week, 15-day annual vacation, minimum wage and other variable employer benefits such as uniforms and training opportunities. The vast majority of organized workers in the parastatals and formal private sector enterprises earn substantially more than the minimum wage and receive significantly better benefits. The minimum wage is the operative wage in many informal sector activities. Employers are responsible for maintaining safe and clean working conditions. The Social Security Institute is responsible for enforcement, which is adequate in the formal sector.

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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 tend to respect the generous Ecuadorian Labor Code to the letter. The Embassy is aware of no strikes or serious labor problems in any U.S. subsidiary during 1991. U.S. companies with 15 or more employees are subject to the same rules and regulations on labor and employment practices governing basic worker rights (right to association, collective bargaining, etc.) as Ecuadorian companies.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category	Amount	
Petroleum		121
Total Manufacturing		174
Food & Kindred Products	30	
Chemicals & Allied Products	16	
Metals, Primary & Fabricated	18	
Machinery, except Electrical	0	
Electric & Electronic Equipment	18	
Transportation Equipment	14	
Other Manufacturing	78	
Wholesale Trade		35
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		330

Source: U.S. Department of Commerce, Survey of Current Business August 1991, Vol. 71, No. 8, Table 11.3

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Key Economic Indicators

(In Colones or U.S. Dollars as indicated)

	1989	1990	1991 (est)
Income, Production, and Employment			
GDP (mils current colones)	32,230.0	41,057.2	48,093.0
GDP (mils constant 1962 cols)	3,177.0	3,285.0	3,374.0
Real GDP growth (pct change)	1.1	3.4	2.7
GDP by sector (pct GDP)			
Agriculture	12.0	11.2	10.0
Manufacturing	18.1	18.6	18.8
Commerce	33.6	34.5	35.2
Public Admin/Utilities	10.2	9.5	9.5
GDP per capita (const 1988 $)	913.3	926.0	932.5
Labor force (urban) (thous) 1/	862.0	982.8	962.8
Unemployment (urban) 1/	8.4	10.0	8.0
Money and Prices			
Money (M1) (mils current cols)	3,137.0	3,854.9	3,876.1
Commercial interest rates			
loan	13-20	17-22	20-22
deposit	10-19	10-19	8-20
Savings rate (pct GDP)	14.5	9.9	10.5
Investment rate (pct GDP)	12.1	11.8	13.8
Consumer price index (pct change)	23.5	19.3	12.0
Wholesale price index (pct change)	18.5	18.0	16.0
Exchange rate (colones/$)			
official	5.0	7.9	none
market rate	6.4	7.7	8.0
Balance of Payments and Trade (mils $)			
Total exports FOB	497.5	580.2	621.1
exports to U.S.	280.L	237.5	260.0
Total imports CIF	1,161.3	1,262.4	1,365.0
Imports from U.S. FAS	470.0	547.0	550.0
AID from U.S.	296.0	261.9	235.1
AID from others and IFIs	179.6	165.0	190.0
Total U.S. direct investment 2/	100.0	105.0	125.0
External public sector debt (bils $) 3/	1.9	2.0	2.0
Debt service	248.0	247.6	332.3
Net Int'l Reserves (yr-end) 4/	278.3	468.8	515.1
Current account balance 5/	-183.8	-136.6	-102.2

1/ No reliable unemployment or labor force estimates exist for the rural sector. Underemployment (part-time workers and workers paid below minimum wage) may be as high as 49 percent.
2/ Includes reinvestment
3/ Includes banking system obligations
4/ Includes both Central Bank and commercial bank reserves; 1990 reserves include a gold revaluation of approximately 34.7 million dollars
5/ Includes transfers

EL SALVADOR

1. General Policy Framework

The Government of El Salvador embarked on an ambitious, comprehensive structural adjustment program in 1989. The positive results of the free market reforms are helping El Salvador climb out of the economic stagnation caused by a decade of civil war and years of economic mismanagement. The reform measures included adoption of a market-determined exchange rate, removal of price controls on most basic consumer goods, a narrowing of import duties to a 5 to 35 percent range, upward adjustment of interest rates to positive real levels, and abolition of the monopoly buying and export authority of the national coffee, sugar, and cotton institutes. The measures helped El Salvador's economy expand by 3.4 percent in 1990, the highest growth rate since the start of the civil war in 1979. The recovery was led by the important agricultural sector, which accounts for the bulk of El Salvador's export earnings. The FMLN guerrillas, however, continue to hamper economic activity.

The Government has exercised considerable discipline in restraining growth in the public sector. Tough spending cuts and increased revenue collections led to impressive improvement in the fiscal picture in 1990. Before grants, the consolidated public sector deficit dropped to 2.5 percent of GDP, down from 4.9 percent in 1989. However, implementation delays of certain fiscal measures, combined with the growing deficit of the Government electric utility which was exacerbated by a drought in 1991, raise concern that the Government will not meet its fiscal targets in 1991.

A key factor in the Government's economic reform efforts is strict adherence to an orthodox monetary program. In 1990 the Government achieved a major victory over inflation, keeping it to 19.3 percent on a point-to-point basis despite the surge in world oil prices. In August 1991 the Central Bank began to control liquidity in the banking system through open market operations rather than through the forced placement of stabilization bonds to the banks. The Central Bank also began to experiment with open market operations in foreign exchange, purchasing about six million dollars from exchange houses in 1991. The Government intends to gradually eliminate interest rate ceilings, leading the way to market-determined interest rates. By keeping a tight hold on credit to the public sector in 1990, Central Bank credit to the private sector grew at a faster-paced 11 percent. Despite slower broad money supply growth in 1991, colon-denominated savings are up, encouraged by monetary restraint, higher interest rates, and exchange rate stability. Although business confidence is on the rise, the guerrilla war continues to limit both domestic and foreign investment.

Privatization of El Salvador's ailing banking system remains one of the major policy challenges facing the Cristiani administration. In 1990, the administration liquidated three insolvent banks and the National Assembly established the legal basis for a private banking system. Employees and small investors will begin buying shares in two state-owned banks in November 1991, and the shares will be available for purchase by the general public in early 1992. The Central Bank plans to privatize three more commercial

banks in 1992-93.

Foreign economic assistance has been indispensable to finance the chronic balance of payments deficit and a large proportion of the public sector capital investment budget. In 1990, foreign assistance plus family remittances and private capital inflows averaging over 600 million U.S. dollars per year contributed to a balance of payments surplus of more than 150 million dollars. During fiscal year 1991, the United States will administer a program of approximately 235 million dollars in direct economic assistance. Other international donors include the World Bank, the Inter-American Development Bank, West Germany, and Taiwan.

2. Exchange Rate Policies

The Government of El Salvador is committed to maintaining a flexible, market-determined exchange rate. In June 1990 the Government adopted a free market floating exchange rate system and legalized foreign exchange houses to increase competition in the legal exchange market. As of October 1991, more than 60 private and bank-affiliated exchange houses were operating legally in El Salvador. Official receipts payments and coffee exports continue to be handled by the Central Bank at a market-determined rate. Non-coffee export proceeds exceeding US$5,000 are generally handled by commercial banks, and all other goods and services may be transacted in any market. With the legalization of the exchange houses, the dollar black market has been virtually eliminated. The international financial institutions strongly support the government's exchange rate policy.

Buoyed by international assistance and family remittances exceeding $600 million annually, the colon has traded at a stable 8 colones per dollar range since August 1990. With higher domestic inflation than international, the real effective exchange rate appreciated by about ten percent from October 1990 to September 1991. This has generated some controversy in El Salvador among exporters who complain that the appreciated colon has reduced their competitiveness.

3. Structural Policies

Pricing Policies: Since liberalization in 1989, prices on all but five basic necessities and utilities are market-determined. In 1990 a price band system was established on corn, the basic grain produced in El Salvador, allowing the import duty to fluctuate to keep the market price within a narrow band. Despite electricity tariff increases in 1991, the Government continues to subsidize electricity rates, keeping them substantially below market rates. This has been exacerbated by the increased use of thermal energy in 1991 as a result of the lack of rainfall. Diesel fuel prices are subsidized through taxes on regular and premium gasoline.

Tax Policies: The principal sources of government current revenues are the stamp (sales) tax, income taxes, import duties, and export taxes on coffee. Net worth, property transfer taxes, and other indirect taxes also

represent important sources of government income. At the end of 1989 the Salvadoran authorities introduced several tax reform measures to stimulate investment and improve public finances. The Government eliminated export taxes on sugar and shrimp, and lowered the effective export tax on coffee. The flat stamp tax was simplified to a uniform five-percent rate and import duties were reduced to a range of five to 35 percent in 1990. Corporate and income taxes were simplified in order to encourage voluntary payment. Fiscal collections, which have been a weak point in the Government's economic performance, improved considerably in early 1991.

Salvadoran law provides a myriad of fiscal benefits for both local and foreign firms, including five to ten-year exemptions from income and net worth obligations, and certain import tariff benefits for export-oriented firms.

4. Debt Management Policies

Supported by large-scale concessional loans by international development agencies, El Salvador has avoided amassing an unmanageable debt burden. El Salvador's total external debt rose only seven percent in 1990, to two billion dollars. More than 90 percent of all external debt is owed to official governments (mostly the United States) and multilateral development lenders.

In August 1990, the International Monetary Fund (IMF) approved a stand-by agreement for El Salvador, which led the way to a Paris Club debt rescheduling in September 1990. In June 1991 the World Bank agreed to provide a $75 million structural adjustment loan to be disbursed in 1991-93. The Inter-American Development Bank (IDB) is devising a policy-based sector loan, which could be ready by mid-1992. This loan would permit El Salvador to be considered by the National Advisory Council on International Monetary and Financial Policies for debt reduction under President Bush's Enterprise for the Americas Initiative.

El Salvador had no external debt arrears as of year-end 1990, and in fact has pre-paid $100 million in non-concessional debt. The IMF Board approved a follow-on IMF stand-by agreement in January 1992. With a favorable reserve position, the Government is not seeking another Paris Club rescheduling agreement.

5. Significant Barriers to U.S. Exports

El Salvador's emerging free market regime poses relatively few significant barriers to U.S. exports. There are state monopolies in some sectors, and problems have been noted in the following areas:

Investment Barriers: El Salvador welcomes foreign investment and the 1989 Foreign Investment and Guarantee Law is liberal and comprehensive. However, the Government does bar private sector investment (domestic and foreign) in key utilities such as basic telephone services and electric power generation and distribution. A major investment dispute

between U.S. investors and the Salvadoran government remains unresolved. In 1986, the 50-year concession granted to foreign investors to distribute electric power through the Compania de Alumbrado Electrico de San Salvador (CAESS) expired, and the Government reassumed control of CAESS. However, the shareholders, 90 percent of whom are U.S. citizens, have not yet been compensated. Negotiations continue between the Salvadoran Government and the U.S. investors on this outstanding dispute.

Services Barriers: The 1980 nationalization of the banking system placed strict controls on the operations of foreign banks. Sight deposits on foreign banks are limited to 30 percent of total deposits, and 50 percent of the total loan portfolio must be funded by external resources. Although the government is in the process of reprivatizing the banking system, ownership of commercial banks and savings and loans will be restricted to Salvadoran citizens for two years after privatization. No foreign investment is currently allowed in foreign exchange trading houses.

Standards, Testing, Labelling, Certification: Despite significant reduction of bureaucratic barriers to imports, import licenses are required for a number of customs categories, including live animals, fish, powdered milk, and basic grains. Sanitary certificates are mandated for the import of unprocessed food and live animals.

Customs Procedures: Importers often experience bureaucratic delays in processing customs documents, and on occasion shipments have been delayed for long periods due to strikes by Customs officials. In addition, U.S. freight forwarders report frequent damage and theft of merchandise when Customs and border officials open containers for inspection at the Guatemala-El Salvador land border.

6. Export Subsidies Policies

El Salvador's 1990 Export Reactivation Law and Free Trade Zone Law establish generous benefits for firms engaged in export of non-traditional goods (ie. merchandise other than coffee, cotton, sugar, ocean shrimp, and beef). The Export Reactivation Law provides total exemption from the five percent stamp tax for any trading company, drawback industry, or firm exporting all or part of production. Trading companies and manufacturers exporting less than 100 percent of their production are entitled to an eight-percent rebate on the FOB value of exports, and drawback operations are entitled to an eight-percent rebate on the local value added. As a temporary measure, the Central Bank has authorized the eight-percent rebate for companies located in the free zone as well. The Free Trade Zone Law offers fiscal incentives to firms that develop or operate in free trade zones, including exemption from income taxes for a 10 or 15 year period, and total exemption of import duties on raw materials and industrial inputs.

El Salvador joined the GATT in 1991, but is not a signatory to the GATT Subsidies Code.

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7. Protection of U.S. Intellectual Property

El Salvador's patent and trademark laws date from the first part of the century. Copyright laws are severely deficient, especially in areas related to new works and technologies. Reform of El Salvador's copyright law has become an important bilateral issue. The Government of El Salvador is studying ways to strengthen intellectual property rights legislation and enforcement. The patent laws also contain compulsory licensing, exclusion provisions, and short terms which are barriers to adequate and effective protection.

Trademarks: Counterfeiting is not a major problem in El Salvador, although the registration system is outdated and not computerized. Registration of a mark is valid for 20 years from the date of grant, renewable for like periods indefinitely. However, in addition to the usual renewal fees, an annual tax must be paid for each mark for the duration of the registration term.

Copyrights: El Salvador's copyright law is deficient in several significant respects. Sound recordings are not protected, in contravention of El Salvador's obligations under the Rome and Geneva phonograms conventions. Nor is there express protection for computer programs or electronic data bases. Where a natural person is the author of a work, the term of protection is life plus 50 years. However, where a copyright vests in a legal entity, the term of protection is reduced to 25 years from first publication, well below widely accepted international norms. The law also contains a broad limitation on copyright, allowing publication (for a small indemnity fee) of works considered useful for national advancement when no copies of the work are available in El Salvador. The U.S. recording industry reports serious enforcement problems in El Salvador. With no legal protection, piracy of sound recordings has flourished. In 1991, the Record Industry Association of America filed a "Special 301" petition against El Salvador for lack of copyright protection. The market for video cassettes is estimated to be largely pirate also. The high cost of books locally has led to extensive unauthorized photocopying of books for sale.

New technologies: Unauthorized retransmission of U.S. satellite signals by local cable operators is a growing problem.

El Salvador's inadequate copyright laws have a detrimental effect on U.S. exports. The U.S. record industry predicts that 90 percent of the sound recording market, approximately 100,000 units per month, is claimed by illicit copies. U.S. motion picture exporters estimate that losses due to video piracy reach $792,000. Losses due to signal theft are estimated at $600,000.

8. Worker Rights

a. The Right of Association

The Constitution prohibits the Government from using

nationality, sex, race, creed, or political philosophy to prevent workers from organizing themselves into unions or organizations. There are approximately 150 trade unions, employee associations, and peasant organizations currently active, with a combined membership of just over 400,000. Legally, however, only private workers have the right to form unions and strike, while employees of the nine autonomous public institutions may form unions but not strike. In practice the most important strikes in 1991 were carried out by public employees. Cumbersome, time-consuming legal procedures which must be completed before a legal strike is held are rarely fulfilled by unions or management, therefore most strikes are technically illegal. A new labor code drafted by the country's largest trade union group (UNOC) was presented to the Legislature in 1991 and is now under study.

b. The Right to Organize and Bargain Collectively

Both the Constitution and the Labor Code guarantee the right of collective bargaining, which is used extensively in the private sector. The Constitution and the Labor Code also state that union officials, at the time of their election and throughout their term, shall not be fired, suspended for disciplinary reasons, removed, or debased in their work conditions except for legal cause. El Salvador currently has one export processing zone, which is subject to the same labor regulations as other sectors. However, there are no labor unions represented in any of the firms in this zone.

c. Prohibition of Forced of Compulsory Labor

The Constitution prohibits forced or compulsory labor except in cases of public calamity and other instances specifically determined by law.

d. Minimum Age for Employment of Children

The Constitution prohibits the employment of children under the age of 14. The Labor Code states that exceptions can be made only in cases where it can be demonstrated that such employment is absolutely indispensable to the sustenance of the minor and his family. The Constitution also prohibits the employment of persons under 18 and all women in occupations considered hazardous. The Ministry of Labor is charged with enforcing these provisions of the law through worksite inspections.

e. Acceptable Conditions of Work

The Government establishes a minimum wage for various sectors of the economy. The law limits hours of work for minors between 14 and 18 years of age to a maximum of six hours per day, while for adults it is eight hours per day. The Constitution and the Labor Code also spell out the rights of workers to a safe and healthy working environment. The regulations are enforced by the Ministry of Labor, which conducts worksite inspections and levies fines on offenders. In practice, enforcement is limited by severe budget constraints and mismanagement within the Ministry.

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f. Rights in Sectors with U.S. Investment

Worker rights conditions in sectors where U.S. investment is present do not vary from those described above.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category	Amount	
Petroleum		38
Total Manufacturing		19
Food & Kindred Products	0	
Chemicals & Allied Products	9	
Metals, Primary & Fabricated	5	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	4	
Wholesale Trade		-5
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		52

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, August 1991

GUATEMALA

Key Economic Indicators

	1989	1990	1991 (est.)
Income, Production, Employment			
Gross Domestic Product (GDP), Current Quetzals	23,685	34,289	46,988
GDP, Current USD	8,364	7,624	8,131
GDP, 1958 Quetzals/1	3,288	3,391	3,500
Real GDP Growth Rate	4.0	3.1	3.2
Manufacturing	2.3	2.0	1.7
Agriculture	3.1	3.6	3.1
Mining	3.4	(12.2)	(1.3)
Construction	7.8	(7.7)	6.8
Utilities	7.8	5.9	0.8
Transportation	10.4	7.4	6.0
Commerce	3.5	2.1	2.9
Finance	6.3	7.8	7.6
Housing	2.1	2.3	1.8
Public Admin/Defense	4.6	3.3	3.9
Service	2.3	3.5	2.5
Real Per Capita GDP (Current USD)	934	828	703
Labor Force (thousands)	2,666	2,748	2,872
Unemployment rate (pct)/2	6.2	6.4	6.5
Money and Prices			
Money Supply (M1) (Millions of Quetzals)	2,415	3,224	2,891
Commercial Interest Rates			
Savings (pct)	13.0	20.0	16.0
Loans (pct)	16.0	16.0	24.0
Savings rate (pct GDP, current prices)	14.5	10.9	13.8
Investment rate (pct GDP, current prices)	9.6	8.4	9.6
Consumer Price Index (pct change from previous year)	17.9	60.6	11.0
Wholesale Price Index (pct change from previous year)	N/A since 1986		
Exchange Rate (Quetzal/USD)			
Banking System Parallel	2.83	4.86	5.08
Black Market	2.83	4.50	5.08
Balance of Payments and Trade (Millions of US$)			
Total Exports FOB	1108	1163	1398
Total Exports to US	308	450	450
Total Imports CIF	1653	1648	1938
Total Imports from US	601	652	700
Aid from US /3	154	128	102
Aid from Other Countries	N/A	N/A	N/A
Total US Direct Investment	N/A	N/A	N/A
External Public Debt	2,731	2,602	2,612
Annual Debt Service Payments			

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(Paid Rather than Due)	549	488	N/A
Gold and Foreign Exchange Reserves	441	371	789
Balance of Payments			
Trade Balance	(545)	(485)	(540)
Current Account Balance	(370)	(279)	(259)

1/ All figures for GDP growth rate and sectoral breakdown are provided by the Bank of Guatemala (BOG) based on 1958 Quetzals.
2/ Data reported by Bank of Guatemala. Statistics do not reflect underemployment or participation in the informal sector of the economy. Labor Ministry reports underemployment of 40 percent and unemployment of 25 percent for a total of 65 percent. We have no reliable basis for reconciling the estimates of the Bank and the Ministry.
3/ Includes direct aid obligated and disbursed.

1. General Policy Framework

On January 14, 1991, Guatemala made a peaceful transition from one civilian, democratically-elected government to another. The incoming Serrano administration immediately confronted the challenges of stabilizing the economy, establishing conditions for long-term balanced, market oriented growth, increasing public sector investment, and improving social services. The previous government had implemented many fundamental changes required to permit market determination of relative prices, costs, and rates of return. The downside of the legacy, however, was the result of inconsistent fiscal and monetary policies, including a serious current account deficit, excessive currency in circulation, tax collections down to 7 percent of GDP, arrearages to multilateral lending institutions, 60 percent inflation, and virtually no international reserves.

Short term, the new administration can claim considerable economic success. To soak up the expanded money supply and reduce inflation, the central bank placed government bonds with the private sector, which repatriated money from abroad for bond investment. As a result, the international reserve position improved, while inflation plummeted from an accumulated rate of 36.5 percent for the first nine and a half months of 1990 to slightly more than 8 percent for the same period in 1991. With inflation down dramatically, the exchange rate has stabilized at approximately 5 quetzals per U.S. dollar.

In its ten months in office, the Serrano Administration has exhibited considerable skill in its management of fiscal policy. The government inherited an anticipated budget deficit of 5 percent of GDP for 1991, which it has reduced to an estimated 2 percent of GDP. A ten percent current expenditure reduction and major cuts in planned investment spending, plus some increases in revenues, led to a balanced budget for the first six months of the year. The government adopted and, so far, has maintained a policy of no net lending from the central bank (Bank of Guatemala) to the central government. U.S. and other bilateral grants and project loans have been available to the government, but the Government of

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Guatemala has not been able to tap the resources of international financial institutions because of approximately $110 million in debt service arrears owed to the World Bank and IDB. Recently however, a $32.8 million Inter-American Development Bank (IDB) loan was issued after IDB arrears were cleared.

Excessive spending and weak revenue collections combined to boost the deficit in 1990; government revenues fell to approximately 8.2 percent of GDP. As a result, badly needed social services and government investment have both suffered. The government's proposed fiscal reform program (see Section 3) is projected to increase revenues to approximately 10 percent of GDP by 1992.

Monetary policy: The Serrano Administration has contracted and controlled the money supply through a policy of positive real interest rates for attractive government securities. When necessary, the Bank of Guatemala has sold dollars to absorb excess liquidity in the economy. So far the government's policies have been successful. In fact, the Administration will do better than its goal of 15 percent inflation for 1991, with current informal estimates projecting that inflation may be held to about 11 percent.

2. Exchange Rate Policy

Foreign exchange is sold at auction on a daily basis. The base exchange rate for the auction is determined by a weighted average of the previous three weeks' successful bids in the auction. Bids are accepted within a band of 5 centavos (1 cent) on either side of the base rate. Those seeking to purchase foreign exchange must deposit with the Bank of Guatemala 100 percent of the amount they seek to purchase the day before the auction. The Monetary Board determines the amount of foreign exchange to be sold at each auction (raised in late October from $3.5 million to $4 million per day.)

The central bank recently eliminated the former two to three percent differential between the buying and selling rate for U.S. dollars. A one percent commission charge on transactions remains. There are no restrictions on the purchase, use, or removal of foreign exchange available through the auction.

The Guatemalan Government altered the exchange rate system several times in 1990. Notwithstanding the uncertainty created by this shifting of the system, the real effective rate remained in line with relative Guatemalan prices in 1990. Although the quetzal has appreciated in real effective terms over the last several months, that appreciation does not appear to have affected the competitiveness of Guatemalan exports or U.S. imports.

3. Structural Policies

Trade and Investment Liberalization: The Serrano Administration has followed in the footsteps of its predecessor in working to open the Guatemalan economy to

increased trade and investment flows. During the past two years, export taxes have been eliminated. Import duties have been considerably reduced, and the first steps are being taken toward the consolidation of import duties. Prior to its July accession to the General Agreement on Tariffs and Trade (GATT), Guatemala reduced its ad valorem rates on the CIF value of virtually all manufactured goods to a range of 5 to 40 percent. As part of the fiscal reform legislation now pending before the Congress, Guatemala's tariff band will be consolidated at 10 and 20 percent.

The Government has now signed a trade and investment framework agreement with the United States under the Enterprise for the Americas Initiative (EAI), which both governments see as a key mechanism for resolving trade and investment disputes and moving toward closer bilateral trade and investment relations. A radical aviation policy change under the new Serrano Administration in 1991 led to the virtual completion of negotiations on a "open skies" bilateral aviation agreement with the U.S. Only disagreement on a paragraph on the conversion and remittance of airlines earnings prevented completion of the agreement. Progress toward greater economic integration with other Central American countries is being made.

Pricing Policies: Generally, prices in Guatemala are determined by market decisions. Price controls have been virtually eliminated, with a "suggested" price list having taken the place of controls. A few price distortions still exist, however, such as the subsidy to public transportation on diesel fuel. Despite a recent, politically contentious 47 percent average increase in electricity rates, at least 57 percent more is needed to cover operational costs and a portion of debt service. The national electric company is the largest parastatal drain on the Government's budget, and a source of continuing friction between the nation's economic managers and national political parties backing the company's unionized labor force.

Tax Policies: For the last five years, the principal taxes in order of revenue production have been value added taxes, import taxes, income tax (personal and corporate), and excise taxes. The Government has proposed a major fiscal reform program which includes a significant tax reform package, some administrative reform measures, and steps toward a simplified tariff system. The goal of the fiscal reform program is to increase government revenues by approximately one billion quetzals in 1992 to approximately 10 percent of GDP, an increase of roughly one-third over the expected 1991 base. The program was formally presented to the Congress on November 6, 1991. But because the package is controversial, and the Guatemalan Congress is not controlled by, nor necessarily inclined to support, the President's small political party, the timing and final form of passage of this proposed legislation is uncertain.

Regulatory Policies: Generally, foreign investment receives national treatment in Guatemala. The Government essentially does not regulate investment flows in the country, although bureaucratic red tape can at times constitute a barrier to investment.

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4. Debt Management Policies

Guatemala's total external debt of $2.6 billion, while burdensome, is manageable since it represents approximately 30 percent of GDP. The debt service paid in 1990 represented 42 percent of exports. Most of the debt is held by the Government and the Bank of Guatemala and is owed principally to official lenders and multilateral institutions. The Government does not have rescheduling agreements with the Paris Club for official debt, or with commercial lenders for private debt.

Until recently, Government access to badly needed international lending had been held up by arrears owed to the World Bank (approximately $90 million) and to the Inter-American Development Bank (IDB) (approximately $20 million). In October 1991 the Guatemalan Government paid off its accumulated arrears to the IDB, clearing the way for signature of a $32.8 million IDB loan which had been on hold since early 1990, and for approval of a badly-needed $14.4 million loan for river basin management in the Chixoy River Valley. After the enactment of fiscal reform, the Guatemalan Government is expected to complete negotiations with the International Monetary Fund (IMF) on a standby agreement. The Government expects to arrange a financing package with the United States and other Latin American bridge loan sources in order to clear its arrears to the World Bank. The first tranche of a subsequent Structural Adjustment Loan (SAL) will be used to pay off the bridge financing. Payment of the arrears would unfreeze more than $180 million in suspended World Bank disbursements, and open the door to additional lending. Such lending is critical as improved infrastructure, efficient financial markets, and a viable fiscal administration are vital to the continued growth of the Guatemalan economy and expansion of trade and investment flows.

5. Significant Barriers to U.S. Exports

Import Tariffs: All Guatemalan imports, except those imported under special industrial incentive programs and direct government imports, are subject to the common external tariff of the Central American Common Market. This common tariff maintains ad valorem rates (between 5 and 40 percent) on the CIF value of essentially all manufactured goods. (This tariff is slated to drop to between 20 and 5 percent by the end of 1992. Guatemala is now seeking legislative authority under its fiscal reform program to comply with this proposal.) This range includes a 3 percent surcharge made permanent in 1990. There is a value added tax of 7 percent to be paid on the sum of ad valorem duty and the CIF value of the import. Tariffs on imports of raw materials and machinery should go down in the future since Guatemala is now a GATT member.

The government limits the importation of some agricultural products through import tariffs ranging from 5 to 40 percent, and the use of nontariff barriers in the form of import licensing requirements. Most serious in the latter category are import licensing requirements for grains, oilseed products, and other bulk items. Such licenses are issued by

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different government agencies and frequently are issued in a manner that favors one country of origin over another. Some products are occasionally banned, such as apples during the Christmas season.

There are at present no barriers to the transport and shipment of goods to and from Guatemala, although local exporters have complained about high maritime freight rates and security surcharges. Four Central American Liner Association (CALA) members (Sealand, Seaboard Marine, Crowley, Caribbean Transport, and Empresa Naviera Santa) carry approximately 75 percent of the marine cargo into and out of Guatemala. Two smaller lines opened operations in 1990. This brought the total number of lines serving Guatemala to 11, which further increased competition and could serve to lower transport rates to the U.S. market.

Services Barriers: While there are few formal transparent requirements that limit the entry of or discriminate against U.S. companies, informal approval procedures do restrict market entry in service industries such as banking, auditing, and insurance. In the banking industry, only two foreign banks (Citibank and Lloyds) are currently operating. Citibank entered the market in 1990, the same year Bank of America withdrew after many years of operation here. In the insurance and auditing sectors, only national companies may operate. U.S. insurance companies may act as reinsurers, while U.S. auditing firms must associate with local accounting firms. As a rule, U.S. companies are permitted to participate in the tax and consulting sides of the accounting business.

When Pan American World Airways ceased operations in December 1991, the Government of Guatemala not only seized Pan American's assets in Guatemala, but brought a criminal court case against PanAm, rather than a civil case. Additionally, the Government forbade the local PanAm manager to leave the country. As of late December, 1991, this case was pending in the Guatemalan legal system.

Investment barriers: Generally, there are few legal or regulatory barriers to investment in Guatemala, whether foreign or domestic. The Guatemalan Government has undertaken various initiatives in recent years to improve the climate for foreign investment. Foreign investors are granted national treatment by law and foreigners can own up to 100 percent of local businesses, although managers must be at least temporary residents of the country.

Two years ago, the government of Guatemala approved the establishment of Free Trade Zones which provide various incentives such as total exemption from import duties and customs charges, and exonerations of income, property, import and consumption taxes for varying lengths of time. There are no restrictions on the repatriation of profits, although delays have been experienced in currency conversion during times of foreign exchange shortage. The government is developing a Ventanilla Unica (One Stop Window) to assist foreign investors, on the model of its successful one-stop export facilitation office within the Ministry of Economy.

Government Procurement Practices: All government

purchases over $55,000 must be submitted for public competitive bidding, and no fewer than five bidders must participate. Although the rules are clear, U.S. suppliers have complained 1) that the "emergency" exemption from the competitive bidding requirement has been inappropriately used, and 2) that European bilateral assistance has been tied to noncompetitive commercial purchases made from European Community sources.

Customs procedures: Some importers have recently complained that burdensome customs procedures and administrative delays have created difficulties for the importation of American consumer products. They claim that such administrative delays are related to a desire to perpetuate payoffs for local customs officials.

6. Export Subsidies

Exports are not subject to subsidies, and the relatively high export taxes of the past (up to 30 percent) were completely phased out in 1990. Limited import and tax exemptions are available to certain companies operating in free trade industrial zones, which makes products manufactured for export there cheaper than they otherwise would have been.

7. Protection of U.S. Intellectual Property

Modern technology has outstripped the existing body of Guatemalan law addressed to intellectual property rights. Guatemala's 1954 copyright law does not expressly protect computer software, electronic data bases, sound recordings or the retransmission of satellite signals. Even if the law provided such protection, enforcement would be difficult due to the absence of fines or prison sentences regardless of the seriousness of the offense. In this environment the Guatemalan market has experienced growth in pirated tapes, records, computer software and other products from the U.S. during the last decade.

Copyright Policies: As pressure from U.S. exporters mounts, the government has begun to address the issue of copyright protection, even if only by its narrow focus on television retransmissions. In the waning days of the previous Administration, the Guatemalan Congress passed a new law governing cable retransmissions. But the new Congress suspended the law in February 1991. Now the Administration and the Congress are working on a new law which would grant operating licenses only to cable companies which have obtained the rights to rebroadcast from the U.S. owner. In the meantime, the Motion Picture Exporters Association of America (MPEAA) has filed a petition with the Office of the U.S. Trade Representative (USTR) seeking the restriction of GSP benefits for Guatemala based on lack of copyright protection for their products here. The MPEAA claims that Guatemalan cable operators earn between $36 to $40 million annually for which they do not pay royalties to copyright owners. The Interagency Committee found that the complaint had a basis, and a formal GSP review is currently pending on the issue.

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8. Worker Rights

a. Right of Association

Workers face complex bureaucratic procedures in obtaining authorization for a union to operate legally. The Ministry of Labor began in early 1991 to use its administrative authority to simplify the regulations covering recognition of trade unions. Workers have the right to strike under cumbersome regulations. To avoid these procedures, most strikes are held illegally, but no government action is taken. Local and international human rights groups and the ICFTU assert that unionists are often targets of death squads. The ILO has urged the government to appoint a special prosecutor. The Human Rights Ombudsman has established a special office to deal with trade union complaints. A new Labor Code has been drafted with ILO assistance and is under consideration by the Congress.

b. Right to Organize and Bargain Collectively

The Labor Code allows collective bargaining, but few workers are covered by collective bargaining agreements. Although antiunion practices are forbidden, enforcement requires court action, and penalties are almost nonexistent. All Labor Code provisions apply to the new export processing zones, but abuses of worker rights in the zones have been documented, and reforms to the 1989 EPZ law are scheduled to be proposed.

c. Prohibition of Forced or Compulsory Labor

The Constitution bars forced labor and the practice generally does not exist. However, some groups charge that forced participation in the civil defense patrols (PAC) violated prohibitions against forced labor. There have been credible reports of isolated instances of unpaid PAC members being used to provide free manual labor, but no systematic pattern of such abuse was established.

d. Minimum Wage for the Employment of Children

The Constitution provides a minimum age of 14 for the employment of children. This is not effectively enforced in the informal sector. In the industrial sector, where government labor codes are more likely to be enforced, child labor does not appear common.

e. Acceptable Working Conditions

The Constitution provides for a 44-hour work week. While occupational safety and health regulations exist, the mechanism for their enforcement is not effective. Many workers do not receive the minimum wage they are entitled to.

f. Rights in Sectors with U.S. Investment

Guatemala does not register foreign investment, and the Embassy does not have accurate records of U.S. investment in any of the specified sectors. Union leaders believe that international corporations in Guatemala have shown more

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respect for worker rights than have many of their Guatemalan counterparts. While there have been occasional problems with U.S. investors, international public opinion is often used to pressure foreign transgressors of worker rights. The 1991 study of the "maquila" sector included firms owned by U.S. investors; although American investors were not singled out, labor code violations were found to be common in this sector generally. U.S. companies operating in Guatemala are more likely to have unions than their Guatemalan competitors.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category	Amount	
Petroleum		63
Total Manufacturing		115
Food & Kindred Products	36	
Chemicals & Allied Products	43	
Metals, Primary & Fabricated	(D)	
Machinery, except Electrical	0	
Electric & Electronic Equipment	-1	
Transportation Equipment	0	
Other Manufacturing	(D)	
Wholesale Trade		2
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		180

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, August 1991

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Key Economic Indicators

	FY89	FY90	FY91 1/ projected
Income, Production and Employment			
GDP (nominal) ($ billion)	2.1	2.4	N/A
GDP per capita (US$)	329	370	N/A
Real GDP growth rate (pct)	-1.5	-3.0	-5.0
Real GDP per capita (1976 US$)	156.7	149.3	146.7
Real GDP per capita growth (pct)	-3.3	-4.7	-1.8
GDP by sector (percent)			
Agriculture	27.5	N/A	N/A
Commerce	17.0	N/A	N/A
Manufacturing	15.0	N/A	N/A
Construction	6.5	N/A	N/A
Mining, fishing and forestry	5.0	N/A	N/A
Government	4.0	N/A	N/A
Other	25.0	N/A	N/A
Inflation (year-end, pct)	9.0	15.5	15.0
Population (millions)	6.38	6.48	6.5
Labor force (millions)	2.84	2.90	N/A
Unemployment (percentage)	25-50	25-50	25-50
(Rough estimate - there are no current data available)			
Money and Prices			
Money supply M1 (mill.gourdes)	2,040	2,083	N/A
Interest rates 1 yr CD (pct)	15-18	15-22	N/A
Consumer price index (1985=100)	102.3	116.3	138.8
Gross official reserves (weeks of imports)	1.3	0.11	N/A
Gold and forex reserves ($ millions)	19.6	10.0	11.5
Exchange rate (gourdes/US$)			
Official	5.0	5.0	5.0
Parallel (avg)	7.0	7.65	7.65
Investment rate (pct. of GDP)	11.6	10.6	10.6
Gross national svgs.(pct. of GDP)	5.7	4.5	4.4
Balance of Payments and Trade ($ million)			
Exports (FOB)	195.2	168.7	N/A
U.S. share (percent)	85	85	N/A
Imports (CIF)	313.7	347.8	N/A
U.S. share (percent)	62	62	N/A
Merchandise Trade Balance	-107	-166	N/A
External debt	804.8	838.4	861.8
External debt (as pct. of GDP)	46.4	47.2	44.0
Annual debt service paid	19.9	16.2	N/A
Annual debt service 2/	13.3	10.4	N/A
Total foreign aid	129.0	122.4	N/A
U.S. aid (disbursements)	51.1	61.8	78.9
Aid from the other countries	75.4	62.5	N/A
Overall balance of payments	1.7	-11.4	N/A
Balance of trade	-118.5	-179.51	N/A

1/ 1991 figures are projected prior to the Sept. 30, 1991 coup.

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2/ As percent of total.
Sources: IMF, World Bank, USAID, U.S. Department of State or U.S. Department of Commerce.

On September 30, 1991, a military coup deposed the democratically elected government of President Jean-Bertrand Aristide. In response to this illegal usurpation of power, the Organization of American States (OAS) has adopted two resolutions imposing economic sanctions against Haiti. These are Resolution MRE/RES. 1/91 (adopted October 2) which called for "the restoration of the exercise of the legitimate authority of President Jean-Bertrand Aristide..." and Resolution MRE/RES. 2/91 (adopted October 8) which called for member states to impose economic sanctions against Haiti.

President Bush supported the OAS efforts to restore the legitimate power by signing two Executive Orders (E.O. 12775 and 12779) on October 4 and 29, respectively, which froze Haitian government assets held by U.S. financial institutions, prohibited financial transactions with the Haitian government, blocked sales of security items to the Haitian military and imposed a trade embargo against Haiti. The trade embargo became effective November 5 and remains in effect.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category	Amount	
Petroleum		(D)
Total Manufacturing		(D)
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	(D)	
Wholesale Trade		0
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, August 1991

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Key Economic Indicators

(In Millions of Lempiras, Unless Otherwise Stated)

	1989	1990	1991 5/
Income, Production and Employment			
Real GDP (1978 prices)	5,030.0	4,979.0	4,964.0
Real GDP Growth (PCT)	2.3	- 1.0	- 0.3
GDP by sector:			
Agriculture	1,188.0	1,285.0	1,307.0
Manufacturing	714.0	720.0	743.0
Commerce	529.0	498.0	514.0
Construction and Housing	188.0	150.0	139.0
Housing	298.0	308.0	316.0
Banking and Insurance	285.0	275.0	275.0
Other	1,828.0	1,743.0	1,670.0
Real Per Capita Income (actual)	1,105.0	1,074.0	1,039.0
Labor Force (thousands)	1,339.8	1,384.1	1,429.7
Unemployment rate (PCT)	13.0	13.8	14.5
Money and Prices			
Money Supply (M1)	1,462.1	1,831.1	2,078.3
Bank's Interest rate	17.0	28.0	28.0
Savings rate/GDP	6.7	2.3	N/A
Investment rate/GDP	12.9	16.4	N/A
Consumer Price Index 1/	11.4	36.4	26.0
Wholesale Price Index 1/	18.6	29.6	N/A
Exchange Rates (Lempiras for Dollars):			
Official Rate 2/	2.00	4.44	5.32
Balance of Payments and Trade			
Total Exports (FOB)	1,824.2	4,066.2	4,361.8
Exports to USA	920.4	2,137.4	2,292.7
Total Imports (CIF)	1,962.0	4,566.1	4,913.7
Imports from USA	761.4	1,872.8	2,014.6
Aid from U.S.(millions US$)	191.2	182	101.9
Aid from other countries	310.0	1,251.6	N/A
Foreign Public Debt	6,460.0	15,584.4	17,766.0
Gold & Foreign Exchange Reserves	44.3	184.4	N/A
Int'l Reserves-Banking System	-234.5	-167.4	167.7 4/
Balance of Payments 3/	-3.4	249.5	N/A

1/ Percent change.
2/ 1990 and 1991 exchange rates represent averages for the Government-determined Customs Valuation Rate.
3/ Change in International Reserves.
4/ January-June only.
5/ Estimated.
6/ Figures under the Balance of Payments and Trade section reflect the effects of devaluation.
Sources: Central Bank of Honduras (CBH), Ministry of Public Finance, United Nations Economic Commission for

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Latin America (CEPAL), U.S. Agency for International Development (AID), and International Monetary Fund (IMF).

1. General Policy Framework

Despite a wealth of natural resources and high levels of U.S. economic assistance, Honduras remains one of the poorest countries in the hemisphere. During the 1980's, Honduras' economy was battered by regional instability, unfavorable terms of trade, and the unwillingness of successive governments to adopt appropriate economic policies.

Long delayed economic adjustment politicies instituted during 1990 and 1991 include deregulation of restrictive pricing and marketing mechanisms, trade liberalization, lifting of interest rate ceilings, reduction of the fiscal deficit, and improved cost recovery for public utilities. The government also introduced several sharp devaluations in the national currency, the lempira.

These reforms have created a stronger foundation for long term economic growth. However, the short-term effects, particularly a reduction in disposable income and increased unemployment, have been painful for the majority of Hondurans. Following almost a decade of slow but steady real GDP growth, economic activity declined by 1.0 percent in 1990. Inflation, which has traditionally been low by Latin American standards, surged to 36.4 percent in 1990.

Sectoral trends in 1990 describe an economy in transition from a model of highly protectionist, import substitution to a more open, export-oriented system. Agriculture, which is expected to provide the motor for this country's export-led growth, grew by 9 percent despite late year floods and a strike in one of the two transnational banana companies. Manufacturing grew by a modest 1.8 percent, while other major categories experienced declines.

During 1990, the U.S. Government assisted Honduras' comprehensive economic reform program by leading a bridge financing effort among creditor countries that cleared approximately $250 million in arrears to the IMF, World Bank, and Inter-American Development Bank. The U.S. also participated in a September 1990 Paris Club rescheduling of Honduras' bilateral debt, which permitted the U.S. Export Import Bank (EXIMBANK) to reopen its guarantees for commercial bank lending to Honduras.

During CY 1991, official U.S. assistance to Honduras fell to $113.6 million from $192.0 million in the prior year. However, in September 1991, the U.S. announced its decision to cancel $434 million in bilateral debt owed under USAID and PL-480 programs. This cancellation eliminated 96 percent of Honduras' bilateral official debt to the U.S.

Fiscal Policy: The government's commitment to reduce the country's large fiscal deficits formed the centerpiece of the ambitious economic reform program launched in March 1990. On the revenue side, the government instituted a temporary export

tax, higher petroleum excise duties, and hiked the sales tax from 5 percent to 7 percent. Subsequent measures included significant price hikes for electricity and telephone services and a sharp increase in the prices of petroleum products. However, the government failed to bring its recurrent costs under firm control. The overall public sector deficit was lowered from 9.2 percent of GDP in 1989 to 8.5 percent of GDP in 1990.

For 1991, the government predicts a major reduction in its overall fiscal deficit to 4.5 percent of GDP. Honduras appears to have complied with its key IMF fiscal targets for the first half of 1991, thanks to a larger-than-expected revenue intake and strict Central Bank credit policies. However, the targeted reduction remains an ambitious goal and the outcome uncertain.

Monetary Policy: The Honduran Government has traditionally offset its large fiscal deficits and overvalued currency with tight monetary policies. For instance, the Central Bank raised its reserve requirement on commercial bank deposits to 35 percent in March 1988. Monetary policies loosened in 1989, when M1 was allowed to grow in excess of 22 percent, while net international assets fell by over 10 percent. M1 growth exceeded 26 percent in 1990.

To offset this monetary surge, which contributed to an inflation rate of 36.4 percent during 1990, the Central Bank introduced tighter monetary policies in January 1991. Higher rediscount rates and stricter management of rediscount lines helped reduce Central Bank credit to the banking sector during the first half of the year. Interest rate liberalization has also dampened credit demand. As a consequence, inflationary pressures appear to be gradually slowing. The rate of inflation, on the decline since mid-1991, is now running at an annualized rate of about 26 percent.

2. Exchange Rate Policies

Until March 1990, Honduras adhered to a fixed official rate of exchange of two lempiras to the dollar maintained since early in this century. However, with inflation rising and productivity lagging behind its major competitors, this source of national pride became a severe constraint to growth. During 1989, the black market value of the Lempira fell to below half its official value.

In March 1990, the Central Bank devalued the lempira by 100 percent, establishing a changeable "customs valuation rate" of 4.0 lempiras to the dollar. Several subsequent devaluations reduced the lempira to a rate of 5.3 Lempiras to the dollar in December 1990, and 5.4 lempiras to the dollar in early November 1991. The government has attempted to balance concern for the lempira's competitiveness with the urgent need to combat inflation in this heavily import dependent economy. Liberalization of domestic interest rates and a significant increase in foreign exchange flows into the commercial banking system have helped ease the excess demand for dollars, while the relative stability of the lempira has dampened speculative pressures. Nevertheless, inflation has steadily eroded the

effect of devaluation. By late 1991, the lempira was trading at roughly a 10 percent discount in the open market, placing continuing pressure for another adjustment.

3. Structural Policies

Pricing Policies: By the end of 1990, the number of price controlled consumer and industrial goods had fallen to only 11 items from 63 items in 1986. This number has since been reduced to 7, with additional liberalization measures under discussion. The absence of a large industrial sector has promoted competitive bidding as the norm for most international procurement. Furthermore, a gradual reduction in state-owned companies has reduced the opportunities for restrictive industrial sourcing (although the privatization process has slowed dramatically during 1991 and 1992).

Tax Policies: In March 1990, the new government introduced sweeping changes in the level and administration of taxes. The sales tax rose from 5 to 7 percent and the corporate tax rate was standardized at 35 percent, removing the graduated rate which previously varied between 2 and 45 percent. All specific import and excise duties have been converted to an ad valorem basis. Tariffs on public utilities have been sharply increased to reduce costly subsidies or, in some cases, augment government revenues. Under its ambitious trade reform regime, the government is scheduled to achieve a range in import tariffs of between 5 and 20 percent during 1992. Equally important, the lengthy list of exempted imports has been drastically reduced, and tax rebates for non-traditional exports have been eliminated. In the short term, a small decline in the demand for U.S. exports and shifts in the pattern of demand may occur. However, a successful economic program should augment import demand by increasing Honduras' export competitiveness and incomes.

Regulatory Policies: Progress has been less rapid in the crucial area of investment regulation. While several privatizations are currently in train and a number of minor sales have already been completed, progress in reducing the government's portfolio of companies has been hampered by a welter of bureaucratic and legal problems. Drafting of a relatively simple and competitive investment code was completed in late 1991, and is pending consideration by the National Congress in early 1992. Introduction to the Congress of legislation to modernize Honduras' important agricultural sector now appears highly unlikely until 1992. As currently drafted, this law would 1) virtually prohibit state expropriation of land on the basis of inefficient utilization; 2) legalize land rentals; and 3) facilitate the issuance of fee simple titles to farm families occupying public land. Passage of this law is a critical component in the government's economic program.

4. Debt Management Policies

While per capita income fell during the 1980's by roughly ten percent, perhaps in real terms, high fiscal deficits and a declining savings rate combined to create a crisis in public

indebtedness. By the beginning of 1990, arrears on external debt stood at $567 million. Overdue payments to the IMF, World Bank, and IDB forced these institutions to declare Honduras ineligible for further lending in 1989.

The government's debt policy during 1990 and 1991 has focused on reopening vital credit lines to the international financial institutions and reducing the burden of public debt. The U.S.-led bridge loan allowed the government to regain access to multilateral lenders. However, net flows to Honduras were negative in both 1990 and 1991 due to the heavy arrears burden and the slow pace of negotiations on several major loans. The success of the government's debt conversion program is expected to reduce the volume of foreign commercial bank debt to only $45 million by the end of 1991.

In September 1991, the U.S. Government contributed to Honduras' debt reduction effort by forgiving $434 million in debt owed under USAID and Pl-480 programs. This reduction in debt represents approximately 96 percent of Honduras' bilateral official debt to the U.S. Government and 13 percent of total outstanding official debt. The 1990 Paris Club rescheduling also allowed Honduras to reduce the short-term burden of its bilateral obligations.

5. Significant Barriers to U.S. Exports

There are no significant barriers to U.S. exports erected by the Government of Honduras. The long-term decline in U.S. market share can be attributed to other factors such as aggressive competition and tied aid from other countries.

However, two issues are gaining increasing attention: labeling and registration of processed foods and trademarks.

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 indifferently enforced at the present time. However, these requirements may discourage some U.S. suppliers given the market's size.

Trademarks: It is a common practice for Hondurans to register foreign trademarks locally before the foreign companies enter the market. The foreign companies are then excluded from the market unless they agree to purchase the trademark from the Honduran owner.

Several restrictions exist on foreign investment in Honduras, although a new foreign investment law under consideration may reduce their number. Majority ownership must be held by Honduran nationals in several types of industries. These include beneficiaries of the National Agrarian Reform law, commercial fishing or direct exploitation of forest resources, local transportation, representatives, agents and distributors for foreign companies; and radio and television broadcasting. With few exceptions, the 1975 Agrarian Reform law limits the amount of land individuals and corporations may own. The limit varies from 100 hectares (247 acres) to 2,000 hectares (4942 acres), depending on location

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and factors such as the availability of irrigation. Honduran law also precludes foreigners from establishing businesses capitalized at under 25,000 lempiras. For all investments, at least 90 percent of a company's labor force must be national, and at least 80 percent of the payroll must benefit Hondurans. Remittances of profits and capital may be made after four years from the date of registration of the investment under current Honduran law. Long delays in remittances of capital and profits are common, however, due to controls on scarce foreign exchange.

6. Export Subsidies Policies

With the exception of free zones and industrial parks, almost all export subsidies have been eliminated. One law, the Temporary Import law passed in 1984, allows exporters to introduce raw materials, parts, and even capital equipment into Honduran territory without payment of customs duties or consular fees when the final product is to be exported outside Central America. This law also provides for a ten year tax holiday on profits from these exports under certain conditions. The Government of Honduras is considering a revision of this law due to its frequent abuse.

7. Protection of U.S. Intellectual Property

The bulk of Honduran law protecting intellectual property rights (IPR) dates from the early 1900s and has not been updated to any significant extent since that time. Rather than grapple with comprehensive IPR legilation, the Government has recently begun to address selected IPR issues in response to international and local pressure. In October 1991, the National Congress passed legislation protecting audio recording copyrights.

Decrees protecting other areas of intellectual property, such as broadcasts, are currently under consideration.

Patents: The Honduran law regarding patents was passed in 1919. Because no law specifically addresses copyrights, the patent law is used to protect some copyright material, primarily textbooks. There have been no significant changes in patent law since the mid-1970s, when Honduras adopted the international classification system for products and services. Although revisions were proposed in the past, none has been approved by the Congress. The Ministry of Economy is preparing a patent law to be sent to Congress in 1992.

Trademarks: Trademark law also dates from 1919. The registration process for trademarks is non-discriminatory, relatively inexpensive and not excessively long (four months). Trademark law allows registration for ten years and has no clause regarding notorious marks. As previously noted, several local firms take advantage of this loophole. Again, the Ministry of Economy is preparing new legislation in this area.

Copyrights: While no Honduran law specifically addresses copyright protection, the National Congress ratified the Rome,

Geneva and Berne conventions on literary and artistic creation rights in 1989. A comprehensive copyright law, incorporating the general principles detailed in these international conventions, was submitted to Congress in 1988. This bill remains pending, but no action has yet been taken. A specific bill protecting audio recording rights that targets cassette pirates was recently approved by Congress. The status of satellite television programs, satellite signals, software programs and other new technology has not yet been addressed. There appears to be significant pirating of satellite signals by local cable companies. The Motion Picture Export Association of America (MPEAA), in public comments filed with the U.S. Government in July 1991, estimated member companies' losses due to signal theft and video piracy at $672,000. The lack of adequate protection for intellectual property rights clearly results in a loss of income.

8. Worker Rights

a. The Right of Association

Despite the fact that only about twenty percent of the Honduran workforce is organized, trade unions exert considerable economic and political influence. Organized labor frequently participates in public rallies against government policies without interference from the police. The right to strike, along with a wide range of other basic labor rights, is provided for by the Constitution and honored in practice. The International Labor Organization (ILO), however, has urged the Government to make changes in its labor legislation to bring it into full conformity with ILO standards. Even though the Civil Service Code stipulates that public workers do not have the right to strike, no public (or private) sector strikes were declared illegal during 1990 and 1991. Labor orgainizations, while influenced by party politics, are not run by the political parties.

b. The Right to Organize and Bargain Collectively

The right to organize and to bargain collectively is protected by law, but not always observed in practice. Retribution by employers for trade union activity is not uncommon, in spite of its prohibition in the Labor Code. Relatively few workers are actually dismissed for union activity. Workers who are fired may apply to the Ministry of Labor or the courts for redress. Collective bargaining agreements are the norm for companies where workers are organized. Wages in non-organized companies are determined by labor supply and demand, within the constraints of the minimum wage law. Free trade zones and industrial parks are governed by the same labor regulations as the rest of private industry.

c. Prohibition of Forced or Compulsory Labor

There is no forced or compulsory labor in Honduras. Such practices are prohibited by law and the Constitution.

d. Minimum Age for Employment of Children:

The Constitution and the Labor Code prohibit the

employment of children under the age of 16 years. Violations of the Labor Code frequently occur in rural areas or in small companies. The Ministry of Labor has the responsibility for enforcing child employment laws, but it lacks the resources required to carry out this task. High unemployment and widespread poverty have resulted in many children supplementing family income by working in small family farms, as street vendors or in small workshops.

e. Acceptable Conditions of Work:

In July 1991, President Callejas negotiated a tripartite agreement among labor, Congress, and the private sector which granted an average 27.8 percent minimum wage increase. The constitution and the Labor Code require that all labor be fairly paid. Minimum wages, working hours, vacations, and occupational safety are all regulated, but enforcement is spotty. The minimum wage varies by occupation and location. The law prescribes an 8-hour day and a 44-hour workweek. The Labor Code provides for a paid vacation of 10 workdays after one year, and 20 workdays after four years. These regulations are frequently ignored. There have been complaints about hazardous conditions in the lobster fishing and textile industries.

f. Rights in Sectors With U.S. Investment:

Workers in each sector in which U.S. capital is invested enjoy all of the rights listed above. Working conditions in U.S. firms are generally superior to those in local and other foreign companies.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category	Amount	
Petroleum		(D)
Total Manufacturing		145
Food & Kindred Products	117	
Chemicals & Allied Products	1	
Metals, Primary & Fabricated	(*)	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	27	
Wholesale Trade		11
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

(*)-Under $500,000

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, August 1991

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Key Economic Indicators

	1989	1990	1991 (Proj)
Income, Production and Employment			
Real GDP(J$Millions) (1974 Base Year)	2,103.9	2,184.2	2,206.2
Real GDP Growth Rate	4.6	3.8	1.0
GDP By Major Sectors			
Agriculture, Forestry, and Fishing	152.7	170.7	N/A
Mining and Quarrying	140.1	164.8	N/A
Manufacturing,	355.2	369.8	N/A
Construction, and Installation	166.9	168.9	N/A
Distributive Trade	327.3	330.6	N/A
Transportation, Storage and Communication	173.3	179.4	N/A
Real Estate and Business Services	260.4	274.5	N/A
Government Services	323.2	318.8	N/A
Real GDP Per Capita (J$ 1974 Base)	884.0	910.1	880
Size of Labor Force (000'S)	1,062.9	1,058.5	N/A
Unemployment Rate (Avg)	18.0	15.3	N/A
Money and Prices			
Money Supply (M1) (J$Millions)	2,739.4	3,516.0	4,651.9 (Jul)
Avg. Commercial Interest Rate	31.0	36.03	31.65 (Aug)
Savings Rate	18.0	18.0	18-21
Investment Rate (Gross Fixed Capital Formation as Pct. of GDP)	29.4	29.3	N/A
Consumer Price Index (Dec-Dec)	17.2	29.8	56.3
Wholesale Price Index	N/A	N/A	N/A
Exchange Rate(J$/US$)	5.75	7.28	12.03
Balance of Payments and Trade (Millions of U.S. Dollars)			
Total Exports FOB	1,000.4	1,156.9	1,206.8
Total Exports to U.S.	347.2	334.8	352.6
Total Imports Cif	1,873.4	1,877.1	1,625.2
Total Imports from U.S.	913.5	896.7	753.6
AID from U.S. (FY90, FY91, FY92)	71.7	67.3	69.8
AID From Other Countries	202.7	119.7	N/A
External Public Debt (US$ Millions)	4,038.4	4,152.4	4,147.5
Debt Service Payments (Actual)(US$Millions)	670.0	652.3	652.8

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Net Official Reserves (US$Millions) end of year	474.3	-383.4	-221.6 (Jun)

1. General Policy Framework

Over the last decade two successive Jamaican administrations have worked hard to dismantle elements of statist economic policies and government intervention in the economy. Through this process a largely open, market-oriented economy has been created. Since the internal economy is small, however, Jamaica depends on trade for its economic welfare, and is vulnerable to economic conditions overseas. At US$1500, Jamaica's per capita Gross Domestic Product puts it in the mid-range of developing countries.

The tourism and bauxite/alumina sectors are the principal pillars of the economy, contributing roughly three-quarters of the island's foreign exchange earnings. Distributive trade, government services, real estate services, and finance account for about 50 percent of GDP. The manufacturing sector contributes about 17 percent of GDP and accounts for 15 percent of employment. Major manufacturing subsectors include apparel assembly (spawned by the Caribbean Basin Initiative), food processing, beverages, and tobacco. The farm sector contributes about 8 percent of Gross Domestic Product (GDP) and employs about 28 percent of the work force. Traditional agricultural exports include sugar, bananas, coffee, cocoa, citrus, and spices.

The current administration of Prime Minister Michael Manley has continued and expanded the free market policies begun by the former Prime Minister, Edward Seaga. These policies emphasize reducing the role of the government in the economy and improving competitiveness. To do this, various sectors of the economy have been deregulated (e.g., petroleum products, motor vehicle imports) and a number of government entities have been privatized. In addition, the government has eliminated subsidies on basic food items.

These initiatives are also part of an on-going government effort to cope with a chronic balance-of-payments problem, exacerbated by an exceptionally heavy official debt burden. The focus of this effort is a structural adjustment program which includes fiscal and monetary restraint, tax reform, lower external tariffs, and a market-based exchange rate. These programs are producing encouraging results: the government budget deficit continues to fall as a proportion of GDP; prices, and the Jamaican dollar exchange rate, now better reflect supply and demand; and taxes are less likely to distort economic decisions.

Fiscal Policy: The Jamaica Fiscal year (JFY) 1991-92 budget (ending in March 1992) provides for continued spending austerity. The budget is designed to reduce the public sector deficit to 2.2 percent of GDP via a two percent real increase in tax revenues (including new and expanded taxes) and a five percent real decrease in central government expenditures. Budgeted central government expenditure for JFY 1991/92 is J$14.7 billion, of which 41 percent is allocated to debt

servicing. The sharp depreciation of the Jamaican dollar during the second half of 1991 has put pressure on government planners to cut spending on capital projects and to ensure better tax compliance to achieve its budget deficit goals.

The central government deficit is estimated at J$2.3 billion for JFY 1991/92. The deficit is to be funded mainly by borrowing. Loans from bilateral and multilateral agencies, rescheduling agreements with Paris Club nations and other bilateral donors and commercial banks, and oil credits from Mexico and Venezuela comprise most of the foreign financing of the deficit.

Monetary Policy: To control inflation and to reduce the demand for scarce foreign exchange, the government continues to maintain a high cash reserve ratio and to sell new government securities. These policies have enjoyed only partial success, however. High interest (currently 30-35 percent) paid by the government on these securities is not balanced by new revenue inflows, and thus contributes to sharp increases in the money supply. Nevertheless, these policies have resulted in very high commercial bank lending rates, averaging 35 percent in October 1991. Aware of the effects of these policies, the Bank of Jamaica has indicated its intention to rely on more orthodox open market operations in the future.

2. Exchange Rate Policies

Faced with declining inflows of foreign exchange into the interbank foreign exchange system established in September 1990 and an expanding gap between the official and black market rates, the government moved in September 1991 to remove virtually all controls on foreign exchange. Under the new system, persons or companies that earn or receive foreign exchange are free to retain it either in Jamaica or overseas, and payments in any currency acceptable to the buyer and seller are permitted. Jamaican residents can purchase foreign exchange freely and maintain foreign currency accounts in Jamaica or overseas. Also, capital flows, including dividends and portfolio investments, no longer require Bank of Jamaica approval. The main remaining restriction is that foreign exchange transactions must be effected through a licensed dealer, and licenses are tightly restricted. In addition, any company or person having payments to make 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. As of late October 1991, the new liberalized system is still in its early stages and is gradually moving toward a market-clearing rate.

3. Structural Policies

Pricing policies: Prices in Jamaica are generally determined by the forces of demand and supply. Pursuant to Jamaica's 1990 agreement with the International Monetary Fund, the Government has successfully removed all price controls, except for domestic kerosene, dark sugar, bus fares, and motor vehicle parts. Price increases for these items require the

approval of a government minister. However, farmgate prices on an array of export agricultural products are controlled by various marketing authorities; namely, the Coffee Board, the Cocoa Board, the Citrus Growers Association, the Sugar Industry Authority, and the Banana Exporting Company.

Tax Policies: Estimated tax receipts for JFY 1991/1992 comprise 83.5 percent (J$10 billion) of total Government revenue. Major taxes are income tax (J$4.5 billion), consumption duty (J$1.9 billion), stamp duties (J$1.1 billion), and customs duty (J$1 billion).

Jamaica implemented the Caribbean Common Market (CARICOM) Common External Tariff (CET) on February 15, 1991. Under this new system, goods produced in CARICOM states are not subject to import duty. Goods coming into Jamaica from outside CARICOM are subject to import duties ranging between five percent and 45 percent, with higher rates applicable to "non-basic" and finished goods, as well as goods competing with those produced in CARICOM states. Higher, "competing" duty rates are allowed only if actual or potential production capacity in CARICOM could satisfy at least 75 percent of regional demand. In the event items subject to the CET are unavailable from CARICOM producers, the CARICOM treaty allows for a substitution of the CET rate with a rate determined by the member state. Suspensions granted to Jamaica include cod, mackerel, herrings, alewives, powdered milk, maize, soya beans, and rice. In addition to these duties, imports of some items bear special import duties: liquor, cigarettes, petroleum products, and certain vegetables.

Effective October 22, 1991, the government introduced a value-added style General Consumption Tax (GCT) at a flat ad valorem rate of 10 percent. The GCT will replace excise duties, consumption duties, additional stamp duties, retail sales taxes, telephone service taxes, entertainment taxes, and hotel taxes. There are a number of exemptions to the GCT; basic food staples, medical services, and residential rent payments are the most significant examples. Imports will be subject to the GCT at the port of entry; all goods exported are exempt from the GCT.

The Government offers incentives to approved foreign investors including income-tax holidays as well as duty-free importation of capital goods and raw materials. Investment incentives are provided under several laws including the Export Industry Encouragement Act, The Motion Picture Industry Incentives Act, the Hotel Incentives Act, and the Factory Construction Act. For Free Zone operations, tax incentives include exemptions from customs duties and income tax in perpetuity.

Regulatory policies: With the exception of imports of milk solids, monopoly rights of the state Jamaica Commodity Trading Company (JCTC) ceased June 30, 1991. The Embassy is unaware of any government regulatory policy that would have a significant adverse impact on U.S. exports.

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4. Debt Management Policies

The Government continues to service a large stock of official external debt. At the end of 1990, total external debt amounted to US$4.15 billion representing 106 percent of GDP or 177.6 percent of exports of goods and services. Per capita debt amounts to US$1,730. Nearly half of the government's debt is owed to bilateral donors (the U.S. is the largest bilateral creditor); 36 percent to multilateral institutions, 9.5 percent to commercial banks, and 6.5 percent to other entities. Debt-service payments obligations account for 37.6 percent of exports of goods and services, and hence continue to be a major burden on the government.

Jamaica completed its latest IMF stand-by program in March 1991 and has negotiated a new US$59 million 12-month stand-by agreement for JFY 1991/92 (April-March). In August, the Paris Club agreed to reschedule US$140 million of principal and interest payments due during the period of June 1991 To June 1992. Jamaica continues to benefit from a multi-year-rescheduling-debt/equity-swap arrangement concluded in 1987 with commercial banks. To date, about US$ 85 million, or 21 percent of commercial debt, has been converted via the program. Under the Enterprise for the Americas Initiative, the U.S. government in September 1991 reduced Jamaica's US$271 million PL-480 debt to the United States to US$57 million, an 80 percent reduction. A proposal to reduce other categories of Jamaica's debt to the U.S. is now before the U.S. Congress.

5. Significant Barriers to U.S. Exports

Import licenses: Since 1987, the government has progressively eliminated quantitative import restraints. Currently only a few items, including certain chemicals, pharmaceuticals, vegetable saps and extracts, onions, prepared or preserved tomatoes, motor vehicles, and arms and ammunition are under import license. Excepting arms, licenses for these items are generally easily obtained. The on-going depreciation of the Jamaican dollar is the single greatest barrier to imports.

Services barriers: The provision of power, water, and telephone services are performed by government-owned or -controlled monopolies. As pointed out above, the number of authorized foreign exchange dealers is strictly controlled. Non-Jamaicans seeking employment in Jamaica are required to obtain a work permit, which is granted at the discretion of the Minister of Labor.

Investment barriers: The Government welcomes foreign investment in all sectors of the economy. However, in the case of insurance companies, the foreign companies are allowed to own a maximum of 49 percent of total shares. Further, there may be agreements in place between current investors and the Government that provide exclusive rights to those investors.

Government procurement practices: Government procurement practices generally allow U.S. goods to compete freely. The range of manufactured goods produced in Jamaica is relatively

small so that instances of foreign goods competing with domestic manufacturers are very limited. A revised, five-year countertrade agreement between the USSR and Jamaica began January 1991. Under the agreement, Jamaica is obliged to export to the USSR one million metric tons of bauxite per year and receive 50 percent of the contract value in Soviet goods and services and the remainder in hard currency. Due to foreign exchange shortages in the USSR, only about 20 percent of the contracted amount for 1991 were scheduled to be shipped. Jamaica entered into a three-year countertrade agreement with a French company worth roughly US$3 million per year. Under this agreement, which began January 1, 1991, Jamaica will export 150,000 tons of bauxite annually in exchange for Peugeot cars.

Customs procedures: Exporters and importers have expressed mounting concern with the slow and unpredictable service at Jamaican customs. In addition, procedures designed to stop narcotics exports are complex and can delay export shipments.

6. Export Subsidies Policies

The Export Industry Encouragement Act allows approved export manufacturers access to imported raw materials and capital goods for a maximum ten-year period duty-free. As stated above, exporters are also exempted from the General Consumption Tax. Other benefits are available from the Jamaican Government's Export-Import Bank, and include access to preferential financing through the Export Development Fund, lines of credit, and export credit insurance. Jamaica does not adhere to the GATT Subsidies Code.

7. Protection of U.S. Intellectual Property

Jamaica is a member of the World Intellectual Property Organization (WIPO) and has a policy of respecting Intellectual Property Rights. Though not party to any other multilateral intellectual property conventions, Jamaica intends to adhere to the Paris Convention for the Protection of Industrial Property (i.e., patents and trademarks) and the Berne (copyright) Convention. The Motion Picture Export Association of America (MPEAA) filed public comments with the U. S. Government in July 1991, charging the government-owned Jamaican Broadcasting Corporation with broadcast of U. S. programming without proper appropriate licensing from MPEAA member companies.

Jamaica's patent law was adopted in 1857 and provides for patents in all fields of technology. The patent term is 14 years from the grant of the patent, and can be extended for an additional seven years. Patent infringement does not include the use, sale, or importation of a product made abroad but covered by a Jamaican patent. The "novelty test" contained in the Jamaican patent law limits the definition of the "novelty" of invention to that which is novel in Jamaica, without reference to the novelty of the invention abroad. Patents granted in Jamaica shall not continue in force after the expiration of the patent granted elsewhere. The periods of

examination are long, and it can take years for a patent to be issued.

Under the Jamaican trademark law passed in 1957, trademarks are registered in Jamaica for an initial period of seven years, renewable indefinitely every fourteen years. Prior use is not required for trademark registration, though a registration may be cancelled for non-use after five years. Jamaica has reciprocal trademark relations with the United States by reason of an agreement between the U. S. and Great Britain signed October 14, 1877, and assumed by Jamaica August 6, 1962.

Concerning copyright protection, the government has reportedly submitted a draft modern copyright bill to the Attorney General for transmittal to the Jamaican Parliament. Jamaican government officials expect the bill to be passed into law by early 1992. Works protected in the bill are to include computer software and broadcasts, and "neighboring rights" protection, e.g., protection for performers and producers. Government officials have said publicly that Jamaica plans to adhere to the Berne Convention once the bill has been enacted into law.

8. Worker Rights

a. The Right of Association

The Constitution specifically provides for the right to form or join a trade union, and obligates the Government to protect the person and property of trade unionists. Labor unions function freely. The Labor Relations and Industrial Disputes Act (LRIDA) codifies worker rights.

Jamaican law neither authorizes nor prohibits the right to strike, but unions and workers do go on strike. Striking workers can interrupt work without criminal liability but cannot be assured of keeping their jobs. However, strikes are prohibited by workers in ten broad categories of "essential services" including health and communications workers.

b. The Right to Organize and Bargain Collectively

The Constitution provides for the right to organize and belong to trade unions. This right is freely exercised and collective bargaining is widely used as a means of setting wages and settling disputes. Disagreements may be referred to an independent tribunal and ultimately civil court. Employees may not be fired solely because they are union officers. On the other hand, union affiliation may not be a prerequisite for employment. Domestic labor laws apply in the export processing zones; however, union representation in the zones is minimal. Union organizers attribute this to resistance by foreign owners in the zones to organizing efforts.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is not practiced. Jamaica is a party to the relevant ILO conventions.

JAMAICA

d. Minimum Age for Employment of Children

The Juvenile Act prohibits child labor, defined as the employment of children under the age of 12, except by parents or guardians in domestic, agricultural, or horticultural work. While children are observed peddling goods and services, the practice of child labor is not widespread.

e. Acceptable Conditions of Work

There is a national legal minimum wage, but most salaried workers are paid more than the legal minimum. The law also sets a 40-hour week with 8-hour days. Factories are subject to annual safety inspections by the Ministry of Labor. Inspections, however, are limited by scarce resources.

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. 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 Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category	Amount	
Petroleum		(D)
Total Manufacturing		152
Food & Kindred Products	19	
Chemicals & Allied Products	119	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	15	
Wholesale Trade		35
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business August 1991, Vol. 71, No. 8, Table 11.3

MEXICO

Key Economic Indicators

	1989	1990	1991 (est)
Income, Production and Employment			
GDP (bil. current US$)	208.5	238.2	280.0
Per Capita GDP (Curr US$)	2,623.0	2,937.0	3,386.0
Real GDP Growth Rate	3.1	3.9	4.5
Contribution by Sector (Percent of GDP)			
Agriculture, Forestry and Fishing	7.5	8.8	N/A
Mining	2.7	2.3	N/A
Manufacturing	24.4	22.6	N/A
Construction	3.6	3.4	N/A
Electricity	1.3	1.3	N/A
Commerce, Restaurants and Hotels	27.0	27.4	N/A
Transport, Storage and Communications	7.5	7.8	N/A
Financial Services, Insurance and Real Estate	10.3	11.0	N/A
Communal Services, Social and Personal	15.8	15.4	N/A
Size of Labor Force (million)	26.6	27.2	27.9
Open Unemployment Rate (Percent of Workforce)	4.0	4.0	4.0
Money and Prices			
Money Supply (M1 growth rate)	40.6	62.6	66.0
Commercial Interest Rates (Annual Perc. Comm. Paper)	45.9	36.1	23.0
Savings Rate (M4 as Percent of GDP)	36.0	39.0	41.0
Investment Rate (Perc. GDP)	17.4	18.9	19.0
Consumer Price Index (Dec.-Dec. Growth Rate)	19.7	29.9	17.0
Wholesale Price Index (Dec.-Dec. Growth Rate)	15.6	29.2	14.0
Exchange Rate			
Official	2453.0	2807.0	3012.0
Parallel	2483.0	2838.0	3016.0
Balance of Payments and Trade (Billions of U.S. Dollars)			
Total Exports (CIF)	41.5	44.3	48.3
Exports to U.S.	27.2	30.9	34.1
Total Imports (FAS)	35.3	44.0	56.3
Imports from U.S. 1/	25.0	28.4	37.3
Aid from U.S.	N/A	N/A	N/A
Aid from other Countries	N/A	N/A	N/A
External Public Debt	76.1	77.8	78.5
External Debt Service Paymnts (Public Sector Debt)	11.3	10.4	12.5
Gold and Forex Reserves	6.9	10.3	16.5
Balance of Payments	0.3	3.1	6.2

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1/ Based on U.S. data, which includes imports and exports for the in-bond sector. (Mexican data is calculated free on board for exports and imports, and excludes the in-bond sector.)

1. General Policy Framework

A principal feature of the management of economic policy in Mexico since December, 1987 has been a series of government-labor-private sector price and wage restraint pacts, currently known as the Pact for Stability and Economic Growth (PECE). The pacts have combined traditional austerity measures (tight fiscal and monetary polices), heterodox economic measures (price, wage, and exchange rate controls), and rapid trade liberalization. They have been successful in sharply reducing inflation and restoring economic confidence. Complemented by bold measures to privatize and deregulate the economy and steps to attract investment, these policies have also succeeded in reigniting balanced and sustainable growth.

Prices of a number of basic goods and services (both publicly and privately produced) were frozen under the original pact. Labor unions and producers were discouraged from raising wages and prices. The controlled peso first was devalued sharply and then frozen from March to December, 1988. Thereafter the controlled peso was devalued by one peso a day against the dollar, with the slide slowing to 80 centavos and then 40 centavos in May 1990 and December 1991 respectively. In 1989 some of the wage and price controls were relaxed and the process continued in 1990 and 1991. Only a relatively few prices, primarily on goods and services defined as basic necessities, are currently controlled.

Trade liberalization was accelerated, reducing the maximum tariff to 20 percent and eliminating most import permits. The Mexican government reduced the fiscal deficit by increasing revenue and slashing expenditures. It slowed growth of the money supply by limiting monetary creation and freezing the banks' ability to lend. It also accelerated the process of privatization of parastatals to increase productive efficiency and to reduce subsidies. The economy grew by 4.8 percent in the first half of 1991, up from the 3.9 percent GDP growth registered in 1990.

The public sector financial deficit has fallen sharply, a reflection of the success of the Mexican government's efforts to increase revenues and cut expenditures. In 1990 public sector income increased in real terms by 3.5 percent, largely because of rigorous efforts to improve tax collection, while public sector expenditures fell by 4.5 percent in real terms. Public sector expenditures remain higher than income because of debt servicing expenses. Interest payments make up over 30 percent of all expenditures, and over 70 percent of those interest payments are on internal debt. The cost of servicing the internal debt as a percentage of GDP fell from 8.4 percent in 1989 to 6.5 percent in 1990 and is expected to fall again in 1991 because of lower interest rates.

The public sector deficit is financed through short,

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medium and long term floating rate domestic debt. The public sector obtains fresh external debt only for specific projects and in relatively small amounts. About 70 percent of the internal debt is held by the private sector; the balance is held by commercial banks and the central bank. Since 1987 the Mexican government has moved from heavy reliance on required lending by the banking system to greater borrowing from the central bank and the private sector through the issuance of internal debt. In April 1990, banks' reserve requirements were reduced and interest rates were liberalized. Banks reserve requirements were reduced again in September 1991.

Mexico is currently engaged in the negotiation of the North American Free Trade Agreement (NAFTA) with the U.S. and Canada. The agreement will result in significant economic benefits to the United States. Mexico is the U.S.' third largest trading partner (after Canada and Japan) and the U.S.' fastest growing export market.

2. Exchange Rate Policies

On November 11, 1991, Mexico announced the repeal of its 1982 Foreign Exchange Law, and a new foreign exchange rate mechanism was put into effect. Previously, Mexico had an exchange rate mechanism in which a controlled rate was used to cover the majority of trade and payments transactions. A market rate was used for transactions involving investments and remittances of dividends and royalties, and other private transactions. The market rate was subject to intervention by the Bank of Mexico, in order to keep the differential between the market and controlled rates at a minimum. Now Mexico has only one exchange rate, market based, but subject to intervention by the Bank of Mexico so that the nominal rate will be devalued by 20 centavos per day.

Under Mexico's Pact for Economic Solidarity and Growth, the controlled rate was depreciating at a nominal rate of 40 centavos per day. The rate of depreciation against the dollar is less than the inflation differential between the United States and Mexico. Thus in real terms, the peso is appreciating against the dollar. The effect of this real appreciation will be to make U.S. exports to Mexico more affordable to Mexicans. In real terms, the peso has appreciated against the dollar since 1988.

In addition to creating a unitary exchange rate, the new regulations allow transactions previously limited to banks to be handled by either banks or currency exchange houses. The new regulations should make international transactions simpler and less costly for Mexicans.

3. Structural Policies

In 1991, the Government of Mexico continued its efforts to restructure the Mexican economy, privatizing large state-owned companies, including the commercial banks and the telephone company, and emphasizing the importance of diversified exports for earning foreign exchange. In 1982, petroleum accounted for 77 percent of merchandise exports. By

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1990, petroleum represented only 37 percent of merchandise exports. In addition, the Mexican government has moved to divest itself of most parastatal enterprises, both to accelerate the privatization of the economy and to reduce the drag of subsidies on fiscal resources. In 1982, there were over 1,100 parastatal enterprises. As of March 1991, this number had dropped to 269. Some key enterprises up for sale in 1991 were: the second part of the state-owned telephone company (TELMEX), two large steel companies and 9 of the country's 18 commercial banks. During the first 6 months of 1991 the government received the equivalent of over $5.9 billion from the sale of state-owned companies. At the same time, the Mexican government has initiated an ambitious program of deregulation to reduce the role of the government in the economy. Highway freight transportation, container shipping and aquaculture are examples of important sectors that have been deregulated.

In May 1989, the Mexican government introduced new rules which facilitate the foreign investment approval process and open the door for automatic or near automatic approval of majority foreign ownership of companies in many sectors. Already the maquiladoras (up to 100% percent foreign-owned companies that assemble from U.S. components products which then reenter the U.S. paying duty only on the value added in Mexico) are a major source of employment and export earnings. In June 1991, the Mexican government promulgated new legislation which provides improved protection for intellectual property in Mexico, and is expected to encourage more foreign investment.

The Mexican government has also continued its trade liberalization program. As a result of tariff reform, Mexico's weighted average import tariff is now around 10 percent. Mexico has greatly reduced the number of items subject to export taxes and controls and has expanded government programs and financial incentives to exporters. Nonetheless, Mexican imports have continued to grow more rapidly than exports which will likely result in about a 3.2 billion dollar trade deficit with the United States in 1991.

By far the most important recent development in Mexico's trade policy was the decision announced in June 1990 by Presidents Bush and Salinas that the United States and Mexico would investigate the viablility of negotiating a free trade agreement. Presidents Bush and Salinas, joined Canadian Prime Minister Mulroney to announce in February, 1991 the intent of the three countries to pursue a trilateral pact. Formal negotiations among the three countries began in June 1991. The negotiations are comprehensive, covering barriers to trade, investment and services among all three countries. The 19 negotiating groups cover the six major areas of work: market access, trade rules, services, investment, intellectual property rights and dispute settlement. Negotiations are proceeding well and prospects appear good that the negotiations will produce an agreement in 1992 for submission to the domestic processes required by all three countries.

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4. Debt Management Policies

In 1989 Mexico reached agreements for large new loans from the IMF and World Bank and for debt rescheduling in the Paris Club. In February 1990 the Mexican government signed an agreement for debt reduction and new money from commercial banks. As a result of these agreements, the Mexican government estimates that net external financial transfers will fall from an average of 5.75 percent of GDP during 1982-88 to an average of 2.43 percent of GDP in the 1989-94 period. Mexico's external debt as a ratio to GDP fell from 59 percent in 1988 to 42 percent in 1990.

During 1991 Mexico continued to reap the benefits of the successful renegotiation of its external debt concluded in February 1990. One of the major benefits of the debt agreement, besides its direct impact on the balance of payments, has been greater confidence in Mexico among investors and creditors, which has resulted in large capital inflows and the reopening of international credit markets to Mexican borrowers at progressively more favorable terms. In December 1990, Mexico's total external debt was 98.2 billion dollars, 77.8 billion dollars of which was held by the public sector.

5. Significant Barriers to U.S Exports

Import Licenses: As part of its policy of rationalizing its system of protection for domestic producers and in accordance with its GATT accession obligations, Mexico agreed to eliminate its previously universal regime of import license requirements in 1985. Nonetheless, the Mexican government continues to require import licenses for 269 product categories. Although import license requirements affect only eight percent of total U.S. exports to Mexico, they are still required on several very important agricultural commodities such as corn, dry beans, wheat, barley, milk, eggs, table grapes, bacon, and poultry. Mexico in the past year eliminated the import license requirement for apples, peaches, and nectarines. However, some phytosanitary restrictions have been placed on these exports.

Automobiles: Investments in the automotive sector are subject to the restrictions of the Mexican Automotive Decree, including such performance requirements as local content, exchange balancing and quantitative import restrictions. Foreign participation is only permitted up to 40 percent in auto parts manufacturing.

Services Barriers: Insurance: Foreign ownership of Mexican insurance companies is limited to 49 percent by law. U.S. access to the Mexican reinsurance market is also limited by the requirement that Mexican insurers place at least 50 percent of their reinsurance business in the local market. Premium volume is around $1 billion annually.

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. In addition, under the Mexican

Constitution, satellite services and the operation of earth stations with international links are reserved for the Mexican Government.

Financial services: Foreign participation in the financial services sectors is severely limited. Foreigners may own, in aggregate, up to only 30 percent of a privatized Mexican bank, financial holding company, or brokerage house. Foreign exchange houses are limited to Mexican ownership only. All other financial sectors are limited to 49 percent foreign ownership. Many foreign banks have representative offices in Mexico City but those offices are strictly limited to facilitating the operations of the head office, e.g. no transactions can be booked in Mexico. One foreign bank, the U.S.-owned Citibank, operates 5 full branch offices in Mexico and is able to compete with Mexican banks in most commercial banking activities.

Motor Carriers: As a result of bilateral consultations and the Mexican Government's deregulation of truck and bus operations, U.S. truckers and charter bus operators now have substantial cross-border access to Mexico. U.S. truckers still do not have direct access to Mexico; direct access is limited to the border commercial zone. Mexican tractors and drivers are required by law to haul all trailers bound for interior points, and interchange of trailers takes place on the U.S. side of the border. Closer contractual relationships between Mexican and U.S. carriers have produced expedited through service and bills of lading. U.S. charter tour buses now have full access to all points in Mexico; regularly scheduled bus operations are prohibited. Mexican authorities are implementing new safety, weight and dimension regulations to meet U.S. standards, and the two countries have agreed to the standardization and reciprocal recognition of commercial drivers licenses. The U.S. and Mexican Trucking Associations hold joint meetings.

Standards, Testing, Labelling and Certification: With the continued removal of import licenses, Mexico has sought to impose new and more restrictive sanitary and phyto-sanitary requirements on imports than previously existed. These new regulations have frequently been drafted in ways which have created confusion and have resulted in disruptions to normal trade flows.

Mexico maintains poorly defined procedures for the importation of almost all agricultural products, including processed foods. At times, the Government of Mexico has been unwilling to specify which foreign documents or certifications are acceptable to meet its requirements causing confusion, substantial legal and research costs, and lengthy delays. When standards are changed, Mexican authorities have not always complied with their agreed-to obligations to inform the U.S. Government in a timely fashion.

The United States and Mexico are actively discussing possible means for enhancing the exchange of standards information and increasing transparency in the overall process. Recently, to further this exchange of information and to avoid trade disruptions, the United States and Mexico established several committees to discuss sanitary and

phytosanitary issues in agricultural trade between the two nations.

Investment Barriers: A national foreign investment commission, chaired by the Ministry of Commerce and Industrial Development, regulates foreign investment in Mexico. The country's laws reserve certain sectors to the state (such as oil and gas extraction and the generation and transmission of electrical power) and a considerably wider range of activities to Mexican nationals (for example, forestry exploitation, domestic air and maritime transportation, and gas distribution). Since 1982, the Mexican Government has taken a generally favorable attitude towards foreign investment; this approach accelerated in the later years of the de la Madrid Administration and has continued with the Salinas Government.

Reflecting this increasingly favorable attitude toward foreign investment, the Mexican government issued in May 1989 a series of regulations governing foreign investment which liberalized rules in several key areas. Automatic investment approval is now granted foreign majority-owned projects in accordance with certain investment amount, foreign exchange generation and geographic location, etc., criteria. The regulations specify those areas where foreign majority ownership is now permitted, but leave standing those sectors in which state or Mexican national ownership is required by law. However, "temporary" foreign participation in investment projects in sectors limited to Mexicans has been made possible through the development of a system of 20-year renewable trusts to be held by Mexican partners.

Government Procurement Practices: In a departure from past practice, the Government of Mexico eliminated its previous requirement that parastatal enterprises give preference to national suppliers; however, Mexican Government agencies are still required by law to procure from Mexican national firms unless authorized to procure internationally or if goods are not available domestically. Mexico has indicated a willingness to become a signatory to the GATT Procurement Code, but has not yet done so. The free trade agreement is expected to cover government procurement practices.

6. Export Subsidies Policies

In 1986, Mexico signed a bilateral understanding on export subsidies with the United States. The Mexican government has informed the United States Government that it maintains no export subsidy program and is in full compliance with its obligations under the subsidies agreement; an April 1990 report by the U.S. International Trade Commission stated the export subsidy programs maintained in the past by Mexico have either "been terminated or the subsidy element has diminished." The United States continues to monitor loans provided to the Mexican steel sector through Nafinsa, the state-owned development bank, to consider whether such loans constitute financial subsidies for Mexican steel exports.

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7. Protection of U.S. Intellectual Property

Mexico is a member of the World Intellectual Property Organization, as well as 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 and the Brussels Satellite Convention.

The Mexican government significantly increased its protection of intellectual property by means of a new Act for the Protection of Industrial Property (patents and trademarks) that came into effect on June 28, 1991, and reforms to the copyright act that became effective in August 1991. As a result, Mexico now provides intellectual property protection that is relatively strong in comparison with that afforded by other developing countries and even a number of industrialized countries.

Several U.S. concerns over Mexican intellectual property protection remain to be addressed in the ongoing NAFTA negotiations, such as patent protection for plant species, a statutory right of importation for copyrighted works, protection for semiconductor chip layout design and general intellectual property rights enforcement issues. Whatever changes are negotiated in these areas will be strongly influenced by the outcome of the Trade Related Aspects of Intellectual Property (TRIPS) segment of the Uruguay Round/GATT negotiations, still in progress at the time of this report.

Product patent protection was extended to all processes and products, including chemicals, alloys, pharmaceuticals, biotechnology and plant varities. The patent protection term was extended from 14 to 20 years from the date of filing. Trademarks are now granted for ten year renewable periods. The enhanced copyright law provides protection for computer programs against unauthorized reproduction for a period of 50 years. Of particular importance to U.S. producers, sanctions and penalties against infringements have been increased. In addition, damages now can be claimed regardless of the application of sanctions. With the sweeping new legal framework only recently enacted, enforcement of the new regime will be the key intellectual property concern over the next year, as past losses to U.S. producers have been large.

8. Worker Rights

a. The Right of Association

The Constitution guarantees workers and employers the right to form unions and professional associations. Unions must register with the Labor Secretariat, though registration requirements are not onerous. Leftist labor activists complain, however, that their effects to register new unions are rejected unjustifiably. Mexico enjoys a well-developed trade union movement with close to 30-35 percent of a workforce of an estimated 23-26 million organized into union confederations (largely affiliated with the ruling Institutional Revolutionary Party) and a small number of

independent unions. Almost all public sector employees are unionized, and have the right to strike, although this is rarely exercised.

b. The Right to Organize and Bargain Collectively

Both the right to organize and bargain collectively are guaranteed by Mexican labor law and generally honored in practice. Collective bargaining is common, particularly in industry and commerce, less so in the public sector. The right to organize is respected in the in-bond (Maquila) industry, although relatively few workers of the firms belong to unions. Generally speaking, nonunion in-bond firms provide benefits and working conditions that match or exceed those established by union contracts. Workers are protected by law from antiunion discrimination but this law is unevenly enforced, especially in states with a low degree of unionization.

c. Prohibition of Forced or Compulsory Labor

The Constitition prohibits forced or compulsory labor. There have been no credible reports for many years of forced labor in Mexico.

d. Minimum Age of Employment of Children

Mexican law sets the minimum age of employment for children at 14 years of age, with those 14 and 15 permitted to work a maximum of 6 hours daily in nonhazardous areas. Fourteen and 15 year olds also may not work at night or do overtime. Child labor laws are strictly enforced in large and medium-sized manufacturing and commercial establishments. Enforcement is less effective in smaller shops and factories, and even less still among street vendors or others engaged in the underground economy.

e. Acceptable Conditions of Work

Mexican labor legislation provides substantial protection for workers with respect to occupational safety and health, though again, compliance with the law varies in accordance with the size and formal organization of the establishment. The law provides for a maximum work week of 48 hours. Minimum wage legislation is often revised to account for inflation, but has not kept up with actual rises in the cost of living. Unionized workers generally enjoy a somewhat higher standard of living than that provided by the legislated minimum wage, and for the past two years their wages and benefits have kept pace with inflation.

f. Rights in Sectors with U.S. Investment

The following sectors have U.S. investment: Food and related products, chemicals and related products, primary and fabricated metals, machinery (except electrical and electronic equipment), transportation equipment, other manufacturing, wholesale trade. (N.B. petroleum is a state monopoly.) In all of the above sectors, the rights of association and to organize and bargain collectively, a prohibition on the use of forced or compulsory labor, a minimum work age, and acceptable

working conditions exist and are respected. As stated earlier, the majority of Mexican workers at in-bond plants have not been unionized, and there have been accusations that unionization has been discouraged and other worker rights, such as minimum age restrictions, violated. Such accusations have not, by and large, held up to scrutiny, with the exception of smaller plants (10 - 100 workers) which are more likely to be locally rather than foreign-owned.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category		Amount
Petroleum		80
Total Manufacturing		7,314
Food & Kindred Products	913	
Chemicals & Allied Products	1,596	
Metals, Primary & Fabricated	336	
Machinery, except Electrical	310	
Electric & Electronic Equipment	562	
Transportation Equipment	1,749	
Other Manufacturing	1,849	
Wholesale Trade		503
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		7,897

Source: U.S. Department of Commerce, Survey of Current Business, August 1991, Vol. 71, No. 8, Table 11.3

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Key Economic Indicators

	1989	1990 (p)	1991 (est)
Income, Production, and Employment			
GDP (millions US$) 1/	1,323	1,339	1,421
Percent Growth in Real GDP 2/	-2.8	-4.4	1.0
GDP by sector (pct)			
Agriculture	15.9	15.6	14.7
Mining	0.6	0.6	0.4
Manufacturing	21.0	20.3	20.8
Construction	3.4	3.1	2.7
Government	13.0	13.5	12.9
Other services	46.1	46.9	48.5
GDP per capita (US$)	353	347	n/a
Population (millions) 3/	3.73	3.86	3.99
Labor force (millions) 3/	1.28	1.33	1.39
Unemployment rate (pct) 3/	8.4	11.1	13.3
Underemployment rate 3/	39.4	44.6	49.9
Population growth (pct) 3/	3.4	3.8	3.1
Money and Prices			
Money supply (US$ million)	46.6	68.5	78.1
Commercial interest rate	N/A	18.0	18.0
Savings rate	-22.2	-26.8	-13.2
Investment rate 4/	26.1	24.7	n/a
CPI (pct change) 5/	4,770	7,485	2,741
Exchange rate (yr end) 6/	38,150	3,000,000	5
Balance of Payments and Trade (US$ millions)			
Exports FOB	290.1	326.9	302.5
Exports to U.S. 7/	0.0	25.0	70.0
Imports CIF	-547.1	-567.1	-583.8
Imports from U.S. 7/	0.0	77.7	110.0
Aid from U.S. 8/	5	277	275
Total foreign aid (disbursed)	169	202	482
External public debt	9,597	10,585	9,996
Debt service paid (pct)	172.7	177.4	265.3
Foreign reserves (as months of imports - gross)	2.1	1.3	1.3
Balance of payments	-630.1	-811.5	-1,118.7

Sources: International Monetary Fund (IMF) and World Bank unless otherwise indicated. All indicators are for calendar years unless otherwise indicated.

Figures in this chart differ from those used in the 1991 Trade Act Report, as they are from different sources. The numbers used here are considered to be more reliable. Any inconsistencies among the 1991 indicators are due to the fact that data was drawn from several different sources.

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1/ Source: World Bank. The IMF estimate of GDP is significantly lower, while the Nicaraguan Central Bank estimate is much higher.
2/ The IMF projects -0.4 growth.
3/ Source: Nicaraguan government Ministry of Labor
4/ Investment rates appear unrealistically high. This may result in part form state-owned companies claiming that loans obtained from the state banks were used for investments, when they were likely used for current operating expenses.
5/ Reflects average inflation. Figures included in the 1990 report were year-end.
6/ 1989 and 1990 figures are for the old currency. Complete conversion to the new currency, the gold cordoba, was effected by May 1991.
7/ Source: Central Bank of Nicaragua
8/ Source: U.S. Agency for International Development. These indicators correspond to funds obligated in U.S.Government fiscal years (FY), E.G. FY 91 ran from October 1, 1990 to September 30, 1991.

1. General Policy Framework

Following her early 1990 victory in Nicaragua's first free elections, Violeta Chamorro assumed control of Nicaragua's civilian government and an economy devastated by ten years of Sandinista repression, economic misrule, and civil war. Control of the police, military, and intelligence services remained in the hands of the Sandinistas, with General Humberto Ortega staying on as army chief. Espousing a policy of national reconciliation, the Chamorro government achieved the disarmament of the Nicaraguan resistance and declared an end to obligatory military service in 1990, thereby fostering widespread peace. Little, however, was accomplished on the economic front in 1990. The new government was hindered by the economic sabotage of the outgoing Sandinistas, who looted the treasury and government offices, increased the wages of the bloated public sector by 800 percent in nominal terms, and financed the resulting deficit with the printing press. The new government continued to use this method of deficit financing until January 1991.

Focusing on stabilization and structural adjustment, the main challenges for the Chamorro government in 1990 and 1991 were bringing inflation under control, clearing arrears with international financial institutions, and defining property rights. As of November 1991 the government had experienced success in the first two areas, with the third remaining an obstacle to restarting agricultural production and encouraging foreign investment. The legal status of large numbers of homes and businesses as well as large areas of land confiscated without compensation by the Sandinista government remained unclear. In the face of Sandinista opposition, the Chamorro government has been unable to define property rights and put in place a broadly accepted legal procedure for settling property rights.

Central government expenditures rose by only two percentage points of GDP in 1990, despite a more than two-fold increase in the wage bill due to the eleventh-hour Sandinista

regime pay raise. With assistance from the International Monetary Fund (IMF), the government prepared a stabilization program, implemented on March 3, 1991, to reduce the public sector deficit to a level that can be financed by external grants and concessionary assistance, without recourse to domestic credits. The program calls for strict constraints on domestic bank credit.

Although public revenue is far less, government spending amounts to almost one-third of GDP. Government ownership of assets in all sectors and heavy public sector use of resources crowd out the private sector. State-owned companies are said to account for 30-40 percent of GDP. By late 1991 the government had targeted some 350 state-owned enterprises for privatization. A short-term goal, in accordance with World Bank conditionality, is the divestiture of 25 such enterprises by March 1991. Opportunities for U.S. firms will present themselves as this privatization process gains speed. The first invitations for bids, on mining and fishing concerns, in September 1991 saw solid U.S. private sector participation. In sum, the Nicaraguan government made considerable progress in stabilizing the economy and undertaking structural reform in 1991.

2. Exchange Rate Policies

In May 1990, the Chamorro government introduced a second currency, the gold cordoba, which remained pegged to the U.S. dollar for all of 1990 and the first three months of 1991. This new currency was used largely as a unit of account for the first ten months of its existence, as small amounts of gold cordoba notes were slowly introduced into circulation. On March 3, 1991 the government dramatically devalued the new currency from parity to five gold cordobas to the dollar. Complete conversion took place by the end of April 1991, with the withdrawal of the old currency. Because prices increased 261 percent in March, the real effect of devaluation was in the range of 30 percent. Inflation during the period April through October 1991 averaged one percent a month.

Despite the devaluation, the currency still appears to be overvalued, as indicated by price levels generally higher than in other Central American countries. Higher prices are also due in part to a generalized inefficiency in the economy, born of central planning, a steady brain drain, and Sandinista intervention in the economy. Another indicator is the continuing trade deficit. Following the March 1990 implementation of the stabilization plan, with its attendant drop in demand for imports, importers have had no difficulty gaining access to foreign currency. One reason foreign exchange is freely available is that Nicaragua has received infusions of foreign assistance, mostly from the U.S. in the form of fast-disbursing balance of payments support. The overvalued cordoba gives U.S. exports an advantage, but if not corrected may lead to balance of payments and foreign exchange reserve difficulties, which would impair Nicaragua's sustained ability to import U.S. goods.

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3. Structural Policies

Pricing Policies: Upon taking office in April 1990, the Chamorro government inherited a system of generalized price controls, closed markets, and government monopolies on the export of principal commodities and the import of inputs and capital goods. The new government lifted price controls in general, with the exception of prices on fiscal goods (e.g., tobacco, soft drinks, alcoholic beverages), petroleum products, and public utilities. The government also continues to set prices on staple goods (e.g., beans, rice, corn) in government-owned outlets as part of the strategy to reduce inflation. Private operators are not required to sell at these prices; but they are required to post government prices in a conspicuous place. Retailers have been temporarily closed for failing to do so. Government officials have also tried jawboning to keep prices down. In addition, they have lowered the prices of inputs produced by state-owned companies and sold donated commodities at less than international prices. In order to meet conditionality for World Bank loans, the government plans to cease these practices by March 1992. The freeing up of the market has allowed greater access for U.S. exports.

Tax Policies: Measures taken by the government of Nicaragua in 1990 to reduce tariffs were a small step in the right direction. However, no substantial cuts were effected until July 1991. Following this latest round of cuts Nicaragua had a maximum combined duty on most imports of 38 percent. This figure includes a tariff (20 percent maximum on most goods), a selective consumption tax (15 percent maximum on most goods), and revenue stamps (a flat three percent on all goods). Sixty-six percent of tariffs vary between three and forty percent. While several categories of goods retain effective protection ranging up to 143 percent (e.g. vehicles, firearms, and alcoholic beverages), the government estimated that the July 1991 measures would reduce the cost of imported consumer goods by ten percent. In a 1991 report the IMF estimated average protection to be eighteen percent. The government announced that by December 1993 nominal import protection will be reduced to the 10-20 percent range. The government of Nicaragua receives about two-thirds of its revenue from indirect taxes, such as sales/excise taxes and customs duties. In 1990 the highest income tax rate was reduced form 60 percent to 38.5 percent (for taxpayers earning more than 180,000 gold cordobas, the equivalent of US$ 36,000 at five cordobas to the U.S. dollar). The government plans to reduce the top rate to about 33 percent. Taxpayers earning less than 25,000 gold cordobas (US$ 5,000) are exempt from the income tax. The other rates are: ten percent between 25,000 and 60,000 gold cordobas; twenty percent between 60,000 and 120,000 (US$ 24,000) gold cordobas; and 30 percent between 120,000 and 180,000 gold cordobas. Corporations pay the same tax rate as individuals.

Regulatory policies: In 1989 Nicaragua's state-owned trading companies administered trade with the Eastern bloc accounting for 56 percent of total imports, including a monopoly on imports of oil and fertilizers. Private parties were marginally involved in foreign trade in a system which included discretionary allocation/retention of foreign

exchange, multiple exchange rates, and arbitrary trade credit rationing. Nominal import protection was nontransparent and widely differentiated. It ranged from 4 percent to 253 percent, averaging 48 percent. In February 1991, President Chamorro deregulated the import and export of most products. All except cotton and coffee exporters have full access to the foreign exchange that they generate. The government allows the use of foreign exchange for most current account transactions, but not for capital account transactions. One U.S. investor has over US$ 50 million in blocked profits with the Central Bank. The Central Bank has refused to permit existing foreign companies to repatriate profits fully. An investment law passed in 1991 provides for the repatriation of new capital three years after the initial investment.

4. Debt Management Policies

The Chamorro administration inherited a heavy burden of foreign debt from the previous government. In June 1991 total debt stood at $10.8 billion, of which over $6 billion was owed to the Soviet Union and former East bloc countries. The government's first priority was to clear its $330 million arrearages with the World Bank and the Inter-American Development Bank, in order to obtain fresh funds from these institutions. This was achieved in September 1991 with $135 million in grant contributions from the international donor community (of which $75 million was given by the United States) and $193 million in short-term bridge loans from Mexico, Venezuela, Spain, and Colombia. The government's second priority has been to renegotiate bilateral debt. The most notable debt reductions in 1990/91 were with Mexico, which virtually pardoned the approximately $1 billion owed to it, the United States, which forgave $294.5 million in official debt, Venezuela which gave terms amounting to forgiveness of the $140 due it, and Colombia, which effectively forgave almost $50 million.

Nicaragua's foreign debt burden, which was between six and ten times its GDP, has been somewhat relieved by a Paris Club rescheduling of Nicaragua's debt in January 1992. Nicaragua was the first country to receive a Paris Club rescheduling on the basis of the new "Trinidad Terms" framework. It should be noted that Nicaragua's debt problems do not parallel the general Latin American crisis, which began in 1982. In 1979 the Sandinistas inherited less than $2 billion in debt from the Somoza regime. By the end of the 1980'S they had run this up to almost $11 billion.

Last on the Nicaraguan government's list of priorities are commercial creditors. In July 1991 The Central Bank presented a representative of U.S. private banks documents recognizing Nicaragua's $1.8 billion debt and extending the statute of limitations expiration date of August 1991. This avoided the immediate necessity of U.S. banks' suing Nicaragua in the U.S. court for non-payment, but left the option open. At the same time it showed the good faith of the Nicaraguan government.

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5. Significant Barriers To U.S. Exports

The Chamorro government has significantly reduced trade barriers, mainly by cutting tariffs and eliminating state monopolies. The result has been widespread availability of U.S.-produced consumer goods in several newly-established Managua supermarkets. While import licenses are required, these are little more than a formality, with one notable exception. In September 1991 the Nicaraguan government's Ministry of Economy used the licensing procedure to restrict U.S. imports of chicken parts. In order to meet World Bank conditionality, the government has committed itself to removing this barrier and all quantitative restrictions by March 1992.

Legislation passed in 1991 allowed the establishment of private banks in Nicaragua. Previously, banking had been a state monopoly, as the insurance industry continues to be. At least one U.S. bank showed interest in starting operations in Nicaragua. However it is unclear whether the current banking law allows foreign banks to open branches and accept deposits. Two private Nicaraguan banks were established in 1991.

In the absence of a bilateral aviation treaty, U.S.-Nicaraguan aviation relations are based on comity and reciprocity. In 1990/91 the Nicaraguan government granted landing rights to four U.S. carriers, while two Nicaraguan carriers were granted landing rights in the U.S. However, Nicaragua has not acted on a long standing request for scheduled all cargo service by another U.S. airline.

A new investment law was passed in 1991. The new law allows one-hundred percent foreign ownership in all areas. However, some U.S. investors still have difficulty repatriating profits due to foreign exchange shortages.

6. Export Subsidies Policies

The March 1990 lifting of the U.S. trade embargo and the November 1990 inclusion of Nicaragua in the Caribbean Basin Initiative II program, the latter allowing a wide range of Nicaraguan products duty free access to U.S. markets, set the stage for export oriented policy changes.

In August 1991 President Chamorro signed an export promotion decree, establishing a package of fiscal exonerations and incentives for exports. The legislation favors non-traditional exporters, who will be exonerated from paying 80 to 60 percent of income tax on a sliding scale from 1991 to 1996, with the benefit dropping to zero in 1997 and thereafter. All exporters are to be allowed to import inputs duty free and to be exonerated from paying value added taxes over the same period, again on a sliding scale. In addition, the law promised preferential access to foreign exchange for exporters.

NICARAGUA

7. Protection of U.S. Intellectual Property

Nicaragua is a signatory to the Universal Copyright Convention and the Brussels Satellite Convention. In May 1990 the Chamorro government committed itself to "providing adequate and effective protection for the right to intellectual property of citizens and foreign nationals," in the context of requesting designation of Nicaragua as a beneficiary of the Caribbean Basin Economy Recovery Act. However, faced with rebuilding the economy, the Nicaraguan government has not yet devoted extensive resources to protecting intellectual property rights. Although the national economy has yet to register positive growth, or even stop shrinking, Managua experienced a marked revival in retail activity in 1991, with cable/satellite television and videotapes becoming more widely available. Aspects of Nicaragua's protection for patents, trademarks, and copyrights do not meet current international standards. It is considering new copyright legislation to replace the current law, which dates from 1903. The Motion Picture Export Association of America (MPEAA) filed public comments with the U.S. government in July 1991, noting piracy of U. S. television signals by the government-owned television, Channel 6. MPEAA member companies' losses were estimated at $180,000.

8. Worker Rights

a. The Right of Association

All workers, except the military and the police, are entitled to form and join unions of their own choice, and they exercise this right extensively. New unions must register with the Ministry of Labor and be granted legal status before they may engage in collective bargaining with management. Nearly half of Nicaragua's labor force is unionized, according to labor leaders. The Labor Code allows workers to strike only after they have exhausted other methods of dispute resolution. There were numerous strikes in 1991, mostly in the public sector. Although most of the strikes did not follow Labor Code requirements, the Government generally did not declare the strikes illegal or punish workers who participated.

b. The Right to Organize and Bargain Collectively

The Constitution provides for the right to bargain collectively. In 1991 the Chamorro government engaged mainly in ad hoc efforts to resolve labor conflicts in the public health and education sectors. After ten years of centralized economic planning, the private sector is unfamiliar with collective bargaining techniques, which in any case are little used in Nicaragua. In mid-1991 the Government drafted a decree specifying conditions for establishing export processing zones. One export zone, containing fewer than five firms, was established during the year. The firms receive tax concessions, but operate under the same labor laws in effect for other Nicaraguan companies.

NICARAGUA

c. Prohibition of Forced or Compulsory Labor

The Constitution provides that all Nicaraguans have a "right to choose and exercise freely their profession or trade and choose their place of work." No charges that the practice of forced or compulsory labor exists in Nicaragua were made in 1991.

d. Minimum Age for Employment of Children

Children under the age of 14 are not permitted to work legally. The Constitution prohibits "child labor that can affect normal childhood development or interfere with the obligatory school year." This is generally enforced in the small modern sector of the economy, but very young street vendors ply their trade on Managua's streetcorners and children frequently work on family farms at an earlier age.

e. Acceptable Conditions of Work

The National Assembly passed legislation in May establishing a tripartite commission responsible for setting sectoral minimum wages at regular intervals. In August, over the objections of worker representatives, the Government and employer delegates voted to establish sectoral minimum wages. The Constitution specifies an eight-hour workday and a workweek of 48 hours with one day of rest. Health and safety standards also are provided for by the Constitution. The Ministry of Labor's Office of Hygiene and Occupational Security is responsible for verifying compliance with health and safety standards. Due in part to the deployment of too few inspectors and other resources, few on-site inspections occurred during 1991.

f. Rights in Sectors with U.S. Investment

U.S. investment in Nicaragua is largely limited to the country's fairly modern petroleum refining and marketing sector. U.S. firms doing business in Nicaragua adhere closely to Nicaraguan labor law. While in principle the constitution guarantees broad labor rights to all Nicaraguans, many Nicaraguan workers (particularly those in the traditional and informal sectors) do not enjoy these rights in practice.

NICARAGUA

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category	Amount	
Petroleum		(D)
Total Manufacturing		56
Food & Kindred Products	58	
Chemicals & Allied Products	1	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	-3	
Wholesale Trade		8
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, August 1991

PANAMA

Key Economic Indicators

(Millions of U.S. Dollars Unless Otherwise Noted)

	1989	1990	1991 (est.)
Income, Production, Employment			
Real GDP (1970 prices)	1,786.0	1,868.0	1,952.0
GDP growth (pct)	-0.4	4.6	4.5
GDP by sector (pct of total)			
Agric./forestry/fisheries	11.8	11.8	11.6
Manufacturing	8.7	9.0	9.4
Utilities	4.2	4.1	4.0
Construction	1.4	1.7	2.3
Commerce/hotels/restaurants	10.7	11.6	12.2
Panama Canal	10.5	10.0	10.0
Oil pipeline	4.4	3.4	2.9
Colon Free Zone	4.9	5.5	5.9
Transport/communications	6.1	6.2	6.2
Fin./insurance/real estate	15.2	14.9	14.9
Government services	14.7	13.3	12.0
Other	7.3	8.5	8.6
Real GDP/capita (1970 prices)	754	773	791
Labor force (thousands)	820	845	870
Unemployment (rate)	16.3	17.7	17.3
Money and Prices			
Money and quasi-money	1,600.0	2,184.0	2,556.0
Commercial interest rates			
Fixed deposit (pct)	8.5	10.0	7.5
Average lending (pct)	13.0	15.0	11.0
Savings Rate (pct GDP)	4.4	9.3	10.9
Investment rate (pct GDP)	2.8	16.6	15.2
Consumer prices (pct, annual average)	-0.1	0.5	2.0
Wholesale prices (pct, annual average)	2.5	9.5	9.0
Exchange Rate (Balboa:dollar)	1:1	1:1	1:1
Balance of Payments and Trade			
Total merchandise exports (FOB)	297	317	350
Exports to U.S. (pct)	47	46	44
Total merchandise imports (CIF)	986	1,489	1,500
Imports from U.S. (pct)	45	43	37
Aid from U.S. government 1/	0	89	211
External public debt 1/	5,039	5,358	5,099
Debt service paid	0	225	250
Foreign assets 1/	119	406	200
Balance of payments			
Current account	70	-356	-225
Capital account	-881	663	481

1/ For 1991, data based on assumption that Panama clears arrears with international financial institutions by year-end.

PANAMA

1. General Policy Framework

The Panamanian economy continued to recover in 1991 after rebounding in 1990 from two years of U.S. sanctions and 20 years of poor economic policies under a military dictatorship. Delay in coming to terms with international financial institutions on policies to implement structural reform in Panama generated uncertainty in the private sector and tempered the pace of business expansion somewhat during 1991. Nevertheless, the Panamanian Government remains committed to economic reform supported by international financial institutions and to strengthening domestic and foreign business confidence. The government initiated trade and public sector reforms and submitted key implementing legislation to the Legislative Assembly in September 1991.

Panama's relatively small market (nominal GDP of US$5 billion), the low share of agriculture and manufacturing in GDP (approximately 12 and 10 percent, respectively), and the concentration of economic activity in banking, commerce, and transportation services limit the opportunities for traditional U.S. industrial and intermediary product exports. Nevertheless, the government's desire to attract export processing zone investment, privatize state-owned entities, and develop Canal territories reverting to its control suggests the prospects for U.S. businesses in these areas are good. In addition, Panama's traditional appetite and ability to pay dollars for imported consumer items, especially U.S. products, means the market for these products will continue to be favorable. Panama has traditionally had a greater demand for U.S. goods than other countries in the region, and its consumers are accustomed to having access to the latest products.

The use of the U.S. dollar as Panama's currency means that fiscal policy is the government's principal macroeconomic policy instrument. Because Panama does not "print" a national currency, government spending and investment are strictly bound by tax and non-tax revenues (including Panama Canal receipts) and the government's ability to borrow. The latter is extremely limited at present because of massive arrears to internal and external creditors built up by the previous regime as a means of financing large deficits.

The government of President Endara maintained a tight fiscal policy in 1990 and 1991 in order to reduce fiscal deficits and stabilize the growth of public debt. The public sector deficit fell to less than 3 percent of GDP in 1990 and 1991 from 11.5 percent of GDP in 1989. The government executed the public sector investment budget conservatively, in part to ensure transparency in the use of public funds, and in part because external financing for investment remained uncertain pending conclusion of agreements with international financial institutions. To the extent the investment budget is financed and executed more efficiently in 1992, demand for U.S. goods and services should increase.

Private fixed capital formation, inventory rebuilding, and consumption are believed to have lead to real GDP growth of four to five percent in 1991. Merchandise imports associated with continued private sector expansion are

expected to reach new highs and be easily financed through private capital flows. As Panama's economic reforms begin to take hold, the main sources of private sector growth in the 1990's are expected to be in traditional exports (bananas, shrimp), maquila industries, the Colon Free Trade Zone, financial services, insurance, tourism, and transportation. Domestic and foreign investment in these areas should boost associated imports substantially over time.

2. Exchange Rate Policies

Panama's official currency, the balboa, is pegged to the U.S. dollar at B/1.00 equals US$1.00. The fixed parity means the price and availability of U.S. products in Panama depend on transport costs and tariff and non-tariff barriers to entry (see below). At the same time, the fixed parity means that U.S. exporters have zero risk of foreign exchange loss on sales to Panama.

3. Structural Policies

Panama has traditionally relied on the private sector to supply most goods and services. While the government took the lead in providing new investment in the 1970s, current policies again look to the private sector for the bulk of new development. The Panamanian Government seeks to promote export industries and has streamlined its investment promotion and industrial zone facilities toward this end with special tax exemptions and liberalization of the Labor Code. In addition to providing direct investment opportunities for U.S. firms, these developments offer export opportunities to U.S. producers of basic industrial and intermediary goods needed to develop light industry. The Government's decision to privatize a number of state-owned firms and operations will also benefit U.S. suppliers of goods and services.

The Endara government is reducing tariff protection on a large number of products with the purpose of achieving greater efficiency in production. It reduced specific tariffs on a core group of industrial and agro-industrial products to a maximum of 60 - 90 percent on an ad valorem basis on August 1, 1991 and will reduce quantitative restrictions, eliminate specific duties, and lower maximum tariffs to 40 - 50 percent by end-1992. The Panamanian Government is also in the process of negotiating its accession with General Agreement on Tariffs and Trade contracting parties.

Panama's use of the U.S. dollar and inability to print money preclude the rampant inflation usually associated with massive public sector deficits such as those Panama has generated. As a consequence, increases in prices are generally linked to that of the United States and to the prices which imports command. The Panamanian Government also controls the price of certain staple and essential items to protect the purchasing power of low-income households, as import controls would otherwise allow importers, producers, and distributors to increase prices excessively given the small size of the market. As part of its economic program, however, the government will progressively eliminate import

restrictions and price controls and substitute an office of consumer protection for the existing office of price regulation.

4. Debt Management Policies

Panama's total external public debt stood at US$5.4 billion at end-1990, of which US$3.1 billion represented principal and interest arrears. Foreign commercial banks held 54 percent of external debt, international financial institutions 28 percent, bilateral official creditors 12 percent, and suppliers and short-term creditors 6 percent. External debt represented 113 percent of GDP at end-1990. External debt service due represents some 15 percent of GDP and 40 percent of goods and services exports; external debt service actually paid will amount to some 5 percent of GDP and 13 percent of goods and services exports in 1991.

The Government of Panama began the process of reestablishing normal relations with external creditors in early 1990. It has made current payments to the International Monetary Fund (IMF), the International Bank for Reconstruction and Development (IBRD), and the Inter-American Development Bank (IDB) since May 1, 1990. The IMF Board approved an 18-month Fund-monitored program for Panama on September 12, 1990, and the Government has performed fully under the program. The Government held extensive discussions with the IMF/IBRD/IDB in 1990 - 1991 before reaching agreements in principle with these institutions in September 1991. The Government is expected to reach final agreements and clear its arrears with the IMF/IBRD/IDB in early 1992. A U.S. Government-led support group of friendly nations, together with a U.S. Government bridge loan against initial disbursements from the IMF/IBRD/IDB, is expected to mobilize sufficient funds to clear the arrears. Once the arrears are cleared, the IMF will convert its Fund-monitored program to an IMF Stand-By arrangement and the IBRD and IDB will resume lending to support structural adjustment. Future IDB disbursements will depend on adequate treatment of the privatization issue.

On the basis of the Fund-monitored program approved in September 1990, Panama rescheduled bilateral official debt in the Paris Club on November 14, 1990. Panama and the United States signed a bilateral agreement implementing the Paris Club accord on August 21, 1991, and the bilateral agreement entered into force on September 27, 1991.

Panama maintained communication with the Bank Advisory Committee of foreign commercial banks in 1990 - 1991 and is expected to initiate formal discussions in 1992. The Government of Panama expects to pursue a comprehensive solution to the external debt issue that will involve commercial bank debt and debt service reduction operations.

The Government of Panama's steadily accumulating arrears with external creditors has eliminated public sector access to international financial markets. External financing for public sector imports is expected to come from official and bilateral sources for the foreseeable future. Normalization

of relations with official and multilateral creditors should pave the way for official and bilateral financing in 1992. The public sector's lack of creditworthiness limited access of some private sector Panamanian borrowers to international financial markets during 1990. In 1991, however, foreign lenders began to restore normal trade and interbank lines for creditworthy private borrowers. Improved financial conditions for the private sector should permit growing private sector imports in line with continued economic growth in 1992.

5. Significant Barriers to U.S. Exports

Agricultural products are subject to widespread quantitative restrictions. Import quotas on 42 products and import permits on 23 products are the most important nontariff mechanisms used to protect national production beyond levels afforded by tariffs. All quotas and import licensing are scheduled to be eliminated in 1993, but some duties may be raised in compensation.

While the Government of Panama does not officially present any barriers to U.S. suppliers of banking, insurance, travel/ticket, motion picture, and air courier services, some professionals can expect certain technical/procedural impediments, i.e., architects, engineers, and lawyers have to be certified by Panamanian boards.

Standards: All imported packaged and bottled foods and beverages must be registered by the Ministry of Health. Pharmaceuticals, drugs, vitamins, cosmetics, and other like products are also subject to similar regulations.

Although Panama does not have an investment screening mechanism, the Panama Trade Development Institute (IPCE) does attempt to attract investment to priority areas. Under the terms of its Bilateral Investment Treaty with the United States, Panama places no restrictions on the nationality of senior management. Panama does restrict foreign nationals to 10 percent of the blue collar work force, however, and specialized foreign or technical workers may number no more than 15 percent of all employees in a business. Disinvestment may be difficult for foreign (and Panamanian) companies because of labor code regulations, which restrict dismissal of employees and require large severance payments.

6. Export Subsidy Policies

Export subsidy policies benefit both foreign-owned and domestic export industries. The tax credit certificate (CAT) is a major export subsidy. CATs are given to firms producing nontraditional exports when the exports' national content and national value-added both meet minimum established levels. Exporters receive CATs equal to an amount that is 20 percent of the exports' national value-added. The certificates are transferable and may be used to pay tax obligations to the government. They can also be sold in secondary markets at a discount.

A number of industries that produce exclusively for

export are also exempted from paying certain types of taxes and import duties. The Panamanian Government uses these exemptions as a way of attracting investment to the country. Companies that benefit from these exemptions are not eligible to receive CATs for their exports, however.

7. Protection of U.S Intellectual Property

Panama is a member of the World Intellectual Property Organization, the Geneva Phonograms Convention, the Brussels Satellite Convention, and the Universal Copyright Convention, but is not a member of the Bern Convention for the Protection of Literary and Artistic Works or the Paris Convention for the Protection of Industrial Property.

Officially, Panama's adherence to some of the major international conventions governing intellectual property rights offers more protection than that which is given to domestic Panamanian interests under Panamanian law. However, Panama's executive and legislative branches are currently working on draft intellectual property rights legislation that would codify for local authors the same protection that currently exists for foreigners under international treaties signed by Panama.

The draft intellectual property rights legislation that the Legislative Assembly's Education Committee and the Panamanian Government (i.e. the Ministries of Education and Government and Justice) are simultaneously studying is modeled on a World Intellectual Property Rights Organization draft. It updates Panamanian law and makes copyright infringement a felony. The new legislation would expand current procedures to allow easier prosecution of both big and small copyright violators.

In the past, Panama recorded some notable successes in the enforcement of U.S. intellectual property rights. In 1986, the Panamanian Government cooperated with the United States in shutting down the cable television firm "Rexsa" which was pirating U.S. television programming. In 1985 and 1986, Panama closed down large videotape pirating operations in Panama City and the Colon Free Zone. In August 1988, the Panamanian Supreme Court upheld a 1987 decision by the Commerce Ministry in a case where a Panama City restaurant was illegally using a U.S. trademark in its name and advertising.

Existing Panamanian law does not specifically address the issue of protection of specific new technologies, such as computer software, integrated circuits, or semiconductor chips. (Computer software, however, is included in the draft legislation.) In one test case, however, a Panamanian court upheld protection of computer software authorship rights based on the broad interpretation of a Panamanian administrative code article.

PANAMA

8. Worker Rights

a. Right of Association

Panamanian workers, with the exception of certain sectors (e.g., central government civil servants), have the right to form and join unions of their choosing subject to registration by the government. Public employees who are not permitted to unionize, have the right to form representative associations subject to restrictions imposed by Law 25 of 1990. Several public employee associations exist. Workers in state-owned companies are permitted to organize, and these unions along with teacher unions are among the strongest in Panama. Approximately 11 percent of Panamanian workers are organized into roughly 225 unions and associations, grouped under five labor centrals and several independent federations. Organized labor, which received various benefits from and was largely co-opted by the military regime, is no longer identified with or controlled by the government or political parties.

Workers, except government workers and those employed by U.S. forces and the Panama Canal Commission, have the right to strike. Employees of state-owned enterprises that were once private, such as the state-owned electric and telecommunications companies, have the right to strike when certain criteria are met. Employees in banks and the Colon Free Zone technically have the right to strike, though there are no unions in the banks or the Zone. However, Law 13 of 1990 limits the right to strike by requiring compulsory arbitration in all enterprises that provide public services and in other enterprises when the strike could create in serious economic problems for that Enterprise. The private sector experienced only minor strikes in 1991.

b. The Right to Organize and Bargain Collectively

The law affords most workers the right to organize and bargain collectively, and the right is widely exercised. Despite legal exclusions for public sector employees (excluding employees in public enterprises), the Government allows civil servants to form employee associations but they do not have the right to strike. (Their purpose is to represent public employees in employee-management relations.) Also excluded are workers in the Colon Free Zone and the banking sector. Proposed Legislative Bill 27, which was approved in first debate during the final 1991 Assembly session, would establish a labor regime in the export processing zones which exempts these zones from numerous Labor Code regulations in force.

The right of collective bargaining is restricted by two laws enacted by the legislature in late 1990 in response to Panama's Economic Crisis. Modifications of both these laws were under consideration at year's end.

Panama's Labor Code prohibits anti-union discrimination by employers. Disputes or complaints may be brought to a conciliation board in the Ministry of Labor for resolution. The Labor Code provides a general mechanism for arbitration once conciliation procedures have been terminated. Several complaints were filed with the ILO alleging harassment of

private sector union members intended to promote resignations from or refusal to join unions, particularly in the Colon-Free Zone.

c. Prohibition of Forced or Compulsory Labor

The Labor Code prohibits forced or compulsory labor, and there are no reports of either in practice.

d. Minimum Age for Employment of Children

The Labor Code prohibits the employment of children under the age of 14, or under the age of 15 if the child has not completed primary school. The Code also prohibits the employment of persons under age 18 in night work. Children between the ages of 12 and 14 may perform farm or domestic labor as long as the work is light and does not interfere with the child's schooling.

e. Acceptable Conditions of Work

The Labor Code provides extensive rights and benefits to workers. The maximum number of hours in the workweek are limited to 48. The law also sets a minimum wage per hour for most categories of labor and requires substantial bonuses for overtime work.

Numerous health and safety standards have been established for all places of employment. A lack of resources has hindered the Ministry of Labor's efforts to effectively enforce these requirements.

f. Rights in Sectors with U.S. Investment

Although Panamanian labor laws differ from sector to sector, within each sector U.S. firms adhere to the prevailing laws.

PANAMA

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category	Amount	
Petroleum Refining and Distribution		1,927
Total Manufacturing		363
Food & Kindred Products	93	
Chemicals & Allied Products	229	
Metals, Primary & Fabricated	(D)	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	(D)	
Wholesale Trade		442
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		2,732

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business August 1991, Vol. 71, No. 8, Table 11.3

PARAGUAY

K. Economic Indicators

	1989	1990	1991 1/
Income, Production, Employment			
Real GDP 2/	6,614	6,818	7,022
Real GDP growth rate	5.8	3.1	3.0
Sectorial GDP (PCT)			
Agriculture, Forestry, Cattle.	27.8	27.5	27.2
Manufacturing	16.2	16.1	16.7
Construction	5.4	5.2	5.4
Transport and Communications	4.6	4.6	4.9
Commerce and Finance	26.3	26.4	27.5
Central Government (wages only)	4.5	4.5	4.8
Other	15.2	15.7	13.5
Real per capita income 3/	1,259	1,301	N/A
Labor force (thousands)	1,337	1,377	1,418.4
Unemployment rate 1/ (nationwide)	12.0	13.0	13.0
Underemployment rate 1/ (nationwide)	23.0	25.0	25.0
Money and Prices			
Money Supply 4/	609	808.2	1,006
Commercial Banks (Lending Rates PCT)	28.0	36.0	37
Savings Rate (as a PCT of GDP)	17.1	16.9	18.3
Investment rate (as a PCT of GDP)	23.8	23.0	N/A
Consumer Price Index	28.5	44.1	15
Wholesale Price Index	26.1	67.2	5
Annual Average Exchange Rate	1,200	1,225	1,323
Balance of Payments and Trade			
Total Exports FOB 5/	1,097	1,215.1	641.84
Total Exports to U.S. 5/	40.81	39.40	32.70
Total Imports CIF 5/	759.6	1,349.8	1,850
Total Imports from U.S. 5/	93.8	146.7	208.8
Aid from U.S. 5/	1.3	1.5	2.5
Aid from Japan 1/ 5/	27	20.2	N/A
Aid from Germany 1/ 5/	10.3	7.1	N/A
External Public Debt 5/	2,490	2,433	1,690
Annual Debt Service Pmnts. 5/	141.9	147.8	151
Gold and Foreign Exchange reserve 5/	447.4	673	994.9
Balance of Payments 1/ 5/	123	170	52.64

1/ Estimates or Projections
2/ Millions of 1982 dollars
3/ Dollars of 1982
4/ Billions of Guaranies
5/ Millions of dollars

PARAGUAY

1. General Policy Framework

Paraguay, with a population of 4.27 million, an annual population growth rate of 2.9 percent, and total land area of 154,047 square miles, has a small domestic market and limited but expanding access to world markets through the Paraguay/ Parana river system. Asuncion is the political, financial, administrative, and commercial center of the country. The capital city with its suburbs has a population of about 1.7 million people, nearly forty percent of the total population of the country.

Paraguay is predominantly an agricultural country with vast hydroelectric potential but no known significant mineral or petroleum resources. The economy is highly dependent on production and exports of soybeans and cotton which together accounted for nearly 70 percent of total exports in 1990. Construction of the massive Itaipu hydroelectric project greatly accelerated Paraguay's economy. Completion of the Yacyreta hydroelectric project with Argentina should further spur economic growth and make Paraguay the world's larger exporter of hydroelectric energy.

The change in government in February 1989 marked the end of 34 years of Stroessner's repressive regime. The new administration implemented a sweeping economic liberalization program. In February 1989, the Government of President Andres Rodriguez eliminated the multiple exchange rate system and adopted a free floating market rate. The move greatly reduced economic distortions, particularly in the trade area and in the public sector. The Rodriguez Administration has also implemented a number of monetary measures to control inflation and to free interest rates. At the same time, the government eliminated price controls on basic products, reduced export taxes, and provided fiscal incentives to encourage investment and attract foreign investors.

The decision to reinstate Paraguay as a beneficiary of the U.S. Generalized System of Preferences (GSP) program effective February 6, 1991, led to Paraguay's restoration as a beneficiary of the Overseas Private Investment Corporation (OPIC) programs in August 1991.

Fiscal Policy: The Rodriguez Administration has made control of government expenditures one of its chief goals. The central government ran a budget surplus, in both 1989 and 1990 and is projecting budget surpluses for 1991 and 1992. Despite the budget surplus many public enterprises still present deficits and are heavily indebted. No progress has been achieved to privatize these public enterprises. Currently, the Congress is considering two bills on the privatization of public enterprises

Monetary Policy: During 1989, inflation accelerated, fueled by the shock of the exchange rate adjustment and expansionary pressures on the Central Bank. Since January 1991, the Government has given top priority to the fight against inflation. This has been achieved through the implementation of highly restrictive monetary measures. As a result, the annual inflation rate has been reduced from 44.1

percent in 1990 to an expected 15 percent in 1991. In order to control the money supply, the central bank has restricted credit by maintaining relatively high reserve requirements for banks and other financial institutions.

These monetary measures have raised real interest rates making access to credit difficult for most producers, particularly farmers. As a result, economic growth has declined in recent months. In order to control the situation and stimulate economic growth, on July 30, the Central Bank eased its restrictive monetary policy by reducing reserve requirements for deposits in local currency.

2. Exchange Rate Policy

Currently, Paraguay does not have controls on foreign currency exchange transactions. Foreign currency may be freely acquired at banks and exchange houses. While the foreign exchange rate is free to float, the Central Bank is authorized to participate in the market to avoid unusual fluctuations in the exchange rate. During 1991, the Central Bank has played an active role in the exchange market by buying dollars in order to prevent overvaluation of the local currency. High interest rates offered in the local market have attracted millions of speculative dollars to Paraguay contributing to the appreciation of the güarani against the dollar.

Despite the massive purchase of dollars by the Central Bank to maintain the value of the guarani, since the change of government in February 1989 through the end of October 1991, the local currency has been depreciated only 22.7 percent against the dollar. Meanwhile, the accumulated inflation rate reached 81.7 percent during the same period.

3. Structural Policies

Pricing policies: The economic system in Paraguay favors free enterprise. Economic incentives and resource allocation in general are guided by the price mechanism. Recent progress has been made by the Rodriguez administration in order to liberalize prices for certain basic products, such as sugar, bread and liquid gas for cooking. Nevertheless the government still maintains price controls on some strategic goods and services such as gasoline and medicines. Prices of utilities, including telephone, electricity, and water, are established by the government. Likewise, the Asuncion city government has power to set the price of public transportation. The minimum monthly wage is also fixed by the government.

Tax policy: The current tax system relies primarily on indirect taxes. The proposed FY1991 budget indicates that about 30 percent of estimated central government revenues will be derived from sales and stamp taxes, 22.6 percent from the royalties produced from Itaipu, 13 percent from taxes and duties on imports and exports (mainly imports), 8.3 percent from income taxes (mainly corporate taxes), 1.5 percent from real state taxes, and the remaining from miscellaneous revenue sources.

PARAGUAY

Corporate income is taxed at progressive rates, reaching a maximum rate of 30 percent. The government provides tax incentives for exports of manufactured products. Law No. 90/90, effective December 1990, introduced incentives for the export of manufactured products, including the elimination of export duties and related taxes. Law No. 60/90 established fiscal incentives for domestic and foreign investment providing exemptions from many types of taxes and custom duties for a period of up to five years.

Tax reform: Tax evasion has been widespread in Paraguay. To reduce tax evasion and simplify the current complex and obsolete tax system, in June 1991, the Ministry of Finance presented to the Paraguayan congress a tax reform proposal. The proposal includes the imposition for the first time of a value-added tax, but does not include the controversial personal income tax.

Regulatory policies: Paraguay does not have significant discriminatory import restrictions such as quotas and other administrative restrictions that may impact negatively on U.S. exports. The government has maintained a two tier import tariff structure. Rates between 5 and 35 usually are designed for revenue generation, rates over 35 percent usually are applied to items competing with goods produced by local manufacturers or to items considered as luxury imports. Currently, the top rate is 70 percent, but this level is rarely applied. Imported goods are not subject to prior licensing. However, foreign goods competing with goods manufactured by local producers may be subject to special treatment such as prohibition or temporary import restriction. A large percentage of U.S. exports to Paraguay is destined for third countries, mainly Brazil and Argentina.

4. Debt Management Policy

The Paraguayan external debt increased substantially between 1976 and 1981. From 1982 until 1987 the foreign debt burden was a serious problem for the Paraguayan economy. During this period the debt servicing ratio was about 92 percent. In 1990 the foreign debt service burden began to decline. In 1990, the servicing of the public debt represented 28.3 percent of total export earnings, and the level of the total external debt represented 29.3 percent of the 1990 GDP.

Paraguay's total external debt amounted to $1,670 million at the end of June 1991. Paraguay's external debt is divided as follows: $638 million (38.2 percent) with the member governments of the Paris Club; $819 million (49 percent) with the multilateral institutions (World Bank, Inter-American Development Bank, other institutions), and $214 million (12.8 percent) with the commercial banks.

The debt structure: Of the $1.67 billion registered external debt approximately 40 percent is held by the central government; 47 percent is owed by public enterprises. Finally, debts of the financial institutions represent 13 percent of the total foreign debt.

PARAGUAY

In 1989, Paraguay negotiated a rescheduling agreement with its largest creditor, Brazil, whereby Paraguay could service its bilateral debt with the purchase of Brazilian debt on the secondary market. During 1990, Paraguay purchased Brazilian debt at an average discount of 75 percent and thus retired its entire $436 million obligation with Brazil. This operation reduced Paraguay's total foreign debt from about $2.1 billion down to about $1.7 billion. Nevertheless, Paraguay's arrears to other creditors continued to climb, reaching some $460 million by the end of the third quarter of 1991. Meanwhile, the government has been i termittently seeking a standby agreement with the International Monetary Fund (IMF) since 1990. It appears possible that a stand-by arrangement will be negotiated in 1992, if the government of Paraguay makes a decision to do so. Negotiations to reschedule official debt with the Paris Club might begin thereafter.

5. Significant Barriers To U.S. Exports

Although Paraguay is a small country with a relative'y small manufacturing sector, it generally has not sought to erect protective trade barriers. In practice, Paraguay's market policies are among the most liberal in the Southern Cone.

Import Licenses Requirements: None are presently imposed on potentially importable items. However, foreign goods competing with goods manufactured by local producers may be subject to special tariff treatment under Paraguayan Law No. 1095/84. Such tariff treatment consists of temporary, prohibitive or restrictive measures to protect or promote the economic and social development of the country, maintain a sound trade balance, or offset dumping of foreign goods. In practice, such import bans most often are imposed on seasonal agricultural products competing with domestic production.

Service Barriers: A regulation from the Ministry of Interior requires that non-Paraguayan owners of guard service firms should have resided a minimum of ten years in Paraguay.

Law Decree No. 26504 dated January 8, 1963 regulates broadcasting services in Paraguay. Article number six establishes the requirements for obtaining authorization to operate commercial broadcasting services. Only Paraguayan nationals are authorized to operate commercial broadcasting stations.

Standards, Testing, Labelling, and Certification: Paraguayan regulations require the identification of the country of origin on domestic and imported products. Goods made in the United States must be marked "Made in the U.S.A." before they are shipped.

Investment Barriers: Paraguay maintains an open door policy to attract foreign investment. Paraguayan laws on foreign investment are among the most liberal in Latin America. In general, foreign investors enjoy all the same rights accorded to Paraguayan nationals and may take advantage of special investment incentive programs. Law 60/90 is the law governing investment. The law sets out legal criteria for the

application of investment incentives. The law establishes the principle of national treatment and makes no distinction between foreign and domestic investors.

Government Procurement Practices: Public sector procurement is based on a competitive bidding process. Assuming no more than one firm bids on a particular purchase proposal, the government must call two more bids to attract additional bidders. If no other bidders appear after the third bid, the government agency can authorize the purchase on a noncompetitive basis.

Buy National: Decree No. 31609/82 establishes that in all contracts for the construction of public works projects or for the supply of services to the government preference must be given to local suppliers of domestic goods and services. Such preference in the award of bids and tenders consists of a price differential of up to 15 percent compared to foreign goods and services.

Customs Procedures: Probably the main obstacle to smooth export operations to Paraguay is the cumbersome bureaucratic procedures practiced by local customs. The long delay by customs dispatchers in clearing shipments is as much of a handicap for Paraguayan exporters as to importers, and is not seen as a discriminatory measure against imports.

6. Export Subsidies Policies

Preferential Financing for Major Crops: The central bank provides preferential financing to growers of soybeans, cotton, and wheat. Paraguay's economic activity is highly dependent on the performance of these crops. Exports of soybeans and cotton represent approximately 70 percent of 1990 total export earnings.

Tax Exemption to Encourage and Promote Manufactured Products: The government, through Law No. 90/90, effective December 1990, has introduced incentives for the export of manufactured products that incorporate added value to domestic or imported raw material, using local manpower, services, and energy resources. Consequently, such exports are free from export fees and related taxes. Moreover, imported raw materials used in the production of goods for export are exempted from custom duties and import surcharges.

7. Protection Of U.S. Intellectual Property

Paraguay's chief failure in the area of intellectual property rights is the lack of consistently effective enforcement of the laws in place, although its laws also do not meet U.S. concerns in some areas. Another negative factor is the slow working of the judicial system in issuing timely and clear decisions on trademark infringement cases.

Patents: The Government of Paraguay is in the process of revamping its antiquated patent law. The current legislation states that every new discovery in any type of industry, except pharmaceuticals, whether foreign or domestic, confers upon its

author the executive right to fully exploit the discovery for his exclusive gain for a renewable period of 15 years.

In principle, foreign patents must be registered with the office of patents of invention and are subject to the same procedures and fees as national patents. The person applying for the revalidation of a foreign patent, granted by virtue of an international treaty or convention, must mention the country of origin, serial number, date, and duration of the patent issued. The nationality of the owner of a patent or of the person applying for the patent is important, because Article 36 of Law 773 establishes that foreigners are equally entitled to the benefits of the Law, if the laws of the country where their establishments are located, directly or indirectly, provide for reciprocal treatment of Paraguayan patents, or if this equality is granted through diplomatic conventions.

Trademarks: Paraguay is a major regional hub for the import and export of counterfeit goods. From the Far East come large quantities of counterfeit watches, perfumes, other cosmetics and designer clothing. There is also a small amount of local production. While there are a few cases of police enforcement and judicial action against those involved in the counterfeit business, the huge volume of the trade shows that the local authorities have not seriously limited this illicit activity.

Copyrights: Paraguay recently became a signatory to the Berne Convention for the protection of literary and artistic works. However, there is widespread production and trade in pirated video cassette tapes. Nearly all of Paraguay's local video stores rent large numbers of pirated cassettes. Officials appear to turn a blind eye to this practice.

New technologies: The large scale infringement of new technologies is not evident, largely because Paraguay does not have the know-how to absorb these technologies. However, there is widespread piracy of satellite and television signals.

While the presence of counterfeit products is prevalent in Paraguay, most of the bogus products are imitations of Japanese and Europeans goods.

8. Worker Rights

a. Right of Association

Private sector workers are free to form and join unions without government interference. The existing Labor Code does not permit public sector, temporary, or domestic workers to organize. Public sector workers, with few exceptions, continue to experience strong resistance by management to their union activities. Less than five percent of Paraguayan workers are organized.

Government permission to exercise the right to strike is limited by a complex legal process of fact-finding, arbitration and adjudication that can involve delays of several years. In 1991, public sector strikes were prohibited.

PARAGUAY

Paraguay was reinstated in February to eligibility for trade benefits under the U.S. Generalized System of Preferences (GSP). Paraguay has been denied trade preferences since 1987 for concompliance with the GSP program's International Worker Rights provisions.

b. The Right to Organize and Bargain Collectively.

The right to bargain collectively is recognized in the Labor Code but most employers refuse to enter into such bargaining because no legal sanctions or government pressures exist which oblige them either to recognize duly constituted unions or to bargain with them.

The tactic of firing the leaders of nascent unions, traditionally used by Paraguayan employers, declined somewhat in 1991. However, the firing and harassment of union organizers by the private sector continued. The Stroessner-era Labor Code provides little protection to unions and union leaders. The new Labor Code pending in the Senate at year's end would better protect union orgzniers and impose sanctions against employers who violate worker rights.

c. Prohibition of Forced or Compulsory Labor

Forced labor is prohibited by law, and is not practiced.

d. Minimum Age for Employment of Children

Minors between 15 to 18 years of age can be employed only with parental authorization and can not be employed in dangerous or unhealthy conditions. Children between 12 to 15 years of age may only be employed in a family enterprise, an apprenticeship, or in agriculture. Furthermore, the Labor Code prohibits work by children under 12. However the reality is quite different. There are estimates that more than 25,000 children, many younger than 12, work in the streets of Asuncion and its suburban communities. In rural areas, it is not unusual for children as young as 10 to work beside their parents cutting sugar cane.

e. Acceptable Conditions of Work

The Government establishes a private sector minimum wage, varying according to the region of the country and based on studies of the cost of living prepared by the National Economic Coordinating Committee. The minimum does not apply to all private sector employees; it does not cover domestic servants, for example. It is estimated that 60 to 80 percent of Paraguayan workers earn less than the decreed minimum.

According to the Labor Code, maximum weekly hours are 48 for day work and 42 for night work, with one day of rest. The law provides for an annual bonus of one month's salary. A married women needs her husband's consent to enter into a labor contract, although labor contracts cannot be denied to women who worked prior to marriage.

The Labor Code also governs conditions of safety, hygiene, and comfort. In general, the Government does not effectively enforce the safety and hygiene provisions of the Labor Code,

partially due to the lack of inspectors.

f. Rights in Sectors with U.S. Investment

Conditions generally are the same as in other sectors of the economy.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category		Amount
Petroleum		-28
Total Manufacturing		3
Food & Kindred Products	3	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		(D)
Total Petroleum/Manufacturing/Wholesale Trade		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, August 1991

PERU

Key Economic Indicators

(Millions of U.S. Dollars Unless Otherwise Noted)

	1989	1990	1991 (est)
Income, Production, Employment			
Real GDP (1979 US$)	15,268	14,520	14,927
Real GDP Growth Rate	-11.6	-4.9	2.8
GDP by Sector: (Millions of 1979 intis)			
Agriculture	465.2	423.3	429.6
Fisheries	42.2	40.4	39.1
Mining	337.6	323.5	313.5
Manufacturing	749.5	706.4	741.7
Electricity	50.0	47.9	N/A
Construction	186.4	192.5	200.2
Commerce	456.5	438.7	N/A
Government	247.5	227.3	N/A
Others	895.8	864.2	N/A
Per Capita GDP (1979 US$)	701	650	652
Labor Force (Thousands)	7,429	7,500	7,450
Unemployment (Percent)	7.9	8.3	N/A
Money and Prices (End of year)			
Money Supply (M1-Thousands of soles)	7,739	392,769	706,400
Bank Lending Rate (Nom.)	1,064	1,586	782
Bank Savings Rate (Nom.)	706	820	153
Consumer Prices (Pct. Chg.)	2,775	7,649	132
Wholesale Prices (Pct. Chg.)	1,918	6,534	130
Exchange Rate (Official)	0.01	0.53	1.10
Exchange Rate (Parallel)	0.01	0.53	1.10
Balance of Payments and Trade			
Total Exports FOB	3,488	3,276	3,240
Total Exports to U.S.	815	803	800
Total Imports FOB	2,291	2,885	3,265
Total Imports from U.S.	690	778	780
Aid from U.S.	51.4	83.1	187.9
Aid from Other Countries	N/A	N/A	N/A
External Public Debt 1/	15,796	16,301	15,857
Debt Service Paid	174	150	683
Debt Service Due	N/A	N/A	N/A
Foreign Exchange Reserves	357	531	1,100
Balance of Payments	863	287	400

1/ Excludes interest due on arrears
Source: Central Reserve Bank, National Institute of Statistics, Ministry of Labor and Embassy Estimates

1. General Policy Framework

The inauguration of President Alberto Fujimori on July

28, 1990 began a period of stabilization and liberalization of the Peruvian economy. The new government inherited a country without international reserves and shunned by the international financial community. The economy was in deep recession, inflation was accelerating alarmingly, and the infrastructure had deteriorated over the previous ten years. The government was supporting a diverse portfolio of unprofitable public sector companies.

On August 8, 1990, the Fujimori administration eliminated price controls on basic food items and raised fuel and energy prices by as much as three thousand percent in an effort to have prices reflect production costs. The end of subsidized public services, such as mass transit, was part of the anti-inflationary effort, combined with the realignment of key relative prices. Under the previous government, fiscal revenues had fallen to four percent of gross domestic product, while government expenditures continued at much higher levels. August 1990 inflation reached an historic high of almost 400 percent, but has since fallen to below 5 percent monthly. Since September 1990, the government has imposed tough fiscal austerity policies, requiring current spending to be paid out of (and not exceed) current revenues. The slight fiscal deficit is due to capital expenditure and external debt payments. The key fiscal priority is tax reform to boost revenues. Government revenues are currently inadequate to fund basic health, education, law enforcement, and defense. The government has proposed a simplified system of taxes on income, wealth, sales, and imports, but the desperate need for revenues has led to "special", "temporary", and "extraordinary" taxes. A tax administration reform, initiated in early 1991, has already restored much public trust in the tax system and doubled Government of Peru revenues to 8 percent of GDP. The lack of external credit, and the size of the fiscal deficit, drove monetary policy in earlier governments. The Central Bank's key challenge now is to allow enough liquidity to financial markets so that economic growth can resume, but not so much as to contribute to a surge of inflation. Open market operations are used frequently to inject liquidity into the system. The Central Bank has eliminated interest rate ceilings and lowered reserve requirements. As of July 1, 1991, Peru's domestic currency is the New Sol.

The improved fiscal situation, lower household purchasing power, and the continued lack of liquidity led to a severe depression in late 1990. The first half of 1991 saw some recovery, with real growth of close to 3 percent expected for the year. U.S. exports to Peru have benefited from significantly liberalized trade and investment regimes and from the overvalued Peruvian currency.

2. Exchange Rate Policy

The Fujimori Government has liberalized the exchange rate regime, eliminating multiple rates, licensing requirements and other cumbersome mechanisms. The exchange rate is determined by market forces, subject to Central Bank intervention. No restrictions exist on the purchase, use or remittance of foreign exchange. Exporters are no longer required to channel

foreign exchange earnings through the Central Reserve Bank (BCR), nor are importers required to obtain foreign exchange from the BCR. Currency transactions are conducted freely by exporters and importers on the open market.

The Central Bank has intervened frequently in the market, usually in an effort to keep devaluation of the New Sol on a gradual course. On the basis of purchasing power parity, the New Sol remains at least 30 percent overvalued, according to the most conservative estimate. The government's overriding concern, however, is to avoid a resurgence of inflation, which many fear would be the inevitable result of too abrupt a devaluation.

3. Structural Policies

Deep structural reforms are underway in Peru, although much remains to be done. One of the most fundamental measures taken so far was the elimination of subsidized prices for the goods and services provided by government enterprises and the removal of subsidies. Other important measures have been taken to liberalize the trade, exchange rate, financial system, and labor regimes.

The government of Peru has announced its intention to privatize or liquidate many of its parastatals. This would eliminate the government's responsibility for continuing losses and should increase efficiency. The terms of a proposed Inter-American Development Bank loan for financial sector adjustment commit Peru to combine its four development banks into one and to privatize other state-held banking interests.

4. Debt Management Policies

In September 1991, the IMF agreed to an arrangement to clear Peru's nearly $900 million in arrears to that institution by the end of 1992, and approved Peru's economic stabilization and adjustment program. Peru's roughly US$ 400 million in debts to the Inter-American Development Bank were paid. An agreement to clear Peru's $900 million in arrears to the World Bank is expected soon. Also during September, the Paris Club agreed to reschedule Peru's debts to official creditors under. Negotiations with the commercial banks' steering committee are expected to begin in early 1992.

5. Significant Barriers to U.S. Exports

The key barriers to U.S. exports to Peru have been systematically dismantled by the Fujimori Government over the past year. Import licensing requirements, the list of banned imports, and nearly all quantitative import restrictions have been eliminated. Import tariff surcharges remain, however, on dairy products and some agricultural commodities. Although almost all Peru's imports have a uniform 15 or 25 percent ad valorem duty, a tariff surcharge is levied on 10-18 key farm commodities to protect local producers. This surcharge is a variable import levy, based on a "band of prices" determined

weekly by the Minister of Agriculture. Imposed in May 1991, the Government of Peru describes these surtaxes as anti-dumping duties to protect Peruvian farmers from subsidized international competition. The surcharge regime effectively limits U.S. farm products access to the Peruvian market.

The Peruvian Government has eliminated the government monopoly on reinsurance and on providing insurance to state entities. There are no longer any restrictions on foreign investment in financial services, mass communication, or transport. Foreign investment in Peru is guaranteed treatment equal to that provided to national investment under the 1979 Constitution. A prohibition on foreign investment remains in areas considered essential for national security. All restrictions on remittances of profits, royalties and capital have been eliminated.

The 1985 expropriation of the assets of Belco, a U.S. oil producer, was resolved in December 1991. The Government of Peru and American International Group (AIG), Belco's insurer, signed a framework agreement for the Government of Peru to pay AIG $185 million in compensation.

Government procurement is ordinarily handled by public international tender. Exceptions are permitted for government entities declared in a state of emergency. The state of emergency determination has been used in the past to avoid tender requirements.

Peru has simplified import tariffs to two rates: 15 and 25 percent ad valorem. The average tariff rate is 17 percent, down from 80 percent at the end of the previous government. Tariffs may be lowered further, either in the Andean Pact context or unilaterally. In an effort to improve export performance, the Fujimori government has taken a number of steps to liberalize port and shipping operations, including elimination of cargo preference requirements. In recent years, the country's main port of Callao has been the most expensive on the west coast of South America.

6. Export Subsidies Policies

The Fujimori government has eliminated the CERTEX program of financial incentives to exporters of nontraditional products. Peru no longer has any export subsidies.

7. Protection of U.S. Intellectual Property

The Andean Pact has adopted Decision 311, which revises Decision 85 governing intellectual property rights (IPR) in the region. At present, Peru has scattered, uncodified laws protecting some expressions of intellectual endeavor, although they vary greatly in effectiveness. Enforcement of the laws of the few protected intellectual property areas is of low official priority. Protecting intellectual property through the civil courts is laborious, expensive, and time-consuming, and cases are rarely brought. The 1991 Penal Code includes a section protecting property in certain trademarks, patents,

and copyrights, but criminal actions are rarely pursued. Protection of computer software is not specifically mentioned in the penal code.

Patent protection does not exist for pharmaceuticals. In addition, patented products and processes must be used or employed in the Andean Pact region within three years of registration or the patent is lost. The term of patents and trademarks is only five years, renewable for another five years if proof is shown of sufficient use within Peru. Import restrictions are not considered legal justification for failing to use a registered trademark in the time allowed. Foreign trademarks to be registered in Peru must not impede the sale or export of previously trademarked products, nor require the use of the trademark holder's materials, equipment, or personnel to be produced. A trademark holder in Peru is not protected against the import of an identically trademarked product from another Andean Pact country, even if the good is counterfeit.

Copyright law provides apparent broad coverage, but violations are quite common. The inventories of nearly all Lima video rental outlets are composed primarily of pirated copies of original creative works or copies of a perhaps legally acquired original. Bootlegged versions of any music whose recording medium was originally tape, cassette or compact disk makes up the stock of many merchants. Pirated computer software also is widely available. With the widespread availability of pirated copies, legally imported computer software or video and audio cassettes face a particularly weak market. Piracy by television broadcasters is apparently rare, although there have been a few cases which reportedly were subsequently resolved.

The losses to U.S. business due to inadequate intellectual property protection are difficult to quantify. U.S. pharmaceutical companies clearly have suffered negative effects from Peru's refusal to patent pharmaceuticals. The total pharmaceutical market is believed to be around $150 million per year shared among 100 laboratories. Large-scale investment in Peru by any U.S. company which would use locally its U.S.-protected creative assets is highly unlikely until Peru, alone or within the Andean Pact, provides adequate and effective IPR protection.

8. Worker Rights

a. The Right of Association

The Constitution guarantees the right of workers to peacefully assemble and associate and to form labor unions without previous authorization. The only exception is for workers in the judiciary, the police, the military, and the military parastatals. Unions must register with the Ministry of Labor. Private and public sector unions of workers performing the same type of work cannot join together as aconfederation at any level. Only 15 percent of the labor force is organized, but these workers are in industries responsible for 70 percent of Peru's licit gross national product. The Constitution guarantees the right to strike "

according to law," but there is no law explicitly defining what constitutes a legal strike. The Government can intervene in the negotiation process under the President's executive decree powers. Violence against labor activists and members continued in 1991. There were allegations of arbitrary detention, kidnapping and murder of union organizers by authorities during the year.

In 1991, the International Labor Organization (ILO) acknowledged some improvement in Peru's laws and practice relating to freedom of association, but several complaints are still pending.

b. The Right to Organize and Bargain Collectively

The right to bargain collectively is guaranteed by the Constitution, but there are restrictions on what can be negotiated. In the public sector, for example, only working conditions can be negotiated, and then only if the changes do not involve expenses greater than the funds already budgeted. In the private sector, collective bargaining can cover both working conditions and pay. By law, employers cannot discriminate against union members or organizers. In practice, however, union activists are sometimes harassed by employers who threaten firing. Others are paid off to leave the enterprise. Workers can appeal cases of mistreatment through the Ministry of Labor in the first instance, and then through the civil courts if both parties are still unsatisfied.

c. Prohibition on Forced or Compulsory Labor

The Constitution prohibits compulsory labor, and this prohibition is usually respected in practice. There have been a few, unverified reports of compulsory labor on plantations in remote areas of the country where law enforcement is all but nonexistent. The Shining Path (Sendero Luminoso) has also been accused f forcibly recruiting peasants to either join its ranks or render support services. There were also credible complaints that the military used coercion to recruit peasants to join self-defense militias.

d. Minimum Age for Employment of Children

The law prohibits the employment of children under the age of 14. Confirmed instances of slavery-like child labor abuses have occurred in areas where gold mining is done. Physical brutality toward these children has been corroborated. In the formal, regulated sector of the economy, the law allows for the employment of some older children in some jobs, for a limited period of time, and for a curtailed work week at full pay. According to a 1987 Senate report, however, 1.1 million children of 6 to 14 years of age do work, mostly in the informal sector. Unofficial sources estimate that about half a million children work in the Lima area alone.

e. Acceptable Conditions of Work

The administratively set minimum wage was last increased by the Government in January 1991. It continues to lag behind

inflation. The Government implicitly recognized the inadequacy of wages paid to government workers, often below the minimum wage, when it reduced the required work week to 24 hours in order to allow government workers, including police and military, to seek secondary employment to supplement their incomes. However, many Peruvians are paid more than the minimum wage and many others supplement their income through multiple jobs or subsistence farming or both.

The Labor Code provides for an 8-hour day and an official 48 hour work week for men, and a 45 hour work week for women, but its provisions concerning conditions of work are routinely ignored by most employers. All workers are legally entitled to 30 days paid annual vacation. In an economy where unemployment and underemployment total an estimated 80 percent, however, vacation benefits and other conditions of work are readily sacrificed in exchange for steady or even temporary employment.

There are government standards for industrial health and safety, but these are rarely enforced, either by the employer or the Government (which has no inspectors). Accidents are common, and there is usually no emphasis on prevention; once accidents occur, employers normally make voluntary compensation, however, minimal.

f. Rights in Sectors with U.S. Investment

Labor laws and regulations are to apply uniformly throughout the country. Thus, legal rights accorded workers in industries with U.S. investment would be the same as workers rights in other industries.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category	Amount	
Petroleum		-2
Total Manufacturing		78
Food & Kindred Products	13	
Chemicals & Allied Products	27	
Metals, Primary & Fabricated	(D)	
Machinery, except Electrical	0	
Electric & Electronic Equipment	-1	
Transportation Equipment	0	
Other Manufacturing	(D)	
Wholesale Trade		73
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		149

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business August 1991, Vol. 71, No. 8, Table 11.3

TRINIDAD AND TOBAGO

Key Economic Indicators

(In Millions Of U.S. Dollars Unless Otherwise Specified)

	1989	1990	1991
Income, Production, Employment			
GDP (current market prices)	4,283.9	4,970.6	4,956.1
GDP (1985 TT $) growth rate - (percent)	-2.4	-0.5	2.7
GDP (current prices) by sector			
Petroleum	1,176.3	1,474.4	1,131.9
Agriculture	105.9	128.4	126.4
Distribution	637.0	662.3	701.6
Government	516.3	538.4	592.2
Finance, Insurance and Real Estate	443.3	454.4	478.2
Construction	384.4	391.0	455.6
Manufacturing	425.3	441.3	484.5
Other Services	293.2	301.2	326.4
Electricity and Water	60.9	73.0	83.4
Transport, Storage and Communications	400.4	456.3	471.0
GDP Per Capita (US$1)	3,531.1	4,049.5	3,940.1
Labor Force (,000)	469.1	467.7	492.4
Unemployment (percent)	22.0	20.0	18.0
Money and Prices			
Money Supply (M1)	404.8	461.6	545
Commercial Interest Rate	12.04	11.73	11.63 1/
Savings Rate	17.6	24.7	-
Investment Rate (Investment/GDP)	N/A	N/A	N/A
Consumer Price Index (aver. quarterly; 9/82 = 100)	201.2	223.4	231.5
Producer Price Index (aver. quarterly; 10/78 = 100)	279.4	283.4	-
Exchange Rate (US $1 =)			
Official	4.25	4.25	4.25
Parallel	N/A	N/A	N/A
Balance of Payments and Trade			
Total Exports FOB	1,675.4	2,082.6	1,810.8 2/
Total Exports to U.S.	853.4	1,144.0	1,866.9
Total Imports CIF	1,222.3	1,261.6	1,454.0
Total Imports from U.S.	602.6	501.3	577.1
Aid from U.S.	N/A	N/A	N/A
Aid from other countries	N/A	N/A	N/A
External Public Debt (year end)	1458.7	1,536.7	1,460
Annual Debt Service Paid	337.2	427.3	426.2
Gold and Foreign Exchange Reserves (year end)	102.2	187.5	249.5 3/
Balance of Payments	-155.5	-190.0	-169.0 1/

1/ Data through September 1991.
2/ Export/import figures through November 1991.
3/ Data through October 1991.

TRINIDAD AND TOBAGO

1. General Policy Framework

The dual-island parliamentary republic of Trinidad and Tobago is endowed, like neighboring Venezuela, with rich deposits of oil and natural gas. During the oil boom of the 1970s, Trinidad and Tobago became one of the most prosperous countries in the Western Hemisphere. By 1980, it ranked third in GDP per capita behind the United States and Canada. Oil revenues enabled the nation to embark on a rapid industrial and infrastructural development program, striving for a "mixed economy." Government investment in state-owned and -controlled corporations played a major role. Oil wealth also fueled a dramatic increase in domestic consumption.

With the collapse in oil prices in the early 1980s, Trinidad and Tobago entered into a difficult period of economic recession. In mid-1988, worsening economic conditions forced the government to embark on a stringent readjustment program that included devaluing the currency by 18 percent, entering into an IMF standby program, adopting a strict austerity budget, rescheduling official and commercial debt, and imposing a 15 percent value-added tax (VAT).

Most of the recent economic policy changes and initiatives have been undertaken by the National Alliance for Reconstruction (NAR) Government of Prime Minister A.N.R. Robinson. Swept to power in a landslide victory in December 1986, the NAR is now facing an uncertain future as it contests its first general election, due at the latest by April 1992. Although much of the opposition People's National Movement's (PNM) rhetoric has assailed the NAR's unpopular economic policies, PNM leaders have not advanced many alternatives. They have said they will have to accept many of the policies enacted by the NAR because of economic necessity and the need for the continued concurrence of the international financial institutions financing and guiding the country's recovery. Ultimately, most of the policies outlined here can be expected to endure, even if there is a change of government.

Recognizing the need for foreign capital to make up for declining domestic investment, the government has pursued a new, more welcoming attitude toward foreign investment. The country's restrictive foreign investment code was liberalized and a free trade zone was established. In addition, in 1990 the Government of Trinidad and Tobago concluded a Tax Information Exchange Agreement with the United States, thereby becoming eligible for Section 936 loans from Puerto Rican commercial banks. One major petrochemical project, Phoenix Park Gas Processors Ltd., a joint venture of Conoco, has since been built using Section 936 funding.

The economic decline in Trinidad and Tobago appears to have finally bottomed out. Calculated on the basis of constant 1985 Trinidad and Tobago (TT) dollars, GDP rose a marginal 0.7 percent in 1990, and growth for the first two quarters of 1991 was up 2.1 percent over the same period in 1990. The government is cautiously hopeful of a continued upward trend through 1991 and into 1992. Unemployment

continues to hover at around 20 percent, however, and may exceed 45 percent for young men.

A July 1990 attempted coup by a radical Muslim group appears to have had only a negligible effect on the economy as a whole. Luckily the impact of coup-related looting was offset by the brief windfall in oil income caused by Operation Desert Storm.

Trinidad and Tobago has a highly import-dependent economy. It imports a very broad range of goods from its major supplier, the United States, and other developed countries. Its exports, however, are highly concentrated: oil and downstream petrochemical products (chiefly anhydrous ammonia, urea and methanol), and processed iron ore and steel wire rod (both produced using low-cost natural gas and gas-derived electricity). In most other areas the country remains a relatively inefficient and high-cost producer. Until recently it has relied on import licensing and foreign exchange controls to protect local industries and agriculture.

The Government of Trinidad and Tobago uses the normal array of fiscal and monetary policies to influence the economy. From late 1988 to early 1991, fiscal measures were applied under the constraints of an International Monetary Fund (IMF)-monitored program. On the revenue side, the government has made major changes in its approach to taxation, instituting a 15 percent value added tax on January 1, 1990, and reducing corporate and personal income taxes.

In the past three years, the government has employed a variety of methods to finance its deficit: floating government bonds, drawdowns of government cash balances held at the Central Bank, borrowings from the International Monetary Fund, and rescheduling of official debt service through the Paris Club. World Bank and Inter-American Development Bank loans have also helped reduce the deficit.

To control the money supply, the Central Bank adjusts reserve requirements, the volume of currency, and the discount rate, and engages in open market operations. Government efforts in this regard have generally been effective, even in the face of sustained economic decline. Inflation rates during the past five years have remained relatively low, peaking at 11.4 percent in 1989 and now running at an official 3.2 percent.

2. Exchange Rate Policies

The Trinidad and Tobago (TT) dollar is pegged to the U.S. dollar (the currency of its major trading partner) at the rate of 4.25TT/$1US. The last devaluation occurred on August 16, 1988; the previous rate was 3.6TT/$1US.

The Central Bank administers foreign exchange controls. Under the terms of a government agreement with the International Monetary Fund, beginning in January 1991, importers now apply directly to commercial banks for foreign exchange to pay for imports of "visible goods." They must only show the required government permission (now freely

given) to import the goods and quantities in question. Previously, application had to be made to the Central Bank, which operated an annual allocation system.

3. Structural Policies

Under the auspices of its first IMF program ever, coupled with a return to the World Bank, the government has led Trinidad and Tobago through a difficult but necessary economic restructuring over the past three and one half years, designed to privatize several state-owned enterprises, reduce the barriers to free trade, and support export-led growth. By most measures the government has come a long way but needs to go further still to achieve an open system.

Pricing Policies: Generally, the free market determines prices. The government maintains domestic price controls on a narrow range of items such as basic foodstuffs, fuel, school books and pharmaceuticals. These may act as import barriers if suppliers are unable to come in under the ceiling price. The range of products has been reduced in recent years and price controls are expected to be eventually eliminated . The government has maintained a "negative list" of items for which tightly restricted import licenses had to be obtained, a practice that undoubtedly affected some U.S. exports. However, in response to World Bank conditionalities, the "negative list" was cut by approximately 40 percent at the end of 1990 and will be dismantled entirely at the end of 1991, to be replaced by a system of tariffs.

Tax Policies: In a major effort to spread the tax burden fairly and to curb consumption, the government instituted a 15 percent value added tax on January 1, 1990. At the same time, it reduced marginal corporate and income tax rates each by 5 percent to 40 and 35 percent respectively. With the adoption in January 1991 of the Caribbean Community's (CARICOM) common external tariff, imports into Trinidad and Tobago draw customs duties ranging from 5 to 45 percent on CIF value. Additionally, Trinidad and Tobago levies its own stamp tax of 20 percent on the CIF value, plus 15 percent VAT. Foreigners investing in designated industries are offered special tax concessions as an incentive to locate in Trinidad and Tobago. These packages are negotiated on a case-by-case basis. U.S. oil and other companies have benefitted under these concessions.

Regulatory Policies: All imports of food and drugs must satisfy prescribed standards. Imports of meat, live animals, and plants are subject to specific regulations, as are imports of mining materials. A substantial majority of these products are imported from the United States. Firearms, ammunition and narcotics are either prohibited or rigidly controlled for security and health reasons. The government and its state enterprises generally adhere to an open bidding process for procurement of needed items and services. U.S. firms often win these bids.

TRINIDAD AND TOBAGO

4. Debt Management Policies

By the summer of 1988, a history of government spending on government services and large capital projects in excess of revenues had virtually depleted government foreign exchange reserves, forcing the government to devalue its currency by 18 percent and reschedule Trinidad and Tobago commercial debt. Before the end of 1988, the government had committed to an IMF standby agreement. By January 1989 it had undertaken its first rescheduling of official debt at the Paris Club. In January 1990, the government signed an agreement for a US$40 million structural adjustment loan from the World Bank.

The government's first IMF program, lasting 14 months and providing U.S.$120 million to Trinidad and Tobago, ended successfully in February, 1990. A second standby, for US$111 million (plus a US$55 million Compensatory and Contingency Financing Facility (CCFF)) over 11 months, was completed in March 1991. The government has met every IMF target, and this forced fiscal discipline appears to finally be bearing fruit. The first two quarters of 1991 saw surpluses in central government fiscal operations. Overall fiscal performance is well within IMF targets. At the end of June 1991 foreign exchange reserves stood at US$197.5 million, representing less than 2 months' import cover. The economy in the second quarter of 1990 expanded by 1.5 percent, despite the fact that the traditionally dominant petroleum sector contracted by 1.6 percent in the same period.

Total foreign debt has continued to grow. From 1987 to 1990, the external debt increased by U.S.$436 million or 21 percent, according to Trinidad and Tobago government figures. However, as a percentage of GDP it fell to 49 percent in 1990 from a high of 59 percent in 1989, due entirely to the recovery in GDP. Thanks to debt reschedulings, over the past four years debt service payments (expressed as a percentage of export revenues) went from 24.3 percent in 1987 to 19.1 percent in 1990. With the lapse in March 1991 of the rescheduling agreements, debt service is expected to rise significantly. Debt service on the external debt for 1991 is estimated at U.S.$457 million, and at some U.S.$635 million in 1992. Future projected debt service ratios are: 24 percent in 1991; 25 percent in 1992; 24 percent in 1993; 23 percent in 1994; and 20 percent in 1995.

The austerity measures in place reduce government capacity in the short run to purchase U.S. goods and services at the rate which was possible ten years ago, but these same measures are putting Trinidad and Tobago on a stronger footing, which should enhance prospects for increased trade with the United States in the years ahead. Throughout this difficult period of financial austerity, the government continued to make good on its financial commitments.

5. Significant Barriers to U.S. Exports

Import Licenses: In December 1991, the Government of Trinidad and Tobago announced that abolition of the negative list would be delayed. The negative list, which had a restrictive effect on the character and quantities of U.S.

imports, was scheduled to be replaced by tariffs, as mandated by the World Bank, on January 1, 1992.

Discriminatory tariffs: Under the year-old CARICOM Common External Tariff (CET) regime, import duties are levied on non-CARICOM goods based on potential competition with CARICOM products, on whether a good is deemed a basic need or not, and on whether an item is a final good or a production input. Duties range from 5 to 45 percent, but in the case of many basic consumer items, the provisions of the CET have been suspended or a special "zero-percent" tariff applied.

Additionally, to buffer the transition from import licensing to tariffs, the government will levy special "import surcharges" against non-CARICOM imports. These surcharges, which will boost effective tariff levels to a maximum 100 percent (before stamp duties and VAT), are to be phased out over two to three years.

Services Barriers: Services are open to foreign companies on a limited basis: one 100 percent owned U.S. bank, several U.S. air courier services, and one majority-owned U.S. insurance company are more the exception than the rule. The insurance firm has been under pressure to "localize" by selling a majority of its shares to nationals.

Standards: Standards, labelling, testing and certification, to the extent that they are required, do not hinder U.S. exports. The government is not a party to the GATT Standards Code.

Investment Barriers: On August 17, 1990, the "CARICOM and Foreign Investment Bill of 1990" became law. The new law extends national treatment to CARICOM citizens, but not to other foreigners. The law limits foreign equity participation in local companies; prohibits ownership of land beyond a limited size; and continues to require government approval for investments in certain sectors. As a rule, the government strictly restricts the number of foreign personnel granted work permits.

Government Procurement Practices: Government procurement practices are open and fair. The government is not a party to the GATT Government Procurement Code.

Customs Procedures: Customs clearance can consume much time because of bureaucratic inefficiency and occasional inflexible interpretation of regulations.

6. Export Subsidy Policies

In 1987, the government-owned steel mill was found to be dumping steel in the United States; subsequently the United States Government and the Government of Trinidad and Tobago have negotiated two voluntary restraint agreements on steel exports to the United States. Otherwise, no other subsidies offered to Trinidad and Tobago exporters to the United States have been uncovered. The government is not party to the GATT Subsidies and Countervailing Duties Code.

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7. Protection of U.S. Intellectual Property

In 1988, the Government of Trinidad and Tobago joined the Universal Copyright Convention; the Universal Copyright Convention, Revised; and the Convention for the Protection of Producers of Phonograms Against Unauthorized Duplication. The Government of Trinidad and Tobago is also a party to the Berne Convention. The government passed The Copyright Act in 1985, and in 1986 the Act was supplemented with an addendum, The Copyright Regulations. These laws appear adequate in theory to protect intellectual property. Under the Caribbean Basin Initiative, the government is also committed to prohibit unauthorized broadcasts of U.S. programs.

Infringement of patents, counterfeiting of trademarks or infringement of new technologies is not a discernable problem in Trinidad and Tobago. However, video stores in Trinidad and Tobago are replete with pirated videos, and personal use of satellite dishes connected to de-scramblers is a widespread practice among the sector of the population which can afford it. Industry sources estimate that up to 90 percent of all computer software used in Trinidad and Tobago is wholly or partially pirated.

In 1989, the West Indies Film Board of Trade announced that it was considering action against the video stores under Trinidadian law, but it has not followed through on its stated intent. The Motion Picture Association of America became aware of several unauthorized broadcasts of U.S. programs on the state-owned television station in 1987 and 1988. These incidents were brought to the attention of government authorities at the station, and it appears that these unauthorized broadcasts have stopped.

8. Worker Rights

a. The Right of Association

The right of association is respected in law and in practice. An estimated 24 percent of the work force is organized into 45 labor unions. The unions are independent of government or political party control. Union members are free to choose their own representatives, and unions are free to publicize their views and determine their own programs and policies. Upon expiration of a conciliation period, workers are permitted to strike, and employers are permitted to lock workers out. After a strike or lockout has persisted for three months, either of the parties involved can request the Minister of Labor to refer the question to the Industrial Court, which is part of the independent judiciary, for a binding decision. Strikes and lockouts are not permitted in essential public services, and the Minister of Labor may apply for an injunction to halt any labor action he finds contrary to the national interest. Workers in essential services with labor grievances may call on the conciliation services of the Ministry of Labor or may take their cases directly to the Industrial Court; they may also file civil suits against the government.

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b. The Right to Organize and Bargain Collectively

The constitutional right of workers to organize and bargain collectively is widely exercised. Anti-union discrimination is prohibited by law. The Ministry of Labor acts as an impartial conciliator in collective bargaining impasses.

c. Prohibition of Forced or Compulsory Labor

There is no forced labor in Trinidad and Tobago. Although there is no domestic legislation on this, Trinidad and Tobago is a party to the relevant International Labor Organization conventions.

d. Minimum Age for Employment of Children

Legislation prohibits the employment of children under the age of 12 years, and children aged 12 to 14 years are permitted to work only in family businesses. Children may begin apprenticeships at age 15 and regular employment at age 17. Education is compulsory until the age of 12, but enforcement appears lax. School-age children are often seen vending on the streets.

e. Acceptable Conditions of Work

A minimum wage structure is in place for service station employees, domestic assistants, retail sales personnel and hotel and restaurant workers; proposed revisions to existing minimum wage legislation are currently under review. Other sectors are not currently protected by minimum wage laws. The poorest paid workers usually have secondary sources of support, often from their families. The standard work week in Trinidad and Tobago is forty hours, additional hours are considered overtime and remunerated at a negotiated rate. Daily rest periods and paid annual leave form part of most employment agreements. The 1948 Factories Ordinance Bill sets occupational health and safety standards; state inspectors and trade union representatives monitor conditions in work places, and workers who refuse to perform work due to hazardous conditions are protected from retribution under the Industrial Relations Act of 1972.

f. Rights in Sectors with U.S. Investment

Employment conditions in sectors with U.S. investment do not differ from those in other sectors.

TRINIDAD AND TOBAGO

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category	Amount	
Petroleum		(D)
Total Manufacturing		9
Food & Kindred Products	9	
Chemicals & Allied Products	-9	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	(*)	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	9	
Wholesale Trade		(D)
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

(*)-Under $500,000

Source: U.S. Department of Commerce, Survey of Current Business, August 1991, Vol. 71, No. 8, Table 11.3

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Key Economic Indicators

	1989	1990	1991 10/ (Est)
Income, Production, Employment			
GDP in current dollars (millions) 8/	7,818	8,218	9,136
Real GDP (mill. 1983 pesos) 1/	207,857	209,747	213,942
Real GDP growth rate (pct) 1/	0.5	0.9	2.0
Breakdown of GDP by sector (pct of total) 2/			
Agriculture	10.6	10.8	11.0
Fishing	0.2	0.1	0.2
Mining	0.2	0.2	0.2
Manufacturing	25.5	25.0	24.5
Utilities	3.0	3.4	3.3
Construction	3.0	2.8	2.5
Commerce, restaurants and hotels	11.1	10.9	11.0
Transport, warehousing and communications	6.7	6.6	6.8
Financial, insurance, housing and services to companies	22.6	22.9	23.3
Government, social and personal services	17.1	17.3	17.2
Real per capita GDP (US$) 3/	2,541	2,656	2,935
Size of labor force (millions) 4/	1.341	1.355	1.369
Unemployment rate 5/	8.0	8.5	8.5
Money and Prices			
Money supply (M1) (nominal pct increase at the end of CY) 1/	67.0	103.2	100.0
Interest rates			
Commercial			
Peso accounts 1/	127.6	174.4	140.0
Dollar accounts 1/	14.1	14.0	12.0
Savings deposits			
Peso accounts 1/	27.6	31.0	30.0
Dollar accounts 1/	4.6	4.5	4.3
Certificates of deposits (180 days)			
Peso accounts 1/	84.7	97.8	80.0
Dollar accounts 1/	6.9	6.5	5.0
Investment rate pct of GDP 2/	10.9	10.3	11.0
Consumer price inflation (pct) 5/	89.2	129.0	90.0
Wholesale price inflation (pct) 1/	80.7	120.7	75.0
Exchange rate (interbank floating selling rate) (New Pesos/US$1) 1/	805.0	1,594.0	2,515.0

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Balance of Payments and Trade

Total exports-FOB (US$ million) 1/	1,599	1,693	1,630
Total exports to US-FOB (US$ million) 1/	177	163	165
Total imports-CIF (US$ million) 1/	1,203	1,343	1,680
Total imports from US-CIF (US$ million) 1/	113	137	190
Aid from US (US$ million) 6/	0.2	3.9	10.9
Aid from other countries 7/	10.0	10.0	15.0
Total US direct investment (stock) (US$ million) 9/	132.0	150.0	160.0
Net external debt-end of year (US$ million) 1/	3,245	3,120	2,650
Annual total debt service payment (US$ million) 1/	802	784	1,317
Gold and foreign exchange reserves (US$ million) 1/	1,018	1,098	890
Balance of payments (US$ million) 1/			
Merchandise trade	463	426	45
Net non-financial services	40	120	250
Net financial services	-349	-322	-280
Current account	153	224	15
Capital account	-59	-143	-225
Net international reserves	-94	-82	210

1/ Central Bank of Uruguay
2/ U.S. Embassy computation based on Central Bank data
3/ U.S. Embassy computation based on Central Bank and Office of Statistics and Census data
4/ Embassy computation based on Office of Statistics and Census data
5/ Office of Statistics and Census
6/ Agency for International Development
7/ United Nations Development Program
8/ Current New Pesos converted at the average USD exchange rate for each year
9/ Survey of Current Business, USDOC, August 1991
10/ Embassy estimates

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 (wool and rice) and indirectly for inputs for other sectors (textiles, leather and meat). Industry is now the largest sector and has diversified beyond agroindustry into chemicals and consumer goods for local consumption. Services have assumed greater importance recently, particularly tourism and financial services which benefit from Uruguay's open financial system.

The Government has been relatively sucessful in reducing its fiscal deficit from 6.1 percent in 1989 to under two percent in 1990 and 1991. Principal sources of the deficit

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are losses by the Central Bank on non-performing loans purchased from private banks, foreign debt payments and transfers to the social security system. Inflation peaked at 129 percent in 1990, and is expected to fall to 90 percent in 1991.

Seeking to reverse a long-term economic deterioration and prepare itself for the formation of the Southern Common Market (MERCOSUR) being formed by Brazil, Argentina, Uruguay and Paraguay, the Government has started to implement a program of economic reform. Major elements of this program are partial privatization of state enterprises, financial sector reform and reform of the costly social security system.

Uruguay is the beneficiary of large inflows of capital, principally from neighboring Brazil and Argentina. The Government has been able to finance a substantial portion of its deficit through the issuance of dollar-denominated treasury bills.

2. Exchange Rate Policies

The Uruguayan Government is committed to a floating exchange rate, but has intervened extensively in the market by buying dollars and selling pesos in an attempt to maintain some degree of competitiveness for its exports. However, in 1991, devaluation has lagged well behind inflation, making dollars cheaper and improving the prospects for U.S. exports.

Uruguay has no foreign exchange controls. The peso is freely convertible into dollars for any transaction.

3. Structural Policies

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) and taxes on foreign trade (export taxes and tariffs) for its general revenues. A substantial social security tax, sometimes equal to 50 percent of the base wage rate, is assessed on workers and employers. The top tariff rate was lowered from 40 percent to 30 percent in September 1991. This should have a positive effect on U.S. exports.

Imported fertilizers are charged a 12 percent value-added tax which is not charged on locally-produced fertilizers.

4. Debt Management Policies

Uruguay is a heavily-indebted middle-income country with a strong commitment to servicing its debt obligations. As of March 1991, its total external debt was $7.149 billion. Of this amount, approximately one billion dollars was owed by the public sector to foreign commercial bank creditors. Of the remainder, $2.365 billion are foreign currency deposits of non-residents (mostly Argentines). Dollar-denominated Uruguayan Government bills and bonds make up $1.359 billion,

$910 million is owed to international financial institutions, and the balance of $942 million is mostly commercial credits. Total debt service in 1990 was $784 million, equivalent to 46.3 percent of total merchandise exports; 33 percent of combined merchandise and service exports and 9.5 percent of GDP.

Uruguay has always sought cooperative solutions to its debt problems, and has never defaulted, preferring instead to reach agreement with its creditors. The Government and its commercial bank creditors signed a Brady Plan debt reduction agreement in January 1991 which resulted in a $634 million dollar buyback of commercial bank debt. A stand-by agreement negotiated with the International Monetary Fund in 1990 was suspended because Uruguay failed to meet its IMF targets.

5. Significant Barriers to U.S. Imports

Certain imports require special licenses or customs documents. Among them are drugs, certain medical equipment and chemicals, firearms, radioactive materials, fertilizers, vegetable materials, 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. In the case of automobiles, the enforcement of local content requirements makes the final price of an imported vehicle very high. Bureaucratic delays also add to the cost of imports, although importers report that a "debureaucratization" commission has improved matters.

The Uruguayan Government maintains a legal monopoly in most aspects of the insurance industry, but few significant restrictions exist in other services. U.S. banks continue to be very active in off-shore banking. There are no significant restrictions on professional services such as law, medicine or accounting. Similarly, travel and ticketing services are unrestricted. A new civil aviation agreement has provided equal treatment for foreign carriers.

There have been significant limitations on foreign equity participation in certain sectors of the economy. Investment in 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. It has extensive holdings in other key areas, including fishing, free zones and air transport. However, under legislation passed in September 1991, private investment will be allowed in telecommunications, rail services, air transport and eletricity. Other pending legislation will allow privatization of port operations and possibly insurance.

Government procurement practices are well-defined, transparent and closely followed. Tenders are generally open to all bidders, foreign or domestic. A Government decree, however, establishes that in conditions of equal quality or

adequacy to the function, domestic products will have preference over foreign ones. Among foreign bidders, preference will be given to those who offer to purchase Uruguayan products. The Government favors local bidders even if their price is up to 15 percent higher. This will be reduced to 10 percent in 1992.

Following a recent reduction in the top rate, Uruguay's tariff structure now varies between 0 and 30 percent. The only exemptions to tariff regulations, in the context of antidumping legislation, are reference prices and minimum export prices, fixed in relation to international levels and in line with commitments assumed under GATT. These are applied to neutralize unfair trade practices which threaten to damage national production activity or delay the development of such activities. They are primarily directed at Argentina and Brazil.

6. Export Subsidies Policies

The Government has provided a 12 percent subsidy to wool fabric and apparel using funds from a tax on greasy and washed wool exports. This subsidy will be reduced progressively to six percent by July, 1992. Uruguay is a signatory of the GATT Subsidies Code.

7. Protection of U.S. Intellectual Property

The Government of Uruguay recognizes intellectual property rights in a number of areas, and there is no discrimination against foreign companies trying to register intellectual property rights. However, enforcement of existing legislation is weak in certain areas such as software, due in part to the fact that little of the domestic industry relies on intellectual property protection. Uruguay has been generally supportive of efforts to strengthen the rules governing intellectual property protection in international fora such as the World Intellectual Property Organization (WIPO) and the Uruguay Round of the GATT.

Although significant weaknesses exist in available patent protection, the Government does not discriminate between foreign and domestic patent holders. Owners and assignees of foreign patents may obtain confirmation of patents in Uruguay, provided application is made within 3 years of registration in country of origin, and compulsory licensing is not practiced. However, the period for protection for confirmed patents is limited to 10 years, less the period of protection already enjoyed in the country of origin; protection would be improved if it were to apply for as long as protection in the country of origin. Another weakness is that medicines and chemical products are not patentable, although production processes for such products are patentable.

Foreign trademarks may be registered in Uruguay and receive the same protection as domestic trademarks. Protection is afforded for 10 years initially, renewable indefinitely.

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Uruguay affords copyright protection to, inter alia, books, records, videos, and software. Despite the legal protection, enforcement of copyright protection for software is still weak and pirating of software is substantial. There is also considerable pirating of videotapes and cassettes.

With the exception of software, infringement of new technology is not, at present, a serious problem since markets for such technology in Uruguay are either small or non-existent.

The current impact of Uruguay's intellectual property practices on U.S. trade is small relative to other markets. The sectors most affected are pharmaceuticals and software. Software suppliers have estimated that losses due to pirating could amount to $10 million. Although no numbers are available, the lack of patent protection for pharmaceuticals has had a marked effect on U.S. trade and investment in the sector. President Lacalle has ordered a review of Uruguay's IPR laws.

8. 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 governing party control. Uruguayan workers, including some civil servants, have the right to strike and many unions did so during 1991. Legislation revising the right to strike, which was presented to Parliament in December 1990, was still being debated at year's end. No institutionalized mechanism for arbitration or mediation exists but the Ministry of Labor does take on the role of mediator on an ad hoc basis.

The Government may legally compel workers to work during a strike if their work is considered an essential service.

b. The Right to Organize and Bargain Collectively

Collective bargaining takes place under the auspices of a tripartite (Government, workers, management) organization known as a Salary Council. Each industrial sector has its own council. The role played by the Government can vary from council to council. In some, the Government representative is an active, equal participant in all phases of the negotiations.

The Government must approve labor contracts before they become legally binding on the parties.

While no institutionalized mechanism exists in Uruguay for resolving complaints against employers, discrimination by employers, including arbitrary dismissal for union activity, generally is prohibited. If a proposed labor reform law now under consideration is approved by Parliament, workers could legally be dismissed for participating in an illegal strike.

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Workers employed in the two special export zones are fully covered by all labor legislation.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor in prohibited by law and is not practiced.

d. Minimum Age for Employment of Children

Children are protected by a Child Labor Code. Generally, children under the age of 15 may not be employed. Children as young as 12 may be employed with a special Government permit.

e. Acceptable Conditions of Work

There is a legislated minimum wage. The standard work week is 48 hours for six days, with overtime compensation for work in excess of 48 hours. 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 Goods Producing Sectors

U.S. Direct Investment Position Abroad
on an Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category	Amount	
Petroleum		6
Total Manufacturing		98
Food & Kindred Products	66	
Chemicals & Allied Products	28	
Metals, Primary & Fabricated	(*)	
Machinery, except Electrical	(D)	
Electric & Electronic Equipment	0	
Transportation Equipment	-2	
Other Manufacturing	(D)	
Wholesale Trade		12
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		118

(D)-Suppressed to avoid disclosing data of individual companies

(*)-Under $500,000

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, August 1991

VENEZUELA

Key Economic Indicators

(Billions of Bolivars (Bs) Unless Otherwise Noted)

	1989	1990	1991 1/
Income, Production, Employment			
GDP (Bs billion)	1,510.4	2,264.0	3,138.4
Real GDP growth rate	-8.6	5.3	9.2
Petroleum	-0.4	13.6	9.9
Non-Petroleum	-9.4	3.7	8.6
GDP by sector:			
Manufacturing (Bs billion)	243.9	333.3	466.6
Agriculture (Bs billion)	92.0	125.3	170.4
Real Per Capita Income (Bs)	23,745	24,377	25,677
Size of labor force (million)	6.9	7.2	7.5
Unemployment rate (pct)	9.6	9.9	8.8
Money and Prices			
M1 (Dec 31) (Bs billion)	171.3	241.8	315.8
Commercial interest lending rate	34.1	34.9	36.4
Savings rate (pct. of GDP)	14.0	19.1	16.6
Investment rate (pct. of GDP)	9.8	7.2	15.4
Consumer price index (1984=100)	380.2	534.8	700.0
Wholesale price index (1984=100)	529.7	637.6	800.8
Market exchange rate (Bs/$ at Dec 31)	43.1	50.6	61.0
Balance of Payments & Trade (Millions of US$)			
Total exports (FOB)	12,915	17,278	15,127
Total exports to U.S. (C.V.)	6,790	9,447	8,184
Total imports (FOB)	7,283	6,543	10,181
Total imports from U.S. (FAS)	3,040	3,107	4,971
Aid from U.S.	0	0	0
Aid from other countries	21	N/A	N/A
External public debt	26,427	27,077	29,904
Annual debt service payments	6,300	5,300	4,300
Gold and foreign exchange reserves	7,411	11,642	13,232
Balance of payments	-1,055	3,226	2,424

1/ Embassy forecast as of 11/12/91.

1. General Policy Framework

Venezuela, a multi-party electoral democracy with a bicameral legislature, is a major oil producer/exporter and a founding member of OPEC. After nearly three decades of relative economic and political stability, the country has a moderately well-established economic infrastructure, and an impressive potential for economic growth. Major economic resources include petroleum, natural gas, hydro-electric power, iron ore, coal, bauxite and gold. Venezuela is in the process of modifying its macro-economic model and economic policies to diversify from dependence on petroleum exports (although the petroleum sector still dominates the economy) and to develop non-traditional basic export industries such as petro-chemicals, aluminum, steel, cement, forestry, and manufactured consumer products and mining (gold, iron ore,

bauxite, and coal).

Venezuela encourages foreign investment in most sectors, but foreigners are still largely excluded from the petroleum sector. The bulk of foreign investment is from the United States. The United States is Venezuela's chief trading partner, accounting for 55 percent of Venezuelan exports and 48 percent of its imports in 1990.

The Venezuelan economy has recovered from the 1989 recession. According to preliminary figures, real GDP grew 5.3 percent in 1990, principally driven by a 13.6 percent increase in the oil sector, and is expected to expand by over nine percent in 1991. The Government recorded a small fiscal surplus of about one percent for the consolidated public sector in 1990. That performance was due to the Iraq war oil revenue windfall and not fiscal restraint. The Government hopes to achieve a surplus equal to 1.3 percent of GDP in 1991.

Monetary policy continues to reflect the fundamental objectives fixed by the Government at the beginning of 1989, which are to reduce inflation rates, maintain positive interest rates, and ensure a competitive exchange rate. Monetary liquidity (M2), however, grew 61 percent in nominal terms in 1990 as a result of sharply increased public spending and a rise in international reserves, mainly during the last four months of 1990. The component of the money supply which increased the most was quasimoney because prevailing high interest rates encouraged the public to put its liquidity into savings and time deposits. The expansion of liquidity continued into 1991. For the first six months of the year, M2 grew by 21 percent. At mid-year, however, the Central Bank undertook a more aggressive program to control liquidity. The Central Bank increased its sale of short term bills (zero coupon bonds) and announced a gradual increase in the bank reserve requirements, and consequently, M2 grew by only 2 percent in the third quarter.

The Government has made much progress in reducing inflation. Prices increased 41 percent in 1990 - a sharp decline from the 85 percent jump recorded in 1989. The downward trend is continuing and 1991 inflation is estimated at 31 percent.

The Caracas Stock Exchange has continued its recent gains. As the economy recovered the stock market index soared by 546 percent in 1990 compared to 1989. The market index recorded a gain of about 70 percent in the first ten and a half months of 1991.

2. Exchange Rate Policies

The Venezuelan Government unified the exchange rate on March 13, 1989. The Central Bank of Venezuela intervenes in the exchange market to correct abrupt fluctuations, but its stated policy is that the exchange rate will remain competitive and be set by market forces. In 1990, the bolivar fell by 17.4 percent against the dollar to close the year at 50.6 bolivars to the dollar. During the January-October 1991 period, the bolivar depreciated 18.9 percent and closed at

Bs60.15/US$1.0. (Inflation was 25 percent over the same period.)

The Central Bank's foreign exchange reserves have grown substantially in the past few years. They climbed from $7.4 billion at the end of 1989 to $11.6 billion at the end of 1990 and totalled about $12.5 billion at the end of October 1991. With the advent of exchange unification, prior exchange authorizations and pre-shipment inspections have been eliminated.

3. Structural Policies

The Perez Administration eliminated price controls on most goods and services early in 1989. Price controls remain in effect on a "basic basket" of goods and services considered of primary necessity. Government producer subsidies have also been reduced.

A major income tax reform designed to lower tax rates and ultimately increase revenues by reducing widespread tax evasion entered into force on September 1, 1991. The maximum tax rate for individuals and corporations fell to 30 percent. Joint ventures with the state oil company, PDVSA, for the development and refining of heavy and extra-heavy crudes and the development and processing of unassociated natural gas are excluded from the special tax of 67.7 percent and, therefore, are subject to the 30 percent rate; however, these two categories are still subject to the export reference value of 20 percent. Foreign corporations operating in Venezuela receive the same tax treatment as Venezuelan firms. In order to stimulate the formation of a "maquiladora" export industry, the government has eliminated taxes and duties on imported goods used in the production of exports. Non-residents pay a 10 percent tax on hotel rooms and lodging. The government intends (with Congressional approval) to introduce a value-added tax.

In June 1989, the government initiated a multi-year trade liberalization program. Maximum tariff rates were reduced in 1989 from 130 to 80 percent, to 50 percent in 1990, and to 40 percent in 1991. Maximum tariffs are scheduled to be reduced to 30 percent in 1992, and 20 percent in 1993. Customs duty collections are expected to increase because of virtual elimination of tariff exemptions and exonerations. Venezuela acceded to the General Agreement on Trade and Tariffs (GATT) on September 1, 1990.

The government's regime for managing imports through licenses changed dramatically in 1989 and 1990. Overall the entry of imports has been freed considerably; virtually all manufactured products can enter Venezuela without quantitative restrictions. Import licenses are still required on some agricultural items, and a few import prohibitions still exist. Preshipment inspection is no longer required for imported items.

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4. Debt Management Policies

In December 1990, the Government and the commercial banks closed a deal which reduced the debt and debt service obligations on $19.8 billion within the context of the Brady Plan. The most popular option (32 percent) was a 30-year par bond with a fixed interest rate of 6.75 percent whose principal is backed by U.S. Treasury "zero-coupon" bonds. The second most popular option (31 percent) was a 17-year, new-money bond. The deal enabled the Government to reduce principal by $2 billion, reduce interest payments by approximately $470 million per year, raise $1.2 billion in new money and obtain more favorable repayment terms on the remaining debt.

As of December 1990, Venezuela's public sector external debt totaled $27.1 billion. Medium-term registered private sector debt totaled an additional $3.8 billion. External debt represents almost 70 percent of GDP. Roughly 90 percent of the external debt is owed to commercial banks. In 1990, Venezuela's debt service payments totaled $4.1 billion, or 23.5 percent of total exports.

The government has entered the third year of a three-year Extended Fund Facility with the International Monetary Fund. The World Bank and Inter-American Development Bank are providing multi-year sectoral loans to assist the economic restructuring process.

5. Significant Barriers to U.S. Exports

Import License Requirements: Import license requirements have been reduced pursuant to the government's reform program. Only poultry, pork, feed grains, soybean meal, sugar and milk are currently subject to import license requirements. Poultry, pork and feed grains are scheduled for liberalization in January 1992. Import prohibitions have been removed from some agricultural products.

Sanitary certificates from the Ministries of Health and Agriculture and from the country of origin are required to import certain agricultural products and pharmaceuticals. In August 1990, the government imposed a requirement for sanitary certificates from the country of origin on 203 agricultural items for which certificates had not previously been required, and for which the U.S. government issues no sanitary certificates. However, the Venezuelan customs authorities have been accepting state or federal certification that the United States does not issue sanitary certificates for these items.

Service Barriers: Foreign equity investment in banking, insurance, guard and security services, television, radio, Spanish language newspapers, and all professional services subject to licensing, is limited to 20 percent. A comprehensive package to reform the financial sector was introduced in the Congress in July 1991. The proposed legislation would allow foreign firms to enter the banking and insurance/reinsurance sectors. Foreign financial institutions would be permitted to open fully-owned branches and to acquire

an equity position in existing domestic institutions. Full national treatment would be phased in gradually.

A U.S.-Venezuela maritime agreement in October 1991 eased terms of certain cargo preference requirements in the bilateral trades and will encourage more competitive service.

Investment Barriers: In January 1990, the Venezuelan Government issued Executive Decree 727, liberalizing foreign investment rules. The decree allows total foreign ownership of companies engaged in retail sales, telecommunications and water and sewage services (all formerly reserved to national companies) and eliminates barriers to dividend and capital ropatriation. The decree strips the Superintendency for Foreign Investment (SIEX) of discretionary authority in registering foreign investment. Foreign companies may establish branches without prior approval from SIEX. Prior approval by SIEX for trademark and patent licenses, distribution agreements, technical know-how and technical assistance agreements has also been eliminated. Only royalties in excess of 5 percent which are paid by a foreign company to its foreign parent require prior approval by SIEX.

In the petroleum sector, the exploration, exploitation, refining, transportation, storage and foreign and domestic sales of hydrocarbons are reserved to the Venezuelan government or to its entities. When in the public interest, the government may enter into agreements with private companies as long as the agreements guarantee state control of the operation, are of limited duration, and have the previous authorization of the legislature meeting in joint session.

Labor Law: The Venezuelan Congress passed a new Organic Labor Law, effective May 1, 1991, which provides in Article 27 that in companies with 10 or more employees, 90 percent of such employees must be Venezuelan. Remuneration for foreign workers must not exceed 20 percent of total wages paid.

Local Content Requirements: Pursuant to Executive Decree 1095, published September 4, 1990, auto assemblers and parts manufacturers must meet a percentage foreign exchange contribution, intended to offset foreign exchange spent on imports, by fulfilling a combination of local content and export requirements. Companies which fail to meet established norms are fined. The new policy removes the requirements that specified parts be incorporated in the vehicle, and that motors be assembled in the country.

Government Procurement Practices: A new Government Contract Law (Ley de Licitaciones) was passed by the Congress on July 20, 1990. The government of Venezuela may procure goods and services in three ways: 1) for goods and services estimated to cost over 10 million bolivars, and construction works estimated to cost more than 30 million bolivars, general tender is required (Article 29); 2) for goods and services estimated to cost between 1 million and 10 million bolivars, and for construction works estimated to cost between 10 and 30 million bolivars, and where the national registry certifies that there are no more than 10 companies technically and financially qualified to provide the goods or perform the service or construction, then a selective tender process may

be used (Article 32); 3) for goods and services estimated to cost less than 1 million bolivars, the contract may be awarded directly (Article 33).

Article 47 of the Law, which applies to both the general and selective tender procedures, provides that "for the selection between offers that are within a reasonable range, those in which the following conditions prevail are preferred: 1) have the greatest participation by national engineering and technology; 2) incorporate the greatest national human resources at all levels, including management; 3) have the greatest national value added, or incorporation of national parts or inputs; 4) have the greatest national participation in the company's capital; 5) possess the "Norven" quality control mark (issuance of the mark is governed by the quality control and normalization law); 6) have the best conditions for the transfer of technology; 7) strengthen small and medium-sized companies and cooperatives; and 8) in which the bidder operates in an area or region where the bid was let, or in the place where the public work is to be constructed, the service performed or the supply rendered, and which performs in that region or area permanent economic activities."

However, if the highest authority within the government entity "adequately justifies the decision", the selective tender process may be used in the following circumstances: 1) when, in the execution of the work, or supplying of the goods or services, one necessarily must contract with a specialized international company that does not operate within the country; 2) when acquiring goods to be used in experiments or investigations; and 3) for reasons relating to the security of the state (Article 31). Moreover, in cases where general tender, selective tender or direct adjudications are promoted outside the country, it is not necessary for contractors to be enrolled in the national registry of contractors (Articles 16).

Furthermore, the direct adjudication process (sole sourcing) may be used when contracts have as their object the fabrication of equipment, the acquisition of goods or the contracting for services outside the country, and in which it is not possible to apply the tender procedures given the modalities under which the producers and providers arrange to produce or provide the goods, equipment or services (Article 34(5)).

Customs Clearance Procedures: Customs clearances procedures are time consuming, and delays can occur if documents are not in order. The government has said it will join the GATT Customs Valuation Code.

6. Export Subsidies Policies

Recent U.S. countervailing duty investigations have determined that in the case of certain specific products, some Venezuelan government programs, which included preferential input pricing, short-term financing by FINEXPO (the Central Bank Export Financing Agency), interest-free loans, and an export bonus, effectively conferred subsidies on these products.

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The Venezuelan Government has replaced the export bonus for manufactured products with a so-called duty drawback scheme. The organic customs law provides for full or partial rebate of import taxes paid on an exported product. On May 20, 1991, the Venezuelan government published Executive Decree 780 implementing the partial duty drawback. It provides for rebates equivalent to two percent of the FOB value of exports through the special suspended duty regimes, such as the temporary admissions program (maquila), stock replenishment program or customs warehousing program. It also provides for a rebate of 5 percent of the FOB value of all other exports. Agricultural products continue to be covered under the export bond program. The government has said that it intends to phase out the partial rebate. Decree 1597 dated June 13, 1991 provides for a bond of 10 percent (formerly 6 percent) for exports of agricultural products.

Finexpo, the Central Bank's export financing arm, increased the interest rates on its loans in December 1990. The rate of interest is 90 percent of the average national rate of interest measured by the operations of Venezuela's principal commercial banks. Dollar loans are issued at London Interbank Offer Rate (LIBOR) plus 1 percent. Interest on financing for foreign importers of Venezuelan goods is the rate charged by the Inter-American Development Bank (IDB) plus a one percent handling fee. Venezuela has not yet signed the GATT subsidies code which would require broad elimination of export subsidies.

7. Protection of U.S. Intellectual Property

Venezuela is a member of the World Industrial Property Organization, and is a signatory to the Berne Convention for the Protection of Literary and Artistic Works, the Geneva Phonograms Convention and the Universal Copyright Convention.

Venezuela was placed on the U.S. Trade Representative's "Watch List" as a result of an assessment required by Section 301 of the 1988 Omnibus Trade and Competitiveness Act. Bilateral consultations took place in August 1989 and March 1991 in Caracas, and in Washington on September 30, 1991 during the Bilateral Trade and Investment Council meeting.

In 1988, Venezuela's Chamber of Deputies approved a bill to strengthen copyright protection. In November 1991, the Senate passed a revised bill which includes software protection and enhanced sanctions. The lower house must consider the bill with the Senate changes. The Development Ministry's Registrar of Industrial Property has drafted proposed legislation to reform Venezuela's outmoded patent and trademark regime.

Venezuela worked within the Andean Pact to revise Decision 85, which governs patent and trademark law. Decision 311, which replaces Decision 85, was adopted by the presidents of the Pact countries at the December 1991 summit. Venezuela will seek membership in the Paris Convention for the Protection of Industrial Property.

Patents: Current Venezuelan patent law does not protect

processed foods, pharmaceuticals, chemical preparations, plants or microorganisms. The current patent term is 5 to 10 years. A patent must be worked within two years or it expires. Working a patent requires domestic production of the patented product and importation does not satisfy the working requirement. Few patents have been enforced under the present law.

Trademarks: Trademark protection is based upon registration and use; the first person to register a mark obtains the rights to it. Current Venezuelan law specifically limits protection to the classes in which the trademark is registered. No protection against unfair competition exists and trademark piracy is common in the clothing, toy and sporting goods areas. Trademarks must be used within two years after registration.

Copyright: Venezuela's current copyright law protects all inventive works. Although software is not explicitly mentioned in the statute, it can be protected. In practice, however, software and video piracy are widespread.

There is no basis for determining the dollar value of losses or potential losses due to counterfeiting and piracy.

8. Worker Rights

a. The Right of Association

Both the Constitution and labor law recognize and encourage the right of unions to exist. The comprehensive Labor Code enacted in 1990 extends to all public sector and private sector employees (except members of the armed forces) the right to form and join unions of their choosing. There are no restrictions on this right in practice. One major union confederation, the Venezuelan Confederation of Workers (CTV), and three small ones, as well as a number of independent unions, operate freely in Venezuela. About 25 percent of the national labor force is unionized. Both private and public sector employees, except members of the armed forces, have the right to strike. However, the President may order any strikers back to work if the strike endangers lives or security. During 1991 most strikes occurred among government employees.

b. The Right to Organize and Bargain Collectively

Collective bargaining is protected and encouraged by the 1990 Labor Code and is freely practiced thoughout Venezuela. According to the Code, employers "must negotiate" a collective contract with the union that represents the majority of their workers. It contains a provision stating that wages may be raised by administrative decree provided that Congress approves it. 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.

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c. Prohibition of Forced or Compulsory Labor

There is no forced or compulsory labor in Venezuela. 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 to work if given special permission by the National Institute for Minors or the Labor Ministry. Children between the ages of 14 and 16 can work if given permission by their legal guardians. For those under 16 the work day may not exceed six hours or the work week, 30 hours. Minors under 18 can work only during the hours between 6 a.m. and 7 p.m.

e. Acceptable Conditions of Work

Venezuela has a national urban minimum wage rate and a national rural minimum wage rate. To this should be added mandatory fringe benefits that vary with the workers' individual circumstances but in general would increase wages by about one-third. Only domestic workers and concierges are legally excluded from coverage under the minimum wage decrees.

The 1990 Labor Code reduced the standard work week to a maximum of 44 hours. Overtime may not exceed two hours daily, 10 hours weekly, or 100 hours annually, and may not be paid at a rate less than time-and-a-half.

The Labor Code states that employers are obligated to pay specified amounts (up to a maximum of 25 times the minimum salary) to workers for accidents or occupational sicknesses regardless of who is responsible for negligence. It also declares that work places must maintain "sufficient protection for health and life against sicknesses and accidents", and it imposes fines of from one-quarter to two times the minimum salary for first infractions.

f. Rights in Sectors with U.S. Investment

Labor rights and conditions of work in sectors in which U.S. capital is invested do not differ from those in the economy in general.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category	Amount	
Petroleum		278
Total Manufacturing		963
Food & Kindred Products	228	
Chemicals & Allied Products	240	
Metals, Primary & Fabricated	82	
Machinery, except Electrical	-2	
Electric & Electronic Equipment	83	
Transportation Equipment	8	
Other Manufacturing	323	
Wholesale Trade		155
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		1,396

Source: U.S. Department of Commerce, Survey of Current Business
August 1991, Vol. 71, No. 8, Table 11.3

ALGERIA

Key Economic Indicators

(Billions of Algerian Dinars Unless Otherwise Stated)

	1989	1990	1991 (Est.)
Income, Production, and Employment:			
Real GDP (1980 Prices)	208.1	210.4	214.6
Real GDP Growth Rate (Pct. Chg.)	3.4	1.1	2.0
GDP by Sector (1980 Prices):			
Petroleum	35.2	48.7	42.7
Other Mining	3.0	2.7	3.0
Manufacturing	21.5	21.8	21.3
Agriculture	26.0	20.1	28.0
Construction	31.4	32.5	33.2
Services	75.3	69.1	70.3
Import Taxes and Duties	15.7	15.5	16.1
Real Per Capita Income (1980 Prices 000 Dinars)	8,460	8,320	8,250
Labor Force (Millions)	5.2	5.4	5.6
Unemployment Rate (Pct. Yearly Avg.)	25.0	26.0	30.0
Money and Prices:			
Money Supply (M1)	250.0	275.2	295.0
Commercial Interest Rates (Short-Term)	8.5	13.0	17.0
Savings Rate (Pct. of GDP)	31.0	40.0	35.0
Investment Rate (Pct. of GDP)	30.0	32.0	30.0
CPI (Pct. Chg.)	17.0	30.0	50.0
Wholesale Price Index	12.0	25.0	40.0
Exchange Rates:			
Official (Avg. Dollar Value of Algerian Dinar)	.131	.116	.050
Parallel (Est.)	.025	.025	.022
Balance of Payments and Trade (Millions of USD):			
Total Exports (FOB)	9,528	12,728	11,960
Total Exports to U.S.	1,836	2,645	2,400
Total Imports (CIF)	8,375	9,704	8,880
Total Imports from U.S.	759	948	760
Aid from U.S.	0.5	0.5	0.25
Aid from Other Countries	120	150	150
External Debt	25,325	26,100	26,700
Annual Debt Service (Paid)	7,225	8,356	9,150
Gold and Foreign Exchange Reserves	3,103	2,709	2,600
Current Account Balance	-1,147	1,400	- 308

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1. General Policy Framework

Throughout 1991 Algeria continued attempts to move away from its former reliance on autarchic economic development, characterized by central planning and heavy government control of all economic activity. However, at the end of 1991, there was a political crisis precipitated by the Islamic Salvation Front's (FIS) first round National Assembly victory, President Bendjedid's unexpected resignation January 1992 and the subsequent takeover by a military-dominated High State Council. While these events have dominated in Algeria, there is reason to believe that the Government of Algeria remains committed to the economic reform plan launched earlier. The government has attempted to reassure nervous investors and creditors that it will continue its plans to revamp the Algerian economy and will honor its debt commitments.

The economic reform program underway since 1987 has continued to gain momentum, with significant measures adopted within the past year to open the economy up to foreign trade and investment. State companies have been formally divested of their former monopoly over imports and the prior system of import licensing has been abolished. Also, the 1990 regulations permitting both private Algerian and foreign firms to become distributors and wholesalers of a wide range of imported consumer and industrial products have been implemented. The first authorized dealers and wholesalers are beginning to set up their operations. Algeria has also applied for GATT membership. Following up on the liberalization of the investment code in 1990, the government passed a new hydrocarbon law in November 1991 governing investment in the hydrocarbon sector. The law would allow foreign firms to exploit, in partnership with the state oil firm, existing oilfields in Algeria for the first time since the hydrocarbon sector was nationalized in the late 1960's and early 1970's. Other reforms have continued to relax the former rigid system of price controls and have significantly reduced the gap between the official and the parallel market exchange rates of the Algerian dinar. Major revisions to the tax system and the tariff schedule that will both streamline their structures and reduce rates are slated to be introduced in 1992.

Despite these changes, the government still retains a preponderant economic role, and inefficient state enterprises and chronic shortages are prevalent. The most important sector is the state-owned petroleum industry, which accounted in 1990 for 97 percent of exports, 23 percent of GDP, and 40 percent of Algerian government revenues. The oil price slumps in 1986 and 1988 drastically reduced Algeria's hard currency earnings, from 13 billion dollars in 1985 to 8 billion dollars in 1988, and forced the government to sharply curtail imports. Although the unforeseen rise in oil prices during the second half of 1990 provided temporary relief, Algeria's balance of payments situation remains difficult as a result of a heavy reliance on imports of foodstuffs, spare parts, and consumer goods combined with a high level of debt servicing. This situation has caused economic performance to be sluggish since the mid-1980's with marginally positive or negative growth rates registered each year.

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Given Algeria's difficult balance of payments situation, financing for imports has been essential. However, as part of its efforts to revise the debt structure, the government has attempted to separate financing from procurement of imports, preferring to rely on bilateral and other general credit lines, rather than supplier credits, to finance imports.

Algeria's economic difficulties have caused U.S. exports to level off in 1991 after a significant increase from the mid-1980's through 1990. The increase occurred primarily because of the growth of sales of agricultural commodities financed by USDA guaranteed credits. Agricultural product sales grew from 282 million dollars in 1986 to approximately 460 million dollars in 1990, reflecting both Algeria's great reliance on agricultural imports and its current need for financing. Industrial exports also rose due to a cheaper dollar and the need of Algerian industries to modernize their operations.

Algerian private enterprise remains crippled by difficult access to bank credits and especially foreign currency. Further, a punitive tax structure forces most private operators into black market transactions and takes away profit incentive from state enterprise managers. However, the private sector's role in construction and services, particularly tourism, is expanding and some private manufacturing firms are getting underway.

2. Exchange Rate Policies

The dinar is a nonconvertible currency. A value for the dinar is maintained partly against a basket of currencies that roughly reflects Algeria's trade patterns. The rate is adjusted frequently to reflect the government of Algeria's domestic economic objectives. Since September 1987 the Central Bank has allowed the official rate to slide approximately 360 percent against the dollar in nominal terms. The pace of the devaluation accelerated during the first six weeks of 1991 and again in late September 1991. Despite its severe decline since 1987, the official exchange rate is valued at twice the parallel rate. The Central Bank has stated its intention to unify the official and parallel rates and make the dinar convertible by 1993. Since the dinar remains overvalued, further devaluation will be necessary to increase significantly nonhydrocarbon exports or reduce dramatically the competitiveness of imports in relation to local production.

3. Structural Policies

During the past year, the Algerian government has continued to liberalize considerably the trade regime. The government enacted several regulations during the first half of 1991 (Executive Decree 91/37 of February 1991 and Bank of Algeria Regulation 91-03 of April 1991) that abolish the monopoly rights formerly held by state corporations to import virtually all products. Private and public firms inscribed in the commercial register are now allowed to import goods directly, although importation of goods destined for resale to

third parties is limited to dealers and wholesalers established under the regulations adopted in August 1990. These regulations, supplemented by an April 1991 Ministry of Commerce order, permit private Algerian and foreign firms to become distributors and wholesalers of a wide range of imported consumer and industrial products except clothing. These wholesalers and distributors may use hard currency obtained outside of official channels to import goods, which may then be sold in hard or local currency depending on the product and on whether the goods are sold to retailers or consumers. The government anticipates that this new arrangement will stimulate agricultural and industrial production and alleviate shortages of consumer goods. The first dealers and wholesalers authorized under these procedures are beginning to set up their operations and import goods. The Ministry of Commerce order issued in April 1991 states that wholesalers or dealers that import foodstuffs, agricultural inputs, construction materials and books must comply with certain conditions. They must demonstrate ability to raise the necessary credit and have in place arrangements for transport and stocking capacity that conform to Algerian government regulations. Furthermore, their importations must conform to the requirements of tender documents available from the Ministry of Economy.

Bank of Algeria Regulation 91-03 also eliminated the former import licensing system. The type and volume of imports, except where restricted or prohibited by law, are now dependent on the availability of foreign exchange or financing. Finally, Algeria has recently submitted an application for GATT membership and has adopted the harmonized tariff system.

In tandem with this opening up of the trading system, the Algerian government is gradually moving towards adopting a market-oriented approach to allocate foreign exchange. The system of hard currency budgets for state enterprises and private firms, implemented in 1989, has been replaced by a much more flexible system, in which the Central Bank makes hard currency available from hydrocarbon earnings, which generate virtually all foreign exchange receipts, to the banks, which in turn allocate it to claimants according to certain priorities (imports of foodstuffs, medicines, and capital goods are assigned highest priority) and financial criteria. Exporters of agricultural products are allowed to retain 50 percent of their hard currency earnings and those exporting manufactured products can retain 100 percent, giving both types of exporters latitude to purchase additional imports beyond those that can be financed by allocations from the banking system.

The Algerian government has announced that the tariff schedule will be revised in 1992 to reduce both the number of different tariff rates and the rates themselves. The 19 current tariff levels will be reduced to 8 and the maximum tariff rate will fall from 120 to 42 percent.

Despite these significant moves to liberalize the trading system, hard currency availability and financing terms remain by far the most important constraints on purchases, outweighing such items as pricing and tax policies. Although

used frequently in the past, the Algerian government is not promoting countertrade, particularly that involving hydrocarbon exports.

The only regulatory constraints currently affecting U.S. exports are restrictive phytosanitary standards, which have limited sales of U.S. seeds.

4. Debt Management Policies

Algerian government officials are proud of the country's excellent debt repayment record and have repeatedly expressed their commitment to continue paying Algerian debts on time. However, Algeria's debt burden has become progressively heavier since the mid-1980s owing to lower oil prices and dollar weakness. At the end of 1990, the external debt totalled 26.1 billion dollars, of which 24.2 billion dollars represented medium and long-term debt and 1.9 billion dollars is short-term debt. Repayments during 1991 are projected to total 9.1 billion dollars, of which 7.1 billion dollars is principal. The 1991 debt service level is projected to be about 77 percent of export earnings, somewhat higher than last year's level.

Since the average maturity of Algeria's debt is 3.5 years, servicing it will continue to be a heavy burden during the next two years. To reduce the servicing burden, the Algerian government is attempting to restructure the debt, by obtaining medium and long-term loans to repay obligations coming due in the near future. The implementation of some recent loan agreements will advance this process. However, private banks, many of which have reached internal limits on lending to Algeria, have generally been reluctant to extend further loans. Few U.S. banks are now active in the market. As part of its debt restructuring efforts, the Algerian government has sought to obtain more concessional financing, such as bilateral lines of credit. It has discouraged importers from asking suppliers for financing on the grounds that such financing, often limited to the short term, is much more expensive than existing long term lines of credit. Thus, imports are increasingly being directed to those countries with lines of credit in place such as France, Italy, Japan, Belgium and Spain.

Algeria has also turned to multilateral sources for balance of payments financing. It has received 650 million dollars of World Bank structural adjustment assistance over the past two years. A 10 month IMF standby program was implemented in June 1991.

The implications of Algeria's debt burden for U.S. trade are great. Competitive financing has become essential for sales to Algeria. Exim Bank and the Commodity Credit Corporation have guaranteed or financed the great bulk of U.S. sales to Algeria.

5. Significant Barriers to U.S. Exports

Although the government has opened up the economy to

greater imports, many barriers remain which are designed to conserve scarce hard currency and to protect local industry. These barriers discriminate against all foreign suppliers, not just those from the United States.

The economic reforms underway have modified but not eliminated certain practices by Algerian government entities and state-owned firms that have impeded U.S. firms from obtaining service contracts, particularly in the engineering, civil works, and construction sectors. For example, Algerian government entities and state firms no longer automatically favor other Algerian state firms over foreign companies in awarding service contracts. However, the ability of foreign firms to obtain such contracts depends critically on their ability to offer attractive financing; firms from countries that have bilateral lines of credit with Algeria have an advantage over U.S. firms in this regard. In addition, excessive demands for extra services or the acceptance of responsibility, levied on foreign companies in the past by Algerian government agencies or state companies, have diminished. They are displaying more flexibility on contract terms and conditions, enhancing the ability of foreign firms to compete successfully and prove their capabilities.

Under the money and credit law adopted in April 1990, foreign banks are allowed to establish branches in Algeria after receiving government approval. They must maintain the same level of capital, which has not yet been defined, as Algerian banks. The insurance sector is currently a state monopoly but the government is considering opening it up to private and foreign firms. Algerian contracting standards are moving away from those inherited from the French at Independence and are increasingly negotiated on a case by case basis with foreign suppliers. However, they have posed problems for U.S. suppliers of seeds. Algeria requires that imported seeds be certified by an Algerian entity despite having already been certified in the United States. This requirement is particularly burdensome since the local certification process requires that the seeds be tested for three years before they can be approved. This procedure effectively eliminates the marketing of U.S. seeds not only because of its cost but also because manufacturers have developed new varieties within that time period.

The Algerian government has also radically revised and liberalized its approach to foreign investment within the past year. Under the money and credit law, nonresidents of Algeria (defined as foreigners and Algerians who have not been resident in the country for the previous two years) are allowed to bring in capital to finance all economic activity not specifically reserved to the state (the sectors reserved to the state include telecommunications, domestic transport, power and water production and distribution, and refining and distribution of hydrocarbons). The form of such investments is not specified, leaving the door open to investors to establish their own firms or create joint ventures with private and public Algerian firms. Investments will be approved by the Central Bank based on their ability to promote employment, train Algerians, transfer technology, and assure foreign exchange stability. However, there are no explicit performance requirements in these or other areas.

The money and credit law also states that foreign investors' capital, as well as their profits, interest, dividends, royalties, and other forms of investment income can be repatriated under conditions defined by the Central Bank. All of these funds also enjoy the guarantees specified by international conventions ratified by Algeria.

Foreign investment in the oil and gas sector is now regulated by a new hydrocarbon law passed in November 1991. The law allows foreign companies to explore for oil in association with the state oil company. The foreign firms can exploit the deposits under a production sharing contract or joint venture with the state oil company. However, their share of the resulting oil production is limited to a maximum of 49 percent. The new law allows foreign firms to explore for and develop natural gas deposits as well as to exploit existing oil fields. Foreign firms' involvement in both activities would be in association with the state oil company. The law also allows international arbitration of disputes between foreign firms and Algerian entities.

6. Export Subsidies Policies

Since 1986 the Government has placed increased importance on nonhydrocarbon exports. It has done so in an ad hoc manner, reflecting the fledgling state of the sector. The government has given preferential access to finance for private and state companies seeking to make export-related investments. It allows companies exporting agricultural products to keep 50 percent of their foreign exchange earnings and those exporting manufactured products to retain 100 percent.

7. Protection of U.S. Intellectual Property

Algeria is a party to the Universal Copyright Convention and the Paris Convention on payments. The government of Algeria has a good record of respect for intellectual property rights. Generally, Algerian practice is to obtain authorization and pay royalties for proprietary technology. Copying of patented technologies is generally beyond Algeria's present technical capability. As for trademarks, most major international brands are unavailable on the local market. However, Adidas shoes, and several French products are made under license. While Algerian government policy is to enforce these trademarks, some counterfeiting exists, particularly of basic consumer goods.

8. Workers Rights

a. The Right of Association

From independence until 1989, workers did not have the right to form autonomous labor unions. In June 1990, the Algerian National Assembly passed a law which gave workers and employers the right to form independent trade unions. This law formally ended the monopoly of the ruling FLN party-linked

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General Union of Algerian Workers (UGTA) on labor representation. Under the June 1990 law, no government approval for the creation of a labor union is necessary.

The result of the new law was a renaissance of labor activity in Algeria, as well as numerous strikes in all sectors of society. Although many of these strikes were not legally authorized under the terms set by the law, the Algerian government has not prosecuted the personnel involved.

b. The Right to Organize and Bargain Collectively

Both the June 1990 law on trade union activity and a law adopted in April 1990 on work relations provide for collective bargaining, which has been freely practiced throughout Algeria. Labor law also prohibits anti-union discrimination by employers against union members and organizers.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is incompatible with the Constitution's sections on individual rights, and the Penal Code was amended in 1990 to ban it explicitly.

d. Minimum Age for Employment of Children

The minimum employment age is 16 years. The minimum age is enforced in the state sector, the country's largest employment sector. Enforcement is less effective in the agricultural and small private sectors, but violations are not widespread. With continuing economic hardship, however, more children are occupied in informal employment, such as street vending.

e. Acceptable Conditions of Work

Algeria has a 44 hour work week and strict occupational and health regulations. However, enforcement of these provisions has generally been lax. Minimum wages are fixed by government decree after negotiations between the government and UGTA.

f. Rights in Sectors with U.S. Investments

U.S. investment in Algeria is limited to four firms. Two oil service firms have a limited presence here to support the development and production efforts of Algerian and foreign oil companies. Two U.S. oil firms have production sharing contracts with the state-owned oil company to explore for oil; one of these firms has launched its exploration efforts. Conditions for workers at these existing U.S. investments as defined by the above-mentioned worker rights are better than those prevailing in the Algerian economy at large.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category	Amount	
Petroleum		42
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
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		42

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, August 1991

BAHRAIN

Key Economic Indicators

(In Millions of Bahraini Dinars (BD) Unless Otherwise Indicated)

	1989	1990	1991
Income, Production and Employment			
GDP at Current Prices	1,347	1,497	1,542
GDP Growth (nominal)	6.7	11.1	3.0
GDP by Sector			
Oil and gas	310.7	467.1	N/A
Agriculture/fishing	15.8	15.1	N/A
Manufacturing	162.9	122.5	N/A
Construction	87.6	89.1	N/A
Trade, hotel & restaurants	137.0	144.8	N/A
Transport & communications	152.5	162.5	N/A
Finance & real estate	213.5	222.8	N/A
Government & defence	299.6	310.3	N/A
Per Capita GNP (U.S.$)	6780	N/A	N/A
Labor Force (1000's)	193	198	N/A
Unemployment (PCT)	N/A	N/A	N/A
Money and Prices			
Money Supply (M1, end of period)	234.7	295.7	N/A
Savings Rate (one month PCT)	7.0	7.0	N/A
Investment Rate (PCT)	8.3	8.2	N/A
Prime Rate	13	13	11
Consumer Price Index (PCT)	1.5	1.3	N/A
Exchange Rate (USD/BD)	0.377	0.377	0.377
Balance of Payments and Trade			
Total Exports (FOB)	1,064	1,399	N/A
Total Imports (CIF)	1,178	1,372	N/A
Total Imports From U.S.	88	99	N/A
Aid from other countries	37.6	26.3	25.0
External Public Debt	58	N/A	N/A
Debt Service	7.2	N/A	N/A
Gold and Foreign reserves (U.S.$)	1,051	1,241	1,333
Balance of Payments	70.8	-118.7	N/A

1. General Policy Framework

Although the Government has controlling interests 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 a few 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 is freely convertible, and there are no restrictions on the remittance of capital or profits. With the exception of petroleum royalties, Bahrain does not tax either corporate or individual earnings.

Over the last 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 the development of Bahrain as a regional financial center. Despite diversification efforts, the oil and gas sectors remain the cornerstone of the economy. Oil and gas revenues constitute over 60 percent of governmental revenues, and oil and related products accounted for over 80 percent of the island's exports. In addition to revenue from its own oil and gas fields, Bahrain receives 50 percent of the revenue from a Saudi offshore field.

Fiscal Policy: The budgetary accounts for the central government are prepared on a biennial basis. The current budget for 1991-92 was approved in April 1991. Budgetary revenues consist primarily of receipts from oil and gas (over 60 percent) supplemented by fees and charges for services, customs duties, and investment income. Bahrain has no income taxes, and thus does not use the tax system to implement social or investment policies. In the 1991-92 budget, revenue is projected to be BD 970 million and expenditures BD 1.23 billion. The projected deficit of BD 290 million is to be financed through the issuance of treasury bonds to domestic banks. In recent years, the Government of Bahrain has financed its budget deficits through the issuance of treasury bonds, but it suspended its weekly auctions in August 1990 following Iraq's invasion of Kuwait. These auctions were resumed in June 1991.

Monetary Policy: The instruments of monetary policy available to the Bahrain Monetary Agency (BMA) are limited. The BMA uses treasury bills to regulate banks' dinar liquidity positions. Liquidity to the banks is provided now through secondary operations in treasury bills, including: (a) discounting treasury bills; and (b) sale 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 and one percent of foreign currency liabilities to non-residents. The latter reserve requirement was abolished in August 1988. 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 CD's at freely negotiated rates for any maturity from six months to five years were published.

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2. Exchange Rate Policies

Since December 1980, Bahrain has maintained a fixed relationship between the dinar and the U.S. dollar at the rate of BD 1 = U.S. dollar 2.6596. Bahrain maintains a fully open exchange system free of restrictions on payments and transfers. There is no black market or parallel exchange market.

3. Structural Policies

As a member of the Gulf Cooperation Council (GCC), Bahrain participates fully in GCC efforts to achieve greater economic integration among its member states. 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 the past two years, the GCC has focused its attention on negotiations on a trade agreement with the European Community. 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. For the present, U.S. products and services compete on an equal footing with those of other non-GCC foreign suppliers.

Pricing Policies: With few exceptions for basic food stuffs and petroleum product prices, the Government of Bahrain does not control prices on the local market. Since 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, local merchants are less able to maintain excessive margins, and as a consequence, prices have tended to fall to the levels prevailing in other GCC countries.

Tax Policies: 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. Indirect taxes are assessed. They include a tax on gasoline, a ten-percent municipal levy on rents paid by residential tenants and a 12.5 percent tax on office rents.

Regulatory Policies: Bahrain prohibits certain trade with South Africa. It also participates in the Arab League economic boycott against Israel. Not only does Bahrain prohibit direct trade with Israel, it also subscribes to the secondary boycott against third-country firms found to have certain economic relationships with Israel.

4. Debt Management Policies

The Government of Bahrain follows a policy of strictly limiting its official indebtedness to foreign financial institutions. In the past, it has financed its budget deficit through the sale of treasury bills to local banks. The 1.4 billion dollar Aluminum Bahrain (ALBA) expansion project is

being financed in part through foreign commercial and supplier credits. The Government of Bahrain does not regard this debt as sovereign risk.

5. Significant Barriers to U.S. Exports

Import Licenses: With the exception of a few agricultural products, pharmaceuticals, alcoholic beverages and industrial spirits, and horses, the government does not require import licenses.

Services Barriers: For the present, the Bahrain Monetary Agency is not issuing new licenses for local commercial banks as the market is considered saturated. As the government is seeking to promote Bahrain as a regional financial center, barriers to the financial service sector are relatively few. Licenses are freely issued to qualified applicants seeking to establish off-shore-banking units (OBU), investment banks, or representative offices. The newly established stock exchange is not yet open to foreign members, but foreign brokers are allowed to act as market makers in selected shares.

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 a least two other GCC countries, one of which must be Saudi Arabia.

Investment: The government actively promotes foreign investment and has recently promulgated regulations permitting 100 percent foreign ownership of new industrial establishments 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 U.A.E., 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 Ministry of Works, Power and Water extends invitations to selected, prequalified firms. Likewise, construction companies bidding on government construction projects must be registered with the Ministry of Works, Power and Water. 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 boycott of Israel. Goods produced by blacklisted firms are denied customs clearance. Bahrain customs also enforces the foreign agency 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.

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6. 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 not a member of GATT and is not a signatory to the GATT Subsidies Code.

7. Protection of U.S. Intellectual Property

Because Bahrain is not yet a signatory to any major intellectual property convention and does not yet have a copyright law, protection of intellectual property is considered unsatisfactory by U.S. standards. The sale of unauthorized video and audio tapes and computer software is widespread. Patents and trademarks are, however, protected by Bahraini law, and a copyright law is reported to be in preparation. At this point, it is neither clear how comprehensive the copyright protection provided by the new law will be, nor whether the law will apply to foreign nationals.

Existing intellectual property protection is provided by The Patent, Design and Trademark Law of 1955, as amended by Ministerial Decree No. 22 of 1977 and implementing regulations of 1978. The Trademark Law was revised in 1991 and reissued as Decree No. 10 of 1991. Protection periods are as follows: (1) A trademark can be registered for a period of ten years, renewable without limit for further ten-year periods; (2) A design can also be registered for a period of five years, but the registration is only renewable for two terms of five years; (3) A patent can be registered for 15 years, renewable for one five-year period if the patent is deemed by the Patents and Trademarks Registration Office of the Ministry of Commerce and Agriculture to be of special importance and not to have realized revenue commensurate with the expenses involved in its formulation.

The enforcement of trademarks is generally left to the local agent or an appointed representative of the trademark owner. The government does not have a proactive policy of seeking and/or removing counterfeit goods from the market. Trademark registration fees and procedures have not been identified as obstacles to seeking or maintaining trademark protection.

Infringement of new technology is basically limited to software piracy in Bahrain. Private satellite receivers are banned, and there is no cable television system on the island. The U.S.-based Cable News Network is transmitted on an open channel by the Ministry of Information with the agreement of the firm.

There are no reliable estimates of losses to U.S. trade as a result of Bahrain's failure to provide copyright protection.

BAHRAIN

8. Worker Rights

a. The Right of Association

The Constitution of Bahrain recognizes the right of workers to organize. The Government has encouraged, and closely controlled, the formation of elected workers' committees in major companies. These committees now represent about 28 percent of the work force. These joint labor-management consultative committees (JCCs) are closely controlled by the government through the General committee of Bahraini Workers. Expatriate workers, about 60 percent of the work force, are denied these limited association rights. There is no right to strike.

b. The Right to Organize and Bargain Collectively

Workers' representatives are empowered to discuss wages and working conditions with management through the JCCs.

c. Prohibition of Forced or Compulsory Labor

The Government prohibits the use of forced or compulsory labor.

d. Minimum Age for Employment of Children

The minimum age for employment is 16. Child labor laws are effectively enforced, although some children work in the informal sector.

e. Acceptable Conditions of Work

Bahrain's Labor Law, enforced by the Ministry of Labor and Social Affairs, establishes acceptable conditions of work for all adult workers, including standards regarding minimum wages, hours of work (maximum 48 hours per week) and occupational safety and health. Expatriate workers (60 percent of the work force) are disadvantaged by the requirement that all foreigners must be sponsored by Bahrainis in order to work. Under this system, sponsors can cancel the residence permit of any person under their sponsorship and blacklist individuals so that they cannot obtain entry or residence visas from other sponsors. Such power contains the inherent potential for exploitation, and foreign workers are often unwilling to report abuses for fear of forced repatriation. Bahrain's labor law does not recognize the concept of equal pay for equal work. Asian workers are often paid less than Bahrainis or westerners with the same qualifications, and women are generally paid less than men. Minimum wages are established by Council of Ministers decree.

f. Rights in Sectors with U.S. Investment

U.S. capital investment in Bahrain is concentrated primarily in the petroleum sector. It takes the form of minority share interests in the Bahrain Petroleum Company (Bapco), Bahrain National Gas Company (Banagas) and the Bahrain Aviation Fueling Company (Bafco). A U.S. firm also has an on-going off-shore exploration and drilling concession from the Bahrain National Oil Company. Workers at these

companies enjoy the same rights and conditions as all other workers in Bahrain.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category	Amount	
Petroleum		(D)
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		(D)
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, August 1991

BANGLADESH

Key Economic Indicators

(Millions of U.S. Dollars Unless Otherwise Noted)

	FY88/89 1/	FY 89/90	FY 90/91 (est)
Income, Production, and Employment			
GDP (1991 mil $)	21,100	22,400	23,100
Real GDP growth (pct)	3.01	6.22	3.20
GDP/cpta (1991 $)	190.03	197.11	198.65
GDP growth by sector (pct)			
Agriculture:	-1.07	7.70	0.25
Industry:	4.83	6.84	1.00
Services:	4.73	4.81	6.80
Share of GDP by sector (pct)			
Agriculture	37.08	37.60	36.62
Industry	17.05	17.15	16.64
Services	45.06	45.25	46.84
Labor Force (mils)	34.5	35.5	36.5
Unemployment (pct)	N/A	N/A	N/A
Money and Prices			
Money supply (Taka bn)	191	223	251
Refinance rate (pct)	10.75	10.75	10.75
Ntl Savings/GDP (pct)	4.1	4.3	4.8
Investment/GDP (pct)	11.0	11.1	11.4
CPI (pct growth)	8.00	9.29	8.95
Exchange rate	32.14	32.93	35.79
Balance of Payments and Trade			
Exports 2/	1,269	1,512	1,673
Exports to U.S. 3/	428	538	500
Imports	-3,373	-3,758	-3,470
Imports from U.S. 3/	-282	-181	-200
Aid from U.S. 4/	173	131	138
Aid from all donors	1,669	1,810	1,800
External public debt	9,625	10,255	11,087
Debt service	324	362	398
Foreign reserves	834	469	775
Balance of payments	-5	-125	383

1/ The Bangladesh fiscal year is July 1 - June 30.
2/ Source: Bangladesh Export Promotion Bureau.
3/ Figures on exports to and imports from the U.S. are from the U.S. Department of Commerce and are based on actual calendar years. Thus FY 88/89 = 1989, FY 89/90 = 1990, and FY 90/91 = 1991 for these two categories only. The figures for 1991 are projections.
4/ Figures represent assistance levels for U.S. fiscal years. They include all development assistance obligations as well as PL 480 Title II and Title III assistance. Central and AID Washington funded programs such as the disaster assistance program and the flood action plan are not included in these figures. Available

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World Bank, IMF, Bangladesh Bank and Metropolitan Chamber of Commerce and Industry, Dhaka statistics have been consulted and inconsistencies in the data resolved insofar as possible.

1. General Policy Framework

Bangladesh is a densely populated country situated on a low-lying deltaic plain with little topographic or climactic variation. Its overwhelmingly agricultural economy depends heavily on the vagaries of a semi-tropical monsoon climate. Dependent on adequate rainfall, Bangladesh suffers all too frequently from natural disasters such as floods and cyclones. The Government wrestles with these disasters and urgent problems of development in one of the poorest countries in the world. A major policy objective, feeding the rapidly growing population, is supported by significant U.S. grain exports to Bangladesh under PL-480 programs and commercial sales.

Following the overthrow of former President Ershad's government in December 1990, a new democratically elected government led by the Bangladesh Nationalist Party (BNP) assumed power in April 1991. The BNP ran on a platform committed to development of a market based economy, continuation of the Bangladeshi government's IMF and World Bank supported economic reform program and encouragement of foreign investment. In August, the Government announced a new industrial policy which allows 100 percent foreign ownership of domestic industry and opens up to private investment many areas which had been previously restricted to the public sector. Limited resources, a small domestic market, poor infrastructure development, and an erratic political and legal environment remain formidable obstacles to the country's development.

To address mounting macroeconomic imbalances, the Government adopted a stabilization program in 1985/86, supported by a standby arrangement from the International Monetary Fund (IMF), which was followed in 1987 by a three-year arrangement under the Structural Adjustment Facility (SAF). The adjustment strategy has focused on industrial and trade liberalization, domestic resources mobilization, and financial sector reform. The three-year SAF expired in February 1990, but was followed by a three year enhanced structural adjustment facility (ESAF) approved in August 1990.

The Second Year ESAF program was approved on September 30, 1991. The macroeconomic objectives for the 1991-94 period are five percent average annual real GDP growth in combination with low inflation and progress toward balance of payments viability. Both the budget deficit and the current account deficit are to be reduced to about six percent while the percentage of GNP devoted to investment is to be increased. Export volume growth is projected to average eight percent annually while average nonfood import volume growth is projected at six percent. Foreign aid continues to finance the government's budget deficit, so much so that it outstrips the total value of government development expenditures. A

major step forward in improving the inefficient tax collection system was taken with the introduction of a value added tax on July 1, 1991. The government has also made progress in simplifying customs duties and procedures.

2. Exchange Rate Policies

Since August 13, 1979, the taka has been pegged within margins to a basket of six currencies in which the dollar and pound sterling predominate. The dollar plays the role of intervention currency. There is also an important secondary exchange market (SEM), also known as the wage earners scheme (WES), where foreign exchange can be obtained for the import of selected goods. The Bangladesh Bank, the nation's central banker, adjusts the secondary exchange market rate to attract inflows of foreign exchange remittances from Bangladeshis working abroad. Practically all exports and almost all non-aid financed imports are now transacted through the secondary market. Currently, the SEM rate exceeds the official exchange rate by less than two percent. Under the ESAF, the eventual goal is to unite the two rates.

Concern regarding the exchange rate has diminished since the government adopted a flexible exchange rate management policy in March, 1990. Since then the taka has seen a number of discrete devaluations which have lowered the dollar value of the taka by about 11.5 percent (inflation is now running at about 10 percent).

3. Structural Policies

Despite the adverse effects of the Gulf War, domestic political turmoil, and a devastating cyclone in April 1991, the Bangladesh economy grew by about 3.2 percent in FY 90/91. Foreign exchange reserves increased from $469 million at the end of fiscal year 89/90 to $775 million by the end of fiscal 90/91. Much of this increase was due to reduced import activity. With the expectation of improved fiscal measures and tighter budget control, the Annual Development Program budget (ADP) is targeted at 65 billion taka (USD 1.7 billion) for fiscal year 1991/92, some 13 billion taka higher than last year's ADP expenditure.

Progress in implementing an IBRD/USAID supported financial sector reform program has been halting. Some success has been achieved in loan classification, provisioning, and liberalizing administered interest rates. Nevertheless, disbursement by the World Bank of the last $50 million tranche of a $175 million credit to help recapitalize government-owned commercial banks has been delayed, due to unsatisfactory loan recovery rates by the banks. A government effort to promote recovery of loans by publishing a list of loan defaulters last May and denying bank credit to firms controlled by defaulters has had mixed results.

Success in improving the operations of commercial banks, and of other institutions in the financial sector, will play a critical role in promoting expanded investment activity in Bangladesh. While U.S. capital equipment manufacturers may

benefit from any resulting increase in industrial investment, they face strong competition from suppliers of lower priced, reconditioned, low-technology equipment from Korea, Singapore, Taiwan, and Thailand.

The impact of a supposedly high-powered Board of Investment, designed to reduce red tape and speed the investment approval process, has been marginal. Investment applications still face considerable bureaucratic inertia and the board has yet to become the one-stop investment center promoters envisioned. Reportedly, the government is drafting a new Board of Investment Act intended to turn the BOI into an investment promotion entity. The new 1991 Industrial Policy restates the government's commitment to treating foreign capital on a par with domestic investment.

4. Debt Management Policies

With an estimated $11.1 billion foreign debt at the end of FY1990/91, most of which was incurred on concessional terms, Bangladesh maintained its debt level at about 48 percent of GDP. The debt service ratio in fiscal year 1990/91 is estimated at about 22.7 percent, up from 19.5 percent in the previous year. Projections for Bangladesh's ESAF program indicate a declining debt service ratio in the future.

The U.S. and the government of Bangladesh signed a bilateral debt forgiveness agreement on September 28, 1991 that wrote off approximately $293 million in old U.S. development assistance debt.

5. Significant Barriers to U.S. Exports and Investment

The Government continues to liberalize the import regime by relaxing quantitative restrictions, simplifying import procedures, rationalizing tariffs, and transferring additional import financing into the secondary exchange market. The Bangladesh Government has established three general tariff categories for most products: 0 to 20 percent for raw materials, 30 percent for intermediate goods, and either 50 or 100 percent for final goods. Large vehicles, alcohol, cigarettes and air-conditioners are some important exceptions to this policy. Tariffs on these products are well over 100 percent. Bangladesh continues to raise relatively high shares of its government revenue from customs duties. Bangladesh is a member of the General Agreement on Tariffs and Trade and is a participant in the ongoing Uruguay Round.

Bangladesh continues to engage in countertrade activities, but this is diminishing with the changes taking place in Eastern Europe. Currently, Bangladesh's only active countertrade agreement is with China.

The Government has moved to ease barriers to foreign investment, a fact underscored by the 1991 Industrial Policy and by the U.S.-Bangladesh Bilateral Investment Treaty. The new Industrial Policy expands the areas open to foreign investment and reduces the need for investment approvals. It also promises equal treatment to foreign and domestic

investors, but this has yet to be translated into action. Government continues to provide tax incentives and tax holidays for investments in areas such as rural development, import substitution, and employment and export generation. Requests for investments not meeting the above criteria can be delayed in processing for years.

The cumbersome approval processes required in Bangladesh are still a major discouragement to potential investors. Final government approvals occur slowly, and are on occasion reviewed by new incumbents, leading to further delays and higher costs. On a more positive note, there are indications that government is reviewing a 1982 Drug Control ordinance that bars foreign-owned firms from manufacturing and marketing various non-prescription drugs. Perhaps the most hopeful sign that such a change will occur is the government's recent revocation of a 1989 Drug Law which appeared to discriminate against multinational pharmaceutical companies.

6. Export Subsidies

The Bangladesh Government attempts to encourage export growth through measures such as ensuring duty free status for some imported inputs and providing easy access to financing for exporters. In addition, the export performance benefit entitlement, a government scheme which allows exporters to sell foreign exchange earnings in the secondary market, has now been extended to all export products except raw jute and unprocessed leather. The export promotion bonus is, however, based on the difference between the exchange rate prevailing in the secondary exchange market and the official rate. This difference is scheduled to be eliminated by the end of calendar year 1991. Under pressure from donors to reduce subsidies in the budget, the government reduced interest rate subsidies by one percent as of October 1, 1991. It has so far resisted domestic exporters' demands for increased export subsidies.

Jute exports have continued to decline due to erratic supply and continuing competition from synthetics. Government efforts to prop up the industry have been expensive and unsuccessful.

Chittagong, Bangladesh's second largest urban center and principal seaport, is the site of the country's only export processing zone (EPZ). Established in 1983, the Chittagong EPZ currently contains 38 active factories, including four U.S. firms. In all, 72 investment proposals have been sanctioned for the EPZ representing a total investment of USD 470 million. Projects in the EPZ benefit from duty free imports of capital goods and raw materials. The Government plans to open an additional EPZ near Dhaka in 1992, and a third in the city of Khulna at a later date.

7. Protection of U.S. Intellectual Property

Bangladesh has been a member of the World Intellectual Property Organization (WIPO) since 1985 and is represented on two of the organization's permanent committees. Bangladesh

deposited its instrument of accession to the Paris Convention on November 29, 1990 and the Convention entered into force in Bangladesh on March 3, 1991.

Bangladesh intellectual property law dates from the colonial era and has many similarities with the current British system. The Patent and Design Act of 1911, as amended by the Patent and Design Rule of 1933, the Trademark Act of 1940, and the Copyright Ordinance of 1962 govern patent, trademark, and copyright law in Bangladesh.

Efforts are underway to revise and update Bangladesh's Patent and Trademark legislation. This does not, however, appear to be a priority item for the Government of Bangladesh, which hopes to introduce new legislation sometime in calendar year 1992. Intellectual property infringement in the domestic market is common, but is of limited significance for U.S. firms, with the possible exception of pharmaceutical products and audio and video cassettes.

8. Worker Rights

a. The Right of Association

The Constitution guarantees the right of association subject to restrictions imposed by law. Workers in trade associations or unions may draw up their own constitution and rules, elect officers, develop programs, and conduct business without government interference. The right to strike is not recognized by law but is an accepted and frequent form of protest. The Essential Services Ordinance of 1958 permits the Government to bar strikes for three months in any sector deemed "essential." Most unions are dominated by political parties and the International Labor Organization (ILO) has expressed concern over restrictions on the right of association and other issues.

b. Right to Organize and Bargain Collectively

The Constitution provides for the right to form labor unions subject to governmental approval. Public sector employees cannot form unions or bargain collectively. Except in the Chittagong Export Processing Zone, where union activity has been suspended since 1985, unions in the private sector can generally bargain collectively without government interference. However, laws against antiunion discrimination are often violated, and workers are frequently fired from their jobs for union activities.

c. Prohibition of Forced or Compulsory Labor

The Constitution prohibits forced or compulsory labor. Although this prohibition is substantially respected, bonded labor has been reported on some tea and rubber plantations. The Government actively seeks to prevent the trafficking of bonded laborers into other South Asian countries.

d. Minimum Age for Employment of Children

While numerous laws prohibit the employment of any person

under 14, they are not enforced. Sanctioned by tradition and encouraged by dire economic necessity, child labor is quite prevalent. There is at present no compulsory education. In 1986 the Bureau of Labor Statistics estimated the number of child laborers at approximately three million, although informed sources assert the number is higher.

e. Acceptable Conditions of Work

Regulations regarding minimum wages, hours of work, and occupational safety and health are not strictly enforced. Minimum wages as set by law vary depending on occupation but are generally ignored. The Factories Act of 1965 and the Shops and Establishments Act of 1965 limited normal working hours to a maximum of eight hours per day and 48 hours per week (with overtime, not more than 60 hours per week). Enforcement of this legislation is weak to non-existent, as is that of health and safety regulations.

f. Sectors with U.S. Investment

U.S. investment in Bangladesh is very small, totalling approximately $50 million. It is concentrated in the physical assets of one life insurance company, the American Express and Citibank offices and a few manufacturing operations (one pharmaceutical firm and some firms in the food and garment/textile sectors).

All the major 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 and the provisions of the 31 ILO Conventions ratified by Bangladesh.

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 worked in comparable indigenous firms.

BANGLADESH

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category		Amount
Petroleum		(D)
Total Manufacturing		(D)
Food & Kindred Products	0	
Chemicals & Allied Products	(D)	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, August 1991

EGYPT

Key Economic Indicators 1/

(In Millions of Egyptian Pounds (LE) Unless Otherwise Noted)

	1989	1990	1991 2/
Income, Production and Employment			
GDP (Factor cost, 86-7 prices)	45,648.0	48,228.0	50,177.0
GDP Growth Rate/(pct)	5.5	5.6	4.0
GDP by Sector			
Production	21,823.0	22,902.0	23,921.0
Agriculture/Irrigation	9,225.0	9,525.0	9,820.0
Industry/Mining	7,979.0	8,567.0	9,054.0
Petroleum/Products thereof	1,748.0	1,795.0	1,869.0
Electricity	612.0	631.0	664.0
Construction	2,259.0	2,384.0	2,514.0
Productive Services	15,630.0	16,607.0	17,054.0
Communications/Suez Canal	4,368.0	4,797.0	4,992.0
Trade, Finance, Insurance	10,618.0	11,116.0	11,549.0
Tourism	644.0	694.0	513.0
Social Services	8,195.0	8,719.0	9,202.0
Housing/Public Utilities	1,007.0	1,136.0	1,258.0
Social/Personal Services	2,018.0	2,125.0	2,225.0
Insurance/Gov't Services	5,170.0	5,458.0	5,719.0
Population (Millions)	51.3	52.9	N/A
Per Capita GDP (LE curr. prices)	1,511.0	1,588.0	N/A
Employment (Millions)	12.9	13.2	N/A
Unemployment (pct)	8.9	8.5	8.6
Money and Prices			
Money Supply (M1)	21,562.0	25,572.0	N/A
Bank Lending Interest Rates	18.3	19.0	21.0
Savings Rate	11.7	12.0	15.5
Fixed Investment (factor cost, 86/87 Prices)	9,040.0	9,282.0	9,745.0
As Percent of GDP	19.8	19.2	19.4
Consumer Price Index (pct)	16.7	21.2	14.7
Wholesale Price Index (pct)	25.2	21.8	N/A
Exchange Rates (USD/LE average)			
Central Bank	1.43	0.91	0.31
Commercial Bank	0.39	0.37	0.30
Parallel Market	0.34	0.36	0.30
Balance of Payments and Trade (USD Millions)			
Total Exports (FOB)	2,697.0	3,144.8	3,886.8
Exports to U.S. (Calendar Year)	226.5	396.4	N/A
Total Imports (CIF)	10,360.6	11,441.1	11,424.5
Imports from U.S.(Calendar Year)	2,610.0	2,248.8	N/A
Aid from U.S. (USFY, Obligations)	2,750.0	2,595.0	2,357.0
Aid from Other Countries	N/A	N/A	N/A
External Public Debt	N/A	N/A	N/A
Debt Service (Paid)	N/A	N/A	N/A
Reserves (Including Gold)	2,121.0	2,267.0	N/A
Current Account Balance	-468.7	-634.0	1,391.3

EGYPT

1/ Sources: Annual Report of the Central Bank of the Arab Republic of Egypt, Central Agency for Mobilization and Statistics of the Arab Republic of Egypt, and IMF International Financial Statistics.
2/ Except where otherwise noted, data yea are based on Egyptian fiscal year which runs from July 1 to June 30 (i.e., 1991 = Egypt's fiscal year July 1, 1990 to June 30, 1991).

1. General Policy Framework

The United States is Egypt's largest supplier of imports, but U.S. exports to Egypt fell 14 percent in 1990 to $25 billion, primarily due to the Gulf Crisis. About $400 million is financed through AID's Commodity Import Program and about $300 million under Department of Agriculture programs.

Egypt's past economic performance has been far below potential. Extensive state ownership in the industrial sector has burdened the economy with a host of inefficient and overstaffed enterprises. Large subsidies and pervasive economic controls, many designed to protect the public sector from competition, have encouraged waste and stifled competition. Unsound monetary and fiscal policies have led to persistent high inflation rates. Low productivity and inflationary policies resulted in balance-of-payments weakness which was suppressed through foreign-exchange controls and import barriers. In sum, Egyptian policies weakened growth and made the economy less open to foreign trade, reducing opportunities for U.S. and other countries' exporters.

In early 1991, Egypt embarked on a program of sweeping economic policy reforms. The reform program is designed to correct macroeconomic and external payments imbalances and reorient the economy toward a market-determined system. Under an IMF stand-by program, the government is now aiming at stabilization of the economy through reduction of the budget deficit, stricter monetary policy, and liberalization of the foreign-exchange market and interest rates. Supported by the World Bank, the government has begun a comprehensive set of structural reforms through liberalization in prices, the trade and financial sectors, and investment. A legal basis has also been established for reform and privatization of the large public sector. As these reforms proceed, U.S. exporters may find enhanced opportunities to compete against public-sector firms. In its trade-sector reform, the government has significantly reduced non-tariff barriers to imports. In some cases this may improve U.S. export prospects. On the other hand, a large increase in customs tariffs, enacted this year under the IMF program as a revenue measure, will likely dampen imports.

Overall, the new stabilization policies have curtailed demand, so U.S. export opportunities may suffer somewhat during this transitional period. However, a faster-than-expected recovery from the impact of the Gulf Crisis, particularly in tourism and remittances from Egyptian workers abroad, appears to be offsetting some of the expected economic decline.

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2. Exchange Rate Policies

As a part of its IMF-supported stabilization program, Egypt implemented a liberalized, largely free-market exchange system in February 1991. Exchange controls were almost entirely removed, and a free market was established where rates were to fluctuate with market forces. This reform freed banks and authorized non-bank dealers to set rates based on market criteria, although limits were set on their open positions. For a transitional period a separate rate was maintained for specific official transactions, but the market was fully unified on October 1, 1991.

Tight credit controls and much higher interest rates, together with Egypt's adoption of a comprehensive economic reform program, have combined to encourage sizable dollar inflows. The faster-than-expected recovery in tourism and remittance receipts has also helped strengthen the pound in the foreign-exchange markets. In the longer run Egypt's capacity to earn foreign exchange will depend on its ability to make sustained further progress on fiscal and monetary policies and to greatly accelerate movement on structural reforms needed to stimulate export production.

The initial depreciation of the Egyptian pound has made imports somewhat less price-competitive with domestic production. However, foreign exchange is now much more freely available than before, to importers and others, and the reforms favor a more open economy with more foreign trade opportunities.

3. Structural Policies

The Egyptian economy is in transition. With the IMF Stand-By Arrangement and the IBRD Structural Adjustment Loan (SAL) Agreement, Egypt has embarked on a programmatic transformation from public-sector control to free-market orientation. In 1991, Egypt liberalized foreign-exchange controls, unified the exchange rate, freed interest rates, and liberalized prices, investment approvals, and the trade regime. It is too early to determine the direct effect of these policies on trade in general and U.S.-Egyptian trade specifically. But in the medium term, the move toward a free-market economy in Egypt should benefit U.S. exports.

Reform and privatization of inefficient public sector enterprises are key to the economic transformation. Although the new "Public Investment Law" (Law 203) establishes a legal basis for privatization of Egypt's 393 public enterprises, the privatization process, which may also affect ownership of approximately 245 joint ventures, has not yet gained momentum. As of this writing, approximately 2,000 publicly-owned small-scale entities at the governorate level have been put up for sale and two hotels have been sold. The Ministry of Agriculture has sold or leased approximately one million acres of publicly-owned land, and in some cases, offered employees land in return for giving up their jobs. The Ministry of Health is engaged in a program to privatize the management and operation of public hospitals. U.S. exports will have a better chance in Egypt when the market,

not the public sector, controls production, prices, and spending decisions.

The Egyptian Government has pledged to eliminate most price controls. While progress has been made, there is still much work to be done. Prices in industrial subsectors in which there is substantial domestic and/or import competition have been freed, and only about one quarter of total industrial production is subject to administered prices. In May 1991, the Government increased petroleum and electricity prices, moving toward the goal of adjusting petroleum product prices to reflect international market prices and electricity prices to cover long-run marginal costs. Additional petroleum price increases are to follow in December 1991.

Agricultural price deregulation, except for cotton, is expected to be completed by 1993. In the cotton subsector, domestic cotton procurement prices are to be raised on a variety-by-variety basis to the equivalent of 66 percent of the corresponding international price by 1992. Of particular concern to U.S. industry are price controls on pharmaceutical products, which are inflexibly administered and financially harmful to U.S. foreign manufacturers operating in Egypt. Free-market pricing of domestically-produced goods will help to make U.S. goods more competitive in the Egyptian market.

4. Debt Management Policies

With the tapering off of receipts from oil exports, remittances and aid inflows since the mid-1980's, Egypt borrowed heavily and built large arrears. By mid-1990 its external debt had reached approximately $50 billion.

To support the comprehensive reforms under Egypt's IMF stand-by program, Egypt's Paris Club creditors agreed in May 1991, to grant Egypt debt relief which would reduce the net present value of its eligible debt by 50 percent in stages over three years, conditioned on continued compliance with an IMF program. Creditors were given the option of effecting debt reduction through write-offs or exceptionally generous rescheduling terms (much longer payback periods and/or highly concessional rates). U.S. forgiveness of $6.8 billion in military debts in 1990, was recognized as a part of the Paris Club debt relief package, having reduced the net present value of Egyptian debt to the United States by 70 percent. The United States agreed to reschedule Egypt's remaining $5.1 billion in debt on generous terms.

Under the Paris Club agreement, Egypt was given until October 31, 1991 to clear-up arrearages on relatively small amounts owed to official creditors ineligible for rescheduling and must remain current on its Paris Club payments.

Until all agreements implementing the Paris Club action are signed, the exact amount of debt reduction, while substantial, is unknown. In any case, Egypt's debt service bill will be greatly reduced, a factor which will free up foreign exchange to assist the government in building reserves and sustaining priority imports necessary to feed its growing population and promote economic growth.

EGYPT

5. Significant Barriers to U.S. Exports

Import Barriers: Egypt maintains an import ban list. The list was developed in 1986 to protect domestic industry and to prevent foreign exchange expenditures on luxury items. Exemptions from the ban may be granted by the Ministry of Economy and Foreign Trade if there is no equivalent product in the local market and the banned item is required for the continuity and survival of an industry. On May 30, 1991, in the latest of a series of reductions, the Egyptian Government reduced the number of items on the import ban list from 210 to 105. With this step, protection by non-tariff barriers was reduced to 26 percent of total manufacturing and agricultural production compared to 53 percent in 1990. In February 1992, there are to be further deletions from the ban list. Because exemptions are available for many sectors (e.g., petroleum, tourism and the Egyptian military) import bans have probably not had a major impact on overall U.S. exports. However, certain U.S. products, particularly food items such as poultry and meat, have been restricted.

Prior to the May trade liberalization decree, importers were required to import under letters of credit for which a 35 percent downpayment was imposed. The decree eliminated mandatory financing by letters of credit, which if used would now require only a 20 percent down payment for commercial purposes and 10 percent for private use. Banks would also have to pay interest on the down payments.

The decree also modified the tariff schedule, narrowing the tariff band to a 5 percent minimum and 100 percent maximum tariff rate versus the former 0.7 to 150 percent range. A second phase of reductions is to be implemented in mid-1992, narrowing the tariff band to a range between 10 percent (except for some basic foodstuffs) and 80 percent.

Barriers to Trade in Services: Branches of foreign banks are prohibited from engaging in local currency and foreign exchange operations. U.S. insurers are denied entry into the domestic insurance market and generally are restricted to operation in the free trade zones. Four public sector companies hold a monopoly on motor vehicle and housing insurance. Five private sector companies, which have minority foreign ownership, compete with the public companies in offering other insurance to the public reinsurance company. There are restrictions on the number of foreign motion pictures that may be imported into Egypt, but this policy is under review.

Investment Barriers: Foreign investments must be approved by the General Authority for Investment and Free Zones (GAFI). The new (1989) investment law, Law 230, provided little relief from Egypt's overregulated business environment. Investment project approvals could still be rejected for arbitrary reasons (usually to protect existing firms from competition). GAFI could wield extensive control over a company's subsequent operations, imposing local content requirements, restrictions on the number of foreign workers, and requirements for minimum Egyptian equity participation.

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The Egyptian Government does not, however, impose export performance requirements.

In order to ease barriers to private investment, the Egyptian Government has amended its investment licensing system to ensure automatic approval of all projects with the exception of a limited number of products specified on a "negative list." The list, which was published in March 1991, includes energy-intensive projects (raw aluminum and ferro-alloy production), assembly industries, military products and related industries, tobacco products and investments in the Sinai (except for oil, gas, and mineral exploration). For certain assembly industries, licensing approvals are given only if specified local content requirements are met. Products under the assembly category include: household appliances, vehicles, agricultural equipment, pharmaceuticals, and audio-video equipment. The Egyptian Government has pledged to review the list annually, with a view to further reductions and eventual elimination.

The U.S.-Egypt Bilateral Investment Treaty (BIT), when implemented, will provide a further measure of protection to U.S. investors by creating a mechanism for the settlement of investment disputes. In general, it should help improve the overall investment climate. The U.S. Senate ratified the BIT in 1988, but Egyptian authorities have not yet completed the internal process necessary to proceed with exchange of instruments of ratification.

Government Procurement Practices: In practice, the Government buys from public-sector firms whenever possible. In addition, domestic private-sector firms are chosen for government contracts when their offers are within the range of the best foreign bids. Egypt has established a number of countertrade arrangements with Eastern European and developing countries and with Western firms to promote Egyptian exports and secure necessary imports.

6. Export Subsidy Policies

Export subsidies as such do not exist in Egypt. In fact, Egypt's trade reform program is concentrating on removing existing barriers against export production. Those export incentives that do exist are indirect and appear to benefit primarily public sector enterprises in specific sectors, while disincentives appear to afflict public and private sector firms more or less equally.

Exporting industries receive some rebates on duties paid on imported inputs at the time of export of the finished product. A variety of domestic subsidies indirectly subsidize exports of producers who are primarily in the public sector. Electricity price subsidies are sizable and, in some cases -- Egyptian aluminum production is a prime example -- decisive in making the product competitive in the international marketplace. Textile exports have benefited from government imposition of an artificially low price paid by the processor for raw cotton. Under its SAL commitments to the World Bank, the Egyptian Government has pledged to increase energy prices as well as the cotton procurement price, thus reducing the

indirect subsidization of exports.

7. Protection of U.S. Intellectual Property

Egypt, as a party to the Berne Copyright and Paris Patent Conventions, bears a commitment to protect U.S. intellectual and artistic works. Because of U.S. concerns regarding inadequate protection of intellectual property, Egypt remains on the "Special 301 Watch List" issued by the U.S. Trade Representative. U.S. and Egyptian officials held consultations on a wide range of copyright and patent issues in July 1991 to address U.S. concerns. The Egyptian Government is drafting amendments to the Copyright Law which aim to strengthen and broaden copyright protection and enforcement by providing tougher civil and criminal penalties. U.S. motion picture and computer firms have provided the impetus for this legislative initiative, but work has not progressed as quickly as had been hoped. Legislation was expected to be presented to the People's Assembly by the end of 1991.

Patents (product and process): The Egyptian patent law excludes certain categories of products and contains overly broad compulsory licensing provisions. Excluded from patentability are substances prepared or produced by chemical processes if such products are intended to be used as food or medicine. Process patents are not protected by the law. The patent term is only 15 years from the application filing date. A five-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. A patent may be forfeited for nonworking two years after the issuance of the first compulsory license. Egyptian Government officials have stated that they will begin work on a modern patent law after amendments to the Copyright Law have received legislative approval.

Copyrights: Infringement of copyright of foreign films, computer software, books (notably medical textbooks), and sound recordings is rampant in Egypt. Penalties against infringement of copyrights set forth in the 1954 Copyright Law are minor and do not serve as a deterrent to piracy nor do they encourage strict enforcement of the law. The Berne Convention, to which Egypt acceded in 1977, is self-executing according to Egyptian officials. Thus, in cases where the coverage of the existing 1954 Egyptian Copyright Law may be vague or nonexistent, such as protection for satellite or cable transmissions and data banks, and on the question of retroactivity, U.S. copyright holders may be able to rely directly on Berne Convention provisions in the Egyptian courts. The first test cases of Berne's direct applicability in Egypt were introduced to the courts in 1991.

8. Worker Rights

a. The Right of Association

Egyptian workers are free, but not required, to join trade unions. A union local, or worker's committee, can be

formed if 50 employees express their desire to organize. Most union members, about 25 percent of the labor force, work in state-owned enterprises. Private companies are generally non-union. Labor is organized in three levels: the locals; the 23 trade unions, which are based on occupation, such as communications workers; and the Egyptian Trade Union Federation (ETUF), the sole legal labor federation.

b. The Right to Organize and Bargain Collectively

Collective bargaining is permitted in the private sector, including in the export zones, but is rarely exercised, as the larger private businesses offer high wages and are not unionized. Collective bargaining does not exist in the public sector. Unions may negotiate work contracts with state-run businesses, but they must be approved by the Ministry of Labor. Since the government sets wages, benefits, and many prices by administrative decree, labor and management are obliged to conform to national development priorities. In wage "bargaining" ETUF regional offices conduct local price surveys, and send the results to ETUF headquarters in Cairo where union leaders, ministers, and members of the People's Assembly negotiate a consensus on wage and benefit adjustments and commodity price increases. The agreement thus achieved is then integrated into the development plan.

c. Prohibition of Forced or Compulsory Labor

Forced labor is illegal and not practiced.

d. Minimum Age of Employment of Children

The minimum age for employment is 12. Education is compulsory until age 15. The minimum age to join a labor union is also 15. Under the labor law of 1981, children aged 12 to 15 may work six hours a day, but not after 7 p.m., and not in dangerous or heavy activities. Perhaps 720,000 children work on farms. They also work as apprentices in repair and craft shops, and as workers in industries such as brickmaking and textiles. It is impossible to verify how closely the Ministry of Labor enforces child labor laws, especially in small, mainly family-owned shops.

e. Acceptable Conditions of Work

The minimum wage is approximately $16 a month for a six-day, 48-hour work week. A junior unskilled industrial worker in the public sector may receive a base pay of about $20 per month, supplemented by a complex system of fringe benefits, pay bonuses, and cost-of-living increases. Pay bonuses are theoretically tied to a company's profitability, but they are now institutionalized and are part of the system, and are expected even if the company runs a loss. Bonuses may double or triple take-home pay.

The Ministry of Labor sets worker health and safety standards which also apply to private companies in the free trade zones. In principle, the standards compare favorably to western legislation. In practice, enforcement and inspection are spotty.

EGYPT

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 Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category	Amount	
Petroleum		1,117
Total Manufacturing		45
Food and Kindred Products	(D)	
Chemicals and Allied Products	(D)	
Metals, Primary & Fabricated	6	
Machinery, except Electrical	2	
Electric & Electronic Equipment	4	
Transportation Equipment	17	
Other Manufacturing	(D)	
Wholesale Trade	(D)	
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		1,162

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business
August 1991, Vol. 71, No. 8, Table 11.3

INDIA

Key Economic Indicators

(Billions of Indian Rupees, Unless Otherwise Noted 1/)

	1989-90	1990-91 est.	1991-92 proj.
Income, Production and Employment			
Real GNP (1981 prices)	2,211.3	2,321.9	2,391.6
Real GNP growth (pct)	5.1	5.0	3.0
GNP by Sector (pct)			
Agriculture	32.1	32.5	32.0
Manufacturing	28.8	28.5	28.0
Services	39.1	39.0	40.0
Per Capita Income (current rupees)	5,394	6,000	6,630
Labor Force (millions)	326.8	336.3	345.0
Unemployment Rate (pct)	19.3	20.6	20.8
Money and Prices			
Money Supply (M1)	814.2	945.8	1,056.5
Commercial Interest Rate (pct)	16.5	17.0	20.0
Gross Savings Rate (pct)	21.7	21.8	21.2
Investment Rate (pct)	24.1	24.0	23.2
Consumer Price Index (1982=100)	173	193	216
Wholesale Price Index (1982=100)	165.7	182.7	205.0
Average Exchange Rate (Rs/$)	16.7	17.9	24.5
Parallel Rate, est. (Rs/$)	18.5	22.0	31.5
Balance of Payments and Trade			
Total Exports, FOB	276.8	325.3	360.2
Exports to U.S.	55.3	57.1	73.5
Total Imports, CIF	354.2	431.7	448.5
Imports from U.S.	41.1	44.5	63.0
Aid from U.S., excluding Title II ($ million)	24.0	21.0	45.9
Aid from Other Countries ($ million)	1474.4	1429.0	1600.0
External Public Debt ($ billion)	47.2	53.5	60.0
Debt Service ($ million)	6,890	7,344	7,360
Foreign Reserves ($ million)	4,108	2,338	3,800
Gold (market value, $ billion)	4.0	3.7	4.0
Balance of Payments ($ million)	-851	-1770	1,462

1/ The Indian fiscal year is April 1 to March 31.
Sources: Central Statistical Organization, Reserve Bank of India, U.S. Department of Commerce, World Bank

1. General Policy Framework

General Economic Structure: India has a population of 860 million and one of the lowest per capita incomes in the world. Nearly 70 percent of the labor force is employed in agriculture, accounting for one-third of national product.

INDIA

From its independence in 1947 until the late 1970s, India's economic policies stressed self-sufficiency, import substitution, and state control of basic infrastructure and manufacturing industries. While this approach led to rapid expansion of India's industrial base, productivity growth was stifled by lack of foreign and domestic competition. Despite government ownership and control of the "commanding heights" of the economy, private firms produced over 70 percent of output, and GNP growth rates seldom exceeded 3.5 percent.

Beginning in 1978, and especially after 1984, successive governments relaxed some restrictions on trade and investment, while at the same time boosting domestic demand through debt-financed deficit spending. India's private sector responded well to the opportunities opened up under the new policies. GNP growth averaged 5.6 percent during the past decade and there was a marked increase in exports of manufactures. Growth of a 100 to 150 million strong middle class spurred manufacture of consumer durables over the past five years. Unfortunately, more than half of the resources generated by more rapid economic growth continued to be channeled into state enterprises and projects. These investments tended to be highly capital intensive and had low or negative rates of return. As a result, India entered the 1990s with a heavy debt burden, fiscal and payments imbalances, high rates of inflation and growing unemployment. Since July 1991, the Indian government has initiated a broad range of trade and industrial liberalization measures to improve long-term economic prospects, and further reforms are expected in coming months.

Fiscal Policy: The central government fiscal deficit has been running above eight percent of gross product for the past four years. The new government, elected in June, 1991 has begun an ambitious deficit reduction program intended to cut the fiscal deficit to 6.5 percent of GNP in 1991, and to 3.5 percent by 1995. Politically sensitive subsidies and spending programs have been eliminated or sharply reduced, and more cuts are expected in the 1992 budget. However, further deficit reduction will require significant changes in the role of the central government. Closure or privatization of state enterprises; devolution of development programs from the central to the state and local levels; broadening of the direct tax base to include large agricultural incomes, white collar perquisites, and real estate transactions; and shifting social spending from the middle class to the needy will all be necessary if the deficit is to be significantly reduced. Enhanced tax collection by state governments and increased charges for electricity and water will be necessary to avoid further deterioration of state finances and increased pressure on the central budget.

Monetary Policy: Monetary expansion, needed to cover budget deficits, has averaged 17 percent per annum since 1986. The resulting liquidity overhang has contributed to the current 15 percent inflation rate. The Reserve Bank of India cannot use open market operations to manage the money supply, and must rely on changes in bank cash reserve requirements to manage money growth. In an important change of policy, the Reserve Bank now sets a floor, rather than ceiling, commercial interest rate. Banks are free to charge rates above the floor

rate (currently set at 20 percent) according to credit ratings and project risk. The government has appointed a committee to recommend further reform of financial and monetary policies.

2. Exchange Rate Policy

The Foreign Exchange Regulation Act of 1973, now being reviewed by the Finance Ministry, established a complex and comprehensive system controlling use of foreign exchange for travel, trade, investment and employment of expatriates. The value of the Indian rupee is set by the Reserve Bank relative to a basket of currencies; the British pound serves as the intervention currency. The 15 percent tax imposed in 1987 on foreign exchange for travel by Indian residents remains in effect. The government has just introduced scrips for exporters giving them greater access to hard currency for imports. These scrips are tradeable and, along with the 15 percent tax, form a multiple exchange rate system for trade and travel.

In July 1991, the newly-elected government devalued the rupee by about 20 percent against major currencies. The devaluation was expected to reduce imports, promote exports, and help offset revenue losses due to a cut in tariff rates. The devaluations took place in preparation for an IMF-assisted structural adjustment program; as part of this program, the rupee may be made convertible within the next five years.

3. Structural Policies

Price policies: The central and state governments regulate prices of most essential products, including foodgrains, edible oils, medicines, energy, fertilizers, irrigation water and many industrial inputs. Agricultural commodity prices have been increased substantially over the past few years, while fertilizer, rural electricity and irrigation costs have been kept below market levels. Many food products are under a dual pricing system: a set percentage of output is supplied at a fixed price through government distribution outlets ("fair price shops"), with the remainder sold by producers on the free market. Prices are usually regulated according to a government determined cost-plus formula; some of these formulas have not been changed in more than a decade.

Tax policies: Indirect taxes, mainly excise and customs duties, account for 90 percent of government revenues. India's tariff rates are among the highest in the world, although the government has imposed a ceiling rate of 150 percent. The new ceiling cuts the average tariff rate by only five percent; India has committed to cutting the average rate by 30 percent over the next few years as a result of the Uruguay Round negotiations. Duties on raw materials, equipment and spare parts range from 40 to 100 percent. The government recognizes high excise and customs rates raise local production costs and make Indian goods less internationally competitive, and has appointed a tax reform committee charged with finding ways to increase government revenues while reducing tax-based production costs. Corporate

tax rates are high, running at about 65 percent for most foreign companies. The Indian tax system is complex, with numerous provisions for exemptions or rebates; the tax picture is further complicated by a variety of state and local taxes. High marginal tax rates and the complexity of the system have encouraged significant tax evasion. The IMF recently urged the Indians publicly to lower tariff rates and shift more of the revenue generation burden to excise taxes, and eventually to a value-added tax.

Regulatory policies: The Indian economy remains highly regulated, although movement toward deregulation has accelerated under the new government. Restrictions on foreign investment have been relaxed, permitting majority foreign equity in 34 industries; limits on capacity expansion and introduction of new products have also been relaxed. The government is now encouraging foreign and domestic private investment in power generation, telecommunications, and other infrastructure. Local sourcing requirements have been abolished for new projects and export obligations are being interpreted more liberally. The Reserve Bank now serves as the "single window" for approval of most foreign equity or licensing collaborations, although large or politically sensitive projects may be referred to the newly-established Investment Promotion Board in the Prime Ministry. The Ministry of External Affairs is actively soliciting foreign investment and Indian industrialists are accompanying government officials on nearly all state visits. Several pending investment projects have been approved (Ford Motor, IBM and Kelloggs) and others, including locally controversial Coca Cola, are in the works.

Severe balance of payments problems have led the goverment to tighten import restrictions. However, the new Exim scrip system (see Section 6) is an important shift away from quantitative restrictions on imports to use of foreign exchange allocation to manage trade imbalances. In October 1991, increasing foreign reserves led the government to relax import licensing requirements for capital goods used by the electronics and automobile industries. Since April 1991, importers have been required to post a cash bond of 150 to 200 percent the CIF value of imports prior to import authorization. The Reserve Bank reduced the bond percentage for several industries in September, and will continue to relax the requirement as foreign exchange reserves increase. India has also imposed a tariff rate ceiling of 150 percent (rates used to go as high as 350 percent), and has committed to reduce tariffs on half of all harmonized system line items by 30 percent as part of a Uruguay Round market access package.

4. Debt Management Policies

External debt management: India's decision to opt for debt-financed deficit spending to boost economic growth in the mid-1980s coincided with cutbacks in bilateral and multilateral soft lending. The government turned to commercial borrowing and high-interest deposits for nonresident indians (NRIs) to cover its trade deficit. Private firms relied more heavily on foreign debt to finance investment projects, capital equipment and high technology

imports. The result has been rising average interest rate and shorter term structure for outstanding debt, with an increase in India's debt service burden relative to external revenues. Substantial short-term borrowing during the Gulf War to finance oil imports led to a rapid drop in foreign reserves. By January 1991, reserves had fallen to under one billion dollars, and India went to the IMF for $1.8 billion in standby and compensatory assistance. By July 1991, reserves had again fallen, to an all-time low of $900 million. In October 1991, India completed negotiation of a $2.2 billion IMF standby and is presently negotiating an Extended Finance Facility loan to finance structural reforms. By the end of October 1991 nongold reserves were over two billion dollars. The World Bank is also providing structural adjustment finance to cover unemployment insurance and retraining programs for displaced workers.

External debt structure: India's external debt, including short-term debt and NRI deposits, has risen from $31.6 billion in 1983 to about $72 billion in 1991. Debt service may reach 35 percent of export earnings in 1991. Medium and long term multilateral debt accounts for 31 percent of total debt; bilateral debt, 24 percent; publicly-held locally-guaranteed commercial debt, 11.5 percent; and private nonguaranteed commercial debt, about 6.0 percent. NRI deposits remain stable, but there has been little net inflow of NRI funds in 1991.

Relationship with creditors: The World Bank (IBRD/IDA) is India's largest creditor, holding 28.8 percent of outstanding debt as of 1990. The current IMF standby and proposed structural adjustment loans should greatly increase the multilateral proportion of India's debt, while reducing average term and interest rate. India has never rescheduled official or private debt. Although the country's credit rating has been downgraded by most lenders as a result of the present balance of payments problems, rising reserves and structural reforms are likely to increase creditor confidence by mid-1992.

5. Barriers to U.S. Exports

Import licensing: India's comprehensive import licensing regime, which restricts all imports, places severe limits on a wide range of U.S. goods and services which would be competitive in a more open trading environment. Import of consumer goods is banned. Some commodity imports, including petroleum products, fertilizers, metals and agricultural commodities must be channeled through public sector trading companies, although the number of such exclusively channeled items has been cut sharply by the new government as part of its trade policy reform, and more industrial raw materials and components will be put under open general license. India has improved access to imported capital and intermediate goods for exporters and the role of quantitative restrictions has been reduced. Despite these changes, persistent trade and payments imbalances will limit efforts to open India's highly restricted market for the next few years.

Services barriers: Banking services are limited by

direct government controls over entry of foreign or new domestic banks. Entry of foreign banks is generally conditional upon reciprocal entry for state-owned Indian banks. These restrictions are under review and may be relaxed in early 1992. India does not allow foreign nationals to practice law before Indian courts, nor to hold membership in Indian stock exchanges. Exchange controls restrict hiring of expatriate managers and consultants; these too may be reduced or eliminated in 1992. Government monopoly over life and general insurance services led to India being cited in 1989 under the Super 301 provisions of the 1988 Trade Act. India has included some insurance services in its offer under the Uruguay Round services negotiations.

Investment: The new industrial policy introduced in July 1991 relaxed or eliminated many previous restrictions on foreign investment. Several longstanding U.S. investment proposals have been cleared, as well as some new proposals, since introduction of the July policies. The government will simplify and liberalize the complex and onerous Foreign Exchange Regulation Act, promulgated 20 years ago. The government published a list of industries and projects which would receive "automatic" approval with majority foreign ownership, as well as a list of eight industries in which foreign investment would not ordinarily be permitted. Local content requirements have been eliminated for new projects, although indigenisation of production remains an important factor in contract negotiations. India continues to require export commitments from foreign firms. There have been no forced disinvestments in manufacturing industries over the past decade, though firms have divested in response to unwelcomed policy changes. Capital and profits may be repatriated without restriction or significant delay; the Reserve Bank may pay out large transfers in installments. Nonresident land ownership must be approved by the government. Foreigners are not permitted to engage directly in trading.

6. Government Export Subsidies

The 1991 budget eliminated most direct export subsidies, replacing them with a new "exim scrip." Exporters are granted scrips valued at 30 to 40 percent of the FOB value of exports. The scrip may be used to pay for imports or may be traded on a lively secondary market at a premium. Export profits are tax exempt, and firms exporting over 25 percent of output may buy diesel fuel at the international price, rather than paying the higher domestic price. The Government continues to offer duty drawbacks for some exporters, provided the value-added to the imported goods is above 40 percent.

7. Protection of U.S. Intellectual Property

The Government of India contends protection of intellectual property rights must balance the interests of intellectual property holders, consumers and other social interests. The Government has had some difficulty in striking an appropriate balance between these interests. While Indian statutes give higher priority to the rights of the state than

of the individual property holder, Indian courts, based on British common law, consistently uphold strong intellectual property protection. The U.S. Trade Representative, Ambassador Hills, discussed a full range of IPR issues with senior goverment officials in September and October 1991. India's patent law was revised in 1970. The Patent Act shortened patent life and ended product patents for pharmaceuticals, chemicals and food products. Product patents are granted for 14 years from the time of filing. Process patents for drugs, chemicals and food products are granted for the shorter of seven years from the time of filing or five years from the sealing of the application. Patents are not granted for inventions in atomic energy, methods of agriculture, processes for treatment of humans, animals or plants; biotechnology, environmental pollution control, or inventions based on general scientific principles. In the wake of the 1970 Act, patent applications by both Indians and foreigners fell sharply, and have never regained previous levels. Total patents in force as of 1990 were only one-third the number in force in 1970.

Indian copyright law offers strong protection, but the Indian Constitution gives enforcement responsibility to the state governments. Film, video and software piracy are widespread and of serious concern to domestic as well as foreign producers. India discriminates against foreign trademarks, although the courts have recently upheld strong trademark protection. Difficulty in registration of foreign trademarks and enforcement of court decisions continue to pose problems for U.S. firms. Services marks are not covered by the Indian Trademarks Act; the present government plans to amend this oversight in the near future. Protection of trade secrets is also limited. Concern over India's relatively weak intellectual property laws and practices prompted the U.S. Trade Representative to list India in April 1991 as a priority country under the Special 301 provisions of the 1988 Trade Act. Negotiations have resulted in some progress on copyright enforcement, where coordination between central and state governments has been enhanced, and on protection of trade and services marks. Changes in protection of patents and trade secrets are pending review of the costs and benefits of such changes to India.

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 and trade unions have the legally protected right to strike. Public sector unions, however, have to give at least 14 days' notice prior to striking, and some states have laws requiring workers in certain nonpublic sector industries to give prior strike notice. At least two of the export processing zones also limit the right to strike.

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. The Trade Union Act prohibits discrimination against union members and organizers, and employers can be penalized if they discriminate.

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." India's Supreme Court defines forced labor as any work done at less than the prevailing minimum wage in the state where the labor is performed. Despite some successes, bonded labor continues in many rural areas. Efforts to eradicate the practice are complicated by 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 Labor Ministry estimates one-fourth of Indian children 5 to 15 years of age are working. There may be as many as 44 million child laborers. A 1986 law bans employment of children under age 14 in hazardous occupations and strictly regulates child employment in other fields. Resource constraints and the sheer magnitude of the problem limit ability to enforce child labor legislation.

e. Acceptable Conditions of Work

While the basic minimum wage varies according to the state and sector of industry, most "organized" workers receive much more than the minimum wage, especially when legislatively mandated bonuses and other benefits are included. India has a maximum 8-hour workday and 48 hour work week. This maximum is generally observed in the modern sector. Occupational safety and health measures vary widely from state to state and among industries, as does minimum wage.

f. Rights in Sectors with U.S. Investment

Most U.S. collaborations in India are licensing agreements. The minimal equity investment that exists is in manufacturing, banking and petroleum -- all sectors in which organized labor is predominant and working conditions 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.

INDIA

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. Dollars)

Category	Amount	
Petroleum		11
Total Manufacturing		511
Food & Kindred Products	1	
Chemicals & Allied Products	299	
Metals, Primary & Fabricated	14	
Machinery, except Electrical	-114	
Electric & Electronic Equipment	9	
Transportation Equipment	9	
Other Manufacturing	65	
Wholesale Trade		(D)
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business August 1991, Vol. 71, No. 8, Table 11.3

IRAN

Key Economic Indicators

(Millions of Iranian Rials (IR) Unless Otherwise Stated)

	1989	1990	1991
Income, Production, and Employment			
Real GDP	N/A	N/A	N/A
Real GDP Growth Rate (pct)	-0-1	N/A	N/A
GDP by sector			
Manufacturing	N/A	N/A	N/A
Agriculture	N/A	N/A	N/A
Petroleum	N/A	N/A	N/A
Income per capita	N/A	N/A	N/A
Labor Force (millions) (est)	26.6	27.5	N/A
Money and Prices			
Money supply (M1) (bils rials)	6.14	N/A	N/A
Commercial interest rates	N/A	19 (max)	N/A
Savings rate	N/A	N/A	N/A
Investment rate	N/A	N/A	N/A
Consumer price index	N/A	N/A	N/A
Wholesale price index	N/A	N/A	N/A
Exchange rate (IR/$)			
Official	70.0	70.0	70.0
Parallel	N/A	1,270	1,400
Balance of Payments and Trade ($ millions)			
Total exports FOB	9,400	17,000	N/A
Exports to U.S.	8.6	6.8	N/A
Total imports CIF	11,000	N/A	N/A
Imports from U.S.	60	165	N/A
Aid from other countries	N/A	N/A	N/A
External public debt	4,300 1/	N/A	N/A
Annual debt service (paid)	N/A	N/A	N/A
Gold and forex reserves	N/A	N/A	N/A
Trade balance	-360	N/A	N/A
Current Account	-1,440	N/A	N/A

1/ Medium- and long-term debt

1. General Policy Framework

More than a decade after the establishment of the Islamic Republic, the Iranian economy is suffering from inflation, stagnation, politically-driven economic decisions, and a widespread distrust among Iranian officials of the indigenous private sector. With the 1988 ceasefire in the conflict with Iraq, many observers had hoped for a rapid economic recovery in Iran. Such improvements await comprehensive economic reform by the Government in Tehran, as well as significant growth in confidence among potential creditors and investors.

IRAN

The Iranian economy still suffers the effects of the eight-year war with Iraq. Austerity import measures severely affected the industrial sector, which, along with the petroleum infrastructure, suffered dramatically during the war. Most Iranian cities were damaged by the fighting, leaving millions homeless and creating serious social and economic disruptions. While a new five-year economic plan was approved by the Iranian Parliament in June 1990, deep factional differences persist on important economic issues, including reconstruction strategy and the role of foreign assistance. As a result, there has been little progress toward solving these problems.

The five-year plan forwarded by the administration of President Hashemi-Rafsanjani envisions, among other things, average annual growth of 8 percent, 10.3 annual increase in investment (over 60 percent of which would go to the private sector), gas and oil revenues totaling $83 billion over five years, and a general break with the tight, centralized government controls of the last eight years. It also calls for using up $27 billion in foreign economic credits to rebuild the Iranian economy. Proponents of a centralized, planned economy have been highly critical of the plan. Despite windfall oil revenues following Iraq's invasion of Kuwait in August 1990, actual revenue is still expected to fall short of the plan's goals.

In 1991 the United States began licensing the import of Iranian oil into the United States on a case-by-case basis, where the proceeds of the transaction are to be deposited in Iran's Security Account, an escrow account established at The Hague to pay awards of the Iran-U.S. Claims Tribunal to U.S. nationals and the U.S. Government.

2. Exchange Rate Policies

Iran has attempted to conserve its deteriorating foreign exchange position in a number of ways, including import controls and restrictions on private sector companies trading foreign currencies among themselves. The Government has also cut back imports over the past few years, but further reductions would cut deeply into already declining living standards and would further hurt manufacturing industries, which already suffer severely from lack of spare parts. The Government has devised a three-tier exchange rate system designed to direct scarce hard currency to the most critical sectors of the economy, including major industries, but the effects are as yet unclear. The foreign exchange squeeze could continue to ease somewhat with sustained improvement in oil prices on the international market. Iran has been making efforts to broaden the market for its petroleum products, as well as for its non-oil exports.

3. Structural Policies

Banking, the petroleum industry, transportation, government, utilities, and mining have been nationalized, complicating prospects for sectoral efficiency and private foreign investment. Corruption, mismanagement, and

ideological rigidity have dampened economic activity.

Speaking before the IMF-IBRD meeting in Washington in 1990, Iran's Finance Minister vowed that the Government is moving to reduce restrictions on economic activity, sell government-owned shares in various state companies and institutions to the public, activate the stock market, establish free trade and industrial zones, and engage in joint investments with foreign firms. Minimal progress was made in these areas, however, during 1991.

The Government has imposed price controls on certain commodities. However, reportedly, prices of kerosene, rice, and meat continue to increase. Rationing of cooking oil and rice continues due to short supply.

Rationing of certain commodities was necessary during the war with Iraq. With an end to the fighting, Iranian policy makers turned their attention to rebuilding the war-torn economy but systemic constraints and internal rivalries render problematic both the pace and success of these efforts.

4. Debt Management Policies

In the past, a key tenet of the Iranian Government has been autarky. Its aversion to borrowing starved the economy of cash to pay for imports of capital equipment which has left equipment in the manufacturing and petroleum sectors in severe disrepair. Oil production continues to suffer as a consequence. Thus, formal external debt is believed to be low, although substantial trade-related short-term (up to one-year) debt has built up. The Five-year Plan authorized up to $27 billion in foreign borrowing. However, the Iranian Government has not yet succeeded in obtaining significant foreign loans.

5. Significant Barriers to U.S. Exports

Formal diplomatic relations between the United States and Iran do not exist. The current state of political relations has acted generally to discourage a U.S. business presence in Iran. Moreover, U.S. export restrictions and the Iranian foreign exchange shortage are major deterrents to reviving significant trade with the United States. Despite these problems, a modest trade relationship does exist; U.S. exports to Iran generally have been climbing over the past several years, and continued to grow in 1991.

The U.S. prohibits the export of items on the U.S. Munitions List, crime control and detection devices, chemical weapons precursors, nuclear and missile technology, and equipment used to manufacture military equipment. Many dual-use commodities require a validated export license. Iranian exports to the United States were prohibited by order of the President on October 29, 1987. U.S. sanctions can be considered the most significant barrier to the export of U.S. goods and services to Iran.

IRAN

6. Export Subsidies Policies

In a countervailing duty investigation on Iranian pistachios, the U.S. pistachio industry alleged that a foreign exchange subsidy was available to exporters in Iran. Although countervailing duties were imposed, the U.S. Department of Commerce was never able to verify the existence of this program because of lack of cooperation from the Iranian authorities and a paucity of information from the growers.

7. Protection of U.S. Intellectual Property

Iran is a signatory to the Paris Convention for the Protection of Industrial Property.

Patent protection is below the level of protection in the United States. Copyright protection is below the standards provided for in the Berne Copyright Convention.

8. Worker Rights

a. The Right of Association

There are no real labor unions. A national organization known as the "House of Labor," founded in 1982 as the labor branch of the now defunct Islamic Republican Party, is the only authorized national labor organization.

The officially sanctioned Islamic labor councils also are instruments of government control and not bodies created and controlled by workers to advance their own interests.

No information is available on the right of workers in Iran to strike. No strikes are known to have taken place in 1991.

b. The Right to Organize and Bargain Collectively

In practice, the right of workers to organize independently and bargain collectively is extremely limited. It is not known whether labor legislation and practice in the export processing zones differ in any significant respect from the law and practice in the rest of the country.

c. Prohibition of Forced or Compulsory Labor

Section 273 of the Iranian Penal Code provides that any person who does not have definite means of subsistence and who, through laziness or negligence, does not look for work may be obliged by the Government to take suitable employment.

d. Minimum Age for Employment of Children

Iranian labor law, which exempts agriculture, domestic service, family businesses, and, to some extent, other small businesses, forbids employment of minors under 12 years and places special restrictions on the employment of minors under 18. In addition, women and minors may not be used for hard labor or, in general, for night work. The extent to which

these regulations are enforced is not known.

e. Acceptable Conditions of Work

The labor law establishes a 6-day workweek of 48 hours maximum (except for overtime at premium rates), with 1 day of rest (normally Friday) per week as well as at least 12 days per year of leave with pay and a number of paid public holidays. There are also legal provisions with respect to minimum wages and health and safety in workplaces. Further information on these laws and the minimum wage law is not available.

Given the large segments of the economy exempted from the labor law, the State's still unresolved administrative disorganization resulting from the revolution, the effects of the war with Iraq, and the general lack of effective labor unions, it is unclear to what extent the provisions of Iran's labor law affect most of the labor force.

f. Rights in Sectors with U.S. Investment

The U.S. investment which remains in post-revolutionary Iran as reported to the U.S. Department of Commerce (see table below) is residual investment in the petroleum sector.

Information on worker rights generally is difficult to obtain.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. Dollars)

Category		Amount
Petroleum		7
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		(*)
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		7

(*)-Under $500,000

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, August 1991

IRAQ

In response to the Iraqi invasion of Kuwait on August 2, 1990, the President, acting under authority of the International Emergency Economic Powers Act, issued Executive Orders 12724 and 12725 which, respectively, froze Iraqi assets held by U.S. entities and prohibited trade between Iraqi and U.S. entities. The U.S. trade embargo against Iraq remains in effect.

International economic sanctions against Iraq mandated by the United Nations Security Council in Resolutions 661 (1990), 666 (1990), and 670 (1990) also remain in effect.

United Nations Security Council Resolutions 706 (August 15, 1991) and 712 (September 19, 1991) authorized the export of Iraqi crude oil worth up to $1.6 billion over a limited time to finance humanitarian imports for the Iraqi people. The U.S. government co-sponsored the U.N. plan, which offered theoretical scope for the purchase of Iraqi petroleum by U.S. companies and U.S. agricultural sales to Iraq under U.N. supervision. However, Iraq had not agreed to accept the U.N. mechanism at the time this report was prepared.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(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
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		0

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, August 1991

ISRAEL

Key Economic Indicators

	1989	1990	1991 (est)
Income, Production, and Employment			
GDP, nominal (billion USD)	44.4	51.2	57.00
Manufacturing GDP 1/	13.3	15.4	N/A
Agriculture GDP 1/	3.5	4.1	N/A
GDP Per Capita, nominal 2/	9,460.4	10,622.4	N/A
Civilian Labor Force (million)	1.6	1.65	1.75
Unemployment Rate (percent)	8.9	9.6	10.20
Money and Prices (percent unless otherwise noted)			
Money Supply (M1)(billion NIS)8/	5.3	7.0	7.8 (8/28/91)
Commercial Interest Rate 3/	10.6	4.4	N/A
Savings Rate (private)	18.2	17.3	N/A
Investment Rate (gross)	14.5	16.5	N/A
Consumer Price Index	20.7	17.6	20.00
Wholesale Price Index	127.3	143.4	17.0
Exchange Rate (shekel)	1.91	2.01	2.30
Balance of Payments and Trade			
Total Exports FOB	10.33	11.58	N/A
Exports to U.S.	3.31	3.48	N/A
Total Imports CIF	12.73	15.32	N/A
Imports from U.S.	2.36	2.72	N/A
Aid from U.S.	1.20	1.20	3.00
Aid from Other Countries	N/A	N/A	N/A
External Total Debt 4/	23.79	24.05	N/A
Annual Debt Service Paid 5/	2.96	2.92	N/A
Gold Reserves 6/	N/A	N/A	N/A
FOREX Reserves 6/	53.30	63.15	N/A
Balance of Payments 7/	1.10	0.7	N/A

1/ Composition of 1990 GDP: manufacturing (30 pct), agriculture (8 pct), transport and communications (15 pct), water and electricity (4 pct), construction (10 pct), and trade and services (33 pct).
2/ Current GDP divided by average permanent population.
3/ Annual real short-term credit to the public, including overdraft facilities and exchange-rate indexed credits.
4/ Net liabilities of government sector, nonfinancial private sector, and banking system.
5/ Net of $0.7 billion in 1989 FMS fixed-interest loans converted to U.S. Treasury bills.
6/ Gold reserves included in figure for foreign currency reserves. End of period foreign currency reserves held by central monetary institutions includes deposits of foreign residents (IMF format).
7/ Current account.
8/ New Israeli Shekels (NIS)
Sources: Central Bureau of Statistics, Ministry of Finance, Bank of Israel.

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1. General Policy Framework

After three years of stagnation, the Israeli economy grew by 5.1 percent in 1990, bringing GDP to 51.2 billion dollars. Real per capita GDP, however, remained flat. Despite stumbling in the first quarter of 1991 in connection with the Gulf Crisis, GDP growth for 1991 as a whole is likely to again be over five percent, although this remains far below more optimistic, revised Government predictions of 7-8 percent. Amidst the construction-led expansion through the first three quarters of 1991, the economy is still troubled by high inflation (running at an annualized 21 percent) and high unemployment (10.2 percent).

The United States continues to be Israel's single largest trading partner, although trade with the EC is larger overall. Two-way trade, excluding U.S. military exports, approached $6.2 billion in 1990, with Israel running a $750 million trade surplus. U.S. non-military exports reached $2.7 billion in 1990. Although the shekel has consistently lost value against the dollar the last several years, Israel remains an attractive market for U.S. exports. There also appears to be broad government support to dismantle non-tariff barriers applied against U.S. exports.

In balance of payments terms, the 1990 current account remained positive (by $700 million) on the strength of higher net unilateral transfers ($5.8 billion). The net goods and services account deficit deteriorated from $3.8 billion in 1989 to $5.1 billion in 1990. Israel's net goods account, excluding diamonds, worsened dramatically, reaching a deficit of $3.2 billion, primarily due to a 21 percent rise in imports. The effort to integrate large numbers of new immigrants (over 350,000 in the December 1989 - September 1991 period) has resulted in much greater imports of production inputs, investment goods, and consumer items; poor export performance through the first three quarters is expected to widen the trade deficit in 1991.

The central bank has pursued a moderately expansionist monetary policy in 1990 in an effort to support the revival of private sector economic growth. By the fall of 1991 however, the central bank began to tighten the money supply in an effort to dampen inflation.

Because the number of new immigrant arrivals has turned out to be lower than expected, immigration expenditures have been less than budgeted. The deficit as a percentage of GDP in 1990 declined slightly, to 5.4 percent. However, the deficit is set to rise in 1991 and beyond due to government obligations such as housing buy-back guarantees, on-budget direct construction, limited duration wage subsidization, and investment loan guarantees. The Government believes infrastructure, housing, social services, and employment expenditures for new immigrants represent an investment in Israel's future, not current consumption. The domestic deficit is financed primarily through bond issues and loans.

2. Exchange Rate Policies

The New Israeli Shekel (NIS) is pegged to a basket of

foreign currencies. The dollar and the Deutsche mark together comprise the bulk of the basket, with the pound sterling, yen, and French franc making up the remainder; the relative weights are adjusted periodicially.

While moving towards a more flexible exchange rate policy, the central bank has regularly intervened to defend the shekel rate. The shekel can float in a band five percent above and below the midpoint rate against the basket. The central bank has generally tried to use the float, in combination with interest rate adjustments, rather than frequent devaluations, to frustrate speculative short term foreign currency flows.

3. Structural Policies

The need to integrate large numbers of new immigrants into the economy has given added emphasis to structural reform efforts, especially in the areas of privatization, trade liberalization, industrial relations, and capital market operations. The Government is still working to create the macroeconomic environment in which sustainable private sector growth can occur. One priority will be to attract as much as $25 billion in foreign investment. The approach so far has been piecemeal and the results mixed.

In a move designed to boost publicly-promoted housing construction for new immigrants, the Government allowed U.S. construction firms, manufacturers, and investors competitive access to the sector in 1990 and 1991. The 1992 budget, however, greatly scales back the publicly-promoted housing program and consequently may narrow the scope for foreign building companies.

Most of the labor aspects in Finance Minister Moda'i's 1990 reform program have not gained Knesset approval, and agreements geared to maintain minimum and public wage levels remain in place despite high and rising unemployment. In a May 1991 compromise, the government, unions, and employers signed an agreement designed to boost business sector profitability by reducing labor costs and breaking some intersectoral wages linkages. The government agreed not to unilaterally change the 1987 "Minimum Wage Law," which influences salaries across the board and mandates periodic increases in the wages of more than 20 percent of the workforce. In exchange, the General Federation of Labor (the "Histadrut") agreed to extend into 1993 a cost of living adjustment agreement which curbs price-wage indexation and allows more flexibility to determine wages at the enterprise level.

In a further effort to attract foreign capital, the government approved in late 1990 the so-called "Nissim Plan," a new incentive tool giving the investor the option of state loan guarantees (at a 1.5 percent premium) for up to two-thirds of a project or the bundle of benefits offered under the "Encouragement of Capital Investments Law" such as fixed asset and research and development grants, infrastructure and rent subsidies in peripheral areas, tax reductions, allowances and holidays, and accelerated

depreciation.

A new streamlined approval process for privatization of government-owned companies initially raised hopes, but so far progress has been mostly piecemeal. The 1991 budget is based on $650 million in revenue from privatization, and the 1992 budget contains a more optimistic forecast of $800 million. The Government recently targeted 50 government-owned enterprises for privatization, but has fully divested itself of only one firm, Maman Cargo. Overall, the Government appears hesitant to relinquish controlling interest. In a separate but related development, the Government sold its holding interest in the non-banking subsidiaries of Israel Discount Bank and continues to look for buyers for the other three major Israeli banks.

Since 1990, relevant changes in tax law have increased the value added tax from 15 to 18 percent and reduced the employer's tax from 4 to 3 percent. The Government has also decreased the maximum marginal tax rate for companies from 45 to 41 percent. Overall however, the share of indirect taxes continues to rise as a proportion of Government revenue. Capital market reforms have integrated more fully the Israeli banking system with international financial markets, and the expanded opportunities for borrowing abroad have supported the increase in domestic investment and import levels.

4. Debt Management Policies

At the end of 1990, total external debt was $24.3 billion, a $400 million increase over 1989. Much of the increase in debt is attributable to the higher level of imports resulting from the economic recovery. Net external liabilities (liabilities less foreign reserves less exporters' credits) of $15.6 billion declined to 31.3 percent of GNP. Net debt service fell from 19 to 17 percent of total merchandise exports. One third of the proposed 1992 budget is dedicated to debt service. Israel continued to strengthen its foreign exchange posture, so that by the third quarter of 1991, central monetary institutions held 7.2 billion dollars in reserves.

The Government's $16.7 billion debt is distributed among the U.S. Government (26 percent), other foreign governments and international institutions (10 percent), private holders of negotiable bonds (32 percent), holders of Israel Bonds (29 percent), and commercial banks (3 percent). Israel does not participate in international financial institution adjustment programs or the Paris Club rescheduling process.

5. Significant Barriers to U.S. Exports

Duties on most manufactured products from the United States have been eliminated under the 1985 United States-Israel Free Trade Area (FTA) Agreement. As of January 1, 1992, duties on a second group of products will be at 10 percent of MFN rates. A so-called "C-list" of 1,500 products (about 12 percent of U.S. exports to Israel in value terms), has thus far received no tariff reductions, but all U.S.

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products are scheduled to enter Israel duty free by 1995. Overall, the FTA has had the effect of liberalizing and expanding goods trade between the United States and Israel, and has also spurred discussions on freer trade in tourism, telecommunications, and insurance services.

Non-tariff barriers such as purchase taxes, variable levies, quotas, uplifts, standards, and quantitative restrictions can still sometimes be a problem for U.S. exporters. Although licensing for U.S. products (except foodstuffs) is largely automatic under the FTA, potential problem areas remain in the textile, apparel and steel sectors.

A purchase tax (ranging from 25 to 100 percent) is applied on items traditionally considered luxury goods such as automobiles, consumer electronics, cosmetics, and agriculture and food items. By law, 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 calculates import value according to the Brussels Definition of Value (BDV), a method which tolerates uplifts of invoice prices. The Israeli Customs Service arbitrarily uplifts, for purposes of calculating duty and other taxes, the value of most products which exclusive agents import by 2 to 5 percent and the value of other products by 10 percent or more. Israel has agreed to use only actual wholesale price for large importers after 1995. Israel is not a signatory to the GATT Valuation Code.

Although Israel has liberalized imports of all bulk agricultural commodities except frozen beef, extensive import restrictions remain, including variable levies on such U.S. exports as prunes, raisins, almonds, cooking oils and baked goods. Quantitative restrictions, and in some cases, outright prohibitions, affect primarily U.S. plywood, poultry, and dairy products.

Imports are subject to a two percent "Peace for Galilee" tax. Further, Israel's port fee system discriminates against imports. The Israeli Port Authority charges 2.5 percent of CIF value to process imports but provides the service free for exports.

Israel agreed in late 1990 to harmonize standards treatment, either dropping standards applied only to imports or making them mandatory for all products. Enforcement of mandatory standards on domestic producers can be spotty and cases recur (e.g. refrigerators, carpets, and packaging and labeling for food items) in which standards are written so that only domestic goods can easily meet the requirements.

Government policy encourages foreign private investment, including joint ventures, especially in export-oriented, tourism, and science-based industries. Foreign firms are accorded national treatment in terms of taxation and labor relations, and often enjoy preferential incentives for designated "approved" investments. There are generally no ownership restrictions, but the foreign entity must be registered in Israel. Investment in regulated sectors such as banking, insurance, and defense industries requires government

approvals. Israel's small market, the Arab boycott, and certain nontransparent regulations have been major disincentives to both foreign and domestic investment.

Although a signatory to the GATT Government Procurement Code, Israel's 14 code-covered agencies represent only a small part of total government purchases. Obtaining full and timely information on existing tenders can also be a problem.

The Israeli Government strongly recommends "industrial cooperation" offset agreements of 20 percent for purchases by ministries, state-owned enterprises and municipal authorities. Failure to enter or fulfill "industrial cooperation agreements" (investment, codevelopment, coproduction, subcontracting, purchase from Israeli industry) may disadvantage a foreign company in future government awards. Although Israel pledged to relax offset requests on civil purchases under the FTA, U.S. firms can still expect to be approached.

Starting September 1, 1991, Israel embarked on a tariffication policy for non-U.S., non-EC products, replacing most administrative barriers with steep import duties. The gradual reduction in tariffs over a five to seven year period will dilute U.S. advantages under the bilateral FTA.

6. Export Subsidies Policies

As part of the GATT, Israel committed itself to a bilateral subsidies code, agreeing to phase out the subsidy element of export enhancement programs and not to institute new export subsidies. Israel has already eliminated grants. The major remaining export subsidy is an exchange rate risk insurance scheme which pays exporters five percent on the FOB value of merchandise. Israel also retains a mechanism to extend long-term export credits, but the volumes involved are small, roughly $250 million. Israeli export subsidies have resulted in U.S. countervailing duty orders on imports of Israeli cut roses, oil country tubular goods (OCTG), and industrial phosphoric acid. Israel has been a member of the GATT Subsidies Code since 1985.

7. Protection of U.S. Intellectual Property

Standards of copyright protection are adequate, but enforcement in some areas can be improved. There have been complaints that Israeli companies are violating intellectual property rights with respect to music and video cassettes. Unauthorized showings of films and television programs by pirate cable television systems continue to constitute a widespread form of copyright infringement. Protection for software has been upgraded. In addition to its bilateral copyright relations with the United States, Israel is a member of the Paris Convention for the Protection of Industrial Property, the Universal Copyright Convention, and the Berne Copyright Convention. Israeli patent law contains overly broad licensing provisions concerning compulsory issuance for dependent and nonworking patents. Use of a patent on a noncommercial basis is not considered infringement.

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8. Worker Rights

a. The Right of Association

Israeli workers are free to join labor organizations of their own choosing. About 80 percent of the work force, including Arab Israelis, are members of the General Federation of Labor in Israel (Histadrut) or are otherwise covered by Histadrut collective bargaining agreements and social and insurance programs. Nonresident workers are not eligible for Histadrut membership. Nonresident workers, including those from the West Bank and Gaza, may not organize within Israel. Israeli workers enjoy the right to strike.

b. The Right to Organize and Bargain Collectively

The right of Israelis to organize and bargain collectively is embodied in law and freely exercised. The majority union (generally Histadrut) is the exclusive bargaining agent. Nonresident Palestinian workers employed in the organized sector are entitled to representation by the bargaining agent and the protection of collective bargaining agreements. While there is no law prohibiting antiunion discrimination, local sources indicate that the basic law against discrimination could be used in the courts to contest discrimination based on union membership. No antiunion discrimination has been reported.

c. Prohibition of Forced or Compulsory Labor

The law prohibits forced or compulsory labor. Neither Israeli citizens nor nonresident Palestinians working in Israel are subject to such practices.

d. Minimum Age for Employment of Children

By law, children under age 15 may not be employed. Those aged 15 may not be employed without special permission except as apprentices or during school vacations. Employment of children aged 16 to 18 is subject to restriction. Israeli labor exchanges do not process work applications for Palestinians under age 17. A labor inspection service enforces these provisions, although enforcement is difficult in smaller, unorganized enterprises.

e. Acceptable Conditions of Work

Legislation in 1986 calls for periodic adjustments in the minimum wage to 45 percent of the average wage. Most wages and salaries are established in collective bargaining agreements. Although the maximum legal workweek is 47 hours national collective agreements have established the private sector's workweek at 45 hours, and the public sector's at 42.5 hours. The union bargaining agent and the Labor Inspection Service enforce labor, health and safety standards in the workplace.

Palestinians legally employed in Israel are covered by the Minimum Wage Law and by most social benefits stipulated in

collective bargaining agreements, but are not entitled to those National Insurance Institute benefits which are tied to residency requirements (such as old age, survivors, and disability pensions, unemployment compensation, and children's allowances) although the same percentage of their pay is deducted as Israeli workers.

f. Rights in Sectors with U.S. Investment

U.S. direct investment is concentrated in the electric and electronic equipment sector, including software, where the degree of union organization and collective bargaining is less than in other sectors. While many employees are Histadrut members, they often benefit from contracts negotiated individually. Employers often prefer to pay more than union scale in order to retain management flexibility and avoid collective bargaining. Although all worker rights criteria are also guaranteed in sectors with U.S. investment, employees often choose not to exercise the right to organize and bargain collectively in the electric and electronic equipment sector.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad - 1990
(Millions of U.S. dollars)

Category	Amount	
Petroleum		(D)
Total Manufacturing		311
Food & Kindred Products	0	
Chemicals & Allied Products	(D)	
Metals, Primary & Fabricated	(*)	
Machinery, except Electrical	(D)	
Electric & Electronic Equipment	249	
Transportation Equipment	0	
Other Manufacturing	17	
Wholesale Trade		(D)
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

(*)-Under $500,000

Source: U.S. Department of Commerce, Survey of Current Business August 1991, Vol. 71, No. 8, Table 11.3

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Key Economic Indicators

(Millions of Jordanian Dinars (JD) Unless Otherwise Stated)

	1989	1990	1991 1/
Income, Production, Employment			
Real GDP 6/	2,047	2,035	2,051
Real GNP 3/	1,893	1,697	1,745
Real GDP Growth Rate (pct)	-1.7	-5.7	3.0
Real GNP Growth Rate (pct)	-5.3	-10.4	2.8
GDP by Sector (GDP at current producers' prices) 6/	2,541	2,597	2,879
Agriculture	143	168	197
Mining	161	179	199
Manufacturing	309	336	365
Electricity and water	54	61	82
Construction	129	137	145
Trade	323	314	330
Transport and Communication	307	208	215
Business services	356	374	393
Government services	419	436	462
Social/personal services	51	53	55
Non-profit institutions	25	28	30
Household services	6	6	6
Real Per Capita Income	590	500	510
Domestic Labor Force (000s)	590	620	650
Unemployment Rate (pct)	15	20	40
Money and Prices			
Money Supply (M1)	1,327	1,433	1,576
Commercial Interest Rates			
Time deposits	8.75	8.75	8.75
Savings deposits	5.5	5.5	5.5
Loans	10-12	10-12	10-12
Savings Rate (pct GNP)	8.0	N/A	N/A
Investment Rate (pct GNP)	24.0	N/A	N/A
Consumer Price Index (1986 equals 100)	133.8	155.4	170
Wholesale Price Index (1979 equals 100)	204.4	233.8	250
Official Exchange Rate (Avg /JD)	1.74	1.51	1.47
Balance of Payments and Trade (US$Million)			
Total Exports 2/	1,101	1,066	1,100
Total Exports to U.S. 2/	4.9	5.3	6.0
Total Imports 2/	2,140	2,606	2,700
Total Imports from U.S. 2/	296	452	470
External Aid 5/	455	246	347

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from U.S.	19	19	25
From Other Countries	436	228	322
External Public Debt 4/	9,412	9,139	8,236
Annual Debt Service Payments	1,263	900	1,300
Gold and Forex Reserves	2,058	2,098	2,120
Overall Balance of Payments	570	311	350

1/ 1990 figures are preliminary. 1991 figures are based on projections made in December 1991.
2/ Figures on total export/import figures, and exports/imports to/from the U.S. were obtained from volume I of the 1990 External Trade Statistics.
3/ Government of Jordan Department of Statistics has changed its method of computing GNP statistics in order to conform to the system of national accounts (SNA) introduced by the United Nations in 1968.
4/ Additional source: for 1991, Minister of Finance's budget speech to Parliament, December 1990.
5/ Additional source: for 1991, Government of Jordan Budget Document.
6/ International Monetary Fund Report, December 1991.
Sources: Unless otherwise stated in the following paragraphs, all figures were obtained from the latest Central Bank of Jordan's (CBJ) Monthly Statistical Bulletin, volume no. 27, Issue No. 8, August 1991.

1. General Policy Framework

The Jordanian economy underwent rapid growth between the mid-1970s and the early 1980s, due to an increase in Jordanian expatriate remittances, substantial aid from other Arab countries, public sector infrastructural projects, and the increase in Jordanian exports to Arab oil countries. With the decline of the Gulf oil economy in the early eighties, Jordan's economic fortunes declined. Expatriate remittances and aid from Arab countries dropped sharply and Jordan's external debts rose as the Government of Jordan borrowed heavily to finance development and to cover a growing deficit. The Central Bank of Jordan's (CBJ) efforts to cover the balance of payments gap with foreign exchange reserves contributed to the 1988 decision to devalue the dinar.

Jordan adopted an economic structural adjustment program for the period 1989 - 1993. At the behest of the IMF, this program targeted gradual economic growth, expansion of exports and a reduction in the budget deficit by simultaneously decreasing expenditures and increasing revenues.

Prior to the onset of the Gulf Crisis in August 1990, indicators suggested that economic recovery was underway. Exports were up; imports (as well as trade, balance of payments, and budget deficits), down. But the Gulf Crisis derailed the recovery, leading to a loss of key export markets, high public expenditures to support refugees and returning expatriates, and a drastic fall in remittance income. Faced with these difficulties, the Government of Jordan suspended its structural adjustment program.

A United Nations report regarding the effects of the Gulf

crisis on the Jordanian economy overestimated that total losses during 1990 would reach JD 1.009 billion, based upon projected revenue losses from export, transport and tourism sectors; a drop in expatriate remittances; an increase in the cost of oil imports; and the suspension of Gulf aid to Jordan.

To compensate Jordan for such losses, the international community pledged $1.3 billion in aid and grants to Jordan. In 1990-1991, the Jordanian government received more than $200 million during 1990, and more aid has been received since the beginning of 1991.

Jordan's budget has been another casualty of the economic downturn. In 1991, the Jordanian government implemented two budgets, an ordinary budget for JD 1,236 million and an emergency budget for JD 186.5 million. The budget size for 1992 is projected at JD 1,270 million. The budget deficit was narrowed from approximately JD 130 million in 1991 to a projected figure of JD 107 million for 1992. Despite strong efforts to hold the line on spending, the budget deficit still stands about 15 percent of GDP, excluding grants.

While the Government's experiment in political liberalization has had beneficial spillover effects for the economy, it has done little to alleviate Jordan's serious debt service problems, perhaps the single greatest threat to Jordan's economic stability. Despite debt rescheduling through the IMF and the Paris Club, Jordan still faces a daunting repayment schedule. Between 1991 and 1994, Jordan's debt service payments are estimated to exceed $1 billion annually. Those payments will force continued heavy reliance on aid payments from international donors, the EC and the United States. They will also place a continuing burden on a government budget which is already strained. Restoration of Arab aid payments to Jordan is not expected soon.

2. Exchange Rate Policies

A single official rate system on the dinar-dollar exchange rate, reinstated by the Central Bank of Jordan (CBJ) in February 1990, remains in force. The rate set by the CBJ in February was 673 fils to the dollar. Average dinar rate between March and August 1990 was 668 fils to the dollar. In mid-October 1990, CBJ's official rate was 653 fils to the dollar. As of November 26, 1991, CBJ's official rate stood at 679 fils to the dollar.

Banks have the freedom to set their own interest rates on dinar deposits and credit facilities. Interest on facilities granted to non-residents was not allowed to exceed 2 percent over that collected from resident clients. A uniform commission rate applies on all types of facilities (maximum 1 percent for residents and 1.5 percent for non-residents), and the margin on interest premiums (best customer) on facilities was set at not less than 1 percent and not more than 1 percent.

3. Structural Policies

Market forces are generally allowed to set prices. Until

mid-1990, exceptions included (1) basic foodstuffs such as cereals, sugar, milk and chilled meat which are imported by the government and sold at subsidized prices; and (2) other non-strategic food and non-food commodities whose prices are set and controlled by the Ministry of Supply. Under the supply law, the Ministry of Supply maintains the right to intervene in the market and set a maximum price ceiling on any consumer commodity. The ration card system for consumer purchases of sugar, rice and milk remain in force. The Ministry of Supply is conducting studies to include bread in the ration card system in 1992. The Ministry may float the prices of certain commodities in 1992, after it had reportedly found that price controls imposed on a number of consumer commodities have impacted negatively on market competition.

Taxes on imports are the chief source of domestic revenue. On November 5, 1991, the Ministry of Finance lowered the ceiling on 206 imported commodities to 30 percent. Import tariffs imposed on luxuries range between 45 percent and 120 percent. On luxury vehicles, the tariff rate ranges between 130 percent and 300 percent. The Ministry of Finance also sought to enhance the consumption tax regime by adding another 38 commodities to the list of consumer commodities liable for consumption tax. However, industries which are liable for up to 10 percent of consumption tax are granted free duty status on their imports of raw materials from overseas. The Consumption Tax Law of 1989, in addition to its consecutive amendments, impose duties on a large number of domestic manufactures for household and consumer use. Before the November 5, 1991 amendment to the Consumption Tax Law, the prices of commodities subject to the consumption tax regime were not controlled by the Ministry of Supply. However, the amendment imposed a consumption tax on other commodities whose prices are set and controlled by the Ministry of Supply.

The maximum marginal income tax rate for all businesses except banks is 40 percent, while the marginal tax rate on individual income is capped at 45 percent, with large personal, educational and medical deductions permitted. Except for financial institutions, interest, dividend and capital gains earnings are exempt from taxation; also income derived from agriculture is exempt.

4. Debt Management Policies

Jordan's external debt increased sharply in the 1980's as the country borrowed heavily from commercial lenders to finance both physical and social infrastructural development. By end 1988 external debt stood at approximately $8.2 billion, most of it medium and long term government or government-guaranteed debt. On the basis of the $8.2 billion in debt outstanding at end-1988, Jordan was facing scheduled annual debt service payments of $0.9-1.2 billion over the 1989-1994 period. In March 1989, the Jordanian government signed a stand-by arrangemeht with the IMF, setting the stage for a general rescheduling of foreign official debt through the Paris Club. Paris Club rescheduling will be complemented by rescheduling of commercial debt through the London Club of commercial banks.

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Following the suspension of the 1989 agreement, Jordan has negotiated another letter of intent. This new stand-by will cover exactly the same ground as the previous agreement. Its major objectives include the encouragement of export-driven economic growth, a lowering of the inflation rate and the elimination of the external current account deficit.

5. Significant Barriers to U.S. Exports

Import Licenses: Import licenses are required on virtually all imports and are usually granted within a day of payment of a license fee amounting to 5 percent of the value of the commodity to be imported. In practice, the import license has not been used to restrict U.S. products from the Jordanian market.

A new import/export draft law is likely to be considered by Parliament. The draft law gives the Cabinet the power to cancel any import/export license if it decides to ban the import/export of any commodity; restricts the import/export of any commodity to a certain named party; and if it deems that the import/export of any commodity is impossible under extraordinary circumstances. The Cabinet may also restrict the import/export of any commodity to any government ministry, public agency or concerned authority. Moreover, the Minister of industry and trade has the authority to impose a requirement on any commodity to be imported/exported stating that a prior recommendation should be issued by the concerned authorities before licensing is granted to import/export of such commodity.

Services Barriers: Foreign transportation companies, including courier services, operate freely in Jordan under normal investment and currency procedures. This also holds true for financial services, including banking and insurance. foreign and domestic banks are required to meet minimum capital requirements to operate branches in Jordan. Foreign professionals must obtain a work permit from the Ministry of Labor subject to the approval of the relevant professional association, and a residence permit from the Ministry of the Interior.

Standards, Testing, Labeling and Certification: Compliance requirements with the government of Jordan's regulations on standards, testing, labeling and certification are not barriers to U.S. exports to or to U.S. direct investment in Jordan. Imported foodstuffs and domestic food industries should adhere to the standards and measures outlined by the Directorate of Standards and Measures and to the regulations specified by the Ministries of Supply and Industry and Trade. Imported medicine and domestic pharmaceutical firms should comply with the health and safety requirements outlined by the Ministry of Health and its drug regulatory agencies. The royal scientific society and the Ministry of Health provide laboratory testing services for the importers and manufacturers in the private sector; thus enabling them meet internationally accepted standards.

Investment Barriers: No restriction is placed on the

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degree of foreign ownership in manufacturing, hotels and restaurants, and banking. However, foreigners may not own more than 49 percent of enterprises engaged in other commercial activities, such as trading. The government of Jordan officially encourages foreign and private investment. The Jordanian government's centerpiece for attracting investment is the Encouragement of Investment Law, Law No. 11 of 1987 and its subsequent amendments. An investment meeting the definition of an "economic project" or an "approved economic project", as specified in this law, qualifies for the following holidays and tax exemptions: exemption from customs and import duties on fixed assets needed to establish a project; exemption from income and social services taxes on net profits for five years from the date of production; exemption from building and land taxes for five to seven years from the date of project approval; free grants of state-owned land outside the cities of Amman and Zerqa as approved by the Council of Ministers, repatriation of imported capital in three equal annual installments starting two years after production begins; exemption from income taxes on interest and dividends; annual repatriation of dividends. This law also grants more exemptions to foreign and private investments in the less developed areas (north and south) of the country.

The Ministry of Industry and Trade recently prepared draft legislation amending the Encouragement of Investment Law. The new legislation must be endorsed by the Council of Ministers and submitted to Parliament. We expect that the new legislation will be ratified and made effective by a Royal Decree in 1992. Until that occurs, Law No. 11 of 1987 remains in effect.

Parliament recently debated another draft law, the Regulation of Foreign Investments Law. Together, the Encouragement of Investment Law and the Regulation of Foreign Investments Law will form the legal framework for investments in Jordan. The Regulation of Foreign Investments Law replaces the Control of Foreign Business Activities defense regulation, and nullifies Regulation No. 51 of 1978 governing foreign businesses, and Regulation No. 27 of 1986, governing investments by Arab nationals.

The Regulation of Foreign Investments Law was amended in the lower house of Parliament to reflect concerns on the part of Deputies that the original bill could open the door to investment by hostile powers. The upper house of Parliament will debate the law in Parliament's next ordinary session scheduled for the first quarter of 1992. The Government has expressed serious objections to the law.

As for anticipated changes in the investment policies, the Jordanian government aims to streamline investment policies so as to attract Arab and foreign businessmen to invest in Jordan. In general, emphasis is placed on developing the country's industrial sector and on encouraging exports. To counter unemployment, the Jordanian government encourages the development of small scale industries, handicraft industries, and family businesses. The government has pledged further moves to liberalize the economy, including privatization of some major public shareholding companies, expansion of industrial parks and expansion of free zones in

Zarqa and Aqaba.

Customs Procedures: Upon implementing the 1989 tariff schedules the government increased tariffs on a wide variety of imported luxury goods and consumer durables. The intent was to lower imports and stimulate the production of import substitutes. At the same time, the government reduced tariffs on raw materials, machinery and semi-finished goods to stimulate export production. In order to secure tariff exemptions businessmen must document that the raw materials to be imported will be used in an export product, containing at least 40 percent Jordanian value-added content. Such procedures are subject to review by the Ministry if Finance, which has been charged with streamlining customs procedures.

Furthermore, the Jordanian government amended the tariff schedules on September 9, 1990, raising tariffs on imported nuts and kernels, alcohol, cinema films and cooling units and exempting certain articles of chemicals, rubber, textile, aluminum and machinery parts used by local industry. The government also amended the consumption tax law, raising taxes on tobacco, cinema films, refrigerators, gas ovens, Mokett carpets and other industrial articles imported or produced by local manufacturers, effective September 16, 1990. This move by the government of Jordan was reportedly intended to discourage imports of luxuries and enhance local industry. Effects of the Gulf crisis on Jordan's foreign trade necessitated some government measures to enable the local industry to adjust to increased import and production costs. However, to be eligible for World Bank credit under the economic adjustment program, the Government of Jordan, on November 5, 1991, reduced the import tariff ceilings on non-luxuries to 30 percent. The Government's rationale for this recent move is to lower the ceiling on the protection of domestic manufactures to 50 percent in order to encourage local industries to improve quality and compete in export markets.

6. Export Subsidies Policies

Export earnings repatriated into the Kingdom are exempt from corporate income tax in proportion to their share in total output. The maximum exemption is 30 percent of total income. Bilateral credit arrangements with Iraq and barter arrangements, notably with Egypt, are also used to bolster Jordanian exports. In July 1991, the Central Bank of Jordan abolished a July 1990 decision which required that exporters repatriate their export earnings on domestic goods and foreign re-exported goods.

7. Protection of U.S. Intellectual Property

No specific Jordanian laws or regulations exist at present to protect foreign intellectual property, although the need for such protection has long been recognized by foreign manufacturers. Consequently, infringement of U.S. intellectual property rights is not subject to any controls in Jordan. While the extent of abuses of IPR is difficult to quantify, patent and copyright infringements are probably

pervasive.

Copyrights: One concern is the unauthorized reproduction of audio and video tapes. For a small fee, a customer can rent or buy a copy of a wide selection of popular American films. While the copies are frequently of inferior quality, this does not seem to have discouraged the consumer, as evidenced by the proliferation of vendors. Pirating of audio and video tapes for commercial purposes is a widespread practice, over which the government exercises no control. There are also reports that pirated books are sold in Jordan, but no indication that the books are actually being reproduced within the country.

Trademarks and Patents: These must be registered at the Ministry of Industry and Trade in accordance with Law No. 33 of 1952 in order to receive protection. Registration may be renewed once, for a period of 14 years. The law, however, applies more to domestic patents and has not been legally tested for foreign patents, with the exception of pharmaceutical products, where a ruling is still pending in the Jordanian Supreme Court. At present, patented foreign pharmaceuticals are not protected because of a Jordanian decree intended to protect Jordan's local pharmaceutical industry. Pharmaceutical Provisional Law No. 8 of 1986, enacted by decree but not yet adopted by Parliament, allows Jordanians to manufacture chemical compounds currently under foreign patent protection as long as there is no infringement on the manufacturing process itself. The decree provides no compensation to the foreign patent holder.

The quantitative impact of Jordan's IPR practices on U.S. trade is difficult to determine. In areas other than pharmaceuticals involving new technologies, Jordan has been strictly a consumer, and there is no evidence of any infringements of IP rights that could jeopardize future trade relations with the U.S.

8. Worker Rights

a. The Right of Association

Jordanians are free to join labor unions and about 25 percent of the Jordanian work force is unionized. Seventeen unions comprise the Jordan Federation of Trade Unions (JFTU). Unions are theoretically independent of the government, but in practice the Government traditionally has maintained an indirect control over the JFTU leadership. Jordanian workers have the right to strike only after arbitration efforts have failed.

b. The Right to Organize and Bargain Collectively

Unions have the right to organize and bargain collectively. JFTU member unions regularly engage in collective bargaining with employers. Negotiations cover a wide range of issues, including salaries, safety standards and working conditions. The Constitution forbids antiunion discrimination and unresolved complaints can be appealed to the Ministry of Labor.

c. Prohibition of Forced Compulsory Labor

Compulsory labor is forbidden by the Constitution and is not practiced.

d. Minimum Age of Employment of Children

Children under age 16 are not permitted to work except in the case of professional apprentices who are allowed to leave the standard educational track and begin part time (up to 6 hours a day) training at age 13.

e. Acceptable Conditions of Work

Jordan's workers are protected by a comprehensive Labor Code, enforced by full-time Ministry of Labor inspectors. The Government prepares and adjusts periodically a minimum wage schedule of various trades, based on recommendations of an advisory panel composed of representatives of workers, employers and the government. Maximum working hours are 48 hours per week, with the exception of hotel, bar, restaurant and movie theater employees, who can work up to 54 hours. Compliance with Health and Safety Laws is the responsibility of the Ministry of Labor.

f. Rights in Sectors with U.S. Investment

Workers' rights in sectors with U.S. investment do not differ from workers' rights in other sectors of the Jordanian economy. Additionally Jordanian workers hired as employees within Jordan!s free trade zones, key areas for potential U.S. investment, enjoy the same rights and privileges as Jordanian workers in any other sector of the economy.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(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
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		0

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, August 1991

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Key Economic Indicators

(Millions of Kuwaiti Dinars (KD) Unless Otherwise Indicated)

	1989	1990 (	1991 (est)
Income, Production and Employment			
Nominal GDP	6,497	4,500	2,500
Nominal GDP Growth Rate	16.3	-30.8	-44.5
Oil Sector GDP	2,646	1,800	400
Non-Oil Sector GDP	3,851	2,700	2,100
GNP per capita (U.S. Dollars)	14,800	12,200	9,500
Work Force	863,000	N/A	N/A
Unemployment Rate	0	0	0
Money and Prices			
Money Supply	860.1	904.3	N/A
Interest Rate (Overnight)	8.33	8.46	N/A
Savings Rate (percent of GDP)	39.0	N/A	N/A
Investment Rate (percent of GDP)	13.0	N/A	N/A
Consumer Price Index	106.6	N/A	N/A
Wholesale Price Index	118.2	N/A	N/A
Exchange Rate (KD/USD)	.298	.295	.281
Balance of Payments and Trade (Millions of US Dollars)			
Total Exports (FOB)	11,390	6,580	N/A
Exports to U.S.	975	570	N/A
Total imports (FOB)	6,630	3,260	N/A
Imports from U.S.	855	401	N/A
Aid from U.S.	0	0	0
Aid from Other Countries	0	0	0
External Public Debt	N/A	N/A	N/A
Debt Service	N/A	N/A	N/A
Gold/Foreign Exchange Reserves	3,211	N/A	N/A
Current Account Balance	8,658	N/A	N/A

1. General Policy Framework

Kuwait has a small, open economy, which is fundamentally dependent on the production and export of oil. Its reserves of oil (97 billion barrels) are among the largest in the world and, during the five years ending in 1989, oil extraction and processing accounted for approximately 45 percent of GDP, 90 percent of export earnings and 50 percent of government revenues. In addition, the Kuwaiti economy is also critically dependent on foreign labor. Prior to the Gulf War, expatriate workers accounted for 85 percent of the labor force in Kuwait. That percentage has since been reduced by the effects of the war, but even now foreign workers account for a large majority of the labor force in Kuwait.

The economy is still recovering from the effects of the

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Gulf War and the Iraqi occupation, which consumed a large portion of Kuwait's external reserves and ended in February 1991 with the destruction of much of the oil production capacity and other economic infrastructure. That infrastructure is now being rebuilt at cost of about $20 - 25 billion. Despite this extensive damage, Kuwait should be able to restore its oil production and exports to pre-war levels by the close of 1993. In addition to oil revenues, the Government will utilize its remaining reserves, its borrowing capacity and any compensation it receives from Iraq to fund required expenditures.

Prior to the Gulf War, the Government had adopted a relatively restrained fiscal policy stance, deliberately excluding the Government's sizable earnings on investments abroad from the official budget and scaling back government operations to the level financeable by current tax and oil income, supplemented by domestic borrowing. The War, however, reversed this relatively conservative stance, undercutting the government's sources of revenue, while imposing major new costs in the form of war and reconstruction expenditures. As a result, during FY 91/92, the Government of Kuwait will face an official budget deficit totalling about $18 billion, on revenues of about $3 billion and expenditures of about $21 billion. However, even these figures underestimate the entire deficit. With planned extrabudgetary government expenditures on the purchase of domestic bank credits and the forgiveness of consumer and real estate loans added in, the actual deficit on central government operations in FY 91/92 will probably run in the range of $30 billion to $35 billion, all of which will be covered by foreign and domestic borrowings and a further drawdown of remaining external assets.

Balancing this shift to a more expansionary fiscal policy stance will be a more conservative monetary policy. In the immediate aftermath of liberation, the Central Bank was faced with three tasks: (1) controlling inflation in the context of a severely-disrupted supply situation; (2) re-establishing the exchange value of the dinar; and (3) restoring confidence in the banking system. It has coped admirably by entirely replacing its pre-war currency, placing initial restrictions on deposit withdrawals (which were later removed), increasing its reserve holdings, re-affirming its commitment to the pre-war exchange value of the Kuwaiti dinar and boosting interest rates to levels that would deter capital transfers abroad. It has also indicated that it will eventually compensate Kuwait's commercial banks for their wartime losses by a one-time purchase of all of the banks' domestic credits in return for government bonds. Reportedly, this purchase is to be followed by reforms that include a reduction in the extraordinary level of support that the Central Bank has offered Kuwait's commercial banks over the past decade, tighter banking supervision and higher capital and liquidity ratios -- all in an effort to foster a higher degree of accountability and competition in the banking sector.

2. Exchange Rate Policies

There are no restrictions on current or capital account transactions, 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, management and technical fees and personal savings can all be transferred without hindrance.

The exchange rate is pegged to a basket of currencies, weighted to reflect the relative importance of each currency in Kuwait's trade and financial relations. As might be expected, the U.S. dollar has a substantial weight in this basket.

3. Structural Policies

The government's structural policies strongly favor Kuwaiti citizens and Kuwaiti-owned companies. Income taxes, for instance, are only levied on foreign corporations, and foreign interests in Kuwaiti corporations, at rates that may range as high as 55 percent. Similarly, while the government of Kuwait encourages joint ventures, foreign participation in these ventures has invariably been held to less than 49 percent. Moreover, some sectors of the economy, including banking, insurance and real estate, are entirely off-limits to investment by citizens from states outside the Gulf Cooperation Council (GCC). Foreigners are also forbidden to own shares in publicly-listed companies in Kuwait. In addition, there are preferential government procurement policies which generally specify local products, when available and prescribe a 10 percent price advantage for local companies on government tenders. Finally, there are protective tariffs for some locally produced goods, which, while applied in relatively few cases, can range as high as 30 percent of the value of the import. Protected tariffs are not being levied at this time. The Government is in the process of determining when protected tariffs will be levied.

Kuwait is a welfare state in which many basic products are heavily subsidized. Water, electricity and motor gasoline are relatively inexpensive. Basic foods are subsidized. Local telephone calls are free (after payment of an annual subscription fee), as is education and medical care. In most cases, these subsidies are available to all residents of Kuwait; in some cases, however, the so-called "first line commodities," the subsidies are reserved for citizens of Kuwait.

Some aspects of this system are beginning to change in the post-liberation period. In particular, restrictions on foreign investment are easing. The stock exchange will shortly allow the establishment of unit and mutual trusts to facilitate foreign participation in stock dealings. Similarly, there have been repeated hints from the Central Bank that banking will eventually be opened to foreign investment.

4. Debt Management Policy

Until the Gulf War, Kuwait was a significant creditor to the world economy, having contributed more than $6 billion in

aid to less developed countries through the Kuwait Fund for Arab Economic Development. More importantly, it had built up a foreign investment portfolio valued at $80 billion to $100 billion under the Kuwait Investment Authority (KIA). All of this changed with the Gulf War, however, as major expenditures on defense, reconstruction and aid severely depleted KIA's resources, leading to the first ever foreign borrowing by the Government. Valued at $5 billion, this loan was extended by an international banking syndicate on terms that should see its full settlement within five years.

5. Significant Barriers To U.S. Exports

There are very few significant barriers to U.S. exports. Kuwait is a Moslem country and does not permit the import of alcohol or pork from any country. In the past, it has also participated in the Arab boycott of Israel. On the other hand, it generally maintains a very low level of tariff protection. While it can and has imposed tariffs of up to 50 percent to protect local industries, to date, with the exception of select industries, such as furniture, these tariffs have had very little impact on U.S. exports.

Investment restrictions and lack of copyright protection are more of a problem. As noted above, foreign firms are restricted to minority positions in firms, and forbidden absolutely to invest in banking, insurance or real estate. This has severely restricted the sale of U.S. financial services in this market. Similarly, the absence of copyright protection has led to a large black market in pirated software, cassettes and videotapes, many of which are based on original U.S. products.

6. Export Subsidies Policies

Kuwait does not directly subsidize any exports, which consist almost exclusively of crude oil, petroleum products and fertilizer. Small amounts of 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 markets.

7. Protection of U.S. Intellectual Property

Kuwait has had a patent and trademark law since 1962. Enforcement of the law, however, has been lax and authorities have not been able to prevent the sale of counterfeit goods, including car parts, suitcases and watches.

Kuwait has no copyright law. As a result, there is a large, overt market for pirated software, cassettes and videotapes, as well as unauthorized Arabic translations of foreign language books. The U.S. motion picture industry estimated in 1989 that virtually all of the videotapes in Kuwait were pirated; it was also concerned with unauthorized hotel video performances, which are common.

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8. Worker Rights

a. The Right of Association

Workers with Kuwaiti nationality have the right to establish and join unions and, after liberation, approximately 90 percent of the pre-invasion total of 27,000 Kuwaiti laborers in the country re-registered as union members. Expatriate workers, who comprised about 80 percent of the 700,000 member pre-invasion labor force in Kuwait, are allowed to join unions after five years residence, but only as non-voting members. In addition, Kuwaiti law forbids the establishment of more than one union per "functional area." The right to strike is recognized but is limited by Kuwait's labor law, which requires compulsory negotiations followed by arbitration if a settlement cannot be reached in a timely fashion.

b. The Right to Organize and Bargain Collectively

Kuwaiti workers have the right to organize and bargain collectively, subject to the restrictions cited above. Antiunion discrimination is prohibited by law. The Civil Service Law does not provide for collective bargaining between government agencies and unions representing civil service employees. In practice, union representatives and ministry officials hold coordination meetings on a regular basis.

c. Prohibition of Forced or Compulsory Labor

The Constitution prohibits forced labor "except in cases specified by law for national emergencies and with just remuneration." This prohibition appears generally to be respected.

d. Minimum Age for the Employment of Children

The minimum age for employment under Kuwaiti law is 18 years of age for all forms of work, both full and part-time. This law appears generally to be observed.

e. Acceptable Conditions of Work

General conditions of work are established by Kuwaiti law for both the public and the private sector, with the oil industry treated separately. The basic labor law limits the work week to 48 hours with one full day of rest per week, provides for a minimum 14 days leave per year and establishes a compensation schedule for industrial accidents. A permanent commission also supervises public health and occupational safety and has had some success in raising health and safety awareness. There is no minimum wage.

The law governing the oil industry is more generous. It provides for a 40 hour work week, overtime pay for shift work, 30 days annual leave and generous sick leave. Women are permitted to work throughout the industry, except in hazardous areas or activities, and are promised equal pay for equal work.

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Employers in general provide suitable working conditions for their employees. However, serious abuses do occasionally occur in the treatment of unskilled foreign workers, such as housemaids, servants and industrial laborers.

f. Workers Rights in Sectors with U.S. Investment

The only significant U.S. investment in Kuwait is in the Divided Zone between Kuwait and Saudi Arabia, where one U.S. oil company, operating under a Saudi concession, operates under and in full compliance with Kuwaiti labor law.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category	Amount	
Petroleum		-2
Total Manufacturing		(D)
Food & Kindred Products	0	
Chemicals & Allied Products	(D)	
Metals, Primary & Fabricated	2	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		(D)
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, August 1991

MOROCCO

Key Economic Indicators

(Billions of Dirhams (DH) Unless Otherwise Noted)

	1989	1990	1991 (proj)
Income, Production and Employment			
GDP (current dirhams)	191.5	207.8	N/A
Real GDP growth (pct)	1.5	2.6	3.5-4.0
GDP by sector (pct)			
Agriculture	17.0	15.7	N/A
Mining	2.5	2.6	N/A
Energy	7.3	6.7	N/A
Manufacturing	17.4	18.2	N/A
Construction	5.4	5.5	N/A
Commerce	10.8	11.4	N/A
Services	18.3	18.2	N/A
Government	11.9	12.2	N/A
Per capita income (in Dirhams)	7,798	8,246	N/A
Labor force (million) 1/	3.7	3.9	N/A
Unemployment (pct) 1/	16.3	15.8	N/A
Money and Prices			
Money - M1 (pct change) 2/	11.5	19.3	N/A
Commercial interest rates			
Short term	13.0	13.0	14.0
Long term	14.0	14.0	15.0
Savings rate (pct GDP)	19.4	23.0	N/A
Investment rate (pct GDP)	23.0	24.1	N/A
CPI (pct change) 2/	3.8	4.6	8.5
WPI (pct change) 2/	4.8	6.7	7.4
Exchange rate (DH/US dols)	8.4	8.2	8.6
Balance of Payments and Trade			
Total exports FOB	28.2	34.8	N/A
Exports to U.S.	.6	.6	N/A
Total imports CIF	46.5	57.0	N/A
Imports from U.S.	3.1	3.5	N/A
Aid from U.S. ($mil)	151.5	141.5	144.5
Aid from other countries	9.9	19.4	N/A
External pub. debt ($bil)	20.7	23.0	20.2
Debt service payments($bil)	1.8	1.7	N/A
Foreign exchange res ($bil)	.8	2.5	N/A
Balance of payments			N/A
Trade balance	-18.3	-22.1	N/A
Current account	-6.8	-1.7	N/A

1/ Urban
2/ December/December

MOROCCO

1. General Policy Framework

Morocco has an active, expanding, free enterprise economic system in which state intervention is being steadily reduced. Private investment predominates in most areas of economic and commercial activity. Prospects for expansion of U.S. exports improved in 1991, but remain limited by the country's status as a heavily indebted lower-middle income country. Morocco's major sources of foreign exchange have traditionally been phosphates, tourism and workers' remittances, but exports of agricultural and manufactured products are becoming increasingly important. Only about 65 percent of Morocco's current account earnings come from merchandise exports; the rest comes from remittances of Moroccan workers abroad and earnings on tourism. About half of merchandise exports is mineral-based, with phosphate and its derivatives accounting for 30 percent. A quarter of exports comes from agriculture and fishing, and the remaining quarter is composed of manufactured products.

Since 1983, Morocco has undertaken intensive measures to stabilize and reform its economy. Working in close cooperation with the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD), Morocco has sharply reduced public investment and imports. In the past several years, the U.S. share of total imports has fluctuated between 6.0 and 12.5 percent, depending on changes in demand for U.S.-origin agricultural products, principally cereal, feed grains, and vegetable oils and deliveries of major equipment such as passenger aircraft to the national airline.

Morocco has made great progress in economic reform. Restrictions on imports have been lifted; foreign exchange controls have been reduced; foreign investment controls have been liberalized, subsidies are being phased out, fiscal capacity strengthened, subsidies have been reduced, and the exchange rate managed to reflect market demand. Although the economy has responded well to this treatment, gains remain fragile and the economy's ability to respond quickly to external shocks is limited. Progress toward a balanced budget flagged when the government raised salaries and benefits in December 1990 in response to urban rioting. The trade balance, which had been improving steadily through 1988, worsened in 1989 and 1990. The Gulf War also took a toll on the Moroccan economy in 1990, mainly in the tourism sector, where losses were estimated at 2 percent of GDP. On the positive side, Gulf War related losses in 1990 were partly offset by donations from Middle East countries and by good weather. Morocco's net foreign exchange holdings stood at $2.5 billion in late 1991, and a bumper harvest will fuel strong economic growth in 1991. Morocco's last standby agreement with the IMF expired in March 1991, and at year's end, negotiations were underway for a standby to cover 1992. With high foreign exchange reserves, an IMF agreement was seen to be necessary to obtain a final year of Paris Club debt relief and a second Structural Adjustment Loan from the IBRD.

Both fiscal and monetary policy have undergone

fundamental reform in recent years. Tax receipts as a percent of GDP have increased steadily from 20 percent in 1986 to 26 percent in 1990, and the overall annual budgetary deficit was reduced from a high of around 12 percent of gross domestic product (GDP) in 1982 to less than 3 percent in 1990. New revenue measures will be required to bring down the deficit to the ultimate target of zero; these are likely to include a rationalization of VAT rates and broadening of the VAT base.

The financial sector has also been radically reformed and restructured, moving from quantitative credit allocation and control to market allocation and control. During the transition, the Central Bank has attempted to keep a tight monetary policy through successive increases of the reserve ratio from an initial level of 12 percent to 20 percent and has closed down its overdraft window. However, in 1991, the money supply has been increasing substantially faster than the growth of nominal GDP, in large part due to inflows of foreign exchange reserves.

2. Exchange Rate Policies

The exchange rate of the Moroccan dirham had been relatively stable since 1985. On May 2, 1990, the dirham was devalued 9.25 percent and the currency basket to which it was pegged was revised to correspond more closely to export market shares. There are no parallel or multiple rates, and the discount on the dirham in illicit transactions in neighboring countries and on the local market is believed to be small.

The Government no longer requires advance approval of all foreign exchange transactions by the Foreign Exchange Office of the Ministry of Finance. Foreign investors are guaranteed the right to convert and export both net profits and original investment capital under Morocco's foreign investment codes. In 1981, foreign exchange surrender rules were loosened for exporters of merchandise, and for hotel and tour industry operators, who are now allowed to keep 20 percent and 10 percent, respectively, of foreign exchange earnings in a freely convertible account. The Foreign Exchange Office functions primarily as a collector of statistics on foreign exchange transactions.

3. Structural Policies

Since July 1983, Morocco has committed itself to eliminating most quantitative restrictions and reducing levels of effective tariff protection to no more than 25 percent. These policies are part of the country's structural adjustment program. The Moroccan Government is also pursuing policies to promote exports by improving incentives through reducing input costs and increasing the transparency, stability and predictability of administrative procedures.

Until recently, the Moroccan financial system was largely geared to financing the public sector deficit at subsidized rates, while credit was allocated to different sectors of the economy through use of administrative measures and bank credit ceilings. Banks were required to hold a minimum amount of

low-yield Treasury bills, which were marketed directly to them. Starting in 1988, the Treasury began to pay market interest rate for new debt issues through an auction procedure. In 1990, credit ceilings were abolished and the central bank moved to a monetary control mechanism based on interest rates. Deposit interest rates were generally freed up, while lending rates were subject to a ceiling of one third markup over the average auction rate for recent issues of one year Treasury bills. The requirement to hold fixed rate low interest Treasury bills is being phased out.

Morocco's tax reform program aims to create a simplified three-part tax structure to replace a complex system of import, excise, and special taxes. A VAT system was introduced in April 1986, replacing an earlier turnover tax. A revised corporate profits tax went into effect in 1988 and a revenue positive personal income tax system went into effect in 1990. The thrust of these reforms is to reduce evasion, improve collection, and reduce the problem of chronic annual budget deficits.

In December, 1989, the Moroccan Parliament approved a privatization law calling for transfer from the public to the private sector before December 31, 1995, of government-held equities in 112 companies. In October 1990, King Hassan approved procedures for setting the value of these enterprises. At that time he authorized limited employee participation in ownership and established a Public Enterprise Transfer Commission to oversee the process of transfer to the private sector. Members of this commission were appointed in September, 1991.

4. Debt Management Policies

External debt management policies have been prudent and effective since the onset of Morocco's debt squeeze in 1983. Morocco's medium- and long-term external debt is estimated at about U.S. $20 billion, of which about $3 billion was owed to commercial banks, $4.5 billion to international financial institutions, and most of the remainder to foreign government official creditors. Morocco's debt to GDP ratio, which stood at 117 percent of GDP in 1985, can be projected at roughly 80 percent of GDP in late 1991. The debt service ratio (before rescheduling) dropped from 58 percent to around 45 percent over the same period. However, annual rescheduling agreements generally provided for repayment rates of around 30 percent of exports. Morocco's responsible debt management performance has been reflected in the willingness of the country's official and commercial creditors to agree to successive reschedulings on increasingly less restrictive terms.

Relations with the IMF, the World Bank and commercial creditors are positive and cooperative. The most recent in Morocco's series of standby agreements with the IMF was approved in July, 1990 for an eight month period running through March 1991. In late 1990, negotiations were underway concerning a standby agreement to cover calendar year 1992. The World Bank approved a Structural Adjustment Loan (SAL) in 1988 which has been fully disbursed and discussions are far advanced on a second SAL. In September 1990, Morocco became

the first heavily indebted lower-middle-income country to benefit from the more generous official debt rescheduling terms agreed by the Paris Club following decisions taken at the Houston Economic Summit. These terms include rescheduling of official development loans for up to 20 years with 10 years grace and rescheduling of government-guaranteed commercial credits for up to 15 years with eight years grace. Also in September, Morocco signed an agreement with its commercial "London Club" bank creditors. Morocco has publicly stated its commitment to continue its economic adjustment program and has set itself a goal of making the dirham freely convertible by 1993.

Morocco's remaining debt burden and policies necessary to curb further increases in indebtedness continue to limit growth of imports. Prudent debt management policies and improving foreign trade performance are helping, however, to improve trade prospects over the medium term. Given Morocco's level of development and its foreign debt situation it is vital that potential exporters arrange for competitive financing when bidding against other international suppliers for large contracts.

5. Significant Barriers to U.S. Exports and Investment

Import Licenses: Less than 10 percent of Moroccan imports still require import licenses. When first implemented in 1967, the licensing program was designed primarily to protect local production from foreign competition and to promote import substitution. A secondary concern was to regulate the import of luxury goods. In the course of trade liberalization, most items have been removed from the licensing list, and there are no longer any items prohibited outright. Annual reductions in the list of goods requiring licenses are made by the Government in consultation with representatives of affected industries. The new Foreign Trade Act passed in 1991 is designed to promote foreign trade and investment by easing protectionist measures.

While many bulk agricultural commodities no longer require an import license, purchases are made through Government agencies or monopolies for politically sensitive items such as wheat, feed grains, vegetable oils, tobacco, sugar, and tea. Licenses are still required for livestock, most fresh fruits and vegetables, plant and animal genetic materials, and many processed food products. More than half of U.S. exports to Morocco are agricultural products.

Services Barriers: A significant barrier to export of U.S.-origin services to Morocco had been a 1973 law requiring that at least 50 percent of the share capital and of firms in a broad range of industries and economic sectors be held by Moroccans and that Moroccans constitute a majority on the boards of directors of such firms. Under this law, many companies involved in production of consumer goods, commercial banking, insurance, retail petroleum distribution and other service activities were subject to Moroccanization. In November 1989, King Hassan abrogated this law, thus opening many of these sectors and industries to greater foreign participation. A separate 1964 law stipulating that the

petroleum distribution industry must be Moroccan-controlled remains in effect.

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.

Investment Barriers: The Investment Law has separate sectoral codes covering industry, tourism, housing, maritime, mining, petroleum exploitation, and exports. These codes spell out incentives available to both Moroccan and foreign investors. Moroccan law does not discriminate between domestic and foreign investors. Abrogation of the 1973 Moroccanization law was welcomed by investors, and a number of foreign companies have since initiated steps to re-acquire majority control of their investments in Morocco.

There are no foreign investor performance requirements although investors receive incentives from the Government to pursue policies deemed desirable. Investment screening procedures, applicable to both domestic and foreign investors, are implemented only when an investor requests benefits under the applicable sector code. In June 1989, King Hassan sent a widely publicized letter to his Prime Minister directing that domestic and foreign investment approval procedures should be streamlined. The King decreed that investment applications should be considered approved if no negative response has been received from governmental bodies within two months. Investment follow-up committees have been established in all concerned ministries and at regional and local governmental levels. In July 1991 a Ministry of Foreign Investment was created to promote and facilitate foreign investment.

6. Export Subsidies Policies

There are no direct export subsidies. The centerpiece of export promotion policy is the temporary admission scheme which allows for suspension of duties and licensing requirements on imported inputs for export production, including energy. This scheme has been extended to include indirect exporters (that are 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.

Export credits are rediscounted by the central bank at a preferential rate currently fixed at 7 percent. This rate, however, applies only to amounts exceeding a minimum required holding of 5 percent of bank's deposits. The Government maintains an export industry investment code which provides up to five years' tax holiday on 50 percent of profits for qualified Moroccan and foreign investors. Morocco is not a signatory of the GATT Subsidies Code.

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7. Protection of U.S. Intellectual Property

Morocco is a member of the World Intellectual Property Organization (WIPO) and is a party to the Berne 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.

Patents: Morocco has a relatively complete regulatory and legislative system for the protection of intellectual property. A quirk requires patent applications for industrial property to be filed in both Casablanca and Tangier for complete protection.

Trademarks: Enforcement of trademark protection is lacking. Counterfeiting of clothing, other wearing apparel, and luggage trademarks is widespread. Counterfeiting is primarily for local consumption and sale to tourists; little, if any, counterfeit goods are exported in commercial quantities.

8. Worker Rights

a. The Right of Association

The right to organize trade unions is protected by the Constitution. Workers are free to form and join unions throughout the country, including the Free Trade Zone in Tangier. This right is exercised widely but not universally. About five percent of Morocco's nine million workers are organized in labor unions. Three trade union federations dominate the labor scene and each is organizationally independent of the Government. Workers in Morocco have the right to strike and did so occasionally in 1990-91. Most work stoppages were intended to advertise grievances and lasted 24 hours or less.

b. The Right to Organize and Bargain Collectively

The Constitution also provides for the right to organize and bargain collectively. The multiplicity of trade union federations creates competition to organize workers. Thus a single factory may contain several local unions; each affiliated with a different federation. The wages of most unionized workers are established via practices that include discussions between employer and worker representatives. Wages for the vast majority of workers, however, are set unilaterally by the employer. Despite constitutional protection, unions complain regularly that employers suspend or dismiss their members for trade union activity without penalty. Under the law, Ministry of Labor inspectors serve as investigators and conciliators; they are often not very effective, however, because they are few in number, carry heavy workloads, and do not have the resources to investigate all possible cases of labor law violations. Workers have thus turned increasingly to the courts for the resolution of complaints.

MOROCCO

Several allegations of antiunion discrimination in Morocco have been considered by the International Labor Organization (ILO) in recent years. Again in 1991 ILO committees remarked on the shortcomings of Morocco's labor laws and expressed hope that a complete revision of the Labor code prepared in 1988, which corrects these deficiencies, would be enacted soon.

c. Prohibition of Forced or Compulsory Labor

Apart from its ratification of both ILO conventions against forced labor, ~~Morocco~~ has no legal or constitutional prohibition against forced or compulsory labor. As far as is known, forced or compulsory labor is not practiced.

d. Minimum Age for Employment of Children

Under Moroccan law, children cannot be employed or apprenticed before age 12. Special regulations govern the employment of children between 12 and 16. In artisanal work, however, children are often apprenticed before age 12. Safety and health conditions as well as salaries in enterprises employing children often are substandard. Use of minors is particularly a problem in the rug-making industry. Labor inspectors have difficulty enforcing child labor laws.

e. Acceptable Conditions of Work

The Government sets minimum industrial and agricultural wages. Moroccan law provides a 48-hour maximum workweek (no more than 10 hours per day), premium pay for overtime, paid holidays, and minimum conditions for safety and health, including prohibition of night work for women and minors. These regulations and laws are observed unevenly and have little meaning in the large informal sector of the economy. Labor inspectors endeavor to monitor working conditions, but lack sufficient resources and authority to investigate and assure compliance with the law.

f. Rights in Sectors with U.S. Investment

U.S. private investment in Morocco is small in comparison with indigenous and European, particularly French, investment. U.S. companies in Morocco, nearly all of which have local partners, maintain high standards in regard to worker rights and thus encounter few labor problems.

Those U.S. firms which are non-unionized also provide good salaries, benefits and working conditions.

MOROCCO

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category	Amount	
Petroleum		18
Total Manufacturing		(D)
Food & Kindred Products	3	
Chemicals & Allied Products	(*)	
Metals, Primary & Fabricated	(D)	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	(D)	
Wholesale Trade		5
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

(*)-Under $500,000

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, August 1991

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OMAN

Key Economic Indicators

(Millions of Rials Omani (RO) Unless Otherwise Noted)

	1989	1990	1991 6/
Income, Production and Employment			
Real GDP (purchaser's value)	2,289.0	2,496.6	N/A
Real GDP growth rate (pct)	3	9	N/A
GDP sectors			
Agriculture	75.3	89.2	N/A
Fishing	19.3	22.4	N/A
Crude petroleum	1,001.4	1,071.9	N/A
Natural gas	21.1	22.4	N/A
Mining/quarrying	9.9	9.2	N/A
Manufacturing	87.8	95.1	N/A
Electricity	111.3	132.6	N/A
Water works & supply	19.2	21.0	N/A
Construction	110.8	116.0	N/A
Wholesale & retail trade	228.3	272.4	N/A
Transport	54.2	62.5	N/A
Communication	36.2	42.5	N/A
Banking	71.9	77.6	N/A
Insurance	10.6	11.9	N/A
Real estate	135.5	152.6	N/A
Business services	25.4	25.8	N/A
Personal services	43.2	50.5	N/A
Government services	277.4	288.9	N/A
Minus imputed bank services charges	-66.5	-85.3	N/A
Plus import duties	16.7	17.4	N/A
Real per capita income (US$)	5960	6100	N/A
Size labor force 1/	N/A	N/A	429,000
Unemployment rate	N/A	N/A	N/A
Money and Prices			
Money Supply (M1)	344.1	390.1	393.9 7/
Commercial interest - loans 2/	11.25	11.25	11.25
Savings rate	N/A	N/A	N/A
Investment rate	N/A	N/A	N/A
Consumer price index (1988=100)	103.3	115	118.7 8/
Wholesale price index	N/A	N/A	N/A
Exchange rate (US$/1 Rial) 3/	2.6	2.6	2.6
Balance of Payments and Trade			
Total exports	1,556	2,110	841.4 9/
Total exports to U.S. 4/	6	10	N/A
Total imports	910	1076	579.7 10/
Total imports from U.S.	73	96	N/A
Aid from U.S. (Million US$)	15	12.5	15
Aid from other countries	N/A	N/A	N/A
External public debt	N/A	N/A	N/A
Annual debt service	N/A	N/A	N/A
Gold & foreign currency (reserves) 5/	.8	.9	N/A
Balance of Payments	138	137	N/A

OMAN

1/ Estimate by the Oman Chamber of Commerce and Industry (OCCI). OCCI estimates that 40 percent of the labor is Omani and the rest expatriate.
2/ Maximum allowed rate. Interest rates for both savings & loans are regulated by the Central Bank.
3/ The Omani rial is pegged to the U.S. dollar, but some fluctuation is allowed by the Omani government. The value is fixed between .381 - .389 Omani rials equals USD 1.
4/ Figures for exports to U.S. do not include oil exports. In 1989, Oman exported 6 million barrels of oil to U.S. In 1990, that figure was 15.2 million barrels.
5/ Gold and foreign currency are central bank reserves. State General Fund figures are not available.
6/ No constant GDP estimates are available for any period in 1991. Current figures are provided in the following chart for comparison:

	Annual (Jan.-Dec.)		Period (Jan.-June)	
	1989	1990	1990	1991
	(Millions of Rials Omani)			
Gross Domestic Product (Current Prices)				
Crude Petroleum	1,417.2	2,003.8	716.7	813.3
Natural Gas	44.8	50.4	17.3	22.2
Mining	10.5	7.8	3.2	3.1
Oil Refinery	13.4	14.4	5.3	10.4
Electricity & Water	48.2	51.2	26.0	30.3
Construction	106.0	124.7	45.1	50.0
Wholesale & Retail Trade	373.1	440.2	208.8	257.1
Producer's of Government Services	548.7	656.7	255.9	335.7
Other Sectors	720.3	805.7	379.6	478.8
Less-Imputed Bank Charges	-81.0	-103.5	-46.7	-56.4
Custom duties	29.4	32.6	13.2	15.9
GDP at Purchaser's Value	3,230.6	4,084.0	1,624.4	1,960.4

7/ Figure is M1 at the end of August 1991, the last period available. (M1 at end August 1990 was 339.7).
8/ Figure is for CPI at end August, last figure available.
9/ Figure is total at the end of June. (Total exports at end-June 1990 were RO 735.5 million.)
10/ Figure is total at the end of June. (Total imports at end-June 1990 were RO 470.9 million).

1. General Policy Framework

The Sultanate of Oman is a small nation of about 1.8 million people (400,000 expatriates) living in the arid mountains and desert plains of the eastern Arabian peninsula. While income from oil exports forms the backbone of the economy, neither the Sultanate's reserves nor its annual production qualify the nation as a "high income oil country."

OMAN

Oman's per capita GDP of approximately $6,000 places it in the middle income group of countries, while much of its rural population lives in poverty. Oman and the United States have had diplomatic relations for 150 years, and commercial relations extend back even farther.

Sources of government income are relatively few in Oman. Corporate income tax is collected from companies which are not 100 percent Omani-owned. Although there is a corporate income tax law which is applicable to Omani-owned firms, it has not been implemented. In Spring 1991, Sultan Qaboos, Oman's absolute monarch, issued a decree which said that implementation of this regulation would begin in 1993. There is no personal income tax in Oman. The most significant source of income besides oil royalties is a 5 to 20 percent tariff levied on imports. Tobacco, liquor, and pork are subject to 100 percent tariffs.

Oman spends at least 35 percent of its $4.6 billion budget on defense. The deficit in 1991 was budgeted to be $486 million. The deficit is being financed by foreign borrowing, and possibly a dip into the Sultanate's foreign reserves. Government bonds are also being issued for the first time in 1991. The government also issues short-term treasury bills to cover shortfalls.

Oman promotes private investments through a variety of soft loans (through three specialized development banks) and subsidies, mostly to industrial and agricultural ventures. The government also grants five-year tax holidays to newly-established industries. Incentive programs focus on the creation of Omani investment. Access by foreigners to the Omani economy is generally through Omani agents or partners, although restrictions on asset ownership, especially by fellow nationals of Gulf Cooperation Council (GCC) countries, are decreasing.

Oman's economy is small enough not to require a sophisticated monetary policy. The Central Bank directly regulates the flow of currency into the economy. There is occasional adjustment of reserve requirements and sales of treasury bills, but these are done, respectively, to force banks to maintain a prudent reserve-debt ratio and to raise money, not to adjust money supply. There is no legal provision for use of government bond sales to regulate money supply.

2. Exchange Rate Policies

The pegging of the two currencies means that the competitiveness of U.S. exports is linked, in part, to changes in the value of the U.S. dollar.

3. Structural Policies

Oman is a free-market economy in its policies, but the government is 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 largest purchasers, the national oil company and the Defense Ministry, are on the basis of open tenders. Private sector purchasers of goods and services make their decisions free from government interference, although most look to the government as their major client. Oman has fairly rigid health and safety standards which are inconsistently enforced.

4. Debt Management Policies

Oman's sovereign debt of about $2.4 billion is easily managable and is owed to commercial banks. There are no IMF or World Bank adjustment programs and no rescheduling of official or commercial government debt. Oman gives little publicity to the foreign aid that it donates. One of the projects which has been publicized is the building of an airport in Zanzibar.

5. Significant Barriers to U.S. Exports

A license is required for all imports to Oman. For general merchandise, the licenses are issued to the exclusive agents of individual products in order to protect the exclusivity of the relationship. Special licenses are required to import, for example, pharmaceuticals, liquor, and defense equipment. Although license requirements apply equally to all imports to Oman, a complete removal of the licensing requirements would probably benefit U.S. suppliers more than others, because the United States is relatively new to the market. Being able to form business relations with more than one Omani importer would give U.S. suppliers more options against long-entrenched competitors.

Service barriers consist of simple prohibitions on entering the market. For example, new branch offices by banks and accountancy, legal, and insurance firms are not permitted. Stock exchange membership is limited to Omanis, but GCC nationals are permitted a minority position in listed companies.

Oman uses a mixture of standards and specifications systems. GCC standards are adopted and used. Because of the long history of trade relations with the UK, British standards are adopted for many items. Oman is a member of the International Standards Organizations and applies standards recommended by that organization. U.S. firms sometimes have trouble meeting requirements for dual-language labeling or, due to shipping times, cannot comply with shelf-life requirements.

Government participation in the sectors of the economy attractive to foreign investment is designed to facilitate such investment. For example, Oman's five-year plan and other policy statements call for focus on light industry, fisheries, and agriculture. There are limits on foreign equity participation in Omani government and business. The limits vary according to the type of firm. For foreigners willing to invest in high-priority industries, food processing for example, the government will provide subsidies, and will waive

or reduce the usual requirements for majority Omani ownership. Use of foreign labor is permitted, but the government demands that companies "Omanize" workforces as quickly as possible and imposes a "training levy" on companies with twenty or more employees which do not provide employee training programs.

Oman is moving toward "buy Oman" laws, but slowly, as very few locally made goods meeting international standards are available. If an Omani company produces exactly the same product, the Tender Board considers the Omani offer price to be 15 percent lower than actual price for purposes of consideration during the competitive part of the process. In the case of services, when an Omani company offers exactly the same service as a foreign competitor, the Tender Board considers the Omani bid to be 10 percent lower than the actual bid.

Oman's customs procedures are complex and there are complaints of unequal enforcement and sudden changes.

6. Export Subsidies Policies

Oman's emerging policies on development of light industry, fisheries, and agriculture are geared to making those sectors internationally competitive exporters. As noted above, investors in those areas get a full range of input tax exemptions, utility discounts, soft loans and, in some cases, tariff protection. The government has also set up an export guarantee program whereby exporters can apply for government guarantee of payment for exported products. Oman is not a signatory of the GATT Subsidies Code. The Sultanate's efforts to promote an export oriented economy result from the recognition of Oman's advantageous geographical position (outside of, but contiguous to, the Gulf) and membership in the GCC, which offers access to a culturally similar population ten times the size of Oman's.

7. Protection of U.S. Intellectual Property

Oman has a trademark law, enforcement of which has been actively taken up by the government in the past year. Trademark registrations appear in most issues of the official gazette. Such application for trademark protection, however, depends on whether the company has a local agent. There is no patent or copyright protection, although several key officials favor the promulgation of intellectual property laws. Oman is not a member of the World Intellectual Property Organization.

In the past, there have been one or two cases of U.S. firms refusing to do business with Omani companies because of the lack of protection. The local audio and video cassette markets are comprised solely of pirated copies. Pirated versions of U.S. computer hardware and software are available in the market. Oman's market in all these areas is quite small, and major customers buy only original computer equipment.

OMAN

8. Worker Rights

a. The Right of Association

Labor unions are illegal in Oman. Oman's labor law specifies that "it is absolutely forbidden to provoke a strike for any reason."

b. The Right to Organize and Bargain Collectively

There is no provision for collective bargaining for wages and working conditions in Oman. Wages are set by employers within Ministry of Labor guidelines. All employees have the right to seek redress of grievances, as individuals, before a labor arbitrator.

c. Forced or compulsory labor is prohibited by law and not practiced in Oman.

d. Minimum Age For Employment of Children

Under the labor law, children, defined as those under the age of 13, are prohibited from working. Juveniles, defined as those over thirteen years and under sixteen years, are prohibited from performing evening or night work or strenuous labor. Juveniles are also forbidden from overtime work and employment on weekends or holidays without Ministry permission.

e. Acceptable Conditions of Work

The labor law states the Government can determine the minimum wage and make adjustments according to economic circumstances. The statutory minimum wage is not generally enforced for menial workers and employers usually pay less. The private sector workweek is 40 to 45 hours (less for Muslims during Ramadan). The workweek is five days in the public sector and generally five and one-half days in the private sector. Every worker has the right to 15 days of annual leave during the first 3 years of employment and 30 days per year thereafter. Oman's labor law covers in detail issues of occupational safety and access to medical treatment. Employees covered by the labor law recover compensation for industrial injury or illness through compulsory medical insurance provided by the employer.

f. Rights in Sectors with U.S. Investment

Oman's petroleum sector is the only part of its economy in which U.S. investment is more than minimal. U.S. participation in other sectors is only as a contracted supplier of goods and services. In the oil sector, U.S. firms strictly adhere to Omani labor law and have considerable success in employing Omanis and providing a safe working environment.

OMAN

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category	Amount	
Petroleum		62
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
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		62

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, August 1991

PAKISTAN

Key Economic Indicators

(Millions of Pakistani Rupees Unless Otherwise Indicated)

	FY 1989	FY 1990	FY 1991 7/
Income, Production, Employment			
GDP (Nominal)	769,745	862,452	1,016,728
GDP by Sector (pct)			
Agriculture	23.9	22.7	22.7
Manufacturing	14.7	15.3	15.2
Services 1/	35.2	35.1	35.0
Real GDP Growth Rate	5.0	5.3	6.5
Real GNP Per Capita (USD)	389	385	388
Labor Force (Millions)	30.9	31.8	32.8
Unemployment Rate (Pct) 2/	3.2	3.1	3.3
Money and Prices			
Money Supply (M1)	201,401	233,833	279,325
Comm. Interest Rate (Pct) 3/	11.2	11.0	11.0
Saving Rate (Pct of GNP)	12.4	13.4	13.8
Investment Rate (Pct OF GNP)	17.2	17.6	17.8
Consumer Price Index (Annual Pct Change)	9.1	6.0	12.6
Wholesale Price Index (Annual Pct change)	9.7	7.3	13.4
Exchange Rate			
Official (FY Avg)	19.2	21.3	22.4
Parallel (Est)	20.2	22.4	23.5
Balance of Payments and Trade (US$ Millions)			
Total Exports (FOB)	4,661	4,954	6,114
Total Exports to US	535	655	698
Total Imports (CIF)	7,034	6,935	7,599
Total Imports from US	1,106	955	886
Aid from US (USFY, Commitments) 4/5/	495	504	0
Aid from Other Countries (Non-Mil Commitments)	3,043	3,939	4,000
External Public Debt	14,190	15,094	15,961
Debt Service Payments 6/	1,125	1,232	1,342
Foreign Exchange Reserves (End of Fiscal Year)	453	604	492
Balance of Payments	-297	-83	-75

1/ Includes banking, insurance, commerce, housing, storage, transportation, communications and other services.
2/ The official unemployment rate includes persons who did not work but were seeking employment during the survey week; those who worked even a few hours, and the unemployed who were not seeking a job, are not included. Current statistics are based on labor force data from 1988.
3/ Average annual interest rate on commercial bank loans to private sector borrowers.
4/ In USFY 1989, all military aid was forgiven.

PAKISTAN

5/ As of October 1, 1990, new economic assistance and all military aid for Pakistan withheld pending a presidential certification under the Pressler Amendment to the Foreign Assistance Act.
6/ Excludes interest on short-term loans and IMF charges.
7/ Pakistan's Fiscal Year (FY) is July 1 - June 30

1. General Policy Framework

Pakistan is a relatively poor country, but has the resources and entrepreneurial skill to support rapid economic growth. In fact, real growth of Gross Domestic Product (GDP) averaged 6.2 percent per year over the decade of the 1980's, with moderate inflation. Serious fiscal imbalances, however, arose due to structural problems in the economy, including chronic losses by state-run industrial units; an inefficient, debt-ridden, nationalized banking sector; widespread evasion and corruption in the tax system; administrative and financial barriers to trade and investment; and a host of inefficiencies created by bureaucratic interference in economic decision-making. As a result, Pakistan's budget and current account deficits reached unsustainable levels by decade's end. In FY 1989, the government launched a four-year, IMF-sponsored structural adjustment program to reduce the deficits to manageable levels.

The budget deficit, which exceeded eight percent of GDP in FY 1991, has been financed through domestic borrowing (treasury bills, long-term bonds, a national savings scheme, and compulsory bank lending) and external financing (both commercial and concessional loans). With IMF assistance, deficit financing has been rationalized with the introduction of an auction system for government securities, elimination of costly on-tap debt instruments, and tighter control over borrowing from the State Bank of Pakistan (the central bank). Defense was the largest spending category in the FY 1991 budget, consuming 29 percent of total expenditures. Development was second, with 28 percent of expenditures, and debt service was third, with 22 percent.

For FY 1991, the Government has adopted stringent fiscal and monetary policies designed to reduce the budget deficit to 4.8 percent of GDP. This will entail cuts in the Government's non-defense expenditures, new direct and indirect tax measures to expand revenues, and increases in administered prices to reduce subsidies. To restore monetary discipline, the Government has substantially reduced central bank holdings of government debt, increased commercial bank reserve requirements, raised its discount rate on government securities, and eliminated a subsidized rediscount scheme for cotton procurement. The Government continues to rely on credit ceilings as its primary monetary policy tool, but plans to shift to a market-based system utilizing interest rates to allocate credit once there is sufficient depth in the new securities markets to permit open market operations.

The Pressler Amendment to the Foreign Assistance Act requires that the President certify each year that "Pakistan does not possess a nuclear explosive device and that the proposed U.S. assistance program will reduce significantly the

risk that Pakistan will possess a nuclear explosive device." The President did not make that certification in October 1990 nor in October 1991. Hence the U.S. was unable to provide new economic assistance or any military aid in FY 1991. However, under Pressler, AID can continue a "windup program" of aid monies obligated prior to FY 1991.

2. Exchange Rate Policies

Pakistan's exchange rate policy is based on a managed float, with the State Bank regularly adjusting the value of the rupee against major international currencies, using the U.S. dollar as an intervention currency to determine other rates. The rupee has depreciated about 25 percent against the dollar over the last two fiscal years, a major factor behind Pakistan's recent export growth.

Foreign exchange controls were significantly liberalized during FY 1991. Individuals and firms resident in Pakistan may now hold foreign currency bank accounts and freely move foreign currency into and out of the country. Companies with foreign direct investment (other than foreign banks) may remit profits and capital without prior state bank approval. Similar liberal remittance procedures were extended for the first time to foreign portfolio investment in Pakistan's capital market. Other measures make it easier for individuals and firms to obtain foreign exchange for a variety of specific purposes. The Government's objective is to make the Pakistan rupee freely convertible once economic conditions make it possible to do so.

3. Structural Policies

In FY 1991, the newly-installed government of Prime Minister Nawaz Sharif launched an ambitious program of privatization, deregulation, and economic reform aimed at reducing structural impediments in the economy. Despite resistance from the bureaucracy and labor unions, within a year the Government had successfully denationalized several industrial units and financial institutions, and was actively seeking buyers for the rest. With assistance from the U.S. Agency for International Development and other donors, the Government was making plans to privatize two multi-billion dollar utilities, the Pakistan Telecommunications Corporation (PTC) and the Water and Power Development Authority (WAPDA). In all cases, bidding was open to foreign investors, though foreign investment in Pakistani banks is permitted on a non-repatriable basis only.

The Government retains considerable power to control prices in many sectors of the economy. The use of direct price controls has been largely eliminated, although prices in the pharmaceuticals industry remain under control. Foreign drug companies can register products in Pakistan only at a price acceptable to the government. In some cases, companies have opted not to introduce products to the Pakistan market because the price established by the Government was too low. In FY 1991, however, prices for some pharmaceuticals and other products were raised significantly, enabling manufacturers to

restore profitability in several lines.

Although direct price controls are no longer prevalent, public sector entities involved in banking, manufacturing, services, and trade frequently influence market prices in accordance with government policy or political considerations. These corporations use government stocks to affect market prices for essential commodities if the prices vary greatly from the government-fixed support price. Other state-owned corporations can set prices for their products with little regard to generating a positive return on equity. Examples include fertilizer, tractors, steel products and castings, and cement. This is especially true for wheat and edible oil (ghee), where the Government's artificially low prices stimulate consumption and smuggling to neighboring countries where prices are less controlled. As a part of its structural adjustment program, the Government has begun to rationalize public sector prices. In addition, the on-going privatization program will reduce or eliminate the economic leverage of many firms now in the public sector.

In the past, Pakistan was an occasional importer of wheat. The country's wheat production has lagged behind population growth, however, and for the past several years, Pakistan has imported significant amounts of U.S. wheat. Credit guarantees from USDA's Commodity Credit Corporation (GSM-102) have been used to finance most of these wheat purchases. Moreover, between 70 and 80 percent of the vegetable oil consumed in Pakistan is imported. Vegetable oil imports are roughly 75 percent palm oil, mostly from Malaysia, and 25 percent soybean oil from Brazil and the United States. U.S. soybean oil imports are also financed under Commodity Credit Corporation (GSM-102) guarantees. U.S. soybean oil accounts for about 10 percent of total vegetable oil imports.

Pakistan's inefficient tax system captures only a small proportion of the taxable revenues in the country and is heavily dependent on indirect taxes on trade and commodities. Nearly 90 percent of FY 1991 gross revenues were generated by sales taxes, excise duties, surcharges and non-tax revenue. Only about 10 percent came from direct taxes on income and wealth, collected principally from salaried urban residents who make up less than 10 percent of the labor force. Income from agricultural land is not taxed. Although agriculture accounts for 26 percent of Pakistan's GDP, taxation of agricultural income is blocked by the large landowners who dominate the National Assembly. Tax collection is hindered by widespread evasion; corruption among tax officials is common. As a result of these factors, tax revenues have not kept pace with the growth of the economy or with government spending.

In FY 1992, the Government introduced a package of innovative tax measures designed to expand the tax net and improve collections. Sales taxes were imposed for the first time on products at the wholesale and commercial import stages. A capacity-based system for excise duties and a fixed tax on small business incomes were implemented to reduce opportunities for evasion or collusion with tax collectors. Withholding taxes were introduced for several categories of income in order to increase and speed up the flow of revenue. The Government is counting on these measures, plus other steps

taken in fulfillment of its FY 1992 agreement with the IMF, to substantially reduce the budget deficit this fiscal year.

4. Debt Management Policies

Despite a generally conservative approach to external borrowing, Pakistan's total external debt has grown in recent years in response to large current account deficits and associated financing needs. Total external debt at the end of June 1990 (the most recent statistics available) consisted of the following (billions of U.S. dollars):

Total External Debt	19.1
Medium/Long-Term Debt	15.6
Official	(14.5)
Concessional	(11.9)
Non-concessional	(2.6)
Private	(1.1)
Short-Term Debt	2.6
IMF Credits	0.9

Pakistan's debt service ratio was about 22 percent of merchandise export earnings in FY 1991. Pakistan has a sound credit rating and has consistently met its debt service obligations on time. Despite a sharp increase in oil import costs during FY 1991, due to effects of the Gulf crisis, exceptionally strong export growth, a remarkably small rate of increase in imports, and better than expected remittances from overseas workers enabled the Government to reduce its current account deficit by nearly $400 million, to $1.5 billion. In FY 1992, continued strong trade performance may further reduce the current account deficit, easing demand for new borrowing. The Government's September 1991 agreement with the IMF will give it access to as much as $300 million in balance of payments assistance from the Fund this fiscal year.

Pakistan's approach to foreign borrowing has a direct effect on imports from the United States. In reviewing bids from foreign suppliers for development projects, the Government is frequently more sensitive to credit terms than to price and quality. This often puts suppliers from countries which offer highly concessional financing (Japan, France, Germany, UK, and others) in an advantageous position vis-a-vis U.S. competitors. This also tends to offset the advantage U.S. products would otherwise derive from the depreciation of the U.S. dollar against major currencies.

5. Significant Barriers to U.S. Exports

Import Licenses: In recent years, Pakistan has significantly reformed its restrictive import regime, largely at the urging of the IMF and World Bank. In FY 1991, import license requirements were eliminated for all "freely importable goods" (i.e., items not on the Government's restricted or negative lists), except certain machinery and millwork (mainly textiles related), goods financed with foreign assistance, some public sector imports and imports from India. All imports, however, continue to be subject to a

6 percent import license fee, which annually generates about $350 million in revenues. The Government's FY 1992 Trade Policy Act reduced the restricted list to 14 items and the negative list to about 100 items. Items remaining on these lists are restricted for reasons of religion, national security or reciprocity, or luxury consumption, or they are capital and consumer goods banned to protect local industries.

Services Barriers: Insurance, banking, maritime and air transportation, and audio and visual works are all affected by services barriers. Portions of major service industries in Pakistan are nationalized and run by the government. Private firms are allowed to participate in insurance, but foreign insurance firms must place a portion of any service transaction with or through a local private firm or government agency. The Government refuses to license new foreign insurance firms. Pakistan recently opened its life insurance sector to private sector participation, but so far has refused the entry of foreign life insurance firms. All imports must be insured in the domestic insurance market except shipments financed by USAID programs. Foreign banks in Pakistan, including four U.S. banks, are limited to three branches each and are subject to certain discriminatory tax and regulatory policies, but freely compete in both retail and corporate banking throughout the country.

Investment Barriers: Pakistan's political leadership strongly supports foreign direct investment, but this message is not always fully reflected in bureaucratic policies and procedures. In FY 1991, the Government eliminated all federal and provincial sanctioning requirements for new foreign investment, except those in restricted industries (see below). Other rule changes gave foreign investors better access to domestic credit facilities, eliminated controls on the movement of foreign currency, and opened up the domestic capital market to fully-repatriable foreign portfolio investment.

The Government has designed incentive packages to attract investment to certain "underdeveloped areas" and to key industries: bio-technology, fibre optics, solar energy equipment, computers and software, other electric equipment, and fertilizers. Pakistan's "investment priority areas" include agro-based industries, chemicals, mechanical engineering, metallurgical products, machinery and equipment, electrical/electronics, and mineral exploration and processing.

Special permission is required for investment ~~in areas~~ on a "Specified List" of industries including arms and ammunition, security printing, currency and mint, high explosives, radioactive substances, alcohol, manufacture of automobiles, tractors and farm machinery, and petroleum blending plants. Foreign private investment is also prohibited in agricultural land, forestry, irrigation, real estate (including land, housing, and commercial office buildings), radioactive minerals, insurance, and health. Foreign investment in domestic banks is permitted only on a nonrepatriable capital basis, though dividends may be remitted overseas.

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, services, etc., is awarded through tenders that are publicly announced and/or issued to registered suppliers. Orders are generally placed with the lowest bidder. Although sales to the Government can be large, the bureaucratic processes involved are cumbersome and competing suppliers are often played off against one another. Government entities are also required to procure services such as banking and insurance from other public-sector firms, but the superior service offered by foreign banks has prompted several government agencies to ignore this rule.

Customs Procedures: These are not unusually burdensome. Waivers of import duties are sometimes allowed for special equipment to start up a new plant or import a new technology. In practice, however, importers sometimes have difficulty convincing customs officers to honor waivers that they have negotiated.

6. Export Subsidies Policies

Pakistan actively promotes the export of Pakistani goods with concessional financing, rebates of import duties, import surcharges, sales and other taxes, and import license fees on raw materials imported for the production of export goods. In addition, high value export items, such as garments, engineering goods, and electronics are eligible for a 75 percent income tax rebate; other items are eligible for a 50 percent rebate. These policies appear to be equally applied to both foreign and domestic firms producing goods for export. For many exports, Pakistan's nationalized commercial banks offer financing at concessional maximum annual rates of up to six percent.

7. Protection of U.S. Intellectual Property

Pakistan has been on the "Special 301 Watch List" since May 1989, when the country was identified for special attention under the intellectual property provisions of the Omnibus Trade and Competitiveness Act of 1988. Pakistan is considering revisions to its patent, copyright and trademark legislation.

Pakistan is not a member of the Paris Convention for the Protection of Industrial Property. It is, however, a member of the World Intellectual Property Organization (WIPO). The U.S. Treaty of Friendship and Commerce with Pakistan guarantees national and most favored nation (MFN) treatment for patents, trademarks and industrial property rights.

Copyrights: U.S. companies (i.e. book publishers, film producers) have complained that although Pakistan is a member of the Universal Copyright Convention, its copyright law enforcement is ineffective and penalties for violation extremely weak. Video-tape piracy is widespread; the government estimates there are over 30,000 outlets with 110,000 employees. When passed, revised copyright legislation would strengthen sanctions against piracy of printed texts,

computer software, sound recordings and film works, and increase penalties for infringement.

Patents: Pakistan's current patent law offers process patents only, not product patents. U.S. pharmaceutical companies have complained that this complicates their efforts to pursue infringement allegations in local courts. Compulsory licenses may be applied for at any time by anyone dissatisfied with the availability and price of the patented items. Revised patent legislation was submitted to the National Assembly in late 1989, but has been remanded back to the Government for further consideration. In addition to providing product patent coverage, the United States has urged the Government to include in revised legislation an extended patent term and a limit on the use of compulsory licenses.

Trademarks: Pakistan's existing law has no provision for the registration of service marks. Some trademark licenses include a requirement for transfer of technology or other economic benefit such as increased exports, foreign exchange earnings, or employment. Registration of a trademark can take up to three years. The Government is considering revisions to its trademark legislation and has assured the United States that infringement penalties and legislative coverage will be expanded.

The exact extent and cost to U.S. producers of piracy of their works is unknown, but appears, at least in the video-tape sector, to be significant.

8. Worker Rights

a. The Right of Association

Pakistan's industrial workers have the right to form trade unions, but labor laws place significant constraints on their formation and ability to function effectively. Strikes are rare, and when they occur are usually illegal and short. Unions are constrained by lengthy arbitration requirements and cooling-off periods, and by the Government's authority to ban any strike found to cause "serious hardship to the community" or prejudice to the national interest, or which continues unresolved for 30 days. Work slowdowns happen periodically and police crackdowns on workers' demonstrations are fairly common. While many unions remain aloof from party politics, it appears that the most powerful are those associated with political parties. After the PPP came to power in 1988, it successfully organized trade unions under the banner of the People's Labor Bureau (PLB). The PLB's main competitors are the Jaamat Islami's National Labor Federation and the MQM-backed labor unions. Pakistan has been criticized by the ILO for not abiding by several ratified conventions.

b. The Right to Organize and Bargain Collectively

Although workers can form associations and elect representatives to act as collective bargaining agents, current laws place limitations on their extent and effectiveness. The largest segment of the work force, employed in rural agriculture, may not organize and bargain

collectively. Under the Essential Services (Maintenance) Act of 1952, union activities are restricted in sectors associated with "the administration of the state" like education, public utilities and nationalized banks. Section 15 of the industrial relations ordinance of 1969 specifically prohibits antiunion discrimination by employers. The International Labor Organization (ILO) has advised the Government that a 1980 ordinance permitting it to exempt export processing zones from the provisions of any law is inconsistent with the requirements of ILO conventions 87 and 98. An export processing zone, with its own labor regulations including regulations governing how workers may bargain collectively, is functioning in Karachi. The Government has not taken the action requested by the ILO.

c. Prohibition of Forced or Compulsory Labor

Forced labor has always been specifically prohibited by Pakistani law. There is no evidence that slavery or bonded labor has received official sanction. However, illegal cases of bonded labor appear to be common, particularly in the brick, carpet, glass, and fishing industries, as well as in agricultural and construction work in rural areas. Legislative action is being considered and some progress has been made in the courts toward abolishing bonded labor, specifically in the brick kiln industry.

d. Minimum Age for the Employment of Children

Laws exist limiting the employment of children in some industries to those over 14 or 15, but none are effectively enforced. Child labor is known throughout Pakistan primarily in the traditional framework of family farming or small business, but the abusive employment of children in nonfamily business is widespread. Although no official statistics exist, unofficial surveys and occasional press features suggest that violations of existing laws are common. The employment of children is occasionally linked with stories of bonded or forced labor and child prostitution.

e. Acceptable Conditions of Work

Labor regulations stipulating a legal minimum wage and containing worker protection (such as a maximum workweek of 54 hours, rest periods and paid annual holidays) and welfare provisions apply only to a minority of the labor force and often are not enforced. Specifically, workers in agriculture, small factories with fewer than ten employees, and small contract groups of under ten employees are not covered. Worker health and safety conditions are generally poor and the Government has moved slowly in addressing these problems.

f. Rights in Sectors with U.S. Investment

Significant investments by U.S. companies have occurred in the following sectors: petroleum, food and related products, and chemicals and related products. Although U.S. consumer goods and electronics are represented in the wholesale trade sector, they are usually marketed under agency agreements which involve little U.S. capital investment.

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In general, multinationals seem to do better than most employers in fulfilling their legal obligations and dealing responsibly with unions. The industrial establishments built with U.S. investment are all large enough to be subject to the full provisions of Pakistani law for worker protections and entitlements. The U.S. Embassy is not aware of any case where a U.S. company has been accused of worker rights abuses. However, a complaint against multinational banks (including two U.S. banks) was filed with the ILO in 1990. The complaint alleged that these multinationals were undermining union strength by promoting a large percentage of employees into nominally managerial positions, with little responsibility or authority, in order to disqualify them from union membership.

The only significant area of U.S. investment where worker rights are legally restricted is in the petroleum sector. The oil and gas industry has been declared subject to the Essential Services (Maintenance) Act, a finding renewed at six-month intervals, which bans strikes and collective bargaining, holds up the threat of legal sanctions against worker misconduct, theoretically limits a worker's right to change employment, and gives very little recourse to a fired worker.

In practice, restrictions on changing employment have apparently been used to protect the federal government's Oil and Gas Development Corporation (OGDC) from losing its trained manpower to private companies offering more generous benefits. The U.S. Embassy understands that employees who quit OGDC must generally wait for two years before seeking other employment in the petroleum industry in Pakistan. Many OGDC workers, however, have found employment abroad. Neither the exemption of the petroleum industry nor the total repeal of the Act is likely in the near future.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category	Amount	
Petroleum		106
Total Manufacturing		51
Food & Kindred Products	0	
Chemicals & Allied Products	51	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		(D)
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, August 1991

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Key Economic Indicators

(Billions of Saudi Riyals (SR) Unless Otherwise Indicated)

	1989	1990	1991 (est)
Income, Production and Employment			
Nominal GDP	304.0	371.0	390.0
Real GDP (1989 prices)	304.0	362.0	368.0
Real GDP Growth (pct.)	1.0	19.0	1.5
GDP by Sector:			
Petroleum Sector	91.0	137.0	146.0
Non-oil Private Sector	130.0	139.0	144.0
Non-oil Govt Sector	83.0	96.0	99.0
Real Per Capita GDP (1989 prices, thousand riyals)	21.7	25.3	25.0
Size of Labor Force (Millions)	5.0	5.0	5.0
Unemployment Rate	N/A	N/A	N/A
Money and Prices			
Money Supply (M2) (Billion riyals, annual avg)	137.5	142.6	149.0
Comm. interest rates (pct)	8.9	7.9	6.2
M2/GDP (pct)	45.2	38.4	38.2
Consumer Price Index (1988 = 100)	101.1	103.1	106.4
Wholesale Price Index (1988 = 100)	101.1	102.9	106.1
Exchange Rate (SR/US$)	3.75	3.75	3.75
Balance of Payments and Trade (US$ Billions)			
Total Exports (FOB)	28.3	43.9	47.8
Total Exports to U.S. (FOB)	7.2	9.0	12.0
Total Imports (CIF)	21.2	24.0	27.5
Imports from U.S. (CIF)	4.0	4.4	4.4
Aid from U.S.	0.0	0.0	0.0
Aid from Other Countries	0.0	0.0	0.0
Total U.S. Direct investment (stock)	1.9	1.5	1.8
External Public Debt	0.7	0.7	5.2
Annual Debt Service (paid)	0.0	N/A	N/A
Net Foreign Assets	60.0	57.0	50.0
Gold & Foreign Exchange reserves	11.5	8.8	9.9
Current Account Balance	-8.4	-5.2	-15.2

1/ Data reflect rounding.
Sources: Official Saudi data, international financial statistics, IMF, U.S. Embassy estimates, Foreign Commercial Service estimates.

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1. General Policy Framework

Saudi Arabia has an open economy with a dominant government sector, which has regulations that strongly favor Saudi citizens and the citizens of neighboring Gulf Cooperation Council (GCC) states. This bias is pervasive and reflected in virtually all government policies, including those affecting taxation, credit, investment, procurement, trade, intellectual property rights and labor. At the same time, other government objectives, including national development, defense and the technological advancement of the economy ensure that this bias towards Saudis and the GCC never rises to the point of seriously discouraging participation in the Saudi economy by other foreign nationals.

The Iraqi invasion of Kuwait and the Gulf war substantially altered commercial activity in Saudi Arabia. From August 1990 to April 1991, Saudi government operations were largely concentrated on expelling Iraq from Kuwait and the aftermath of the war. Many of the standards, regulations and restrictions that hampered foreign participation in the Saudi economy had been waived, as the Saudi government sought out the lowest costs and most efficient suppliers for its troops and oil industry. U.S. firms benefited from this trend. With a return to normalcy, the Saudi government has also returned to enforcement of their previous, sometimes vexing, but not overly restrictive practices.

Macroeconomic Policies: Fiscal Policy: Oil is the dominant factor in the Saudi economy. Changes in world oil prices and Saudi production levels have driven the oil sector's share of Saudi GDP from 1981's level of 65 percent (in 1981, oil accounted for current $99.9 billion out of total GDP of current $154.4 billion) to only 38 percent of estimated 1991 GDP. The statistical increase in the non-oil sector's share of Saudi GDP is, however, misleading. The change is put into perspective by the fact that annual growth rate of non-oil GDP during the ten year period between 1981 and 1991 was a mere 1.8 percent. Moreover, much of non-oil GDP is in fact tied to oil. Supplies and services are sold to the oil sector, and consumption and investment are depend upon oil receipts. Within those parameters, the government sector (which accounts for about 25 percent of GDP) plays a significant role in influencing resource allocation within the Saudi economy. Those parameters are further constricted, however, by the fact that much of this government spending is locked into Saudi "entitlements" in the form of social services, defense expenditures, salaries, foreign aid commitments and domestic subsidies.

The generosity of Saudi state expenditures has been such as to place government fiscal accounts in continuous deficit since 1982-83. The added strain of Desert Storm and Desert Shield expenditures are reported to have pushed the deficit up to the equivalent of a sixth of Saudi GDP as expressed on an annualized basis. Foreign assets managed by the central banking authority, SAMA, have fallen from 1981's level of (current) $127.7 billion to 1991's figure of (current) $55 billion, while central government deposits with SAMA are reported to have fallen to less than $10 billion at the end of 1991 from $90 billion in 1982. This drawdown has led the

government to turn increasingly to the use of financial instruments, including Saudi government development bonds and, beginning in 1991, weekly treasury bill issues that, since their start in November, have netted over SR 6 billion. It is highly unlikely, however, that the government can substantially increase its revenues from taxes and fees, which are imposed almost entirely on foreign entities operating within the Kingdom and currently account for about 20 percent of government revenues.

Monetary Policy: SAMA oversees a financial sector which consists of 12 commercial banks, five specialized credit institutions and a variety of non-bank financial institutions. It also chairs a committee on bad debts and has used its influence to help banks and debtors settle bad debts. SAMA has the statutory authority to set legal reserve requirements, impose limits on total loans, and regulate the minimum ratio of domestic assets to total assets in each bank. It has developed the capacity to conduct open market operations through regulated repurchases of previously issued government development bonds. SAMA generally allows the growth of the money supply in Saudi Arabia to be dictated by the balance of government fiscal operations and the external payments. During times of crisis such as August 1990, however, it will intervene in credit markets through repurchase operations and direct bank deposits to ensure banking system liquidity and an orderly adjustment in the economy's money supply. There has been a marked increase in M1 in 1990 and 1991, possibly reflecting SAMA's willingness to finance the deficit in part through expansion of the money supply.

Also important to the economy's credit operations are the government's specialized credit institutions. Initially funded by government appropriations, these institutions channel interest-free government funds to public and private sector investors. There are five such agencies: the Saudi Industrial Development Fund, which provides subsidized credits to the private sector for industrial investments; the Public Investment Fund, which has financed the largest public and public/private joint venture projects, and is now largely out of the market; the Saudi Arabian Agricultural Bank, which lends to Saudi agricultural interests; the Saudi Credit Bank, which grants small scale loans for periods up to five years; and the Saudi Real Estate Development Fund, which provides loans to private individuals and institutions for housing.

Together, these institutions dominate medium- and long-term lending in Saudi Arabia. Their outstanding loans are triple those of the commercial banks and, while budgetary transfers to them have been limited in recent years, they have remained active by recycling funds from repaid loans. The Saudi Industrial Development Fund, for instance, has had two-thirds of its original loans paid and recycled. In addition, the Government has begun to require that government-owned industries that are profitable and credit-worthy seek loans from the private sector.

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2. Exchange Rate Policies

There are virtually no exchange restrictions in Saudi Arabia, beyond a prohibition against the use of the currencies of Israel and South Africa. The Saudi riyal (SR) is officially pegged to the IMF's Special Drawing Right (SDR) at a rate of SR 4.28255 = 1 SDR. However, since 1981, SAMA has ignored its SDR peg while maintaining a constant central rate against the dollar, now SR 3.75 = US$1. There are no controls on current transactions by residents or non-residents, nor are there any significant restrictions on capital movements, beyond a requirement that foreign direct investments be licensed by the foreign capital investment committee. Gold may be freely bought and sold in Saudi Arabia, though imports of low quality (14-karat or less) gold are prohibited and all imported gold is subject to a 12 percent tariff.

3. Structural Policies

Pricing Policies: The Saudi government has traditionally eschewed price controls, with the exception of a number of basic utility, energy and farm products. Water and electricity are both heavily subsidized, with electricity being sold to industrial consumers at a flat rate of 1.3 cents per kilowatt-hour. Water prices vary progressively with consumption, but run no higher than $1.07 per cubic meter. This compares with production costs that can run as high as $12 per cubic meter for desalinated water. In addition, petroleum products are sold essentially at production cost, leaving domestic prices well below world market levels.

In agriculture, government procurement prices for wheat (now $400 to $534 per ton) are substantially above world market levels. As a result, wheat production has risen to several times domestic demand and led to exports of wheat totaling some two million tons in each of 1989 and 1990 (expected to continue at that level in 1991). In 1989, the Government tried to restrain booming production but price support cuts have failed to slow production of wheat. Since wheat production is the centerpiece of the Saudi Government's drive for food self-sufficiency it is doubtful that subsidies will be substantially altered in the forseeable future.

Tax Policies: Saudi taxes take three major forms: income taxes, various fees and licenses, and customs tariffs. Of these, the income tax is payable only by self-employed expatriates and foreign companies. The tax applied to self-employed expatriates ranges from a rate of 5 percent per month on a monthly income between SR 6000 and SR 10,000 to a maximum rate of 30 percent for a monthly income in excess of SR 30,000. Taxes on business income apply only to foreign companies and to non-Saudi shareholders in Saudi companies, with the rate running from 25 percent on profits of SR 100,000 or less to a maximum rate of 45 percent for net profits in excess of SR 1 million. Meanwhile, Saudis and Muslim residents are subject to the "zakat," an Islamic net worth tax, which is levied at a flat rate of 2.5 percent.

License and registration fees are also widely applied and can reach very high levels. For example, there is an initial

work permit fee for expatriate workers of SR 1000 which rises to SR 2000 and SR 3000 for subsequent renewals. Import tariffs are levied at a general minimum rate of 12 percent ad valorem with exceptions for essential commodities. In addition, there is a maximum 20 percent tariff on products which compete with local infant industries, such as steel and cement.

There are also substantial tax incentives for foreign investors. These include a 10-year tax holiday for approved agricultural and manufacturing projects with a minimum of 25-percent Saudi participation. For approved projects in other sectors, such as contracting or the provision of other services, the tax holiday is five years. In addition, approved projects are eligible for exemptions on customs duties on required capital equipment and raw material imports.

Regulatory Policies: Saudi regulatory policies affect trade and investment in Saudi Arabia in three ways. The foreign capital investment code requires that foreign investments be "development" projects (i.e., in line with the nation's development priorities), that they involve some technology transfer and that they include a minimum 25-percent Saudi equity participation. The requirements can be waived, but waivers generally are applied only to direct new foreign investment involving relatively high technology projects that are judged to be beyond the scope of local entrepreneurs.

In addition, Saudi Arabia and the other GCC countries have adopted labeling requirements which can pose problems for U.S. exporters. Under current regulations, food products in particular must have detailed labeling which includes production and expiration dates, product name, net weight, ingredients, manufacturer's name and country of origin. Inconsistent application of these rules has reportedly created further problems. Another restrictive policy requires that all measurements be delineated in the metric system.

Finally, Saudi labor law requires that 75 percent of a firm's workforce and 51 percent of its payroll be Saudi, unless an exemption has been granted by the Ministry of Labor and Social Affairs. Potential investors are also required to show plans for recruiting and training. Saudi employers must document their manpower requirements if they hire overseas. In addition, regulations introduced in 1985 now require that the Ministry of Labor and Social Affairs certify that there are no qualified Saudis for a given job, before firms are permitted to recruit overseas.

4. Debt Management Policies

In the early 1980s, Saudi Arabia was a substantial net creditor to world financial markets with net foreign assets of approximately $90 billion. At this writing, the actual amount of net liquid assets owned by the government is a closely held secret. Saudi Arabia has also been a major source of development assistance, giving aid over the past fifteen years equivalent to some three percent of its gross domestic product. Saudi Arabia holds permanent seats on the boards of directors of the International Monetary Fund and the World

Bank and has participated in funding several special facilities aimed at helping deficit countries, including the IMF's general arrangements to borrow.

During the last four years the government of Saudi Arabia has begun to borrow. In 1988, it inaugurated a domestic bond program, under which it issued, through the close of 1989, about $22 billion in bonds to commercial banks, autonomous government funds and Saudi public corporations. The government bond program has been expanded to allow for secondary purchases of development bonds by individual Saudi and GCC citizens. In addition, in 1989, the Government indirectly borrowed a further $660 million from international banks through its wholly-owned Public Investment Fund (PIF). In May 1991 the Government borrowed $7.0 billion in hard currency ($4.5 billion abroad and $2.5 from domestic sources). The Government also issued over SR 6 billion in treasury bills to finance current deficits since the inauguration of the program in 1991.

5. Significant Trade Barriers to U.S. Exports

There are significant barriers to U.S. exports in several areas. For instance, imports of selected products may be banned in the case of domestic overcapacity, although at the moment, no such bans are in effect. There are also protective tariffs, which can run as high as 20 percent in the case of infant industries like cement and steel. In addition, Saudi Arabia also participates in the Arab boycott of Israel and bans products and investment from companies that are judged to contribute to Israel's economic or defense capabilities.

Government procurement regulations also strongly favor Saudi and GCC nationals. Under a 1983 decree, foreign contractors must sub-contract 30 percent of the value of the contract, including support services, to majority-owned Saudi firms, a restriction which U.S. businessmen consider the Saudi government's most serious barrier to exports of U.S. engineering and construction services. In 1987, Saudi Arabia put new regulations in force giving priority in government purchasing programs to GCC products. These items now receive up to a ten percent price preference over non GCC products in all government contracts, including subcontracts awarded by foreign contractors.

Furthermore, the Government has taken steps to reserve certain services for government-owned companies. Included here are insurance services for government agencies and contractors, which are now reserved for the national company for cooperative insurance, and air transport for government employees, which is generally reserved for Saudia Airlines. Saudia is also guaranteed at least one-half of all passengers traveling for pilgrimage to Mecca. Other carriers transporting pilgrims are entitled to transport one-half of the pilgrims from their home countries. They must pay Saudia a fee for each passenger they transport above that level or for any national of any other country.

Standards and labeling requirements can present difficulties as well, particularly in regard to food health

requirements. As noted above, all food products must meet detailed labeling requirements. U.S. exporters believe that expiration date requirements for meat products and frozen foods are too stringent and discriminate against U.S. frozen food and fresh meat exports in favor of countries closer to Saudi Arabia. In addition, U.S. exporters have urged Saudi authorities to allow the use of the U.S.-standard phrase "better if used before," which would allow perishable goods to remain on the shelf longer than would use of the more restrictive "expiration date."

Finally, electric current standards in Saudi Arabia present a difficulty. It is possible that all U.S. electric products may eventually be denied entry to the market. Saudi electric current is 127 volts, 60 cycles. Some U.S. products arrive in Saudi Arabia with certificates of conformity stating they are as low as 105 volts, 60 cycles. These products are denied entry, as are all other products of any kind that may be in that shipment. (In one case, a shipment of turbines from Westinghouse bound for Saudi ARAMCO was held in customs because there was one electric motor in the shipment with a certificate rating it at 110 volts). At this time, the Saudis are waiving the voltage requirement for goods with certifications of at least 115 volts but they have made it clear that this is temporary. Products must eventually meet the standard or the market will be closed to nonconforming U.S. goods.

6. Export Subsidy Policies

Saudi Arabia's pricing subsidies encourage wheat exports. Each year's wheat crop is now purchased in its entirety by the government-owned grain silos and flour mills organization at prices which range from $400 per ton (for large producers) to $534 per ton (for small producers). Of the four million tons expected in the 1991 harvest, roughly two million will be exported at world market prices, with the Government covering the organization's losses. Government losses in this program currently run roughly $1 billion per year.

In contrast, Saudi Arabia has no export subsidy programs specifically targeted at industrial products, though many of its industrial incentive programs can be seen as indirectly supporting exports. The U.S. Department of Commerce had, at one time, imposed a countervailing duty against Saudi Arabia in a case where the interest-free financing offered by a specialized credit institution was seen to give a Saudi producer of steel rods an unfair pricing advantage. This company has moved into profitability and is now required to pay the prevailing interest rate for loans to the credit institution. The countervailing duty has been dropped.

7. Protection of U.S. Intellectual Property

Saudi Arabia's trademark laws and regulations generally follow internationally accepted norms. They require registration of trademarks and permit registration of service and collective marks. In February 1988, the trademark law was

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amended to allow the Ministry of Commerce to initiate actions against trademark violators. In addition, anti-fraud regulations permit the Ministry to penalize those who describe products deceptively as to their nature, type, kind, essential properties, origin, amount or weight. Enforcement of these regulations has improved in recent years, but still remains far short of general acceptability. In 1990, several U.S. firms initiated complaints alleging trademark infringement. Some have been successful. Saudi Arabia does not have a law protecting industrial design. The Government is currently preparing legislation to remedy that defect, and allow Saudi Arabia to accede to the Paris Act.

Saudi Arabia's patent law, in effect since May 18, 1989, sets out criteria for determining whether an invention is patentable. These criteria are similar to those applied in the United States. The Saudi law prohibits the unlicensed use, sale or importation of a product made by a process subject to patent protection in Saudi Arabia. At the same time, the law contains broad provisions to allow the Government to declare unilaterally that certain areas of technology are unpatentable. It also permits the compulsory licensing of patented products and processes, with or without compensation to the patent holder, if the patent holder does not make use of the invention in Saudi Arabia within a specified time period, or if the Government chooses to issue such a license for public policy reasons. Since no patents have been granted there have been no patent infringement complaints involving Saudi Arabia. As of the winter of 1991, the Saudi Patent Registration Administration reported that nearly 950 patent applications have been registered. The patent office is proceeding with all deliberate speed to ensure the granting of bona fide patents.

In December 1989, King Fahd signed a new copyright law, which went into effect in 1990. The law, a broad framework, provides comprehensive protection to covered works, but works not created or produced in Saudi Arabia are not covered. The Ministry of Information, responsible for registration and enforcement, has assessed criminal penalties in cases involving the violation of copyrights granted through the copyright office. In general, the laws provide protection for the life of the author plus fifty years in the case of books and, in the case of sound and audio visual works, for the life of the author plus twenty-five years. Computer programs are also explicitly covered, though the law does not provide for a specific period of protection. In most other respects, including its compulsory licensing provisions, the law appears generally compatible with both U.S. standards and the Berne convention, having been examined and approved by the World Intellectual Property Organization before passage. The Saudi government has stated that it will accede to the Berne Convention in the near future, which will clarify the status of international works not originating in or produced in Saudi Arabia.

The Copyright Law does not address enforcement or registration procedures. According to the Saudi government, these matters will be addressed by implementing laws. However, such laws have not yet been enacted, although the copyright law was enacted three years ago. The Saudi

copyright office assures that enactment is imminent.

8. Workers Rights

a. The Right of Association

Government decrees prohibit the formation of labor unions and strike activity.

b. The Right to Organize and Bargain Collectively

The right to organize and bargain collectively is not recognized in Saudi Arabia.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is generally prohibited in Saudi Arabia. However, since employers have control over the movement of foreigners in their employ, situations that can be described as forced labor, while illegal, can occur, especially in remote areas where workers are unable to leave their places of work.

d. Minimum Age for Employment of Children

Children under 18 and women may not be employed in hazardous or unhealthy industries such as mining or industries employing power operated machinery. In other industries, the labor law provides for a minimum age of 13, which may be waived by the Ministry of Labor with the consent of the juvenile's guardian. In general, enforcement is effective, and child labor does not appear to be a problem in Saudi Arabia. Wholly-owned family businesses or family-run agricultural enterprises are exempt from labor laws.

e. Acceptable Conditions of Work

There is currently no legal minimum wage in Saudi Arabia, though the labor law does provide that a minimum wage may be set by the Council of Ministers. Saudi labor law does establish a maximum 48 hour work week at regular pay and allows employers to require up to 12 additional hours of overtime at time and a half. It also requires employers to protect workers from job related hazards and diseases.

However, employees engaged in private homes, agriculture, or small, wholly family owned and operated businesses are considered members of the household and are not covered by health and safety regulations. These employees, consequently, are left largely unprotected.

f. Rights in Sectors with U.S. Investment

Major U.S. companies operating in sectors of the Saudi economy such as oil, chemicals or financial services seek to be known as good corporate citizens. In practice, this means strict adherence to the Saudi labor law, including the ban on union activity and strikes. There is no forced or compulsory labor and any required overtime is compensated, normally at time and a half rates. Similarly, while the minimum age for

employment in Saudi Arabia is 13, the practice among U.S. firms is to recruit intermediate school graduates (age 16) or high school graduates (age 18) even for entry level positions.

Conditions of work at major U.S. firms are generally as good or better than those available elsewhere in the Saudi economy. U.S. firms normally work a five and one half day week (44 hours) with paid overtime. There is no minimum wage, but overall compensation tends to be at levels that make employment in U.S. firms very attractive. Major U.S. firms generally offer competitive salaries, medical insurance, generous termination benefits, and, in some cases, housing and transportation allowances to their employees. In addition, several U.S. companies provide low interest loans for employees under company managed home ownership programs.

Safety and health standards in major U.S. firms in Saudi Arabia compare well with standards anywhere in the world according to U.S. managers, and accident rates are as low as or lower than rates in the U.S.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category	Amount	
Petroleum		558
Total Manufacturing		576
Food & Kindred Products	5	
Chemicals & Allied Products	(D)	
Metals, Primary & Fabricated	6	
Machinery, except Electrical	0	
Electric & Electronic Equipment	2	
Transportation Equipment	0	
Other Manufacturing	(D)	
Wholesale Trade		(D)
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business August 1991, Vol. 71, No. 8, Table 11.3

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Key Economic Indicators

(Millions of Syrian pounds (SP) unless otherwise noted)

	1989	1990	1991 (Est)
Income Production and Employment			
GDP (1985 prices)	87,609	99,596	110,000
Agriculture (1985 prices)	14,649	17,671	22,000
Real GDP growth (pct)	3.2	14	10-15
GDP per capita (SP at 1985 prices)	7,476	8,220	N/A
Size of labor force 1/	N/A	N/A	N/A
Unemployment rate 2/	N/A	N/A	N/A
Money and Prices			
Money supply (M1) current prices	116,500	147,500	177,000
Bank interest rate 3/			
CPI Damascus (1985 = 100)	325	360	432
Exchange rate (Syrian pounds/US$)			
Official	11.20	11.20	11.20
Promotional	20.25	20.25	20.25
"Neighboring Country Rate"	N/A	40.00	42.00
Off-shore market	40-44	40-46	42-47
Balance of Payments and Trade (US$millions)			
Current Account 4/	975	1,835	1,500
Total exports	3,197	4,221	N/A
Exports to U.S.	71	36	N/A
Total imports CIF	1,128	2,062	N/A
Imports from U.S.	166	258	N/A
Aid from U.S.	0	0	0
Aid from other countries	206	151	1000
External (est. nonmilitary public debt in billion US$) 5/	3.3	3.3	N/A
Annual debt service (est)	N/A	N/A	N/A
Forex reserves (est gross convertible exchange excluding gold in mil USD)	127	163	N/A
Gold holdings (mil. fine troy oz)	0.833	0.833	0.833

1/ 2,356,000 in 1984
2/ 5 pct in 1984
3/ All banks in Syria are nationalized and interest rates are set by law, ranging from two percent for financing of the export and storage of barley to nine percent for certain private sector loans. Savings rates range from two percent on public sector "current accounts and sight deposits" to nine percent on "other investment bonds". Most rates have not changed in 10 years.
4/ Surplus is almost entirely reflected in reduction in liability mostly to USSR, rather than increase in reserves, and does not reflect Arab contribution for Desert Shield/Storm.
5/ Does not include debt under bilateral clearing arrangement with USSR nor non-civilian debt.
Sources: All statistics except those for the free market exchange rate, aid, debt, annual debt service, gold and foreign exchange reserves are taken from the official Syrian statistical abstract or from official foreign trade

statistics. The balance are Embassy estimates based on a variety of sources, none of which can be regarded as totally reliable. Discrepancies result in part from the use of different exchange rates in different periods.

1. General Policy Framework

Until recently, the overriding barrier to U.S. exports to Syria has been a severe foreign exchange shortage, although various U.S. government terrorism-related sanctions imposed against Syria pose additional constraints. Syria's participation in the Gulf coalition ended years of isolation from the Gulf states, gaining the Government access to what appears to be substantial Gulf financial resources to undertake a wide range of projects to rehabilitate the country's deteriorating infrastructure and to revitalize public sector enterprises. Beginning in 1991, Syrian government agencies have issued a record number of tenders, for which financing is expected to be made available from Arab Gulf governments and development funds. Similarly, prospects for private sector investment and imports have improved, thanks to recent economic reforms, including a new investment law. Although private sector firms have not had access to official foreign exchange since 1984, liberalization measures implemented in recent years permit private exporters to retain foreign exchange from exports, 75 percent for industrial products and 100 percent for agricultural commodities, to finance permitted imports for inputs, as well as from a list of basic commodities. Although retaining a monopoly on "strategic" imports, such as wheat and flour, the Government has widened the list of permitted imports, including items, such as sugar and rice, formerly reserved for public sector importing agencies.

Trade controls were first imposed by the United States in 1979 as a response to Syria's involvement with terrorism. They were expanded 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 technologies. The Syrians have sought alternate suppliers of these products. As a result of the 1986 sanctions, Syria is ineligible for EEP and GSM programs in all agricultural products, thus rendering U.S. wheat uncompetitive in the Syrian market. The Syrian-U.S. bilateral aviation agreement expired in 1987 and was not renewed. Finally, the Exim Bank and OPIC have suspended their programs in Syria, further disadvantaging U.S. exporters in meeting competition from other suppliers.

The national budget is the main demand management policy tool. Given the poor development of capital markets and Syria's lack of access to international money and capital markets, monetary policy remains passive to the need to cover the fiscal deficit. Interest rates are fixed by law, and most rates have not changed in the last several years. The absence of an organized securities exchange market forecloses the possibility of open market operations. Efforts to reduce the

budget deficit, especially since 1986, have met with considerable success thanks to increased transfers from state enterprises, improved tax collections, as well as a compression of capital expenditures. Official prices on many items, especially those imported by the specialized trading agencies, have been raised in an effort to reduce subsidies. However, heavy borrowing by the state enterprises to cover their transfers to the budget has continued to exert an expansionary effect on the economy. Moreover, basic foodstuffs continue to be heavily subsidized and social services provided for nominal charges.

Largely because the severe foreign exchange constraint has limited capital expenditures for imported equipment and know-how, budgets, in real terms, have shown negative growth in recent years. Continued uncertainty over disbursement of Gulf funds for public sector investment projects has prompted the Government to postpone announcement of a budget for 1991. The need to allocate foreign exchange to maintain a large standing army plus the Syrian presence in Lebanon severely burdens the national economy, further limiting the country's capacity to import capital goods, let alone consumer goods.

Because of active commodity smuggling from Lebanon, a substantial "unofficial market" exists in Syria for all imported products at the free market exchange rate reflective of world price levels.

2. Exchange Rate Policies

During 1991, the Government has moved from a complex system of multiple exchange rates to a two-tier system. The official exchange rate remains fixed at 11.20 Syrian Pounds/US$1 for government and certain public sector transactions. At the same time, the Government has shifted most transactions to the official parallel rate, known as the "Neighboring Country" rate. This rate was initially pegged at 40 SP/US$ in July 1990, but revalued in April 1991 to 42 SP/US$. The middle rate, the so-called "Promotional" rate, set at 22 SP/US$, has been largely phased out. In 1991, the off-shore free market rate, centered in Beirut, has fluctuated between SP 42 and 47 to the U.S. dollar.

Exchange controls are strict. Syrian currency may not be exported, although it may be imported physically. Almost all exchange transfers must be by letter of credit authorized by the Central Bank and the Prime Ministry. Outward private capital transfers are prohibited. Prior to 1987, private exporters were not allowed to retain any foreign exchange earnings and were required to surrender 100 percent of export proceeds 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 various rates depending on the commodity exported. Early 1991, the Commercial Bank of Syria, for the first time, was authorized to convert cash, travellers checks and personal remittances at the "Neighboring Country" rate, instead of the middle or "Promotional" rate.

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3. Structural Policies

By law, The Ministry of Supply controls prices on virtually all products imported or locally produced. The Ministry also sets profit margin ceilings, generally up to 20 percent, on private sector imports. Local currency prices have been computed at the 40 SP/US$ rate for the past two years. In prior years, prices on many items were computed at the over-valued official 11.2 SP/US$ rate, thereby discouraging imports through official channels. In the agricultural sector, production is controlled through a system of procurement prices and subsidies for many inputs, including seeds, fuel and fertilizers. Farmers may retain a portion of production, but the balance must be sold to the Government at official procurement prices. Farm gate prices again were increased in 1991, in the case of wheat to double the world price computed at the free market exchange rate, to encourage production and to enable state marketing boards to purchase larger quantities of locally produced commodities.

In Syria's socialist economy, the public sector is the primary purchaser of imported capital goods. Contracts are awarded through the official tender system. These are open to international competition with no restrictions, other than language pertaining to the Arab boycott of Israel and the requirement to post a bid bond.

Syria's tariff system is highly escalated, reaching 200 percent for passenger cars. Income taxes are highly progressive. Marginal rates in upper brackets were recently reduced from 92 to 64 percent, effective January 1992. Salaried employees also pay a graduated wage tax, reaching 17 percent. Tax evasion is widespread. The structure described above is that delineated by Syrian law and regulations. As already noted, a substantial parallel economy exists outside the official structure. Goods ranging from luxuries to steel reinforcing bars for use in concrete construction flow across the border from Lebanon. In this market, U.S. exports compete on the basis of price and quality alone. Pricing is based on the free market rate for Syrian pounds. The Syrian Government has been unwilling or unable to exert effective control over this parallel economy, although there are periodic anti-corruption and anti-black market campaigns.

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 US$ 3 billion. Debt to the Soviet Union and Iran (both clearing account arrangements) is estimated to be at least 15 billion US dollars. Very little Syrian debt is held by the United States. The Government manages its debt by indefinite deferment and is badly in arrears on payments to the World Bank, official export credit agencies and bilateral donors, including USAID. World Bank disbursements were halted in March 1988 and projects cancelled. Syria has been in violation of the Brooke Amendment since 1985.

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5. Significant Barriers to U.S. Exports

All imports through official channels require licenses, which are issued according to a policy aimed at conserving foreign exchange and promoting local production. Although strict, standards on labeling and product specifications are non-discriminatory and fairly enforced. Customs procedures are cumbersome and tedious. Delays are largely attributable to complex, formalistic regulations.

Government approval is required for all foreign investments. Concessions and services must be explicitly negotiated. The new investment law provides for tax holidays and exemptions on duties, as well as guaranties for the remission of profits. Despite the new legislation, poor infrastructure, lack of financial services and complex foreign exchange regulations, including Law No. 24 which criminalizes unauthorized foreign exchange transactions, continue to pose practical barriers. Joint ventures with the Syrian government continue to be encouraged.

Service barriers exist for banking, insurance, telecommunications, advertisment and other service industries which are reserved for the public sector. Motion pictures are distributed by a government agency and subject to censorship.

Government procurement procedures pose special problems. Although foreign exchange constraints have eased, many public sector companies continue to favor barter arrangements not attractive to American suppliers. Formerly, bids on government tenders were considered to be indefinitely valid and letters of credit to secure bid bonds were not released until as much as four years after contract signing. Moreover, performance bonds were not released until the entire shipment had been received. Now, in most cases, proportional payment of performance bonds is permitted. Tenders for wheat and flour stipulate that bids are invalidated after one month if no contract is signed. Most other government tenders include a clause allowing the bidder to cancel his bid at six month intervals, provided written notice is received within a stipulated timeframe. If such a clause is not included in the tender, it can often be negotiated. Problems remain in the prompt return of performance bonds and some Syrian public sector entities have been known to engage in unfair or questionable practices.

Syria participates in the Arab League boycott of Israel. All Syrian Government tenders contain language unacceptable under U.S. anti-boycott law. In many cases, public sector agencies accept positive certification from U.S. companies in response to tender application questions. U.S. companies wishing to respond to Syrian Government tenders are well advised to contact the U.S. Department of Commerce Anti-boycott Compliance Office.

Petroleum exploration and oil service companies operating in Syria are required to convert their local currency expenditures at the over-valued official exchange rate. Despite cost recovery schemes, this requirement has inflated local expenditures of companies and increased their cost of risk. 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. In principle only Syrians may own land. The right to repatriation of capital is legally recognized. However, the new investment law requires that the foreign exchange repatriated be generated from company operations.

Given the centralized structure, specific "buy national" laws do not exist. Goods not produced locally or in insufficient quantities, public sector importing agencies procure from the international market, provided foreign exchange is allocated by the Supreme Economic Council.

6. Export Subsidies Policies

In recent years, the Government has tightened the access of official importing agencies and state enterprises to official foreign exchange reserves. However, recent government decisions allowing public sector companies to transact exports and imports at the "Neighboring Country" rate have improved the foreign exchange position of these companies. Neither export financing nor subsidies are available to either the public or the private sectors. In the past, the system of multiple exchange rates had little or no impact on the level of exports, inasmuch as exporters resorted to unofficial channels where applicable rates did not offer adequate incentives. The recent shift to the official parallel or "Neighboring Country" rate has encouraged both exports and imports to be transacted through official channels. Under the foreign exchange retention system, private sector exporters of agricultural products are permitted to apply 50 percent of foreign exchange proceeds to the purchase of agricultural vehicles, an important incentive in a country which does not permit private sector commercial imports of vehicles.

7. Protection of U.S. Intellectual Property

Syria is a member of the Paris Convention for the Protection of Industrial Property, but has no trademark or copyright laws.

Due to the unsophisticated industrial structure and existing limits on private industry, There are few major infringement problems. Local courts would likely give plaintiffs a fair hearing, but any financial award would be in Syrian pounds.

Most books printed in Syria are in Arabic and by Arab authors. The publishing industry is not well developed. Despite the lack of legal protection, major commercial infringements do not appear to be a problem. There are, however, individual entrepreneurs who copy and sell records, cassettes and videos. These operations are not sanctioned by the Syrian Government. The amount of lost revenue is probably minimal. Enforcement and the associated litigation would be extremely costly.

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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.

Given the lack of technical sophistication of Syrian industry and strict government control of communications and data processing, infringements on new technologies are not a problem.

8. Worker Rights

a. The Right of Association

The 1973 Constitution provides for the right to form trade unions. Although the Syrian 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. Effectively, workers are not free to form labor unions independent of the government-prescribed structure. While strikes are not prohibited (except in the agricultural sector), in practice they are effectively discouraged. There were no reported strikes in 1991, as there were none in 1990.

In its 1991 report, the International Labor Organization's Committee of Experts also referred to a number of observations dealing with the single trade union requirement; restrictions on the right of foreign workers to join or form trade unions of their own choosing; government supervision of trade union finances; the requirement that workers spend at least 6 months in a given occupation before becoming eligible for trade union office; and the prohibition of strikes in the agricultural sector.

b. Right to Organize and Bargain Collectively

In the public sector unions do not normally bargain collectively on wage issues, but there is some evidence that union representatives participate with the representatives of the respective employer and ministry in establishing sectoral minimum wages, according to legally prescribed cost of living levels. Workers make up the majority of each board of directors in public enterprises and union representation is always included on those boards. Unions 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. The unions, under the law, can undertake negotiations for collective contracts with employers. Generally wages in the private sector are set through annual consultations among Government, business and labor representatives. Workers are protected by law from antiunion discrimination, and there are no reports of it being practiced (see also section 8.e.)

c. Prohibition of Forced or Compulsory Labor

There is no law in Syria banning forced or compulsory labor. There are a few instances in which such punishment can

be imposed as punishment, usually in connection with prison sentences for criminal offenses.

d. Minimum Age for Employment of Children

The minimum employment age in the predominant public sector is fourteen, though it is higher in certain industries. The minimum age varies more widely in the private sector; the absolute minimum age is 12, while parental permission is required for children under age 16 to work. Children are forbidden to work at night.

e. Acceptable Conditions of Work

The Government legislatively establishes minimum and maximum wage limits in the public sector, and sets limits on maximum allowable overtime for public sector employees. There is no single minimum wage in the private sector for permanent employees. According to the 1959 Labor Law, minimum wage levels in the private sector are set by sector and are fixed by the Minister of Social Affairs and Labor. Recommendations are put to him by a committee, including representatives of the Ministries of Industry and Economy as well as representatives of the employers' association and the employees' unions. In practice, private sector monthly minima are not less than that in the public sector. In both the public and private sectors, the Ministry of Social Affairs and Labor is responsible for enforcing minium wage levels.

The 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. A special department of the Social Security establishment works, through its regional branches, with inspectors at the Ministries of Health and Labor to ensure compliance with safety standards. In addition, workers may file suit against their employers if dangerous conditions on their jobs threaten their health. Guest workers theoretically receive the same benefits but are often reluctant to press claims because workers' permits may be withdrawn at any time. Moreover, many work illegally and are not covered by the official system.

f. Rights in Sectors with U.S. Investment

There is no direct U.S. investment, other than oil exploration and development, in Syria. U.S. firms are required to comply with Syrian labor law.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category		Amount
Petroleum		(D)
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		2
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, August 1991

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Key Economic Indicators

(All figures are in Millions of Dinar)

	1989 revised	1990 revised	1991 revised
Income, Production, Employment			
Real GDP (1989 base year)	8,924	9,504	9,770
Real GDP growth rate	3.5	6.5	2.8
GDP by sector			
Agriculture	1,075	1,363	1,525
Manufacturing Industries	1,283	1,391	1,459
Non-manufacturing Industries	1,272	1,272	1,322
Tourism	363	363	240
Services	2,754	2,878	2,947
Real per capita income	1,130	1,188	1,191
Labor force (mil)	2.35	2.39	2.44
Unemployment rate	N/A	N/A	N/A
Money and Prices			
Money Supply (M1)	2,494	2,643	2,807
Commercial Interest rates (pct.)		Up to 14	
Savings rate (pct.)		Average 8	
Investment rate (pct.)		Up to 14	
Consumer Price Index	154.9	165.0	178.2
Wholesale Price Index	N/A	N/A	N/A
Official exchange rate	1.05	1.15	1.10
Balance of Payments and Trade			
Total Exports FOB	4,254	4,592	4,689
Exports to US	64.9	27.9	N/A
Total Imports CIF	4,634	5,385	5,364
Imports from US	211.9	251.9	N/A
Aid from US	77.9	81.1	19.4
Aid from other countries	N/A	N/A	N/A
External Public Debt	5,350	5,730	6,682
Debt service payments	1,106	1,088	1,218
Gold Reserves	3.8	4.3	4.2
Foreign Exchange Reserves	831	622	540
Balance of Payments	92	-73	-150

1. General Policy Framework

The Tunisian economy weathered the worst effects of the Gulf crisis better than most observers expected. In spite of a lackluster tourist season, real GDP will grow nearly 3 percent in 1991. The growth is almost entirely due to a 12 percent expansion in the agricultural sector, which saw record crops in hard wheat and olive oil.

The 27.5 percent drop in tourism revenues, Tunisia's largest source of foreign exchange, accentuated the Government of Tunisia's concerns about the vulnerability of its hard currency reserves. The 1990 trade deficit was $662 million.

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While reserves were down as low as 17 days import cover in early 1991, they rebounded to 45 days import cover by the end of September. In 1991 the Tunisian government imposed a 5 percent surcharge on all imports for one year and deferred some capital spending projects until 1992 in an effort to conserve foreign exchange. These measures have helped. Exports, led by increases in agricultural products and textiles, will increase about 15 percent in 1991. Slowed by the across-the-board surcharge levied on all imports and decreased demand for agricultural imports, merchandise imports will increase 2 to 3 percent in 1991. The Government of Tunisia is forecasting that the current account deficit will be about $660 million in 1991. In order to maintain foreign exchange reserves, Tunisia is drawing on its IMF facility (which it did not utilize in 1990) and making more use of government-to-government lines of credit.

Fiscal Policy: The 1992 budget is still being formulated. In previous years the budget deficit has ranged from 3.5 to 3.9 percent of GDP.

Tunisia is still grappling with the problem of the general subsidy fund (Caisse Generale de Compensation) which holds down the price of basic products such as blended cooking oil, sugar, tea and cereals and fertilizers. The fund has been in operation for 20 years and initially cost the government about 4 Million Dinars (MD) a year to operate. This has now swollen to about 400 MD each year, a heavy burden on the budget. The Tunisian government has allowed the prices of subsidized goods to rise about 10 percent each year, but the economic and social conditions of a large portion of the population make it virtually impossible for the government to remove or drastically reduce the subsidies in the near future.

Tunisian legislation on investment applies equally to domestic and foreign investors and attractive tax breaks are among the investment incentives geared to encouraging exports of manufactured goods. Early laws were updated and codified in 1987 into the Industrial Investment Law. This applies to investments made by Tunisian or foreign promoters, whether resident or non-resident, or by any combination of the above, in manufacturing industries producing either totally or partially for export. The law contains very generous fiscal and customs advantages. It provides non-residents with a transfer guarantee for capital invested through the import of foreign convertible currency and income from the capital. Companies are considered non-resident when at least 66 percent of their capital is held by Tunisian or foreign non-residents.

Similar legislation exists for investment in the agricultural sector, although Tunisian law still prohibits ownership of land by non Tunisians. A special 40-year land lease system permits agricultural development by foreign companies. New legislation for the tourism and service industries providing similar advantages has recently been enacted.

A Bilateral Investment Treaty between the United States and Tunisia was signed during President Ben Ali's visit to Washington in May 1990. The Treaty contains provisions on

national treatment of American companies in Tunisia, expropriation, remittance of profits and international arbitration of disputes. It is awaiting final ratification by the U.S. Senate.

Late in 1989 the United States and Tunisia signed a Double Taxation Treaty, under which both countries have agreed to avoid double taxation on corporations or individuals active in both countries. The treaty went into effect January 1, 1991.

Monetary Policy: The Central Bank (BCT)'s principal objective over the past several years has been to control inflation. Because rigidities in the production apparatus mean that too much liquidity quickly translates into higher prices, the BCT's primary target is broad money (M-2) growth. Central Bank authorities cite preservation of business profit margins, stability of the dinar (non-convertible but floating), and maintenance of export competitiveness as benefits of an anti-inflationary policy. Since 1987, the inflation rate has varied from 6 to 8 percent.

The BCT is working on financial sector reform. Interest rates have been freed up, subsidized loans to priority sectors have decreased, inter-bank competition has increased and an active money market is developing. Stock-exchange operations have been reorganized and privatization of public companies in non-strategic sectors is going ahead. The sale of nearly 30 companies has so far raised about $115 million.

2. Exchange Rate Policies

Convertibility of the dinar is a key objective in the overall plan for liberalization of the Tunisian economy. Currently, the exchange rate is determined via a controlled floating system, calculated on a basket of currencies. Daily rates are fixed for all major currencies. The principal currencies quoted against the Tunisian dinar (TD) are the U.S. dollar, the Deutsch mark, and the French franc. Rates against the U.S. dollar have varied considerably over the past 10 years as follows: in 1979, one Tunisian dinar equaled 2.47 U.S. dollars (US$). By 1984 the rate had dropped to 1.29 US$ to 1 TD and for 1991 the rate will average about 1.07 to 1 TD. Export and import of the Tunisian dinar are prohibited. Foreign payments are made in convertible currency via the Central Bank or through foreign-held accounts in the form of convertible Tunisian dinars. Foreign accounts holding convertible dinars or convertible foreign currency may be held by non residents, Tunisian or otherwise. These accounts may be debited with any payment made in Tunisia, with transfers to other foreign accounts, with purchases of foreign convertible currency at the Central Bank, and with foreign transfers to non-residents.

3. Structural Policies

After a severe balance of payments crisis in 1986 when foreign exchange reserves dipped to only 26 MD, an IMF- and World Bank-backed structural adjustment program was

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introduced. The plan based expansion on increased foreign trade earnings from the export of manufactured goods. The dinar was devalued and extensive cuts in customs tariffs were made, boosting both exports and imports. The readjustment plan has been very successful, helping Tunisia through continuing difficulties since 1986. The economy has been diversified, allowing Tunisia to face the worst drought in recent history in one year, and a significant fall in tourism revenues in another while still meeting all of its foreign commitments. Exports of manufactured goods have increased considerably and despite rapidly rising imports to fuel growth, the current balance deficit has been kept within reasonable bounds.

About 15 percent of the workforce is jobless in urban areas and this rises to nearly 30 percent in some parts of the country. (The latest official employment rate, based on 1989 figures, is 13.4 percent). Over 70,000 new candidates for employment enter the job market each year, and nearly 50,000 non-agricultural jobs must be created annually if the overall unemployment figure is to be kept in check. Notwithstanding some effective job training programs, this target remains tantalizingly out of reach for the government. Despite the introduction of very favorable legislation to encourage job creation through investment in the industrial, agricultural and tourist industries, total investment levels remain disappointingly low. According to some investors, elements of the Labor Code continue to act as barriers to investment. The Labor Code governs labor practices in Tunisia, including minimum wages, length of work week, and employee dismissal.

Import regulations have been relaxed considerably to stimulate economic expansion based by the export of manufactured goods. The import of raw materials and semi-finished goods has been liberalized. Customs tariffs on imports of capital goods have been cut considerably, with the maximum customs tariff in effect being reduced to 25 percent from 220 percent. Total taxes on imported goods have not, however, been slashed by such levels. A value added tax (VAT) introduced in 1988 is payable on imported items at rates identical to those on locally produced goods. Another major aspect to structural reform has been the overhaul of Tunisia's tax system. In 1991, the ceiling on corporate income tax was reduced to 35 percent.

Tax Policies: The only taxes having significant effect on U.S. exports to Tunisia are import tariffs. The current maximum tariff in operation is 43 percent and this will be reduced to a maximum of 25 percent on all except a few luxury goods by the end of 1991.

Tunisia acceded to the GATT in 1990. All taxes now remaining on imports also apply to locally produced goods and are not therefore considered to be tariff barriers. The only additional minor charge on imports is a very small customs user fee. The present rate is two TD per declaration. Important tax breaks exist for both Tunisians and foreigners investing in industrial production, agriculture, tourism and services. The different investment codes grant greatly improved conditions for companies producing for export, particularly non-resident enterprises. Regulations

effectively create free zone conditions, duty free imports, tax exemptions, and generous repatriation terms. Special regulations encourage oil exploration by foreign companies (the largest area of U.S. investment) and the installation of offshore banks. Citibank operates both on and offshore facilities in Tunisia.

Regulatory Policies: Production standards are not a major obstacle for foreign investors. The quality of goods manufactured solely for export, usually by foreign operated companies, is clearly superior to items produced for the local market. The Tunisian Office for Commercial Expansion (Office Tunisian de l'Expansion Commerciale - OFITEC) carries out control procedures on items for export (packing, quality, labeling). Sanitary and health controls are carried out on both exported and imported food items.

4. Debt Management

The BCT closely monitors the level of external debt. The Central Bank is concerned with keeping external debt as low as possible. In 1990, when hard currency reserves reached 77 days import cover, the BCT preferred to use its own foreign exchange to pay for imports rather than fully access concessionary lines of credit from its trading partners. With this year's foreign exchange crunch, this policy no longer prevails and the BCT has been encouraging the use of concessionary lines of credit. External debt is about 55 percent of GDP (using IMF figures). The debt service ratio (debt service to exports of goods and services) has fallen significantly since 1986 and was approximately 22 percent in 1990.

5. Significant Barriers to U.S. Exports

Although there are no significant barriers to U.S. exports in Tunisia, sales of American products remain low. Tunisia has bilateral trade agreements with all its major European partners, almost all of whom link supplier credits to generous aid programs. Without similar facilities backing U.S. exports, it is difficult for U.S. firms to make real inroads into the Tunisian market. Tunisia's leading supplier in 1990 was France ($1,552 million), followed by Italy ($851 million), and West Germany ($693 million). The United States was in fourth place with $302 million (Tunisian government figures). Agricultural products, such as wheat, corn, barley and sorghum (much of it financed by U.S. aid and export credit programs), accounted for just over 50 percent of U.S. exports.

Real possibilities for increasing non-agricultural U.S. exports do exist in several areas. The United States is already well represented in mechanical and electronic equipment, military hardware, and raw materials for the fertilizer industry. Nevertheless, the lack of competitive financing remains a major barrier.

The Tunisian-American Chamber of Commerce, based in Tunis, was formed in 1989 and organizes trade and investment activities focusing on the U.S.

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Countertrade represents only a small part of Tunisia's foreign trade. About 10 percent of goods are traded in this way, mostly with Eastern bloc countries. Countertrading was introduced primarily to find outlets for Tunisian phosphates in depressed world markets.

6. Export Subsidies Policies

Tunisia has a wide range of export subsidy policies, including a special Export Promotion Fund (FOPRODEX). FOPRODEX provides preferential financing and funding to improve the productivity and competitiveness of companies producing for export. Transport subsidies include 50 percent for air freight and 33 percent for sea freight. There is a program providing long-term financing for exports of capital goods and durable consumer goods.

A government agency to promote exports, the Export Promotion Centre (CEPEX), also exists. CEPEX was created over 15 years ago but has only recently begun to play a really active role in Tunisia's export drive.

7. Protection of U.S. Intellectual Property

Tunisia is a member of the World Intellectual Property Organization and a signatory of the UNCTAD agreement on the protection of patents and trademarks. The National Institute for Standardization and Industrial Property (INORPI) is responsible for these matters in Tunisia. The Institute was created in 1982 and regulates standardization, product quality, weights and measures and the protection of industrial property. Foreign patents and trademarks are registered with this organization.

There are no active cases of IPR disputes with Tunisia. However, unauthorized use of foreign trademarks (particularly for cheap copies of clothing and sporting goods) is a frequent practice, as is unauthorized duplication of music and video cassettes.

8. Worker Rights

a. Right of Association

The Tunisian Constitution and the Labor Code stipulate the right of workers to form unions, a right which is freely exercised. Civil servants and employees of state-owned enterprises are heavily unionized. Unions, including civil servants, have the right to strike, provided 10 days advance notice is given and the central labor federation approves. Although 90 percent of strikes in the first 6 months of 1991 were technically illegal, the Government took no legal action against the strikers.

b. The Right to Organize and Bargain Collectively

The right to organize and bargain collectively is

protected by law and practiced throughout the country. Wages and working conditions in Tunisia are set through the negotiation of approximately 45 collective bargaining agreements which set standards applicable to entire economic sectors. The Government's role in concluding these agreements is minimal. It has, however, lent its good offices if talks appear to be stalled. The Government must approve the collective bargaining agreements (though it cannot modify them) and publish them in the official journal before these agreements acquire legal validity. The law prohibits antiunion discrimination and establishes mechanisms for resolving such complaints. However, the Central Labor Federation (the UGTT), has complained about antiunion activities by private employees. Workers in export firms have the same right to organize, bargain collectively, and to strike as those in non-export firms. The unionization rate is about the same in these firms as in the country at large.

c. Prohibition of Forced or Compulsory Labor

Compulsory labor is prohibited by law and is not practiced.

d. Minimum Age for Employment of Children

For manufacturing, the minimum age for employment is 15 years; in agriculture it is 13. Inspectors from the Social Affairs Ministry check the records of employees to verify that the employer complies with the minimum age law. Despite this law, young children often perform agricultural work in rural areas and sell food and other items in urban areas. The UGTT has expressed concern that child labor, frequently disguised as apprenticeship, has become more widespread in recent years.

e. Acceptable Conditions of Work

Tunisia has a Labor Code dating from independence in 1956 that sets standards, including a maximum 48-hour workweek and a minimum wage. Regional labor inspectors are responsible for enforcing standards. Most firms are inspected about once a year. However, in general the government does not enforce the minimum wage law, particularly in the nonunionized sectors of the economy. Moreover, a considerable amount of labor takes place in the informal sector, and as such falls outside the purview of labor legislation. The Social Affairs Ministry is responsible for enforcing worker health and safety regulations. Enforcement is better in Tunis than in the countryside and standards tend to be higher in the export sector.

f. Rights in Sectors with U.S. Investment

U. S. investment in Tunisia is not significant. It exists primarily in the petroleum sector which has both union and nonunion firms. Many foreign firms, incorporated under special tax incentive privileges, often negotiate special agreements which prohibit their employees forming unions.

TUNISIA

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category		Amount
Petroleum		35
Total Manufacturing		(D)
Food & Kindred Products	(D)	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	2	
Other Manufacturing	0	
Wholesale Trade		(D)
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, August 1991

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Key Economic Indicators

(In Millions of U.S. Dollars Unless Otherwise Indicated)

	1989	1990	1991 (projected)
Income, Production, and Employment			
GDP	27,988	34,243	33,097
GDP Growth Rate (pct)	-17.4	22.3	-3.4
GDP by Sector:			
Oil	10,593	15,699	13,130
Non-oil	17,421	18,544	19,967
Government Services	3,363	3,521	N/A
Wholesale/Retail Trade, Hotel and Restaurant	2,921	3,074	N/A
Manufacturing	2,266	2,518	N/A
Building and Construction	2,457	2,720	N/A
Finance & Insurance	1,420	1,709	N/A
Transport, Storage and Communications	1,392	1,615	N/A
Real Estate	1,501	1,869	N/A
Water & Electricity	601	630	N/A
Other	928	-	-
Per Capita Income in US$	16,788	20,143	18,387
Size of Labor Force (000)	654.8	680.1	690.0
Unemployment	Nil	Nil	Nil
Money and Prices			
Money Supply (M1)	2,805	2,942	3,000
Commercial Interest Rates (pct)	11.5	11.5	11.5
Savings Rate	N/A	N/A	N/A
Investment Rate	N/A	N/A	N/A
Consumer Price Index	N/A	N/A	N/A
Wholesale Price Index	N/A	N/A	N/A
Exchange Rate Dirhams/US$	3.671	3.671	3.671
Balance of Payments and Trade			
Total Exports (FOB)	15,398	21,349	19,906
Total Exports to U.S.	685	888	850
Total Imports (CIF)	10,133	11,713	12,258
Total Imports from U.S.	1,240	998	1,600
Aid from U.S.	0	0	0
Aid from Other Countries	0	0	0
External Federal Public Debt	0	0	0
Annual Debt Service Payments	0	0	0
Gold	184.6	181.8	181.8
Central Bank Foreign Exchange Reserves	4,528.5	4,583.9	4,700.0

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Balance of Payments	1,495.1	(-294.8)	674.2

1. General Policy Framework

For the last two decades the economy of the United Arab Emirates (UAE) has been based on oil, which has brought tremendous wealth to this small nation. Expressed in simplest terms, when oil revenues increase, the economy grows, as does the demand for imports. When oil revenues fall, the economy slows, and imports generally decline in turn. Oil earnings are expected to increase markedly in coming years, as the UAE has recently embarked on a major program to expand production capacity.

Oil, however, is by no means the only important sector of the economy since the government, manufacturing, services, and construction sectors also contribute substantially to GDP. Government spending, especially for construction, moderated the impact of the economic slowdown in the non-oil sectors during the recent Gulf crisis.

In spite of significant achievements in diversifying the economy in recent years, the economy remains oil-driven. While current oil revenues are the primary determinant of economic activity in the UAE, the country's sizable holdings of foreign exchange reserves accumulated from surplus oil revenues in past years can help temper the effects of fluctuating oil earnings by financing deficit spending when necessary.

Aside from the vast oil and financial reserves, the UAE's economy is largely characterized by an absence of government interference. Traditionally the UAE has provided a classic model of laissez-faire economics, with a maximum of freedom and openness and a minimum of governmental regulation or interference in business, trade, investment, and finance. This has been true at both the emirate as well as the federal level; however, in recent years the UAE has been working gradually to develop a legal framework establishing guidelines for the business environment. An example of such legislation is the new companies law, which is slated to go into effect in the near future, although implementation has already been postponed on several occasions. Under the UAE Constitution, the individual emirates enjoy substantial independence in their economic policies, which may not be the same in each emirate.

The UAE has experienced federal budget deficits in recent years, primarily due to shortfalls in the contributions made by the individual emirates to the federal government, which is heavily dependent on them for funding. A major problem has been the huge disparity between revenues of the oil rich emirates (Abu Dhabi and Dubai) and the less well off northern emirates, which by and large lack such resources. The reasons for the deficit are more political rather than economic, and because of the substantial wealth of the UAE, the deficit has little practical significance. The federal deficit is financed through borrowing from the Emirate of Abu Dhabi, which probably has a budget at least as large as the federal

budget, although emirate budgets are not published.

Taxes are practically unknown in the UAE, since oil revenues, and to a lesser extent, service fees provide most funding for government expenditures. Although oil companies are taxed on their revenues, the UAE has no income, sales, property, or value added taxes per se; therefore, it is not practical to use tax policy to regulate the economy. Customs duties are nonexistent or extremely low on all items except for alcohol and tobacco.

Special incentives are offered for foreign investors, especially in the free trade zones. Many of these are also offered to local investors.

The money supply is controlled very loosely by the central bank and few monetary policy instruments are available. The central bank theoretically has authority to adjust reserve requirements, but it has seldom used this as a tool to regulate the economy. The UAE economy, including the financial sector, is influenced to a large extent by external forces beyond its control. During the period of financial uncertainty immediately following the invasion of Kuwait in August 1990, the central bank acted effectively to increase liquidity and maintain confidence in the banking sector.

2. Exchange Rate Policies

The official exchange rate is pegged at 3.671 dirhams per dollar and the dirham is freely convertible. The UAE has no foreign exchange controls. The fact that the dirham is pegged to the dollar makes U.S. exports more competitive vis-a-vis exports from many other countries as the value of the dollar declines, and the converse is also true.

3. Structural Policies

Purchasing decisions in the private and public sector are made primarily on the basis of price and quality, although personal contact and rapport with the customer are also important factors. Government purchases are made through competitive tenders. The Government is opposed in principle to controls/subsidies that affect prices; however, two notable exceptions are electricity and water. Neither of these subsidies has a particularly detrimental effect on U.S. exports.

The UAE remains essentially a tax-free country, with no basic changes in this policy occurring during the last two years, although government fee collections have increased.

Government regulatory policies do not adversely affect the market for U.S. exports. The government has no production standards or input price controls that would influence the direction or character of investment.

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4. Debt Management Policies

Because of the substantial revenues generated from the UAE's vast oil wealth, the federal government and wealthy emirates have been able to finance rapid growth internally and to maintain a high standard of living without the necessity of overseas borrowing. Due to this wealth and limited investment opportunities domestically, the UAE has been a net creditor to the world economy. It has also extended aid to a number of developing countries. While the government's portfolio inevitably contains a number of non-performing loans, funds have been generally disbursed based on sound financial criteria and project management principles. Some of the less well-off emirates have borrowed funds from abroad.

5. Significant Barriers to U.S. Exports

Import licenses are required for certain products. Their stated purpose is to assure that only companies qualified to trade in these items are engaged in such transactions. U.S. exporters have not been disadvantaged by these requirements.

The Central Bank must approve all bank applications to establish operations in the UAE. Currently the UAE believes that the country is over-banked (there are over 48 banks operating in the UAE), and the Central Bank has adopted a policy of not accepting applications for new foreign or domestic banks to operate in the UAE. Foreign insurance companies and foreign law firms are permitted to operate in the UAE, subject to approval by the appropriate authorities.

Although the UAE sets regulations on standards, testing, labelling, and certification, these are not particularly onerous and generally do not constitute significant barriers to trade. The British Civil Aviation Authority standards adopted by the UAE, however, are widely considered as biased against American aircraft manufacturers.

Except for companies in the free trade zones, mainly in Jebel Ali, there are limits to foreign equity participation, with the UAE joint venture partner required to hold at least a 51 percent share in a project. There are no formal governmental restrictions on employment of foreign personnel. However, the UAE strongly encourages filling senior positions with qualified UAE nationals whenever possible. The government must grant approval for all foreign investments, but this is not normally an obstacle. All businesses, whether joint ventures or fully owned by UAE nationals, have to be approved by the appropriate governmental authority. Land ownership in the UAE is reserved for nationals and in some cases citizens of other GCC countries.

Buy-UAE laws are not very effective in the UAE since out of necessity the UAE depends heavily on imports. Nevertheless, there is a slight bias in favor of products or services provided by UAE companies when available.

The UAE is in the process of setting up an ambitious offset program which will require foreign contractors bidding on major products in the military sector to develop plans for

returning a significant portion of their profits in the form of offset investments. Although the program is slated to be expanded eventually into non-military procurements, it is still in the very early formative stages. The offset program is strictly commercial and will apply a number of innovative concepts, including assigning weighted values to offsets corresponding to their relative desirability, allowing some overseas investments to count in meeting offset requirements, and permitting offset rights to be sold through a market mechanism. It is too early to say how effective the offset program will be.

The UAE participates in the Arab League economic boycott of Israel, which prohibits direct trade with Israel, as well as transactions with third country firms found to have certain economic relationships with Israel. Boycott-related conditions appear in tender documents, agency agreements, and letters of credit. In many instances exporters are able to transact business despite the conflict of the Arab boycott requirements and U.S. anti-boycott legislation. In general, normal trade dealings are unaffected by the boycott and many U.S. companies sell successfully to both Israel and the UAE.

6. Export Subsidies Policies

The Government does not have a policy of subsidizing exports. However, domestic subsidies exist for finance, electricity, water and, during the Gulf Crisis, refined petroleum products in the northern emirates. These subsidies are not earmarked for exporters.

Subsidies are also provided to farmers and fishermen to promote local agriculture. They are aimed mainly at achieving self-sufficiency in agriculture, not boosting exports.

7. Protection of U.S. Intellectual Property

Although protection of intellectual property rights is a relatively new area of concern for the UAE, there is growing awareness among senior officials of the problem and considerable progress has been made during the past year. U.S.-UAE IPR consultations held in the UAE in July 1991 were very useful in focusing high-level attention on the issue. Draft federal laws on copyrights, patents, and trademarks are being prepared, and the Ministry of Information recently announced that it expects a draft copyright law to be enacted within the next several months. A decree issued in 1990 bans the sale of pirated video tapes of television shows. Trademarks are provided some degree of protection by the federal agencies law and regulations in some emirates. However, sales of pirated video tapes, computer software, books, and other counterfeit products, are still widespread in the UAE. Infringement of new technologies is a problem primarily in the area of satellite signal piracy and cable television. The UAE has indicated a willingness to cooperate with other countries on IPR issues, both through the GCC and bilaterally.

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8. Worker Rights

a. The Right of Association

No law permits the right to organize unions or strike. It is a criminal offense for public sector workers to strike. There are no unions and no strikes.

b. The Right to Organize and Bargain Collectively

There is no legal provision for the right to engage in collective bargaining. Work-related disputes are handled by conciliation committees organized by the Government and labor courts.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is illegal and not practiced.

d. Minimum Age of Employment of Children

Employment of persons under 15 years old is prohibited and special provisions exist for those 15 to 18. There is compulsory education until the age of 12. There is virtually no child labor in the UAE.

e. Acceptable Conditions of Work

There is no official minimum wage but the Labor and Social Affairs Ministry reviews all contracts and disapproves those it deems unfair. Work hours are restricted to eight hours per day, six days per week, but these standards are not strictly enforced.

The Government sets health and safety standards. Every large industrial concern is required to employ an occupational safety officer certified by the Ministry of Labor. Due to understaffing and underbudgeting, the Labor Ministry has a backlog of worker complaints. Domestic and agricultural workers are not covered by the Labor Code. Foreign workers, of whom there are many, have access to the Labor Ministry and the courts to resolve grievances. Foreign workers must have permission from the previous employer to change jobs and abuses by recruiters have been reported.

f. Rights in Sectors with U.S. Investment

Worker rights in sectors where U.S. investment exists follow prevailing practices under UAE labor law, and conditions do not vary from sector to sector. High level white collar employees are an exception; they enjoy salary and other benefits equivalent or superior to what they could expect in the U.S.

UNITED ARAB EMIRATES

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on a Historical-Cost Basis - 1990
(Millions of U.S. dollars)

Category		Amount
Petroleum		(D)
Total Manufacturing		13
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	(D)	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	(D)	
Wholesale Trade		49
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business
August 1991, Vol. 71, No. 8, Table 11.3