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COUNTRY REPORTS ON ECONOMIC POLICY AND TRADE PRACTICES

REPORT

SUBMITTED TO THE

COMMITTEE ON FOREIGN AFFAIRS, COMMITTEE ON WAYS AND MEANS

OF THE

U.S. HOUSE OF REPRESENTATIVES

AND THE

COMMITTEE ON FOREIGN RELATIONS, COMMITTEE ON FINANCE

OF THE

U.S. SENATE

BY THE

DEPARTMENT OF STATE

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

FEBRUARY 1993

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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 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 of, and interest in, trade and economic issues, these reports are prepared to assist members in considering legislation in the areas of trade and economic policy.

LEE H. HAMILTON,
Chairman, Committee on Foreign Affairs.

DAN ROSTENKOWSKI,
Chairman, Committee on Ways and Means.

CLAIBORNE PELL,
Chairman, Committee on Foreign Relations.

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Chairman, Committee on Finance.

LETTER OF SUBMITTAL

DEPARTMENT OF STATE,
Washington, DC, January 15, 1993.

Hon. LEE H. HAMILTON,
Chairman, Committee on Foreign Affairs.

Hon. DAN ROSTENKOWSKI,
Chairman, Committee on Ways and Means.

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

Hon. THOMAS S. FOLEY,
Speaker, House of Representatives.

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

Hon. LLOYD BENTSEN,
Chairman, Committee on Finance.

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 United States has an economic or trade relationship. In this regard, I am pleased to provide the enclosed report.

Sincerely,

ROBERT A. BRADTKE,
Acting Assistant Secretary,
Legislative Affairs.

CONTENTS

COUNTRY REPORTS ON ECONOMIC POLICY AND TRADE PRACTICES

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. As the legislation requires, we have prepared a detailed report on the economic policy and trade practices of each country with which the United States has an economic or trade relationship. We have also included reports on other countries that have relatively small economic and trade relationships with the United States, which may nonetheless interest readers.

This is the Department of State's fifth annual report. The document has grown in coverage and scope since the series began in January 1988. That is a positive development. The foundation for strong and effective U.S. Government trade policies is sound information on trends and policies around the world. We believe these annual reports provide that foundation.

This year's reports reflects a world quite different from that described in last year's report. For example, this year we include reports on the New Independent States of the former Soviet Union -- with the exception of Tajikistan, which was beset by civil conflict during the year. We also reflect the successful conclusion of the North American Free Trade Agreement negotiations, which adds a new factor to the world economic and trade equation.

Each report contains nine sections.

- Key Economic Indicators: Each report begins with a table showing data for key economic indicators in the national income, monetary, and trade accounts.
- General Policy Framework: This first narrative section gives an overview of macroeconomic trends.
- Exchange Rate Policies: The second section describes exchange rate policies and their impact on the price competitiveness of US exports.
- Structural Policies: The third section examines structural policies, highlighting changes that may affect US exports to that country.
- Debt Management Policies: The fourth section describes debt management policies and their implications for trade with the United States.
- Significant Barriers to US Exports and Investment: The fifth section examines significant barriers, formal and informal, to US exports and investment.
- Export Subsidies Policies: The sixth section focuses on government actions, policies, and practices that support exports from that country, including exports by small businesses.

- <u>Protection of US Intellectual Property</u>: The seventh section discusses the country's laws and practices with respect to protection of intellectual property rights.

- <u>Worker Rights</u>: The final section has three parts.

  -- The first (subsections a through e) outlines the country's laws and practices with respect to internationally recognized worker rights.

  -- The second (subsection f) highlights conditions of worker rights in goods-producing sectors where US capital is invested.

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

The country reports are based on information supplied by U.S. Embassies, which is analyzed and reviewed by the Department of State in consultation with other U.S. Government agencies. The reports are intended to serve as general guides to economic conditions in specific countries. We have worked to standardize the reports, but there are unavoidable differences reflecting large variations in data availability. In some countries, the United States has no formal representation. In others, access to reliable data is limited, particularly in countries making transitions to market economies. Nonetheless, each report incorporates the best information currently available.

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 1991 -- 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). Where a figure is negative, the U.S. parent owes money to the affiliate. The table does not necessarily indicate total assets held in each country. In some instances, the narrative refers to investments for which figures may not appear in the table.

Some Frequently-Used Acronyms

ADB - Asian Development Bank
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)

	1990	1991	1992 1/
Income, Production, and Employment			
Nominal GDP	9,073	n/a	n/a
Real GDP growth rate (pct) 2/	2.8	0.5	n/a
GDP by sector (pe.cent share)			
-- oil	57.1	55	n/a
-- other	43	45	n/a
Nominal GDP per capita (dols)	907.3	n/a	n/a
Size of labor force (millions)	4.1	n/a	n/a
Money and Prices			
Money supply (M2)	289.6	n/a	n/a
Consumer price index 5/	6.1	n/a	n/a
Exchange rates (Kz/USdollars)			
- Official	29.92	See 3/	550
- Parallel	n/a	780	n/a
Balance of Payments and Trade (millions dollars			
Total Exports FOB	3,880	3,500	n/a
- Exports to U.S. CIF	1,958	1,786	n/a
Total Imports FOB	1,488	n/a	n/a
- Imports from U.S. FAS	150	188	n/a
Aid from the U.S.	See note 4/		
External debt (including interest arrears)	7,500 *	n/a	8,700
Debt service as percent of exports	182	n/a	n/a
Foreign Exchange reserves [excluding gold]	138	n/a	n/a
Balance of payments on current account	246	n/a	n/a

1/ Estimated
2/ Angola's fiscal year is January 1 - December 31.
3/ The NewKwanza was devalued on several occasions in 1991; the official exchange rate changed several times during the year, finally setting at 550/$1 for 1992.
4/ 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. In addition, the U.S. supplied $17 million in electoral assistance in 1992, and $10 million in development funds for relief/rehabilitation projects.
5/ Official prices

1. General Policy Framework

The Republic of Angola is potentially one of Africa's wealthiest countries. Relatively sparsely populated, it has large hydrocarbon and mineral resources, huge hydroelectric potential, and ample arable land. Civil war between the

ANGOLA

Government of Angola and the insurgent National Union for the Total Independence of Angola (UNITA) from 1975 until May 1991 wreaked havoc and prevented the country from realizing its potential. Analysis of the Angolan economy is seriously limited by inadequate data.

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 socialist economic planning and centralized decisionmaking further hindered development. Only the country's oil sector, jointly run by foreign multinationals and the state oil firm SONANGOL, has remained well-managed and prosperous. Angola is second to Nigeria in Sub-Saharan Africa oil production. Oil accounts for over half of real GDP and 90 percent of exports and 62 percent of budget revenues, and is all that has kept the rest of the economy afloat.

Urban populations, swollen by refugees isolated from their home regions, have subsisted largely on foreign food aid or extensive black markets based on barter and currency dealings. The bulk of the rural population often carves out a living in marginal security, surviving by subsistence farming. Administrative chaos and corruption have vitiated normal economic activity and attempts at reform.

The public sector budget has been perpetually in deficit from the heavy military spending burden. The deficit ballooned to an estimated 30 percent of GDP in 1992. Around half of the country's foreign exchange earnings, at least 40 percent of the budget, and an inordinate proportion of Angola's human resources were spent on the war effort prior to 1991. In addition, ailing state enterprises were supported through heavy subsidies and credit. The deficit has been financed by increasing the money supply; there has been little corresponding improvement in the supply of goods and services. Shortages, price controls, and erosion of confidence in the national currency encouraged black markets and 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. The Accords provided for a UN-supervised ceasefire, the creation of a new, non-partisan national armed force, and free and fair, internationally-monitored elections at the end of September 1992. The ceasefire generally held through most of 1992, and elections were held on September 29-30th. However, the losing party, UNITA, refused to accept the results, and fighting flared. A fragile ceasefire was restored in November, but sporadic fighting has continued, and prospects for renewal of serious negotiations between UNITA and the government are uncertain.

The long-term effects of war, the destruction of infrastructure, and years of economic mismanagement and policy neglect remain to be addressed. The end of conflict should portend economic stabilization and growth, but there appears to be little hope for an immediate "peace dividend." Reconstruction is likely to be a long and arduous process.

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The government has tried to carry out reforms and to restructure the economy along market lines. In 1987, in the framework of an Economic and Financial Reorganization Plan (SEF), it published basic laws on privatization, management of state enterprises, and the role of private investment. The SEF was to promote 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.

The government claims to welcome foreign trade and investment, and is eagerly seeking Western participation in development projects. Barriers to U.S. exports and capital lie not so much in deliberate government policies as in the government's ineffectiveness and and poor management. The oil sector, the only one run in a reasonably systematic and effective manner, and largely isolated from battle (most production is off-shore), 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. Given the country's huge potential, lasting 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 government maintained the official exchange rate for the kwanza, a non-convertible currency, at 29.918/$1. The New Kwanza (NK) replaced the Kwanza at par in September 1990. In March 1991, the government devalued the new currency by 50 percent, the first of several planned devaluations intended to establish a sustainable value for the NK. Subsequent devaluations brought the official exchange rate to NK550/$1 by April 1992. Meanwhile, the National Bank of Angola commenced open trading, allowing citizens and firms to buy and sell foreign exchange at prevailing free market rates, which were several times that of the official rate. Nevertheless, there is little faith in the currency and barter continues to be common for consumer transactions in many parts of the country.

Until April 1991, all legal foreign exchange transactions were handled by the National Bank of Angola. However, subsequent legislation authorized newly formed commercial banks to deal in foreign exchange.

3. Structural Policies

Angolan economic policy was in flux in 1992 as the government moved ahead with reforms, albeit piecemeal. The government abolished price controls and raised prices on foodstuffs. It also attempted to rationalize the tax system, reducing both income and payroll tax rates.

Nevertheless, the IMF and World Bank criticized the government for not going far enough. Specifically, these institutions urged unification of the exchange rates, a sharp slowdown in money supply growth by stopping the printing of money and slashing the public sector deficit, and reducing controls on company profit margins.

Angola is a member of the IMF, but has no IMF structural adjustment program. It also belongs to the World Bank; Bank lending is limited to technical assistance with small projects.

4. Debt Management Policies

The government 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 government scrupulously met its foreign debt commitments, even those contracted prior to independence. Subsequently, however, large payment arrears, now estimated to be over $1 billion, have forced major Western export credit agencies to suspend cover to the country. Total foreign debt is now thought to exceed $8 billion. A substantial part of the debt is owed to the Soviet Union for military purchases during the 16-year civil war.

The government's current economic and financial strategy relies heavily on debt rescheduling. In 1989, Angola joined the IMF and the World Bank. Also in 1989, official medium- and long-term debts were rescheduled under Paris Club auspices. The U.S. EXIM Bank agreed to reschedule $7.1 million of Angolan debt in March 1990.

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

The United States neither recognizes nor maintains diplomatic relations with the Government of Angola. The United States maintains a liaison office in Luanda in conjunction with the its role as an official observer to the Joint Political Military Commission (JPMC) overseeing implementation of the Peace Accords. The office has no personnel to analyse economic and trade conditions.

The potential for U.S. exports to Angola has been constrained by U.S. laws or policies which prohibited the following:

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

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

By late 1992, legal obstacles to the extension of EXIM cover had been overcome. However, tax credits still await official United States recognition of a government in Angola.

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. They were relaxed after some easing in 1984-85, but reimposed after the 1986 oil price slump. At the end of 1991, hard currency reserves reportedly were reduced to one month's 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 accounted for about half of total purchases through the end of the war in mid-1991. In recent years the government has relied on foreign food aid for a about half of its food imports.

A large part of the country's imports are handled by state trading companies, as are exports, except for foreign companies' shares of oil production. The government has engaged in countertrade with Brazil and Portugal, largely the exchange of oil for imports of goods and services.

Foreign investment is very large in the oil sector and significant in many other areas of the economy. The investment code devised under the government's 1987 economic recovery plan permits mixed companies, joint companies, joint ventures, and wholly owned foreign subsidiaries. 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 government's economic reform package is a foreign exchange retention scheme as an incentive for non-oil export industries.

7. Protection of U.S. Intellectual Property

The Republic of 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.

8. Worker Rights

a. Right of Association

Reversing earlier policy, the new constitution recognizes the right of Angolans to form trade unions and to bargain collectively. During 1992, at least one independent union was formed, the Union of Angolan Journalists. Free labor activity increased in general as employees in individual factories or firms sometimes formed their own workers' committees.

The constitution also provides for the right to strike. Specific legistation passed in 1991 provides the legal framework, including prohibition on lockouts, protection of non-striking workers, and prohibition on worker occupation of places of employment. Strikes by military and police personnel, prison workers, and firemen are prohibited. In 1992 there were numerous strikes, including by hospital personnel and teachers in Luanda. There was no government interference with the walkouts, and settlements were negotiated peacefully.

b. Right to Organize and Bargain Collectively

Constitutional changes gave Angolan workers the right to organize and bargain collectively, although specific laws were still being prepared in 1992. The draft laws reportedly prohibit discrimination against union members. The Ministry of Labor and Social Security controls the setting of wages and benefits. \The Ministry granted significant salary increases following several work stoppages and currency devaluations under the government's economic reform program.

Angola has no export processing zones, although it is reported that a foreign trade zone exists at Labuto.

c. Prohibition of Forced or Compulsory Labor

New labor legislation, still not published, prohibits forced labor, reversing previous policy whereby the government was cited by the International Labor Organization for violations of ILO Convention 105. The government had previously authorized forced labor for breaches of worker discipline and participation in strikes.

d. Minimum Age for Employment of Children

The minimum age for employment in Angola is 16.

e. Acceptable Conditions of Work

No information is available on adequacy of work conditions, but in most cases it is assumed they do not approach western standards given the extreme underdevelopment of the Angolan economy. In 1991 the government established a new minimum monthly wage, but most Angolans supplement it on the thriving informal sector or with remittances from abroad.

The normal workweek is 44 hours.

f. Rights in Sectors with U.S. Investment

U.S. investment in Angola is concentrated 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 an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		-65
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals and 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		(D)

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

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, November 1992

GABON

Key Economic Indicators

(millions of CFA francs unless otherwise noted)

	1990	1991	1992 1/
Income, Production, and Employment			
GDP, current prices (bn CFA)	1,444.2	1,451.5	1,471.9
GDP, pct change, nominal	7.4	0.5	1.4
GDP by sector (percent):			
Primary	9.1	9.2	12.2
Secondary	52.3	50.5	50.8
including extractive	41.8	39.4	40.2
Tertiary	34.4	35.0	37.0
including public admin.	12.0	12.3	13.2
Labor force (thousands)	105.0	100.0	100.0
Money and Prices			
M2 (bn CFA)	287.9	308.0	298.3
Commercial Lending Rate (pct)	18.5	18.2	18.0
Savings Rate (pct)	23.9	24.4	24.0
Investment Rate (pct)	18.9	19.0	26.0
Consumer Price Index	311.8	317.7	317.7
Exchange Rate (avg)	260.0	285.0	250.0
Balance of Payments and Trade (millions US$)			
Exports FOB	2,665.0	2,284.0	N/A
Exports to U.S.	721.2	763.5	N/A
Imports CIF	615.0	702.0	N/A
Imports from U.S.	55.1	79.8	N/A
Aid From U.S. (thousands US$)	163.0	185.0	163.0
External Public Debt	3,499.0	N/A	N/A
Payments Made	N/A	130.0	2/
Debt Service Ratio (pct)	32.5	40.5	36.4
Foreign Exchange Reserves			
Gross	20.0	36.0	5.8
Gold	4.8	4.1	N/A
Balance of Payments			
On Current Account	214.4	290.7	N/A
On Capital Account	-415.4	-370.2	N/A
Basic Balance	-235.1	-79.4	N/A

1/ Those figures reported for 1992 are estimates, drawn in most cases from Central Bank/IMF data. "N/A" indicates that no official estimate is available.

2/ The Government of Gabon has only serviced its debt selectively since the middle of 1989, and virtually discontinued debt service starting in 1990. Although a new stand-by arrangement was signed in September 1991, the Government has found its terms unmanageable. Barely half of the $307.7 million in arrears to be paid under that agreement were paid. As a result, the Paris Club rescheduling has been "pulled back", effectively rendering the standby arrangement null and void.

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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., a uranium "yellowcake" plant located adjacent to the uranium mine at Mounana, in southeastern Gabon, and a 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. Public employment rolls remain swollen and attempts to institute layoffs or even hiring freezes have been unsuccessful. Major tax collection problems continue.

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 Bank of France 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

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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 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. However, these controls appear to be little more than an administrative formality, and there are no known 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 (SMBs) routinely receive tax holidays of 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 high - 85 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.

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.

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 1991. 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 1980s, 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.

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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 standby arrangement subsequently led to reschedulings at the London Club and the Paris Club. The official creditors took a relatively hard line, however, and imposed a rescheduling which required repayment of all outstanding arrears by May 1992. The Gabonese Government was unable to meet this commitment, and the Paris Club arrangement was "pulled back" in September 1992. As of late October, 1992, the Government of Gabon was preparing for its annual Article IV consultation with the IMF staff, which it hoped to use as an opening to begin discussions on a new standby arrangement.

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. In addition, imports of wheat and rice are subject to license. The wheat market is under the control of a French firm, SETUCAF, 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 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 six bidding rounds for exploration leases since the mid-1980's, but continues to sign contracts outside the rounds. Off-round deals are not, however, reserved to French firms, and U.S. companies have recently struck off-round exploration agreements.

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, unless they are willing to make illegal payments for special treatment.

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 is 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. 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.

8. Worker Rights

a. Right of Association

Since the abolition 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; in some cases more than one union compete for members in the same industry. In addition, two other trade union federations have been formed to compete with COSYGA, and one has made significant inroads as a collective bargainer for industrial employers.

b. Right to Organize and Bargain Collectively

With the promulgation of the Constitution of 1991 the right to collective bargaining is secured (Article I, Paragraph 13). Even before its formal passage, however, Gabonese workers had begun to bargain with management outside the COSYGA framework as early as mid-1990.

c. Prohibition of Forced or Compulsory Labor

The Constitution of 1991 guarantees the right to employment (Article I, Paragraph 7). The Labor Code of 1978 forbids forced labor (Article 4).

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d. Minimum Age of Employment for Children

The Labor Code of 1978 (Article 121) sets a minimum age of sixteen years for employment.

e. Acceptable Conditions of Work

Conditions of work in much of in the formal sector in Gabon are reasonably good. Health and safety standards are in place but are not always observed: it is not uncommon to see workers without hard hats or protective footwear in some industrial plants. Most of the firms operating production facilities in Gabon are subsidiaries of or otherwise associated with European or U.S. companies and tend to follow their home-country standards. Conditions in the informal sector and in Gabonese SMBs are less uniform and less acceptable for the workers. The Gabonese authorities, primarily for lack of enforcement capability, do not exercise positive control over working conditions.

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.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		384
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals and 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		384

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

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic analysis, November 1992

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Key Economic Indicators

(Millions of Cedis Unless Otherwise Noted)

	1990	1991	1992 1/
Income, Production and Employment			
Real GDP (1985 prices) 2/	435,700	456,000	n/a
Real GDP Growth (pct)	3.3	5.0	n/a
GDP (at current prices) 2/	2,031,700	2,574,800	n/a
By Sector:			
- Agriculture	972,324	1,252,025	n/a
- Energy and water	36,612	51,951	n/a
- Manufacturing	187,524	225,078	n/a
- Construction	62,211	89,195	n/a
- Rents	m/a	n/a	n/a
- Financial services	78,421	107,392	n/a
- Other services	649,397	800,928	n/a
Real per capita GDP (1985 pounds sterling)	112	129	n/a
Money and Prices			
Money supply (M2)	265,200	325,900	365,000
Base interest rate (pct) 3/	33.0	20.0	26.0
Retail inflation (pct)	35.9	10.3	10.8
Consumer price index (1985 = 100)	418.2	469.8	n/a
Exchange rate (USD/cedi) Official	1/345	1/390	1/520
Balance of Payments & Trade (millions of dollars)			
Total exports FOB 4/	793.4	992.7	1,056.0
Exports to U.S.	168.6	151.6	n/a
Total imports CIF 4/	1,141.2	1,255.0	1,358.0
Imports from U.S.	138.4	142.0	n/a
Aid from U.S.	27.6	38.0	43.0
Aid from other countries	570	970	n/a
External public debt	3,751.0	4,209.0	4,600.0
Debt service payments (paid)	336.8	307.0	383.0
Gold and foreign exchange reserves	320.7	435.0	n/a
Trade balance 4/	-347.8	-301.5	-302.0
Balance with U.S.	30.2	9.6	n/a

1/ 1992 figures are all estimates based on available monthly data in October 1991.
2/ GDP at factor cost.
3/ Figures are actual, average annual interest rates, not changes in them.
4/ Merchandise trade.

1. General Policy Framework

Ghana stands poised in 1993 to restore democratic government after having been ruled for more than ten years by a "provisional" regime (the Provisional National Defense Council or PNDC) whose economic reform policies have had a marked impact on Ghana's fifteen million citizens. Presidential elections in November 1992 were an indicator of public sentiment toward austerity measures adopted in connection with an economic recovery program begun in April 1983. The program was sustained through 1992 by means of a follow-on structural adjustment program supported by the World Bank, the International Monetary Fund, and the donor community.

The election of retired Flight Lieutenant Jerry Rawlings to succeed himself as chief executive is seen by economic decision makers as a mandate for continuing the reform program. The program contributed to a sustained period of economic growth (averaging 5 percent annually) from 1984-1992 and to sharplyreduced inflation. The absence of sharp campaign criticism of the reforms suggests that they enjoy broad public acceptance. Key measures undertaken by the PNDC as part of a structural adjustment program include relaxation of import controls, liberalization of private access to foreign exchange, cuts in public sector employment, initial steps towards privatizing parastatals, rehabilitation of roads, bridges, ports and other elements of basic infrastructure, drastic reduction or elimination of production subsidies, and greater reliance on market mechanisms to set prices and allocate resources.

In many respects, 1992 marked a slowdown in the rate of growth of Ghana's economy as the worldwide recession stifled Ghana's efforts to promote markets for its exports. Forecasters doubt the economy will maintain five percent growth in 1992. A shortfall of between 50,000 and 60,000 metric tons in the 1992 cocoa harvest coupled with soft world prices for several leading exports (gold, cocoa, and aluminum) contributed to a large fiscal gap.

In 1993, Ghana is expected to continue to rely on donor assistance. The government anticipates that democratization will improve its international image, as will increased attention to promoting non-traditional exports (i.e, goods other than cocoa, gold, raw timber, and energy). A major challenge for the new administration will be to dampen public expectations following a political campaign that encouraged many Ghanaians to believe that austerity has become a thing of the past.

Consumer preference for Western goods remains high, but purchasing power is limited by a per capita gross national product of about $390. There are indications of increased U.S. trade interest in Ghana, despite keen competition from Europe and Asia.

Fiscal Policy: Collection of income taxes and customs/excise revenue is set out in the annual budget. A rolling three year public investment plan sets out longer-term priorities. Tax collection by Ghana's internal revenue service has improved markedly. Including foreign grants, Ghana's budget has been in balance or slight surplus in recent years. However, increased salaries and benefits demanded by public sector employees during the latter half of 1992 could put pressure on the budget.

Monetary Policy: Monetary measures have historically had a limited effect on the economy as a result of a weak banking system. The Bank of Ghana (BOG) relies on credit ceilings and adjustments of the discount rate and reserve requirements to influence overall money supply. The annual increase in the money supply is expected to remain close to the 15 percent target in the 1992 budget. The BOG periodically sells controlled volumes of new treasury bills to commercial and merchant banks. However, open market operations are not extensive enough to influence significantly the overall money supply.

Substantial resources circulate outside the formal financial sector, largely as a consequence of low public confidence in the banks, which suffer from a reputation for mismanagement and poor credit administration.

The elected administration assuming power in January 1993 inherits $4.6 billion of external debt, mostly long-term concessional loans from international financial institutions (IFI's). In 1991 Ghana relied on foreign aid to achieve a $130 million balance of payments surplus. In 1991, debt service absorbed 27 percent of the value of Ghanaian exports. Ghana has added its voice to that of other African states seeking international debt relief. However, Ghana remains current on its debt repayment, having eliminated all arrears by mid-1991.

2. Exchange Rate Policies

In March, 1992, Ghana eliminated the Central Bank auction of foreign exchange in the interest of encouraging open sales on the so-called "interbank market." In the absence of a mechanism for forward trading, all foreign exchange is purchased on the spot market. Exchange rates are established daily by the BOG, taking into account current market factors. Banks lacking international affiliates complain of hoarding by their competitors. Large scale demand for foreign exchange is usually satisfied by purchases from the Central Bank made by commercial and merchant banks on behalf of their customers. The BOG retains all hard currency earnings from the sale of cocoa, and a sliding percentage of gold export earnings. At the end of 1991, the official exchange rate was 390 cedis to the dollar; by November 1992 the dollar was officially worth 490 cedis.

The government legalized private foreign exchange bureaus in 1988 and these institutions have flourished in the major cities. The independent, non-bank bureaus serve primarily small businesses buying foreign exchange on a cash basis. The bureaus set their exchange rates without government intervention, normally offering a slight premium on purchases of dollars. The latter half of 1992 saw a general convergence between the Bank of Ghana and the bureaus' exchange rates, with the spread falling to less than five percent. A foreign exchange shortage in the third quarter of 1992 led briefly to a return to limited trading on the parallel market. The Bank of Ghana intervened to correct the shortage and restore equilibrium to the market.

3. Structural Policies

Since 1983, the government has progressively liberalized the economy. Ghana has abolished producer subsidies, and price controls have been eliminated on all but a few items including petroleum products, cement, beer, cigarettes, fertilizers, and selected pesticides.

The government has announced successive reductions in corporate tax rates over the past two years. The top corporate rate for manufacturing industries is 35 percent; for banking, insurance, and publishing the rate is 45 percent. Both rates are down from 50 percent in 1990. While tax rates on personal income in most brackets were lowered, the marginal rate on annual income above $28,000 was raised from 25 to 35 percent. The tariff structure was simplified in 1990 and a flat rate of ten percent was imposed on virtually all categories of imported raw inputs and finished products. Manufacturers complain that the new tariff structure puts local producers at a competitive disadvantage because high production costs raise the prices of locally-manufactured items above the Asian and European goods.

Ghana experimented for one year with a "super sales tax" of up to 500 percent of the fob price on large engine capacity passenger vehicles and luxury consumer goods, but eliminated this tax in January 1992. A sales tax clearance certificate is required from Ghanaian exporters seeking to clear their goods from the port.

4. Debt Management Policies

Ghana's structural adjustment program is supported by the World Bank, IMF, and international donors generally. In December 1991, Ghana completed a three-year IMF Enhanced Structural Adjustment Facility (ESAF). The IMF has agreed to surveillance of the economy at Ghana's request. Ghana's total external debt is valued at $4.6 billion. Ghana succeeded in eliminating its remaining payment arrears by mid-1991 and has not rescheduled official or commercial bank credits.

Since 1987, Ghana has restructured its external debt away from short term commercial debt towards long-term concessional financing. Portions of Ghana's bilateral debt have been forgiven. Debt service is projected to equal 30 percent of exports by the end of 1992. The last available data shows debt service equal to 4.7 Percent of GNP in 1991.

5. Significant Barriers to U.S. Exports

The austerity measures adopted under Ghana's economic recovery and structural adjustment programs have restricted the country's ability to import, including goods and services offered by U.S. suppliers. U.S. exports to Ghana for the past two years have remained almost unchanged in dollar terms, and it is probable (though not certain given the absence of available data) that public sector procurement from the U.S. is unchanged as well during this period. On the other hand, the tight spending and other policies the government has adopted under its structural adjustment program have laid the basis for sustained growth, opened the economy and improved creditworthiness, and qualified Ghana for World Bank project financing, some of which purchsed U.S. exports.

Import Licenses: In 1989, Ghana eliminated the last vestiges of its import licensing system. However, Ghana retains a ban on the import of a narrow range of products including beer and stout, cigarettes, cement pipes, roofing sheets, and asbestos.

Services Barriers: The government erects barriers to foreign participation in the following sectors: advertising, insurance, and tourism and travel services. Under the Investment Code of 1985, the following business activities are prohibited to non-Ghanaians: real estate, commercial overland transportation, laundry and dry cleaning, small scale wholesale and retail sales, taxi and car rental services, agricultural commodity brokerages, lotteries, barber and beauty shops, and tire retreading.

Standards, testing, labelling, and certification: Ghana has promulgated its own standards for food and drugs. The Ghana Standards Board, the testing authority, subscribes to accepted international practices for the testing of imports for purity and efficacy. Under Ghanaian law, imports must bear markings identifying in English the type of product being imported, the country of origin, the ingredients or components, and the expiration date, if any. Non-complying goods are subject to government confiscation. The thrust of this law is to regulate imported food and drugs; however, by its terms, the law applies to non-consummable imports as well. Locally manufactered goods are subject to comparable testing, labeling, and certification requirements.

Investment Barriers: Under the 1985 Investment Code (separate but similar legislation applies to investments in the mining and petroleum sectors), the government guarantees free transferability of dividends, loan repayments, and licensing fees, and repatriation of capital; provides guarantees against expropriation or forced sale; and specifies arbitration procedures in the case of a dispute. Foreign investors are not subject to differential treatment on taxes, prices, or access to foreign exchange, imports, or credit. However, as noted in the treatment of services barriers above, some sectors are off-limits to foreign investment. Land ownership by non-Ghanaians is prohibited, although expatriate companies can acquire clear title to fixtures constructed on long-term leased property.

The Ghana Investments Center (GIC) exercises authority over all domestic and foreign direct investment in Ghana other than in the petroleum and minerals sectors. The GIC has authority to stipulate the amount and source of capital, the nationality and number of shareholders, project size, timeframe for completion, and requisite training for Ghanaians incidental to any investment project. Prospective investors are screened in accordance with their capacity to contribute to any of nine goals listed in the Investment Code (e.g., the transfer of technology). Incentives in the form of accelerated depreciation of capital goods and tax holidays are offered to foreign investors in these areas: agribusiness, general manufacturing, home construction and tourism. Incentives are available also for investment in certain underdeveloped regions of the country.

For most categories of foreign direct investment, the minimum authorized investment is $10,000 for joint ventures with Ghanaian partners, and $200,000 for wholly foreign-owned investments, excluding export enterprises which project net earnings of hard currency. With each approved foreign direct investment, a limit ("expatriate quota") is placed on the number of expatriates who can be hired, based on the size of the investment. A special annual tax on expatriates was raised in 1988 to 500,000 cedis ($1,020 at current exchange rates). Waivers are granted for government contract employees, projects involving international financing, and otherwise on an exceptional basis.

Non-residents of Ghana require approval from the Bank of Ghana before they can invest in public corporations listed on the Ghana Stock Exchange.

Government Procurement Practices: Government procurement is usually handled by the Ghana Supply Commission (GSC), the official purchasing agency, through international bidding. However, ministries occasionally extend tenders without intermediation by the GSC. The government adheres to World Bank public tender requirements on bank-assisted projects and in most other cases, except when time constraints are said to require a decision more quickly than could be accomplished through a public tender. Except for aid-tied imports, Ghana does not discriminate against any country except for South Africa and Iraq, from which imports are prohibited.

There is no 'buy Ghanaian" legislation, but the government does encourage consumers to do so.

The Central Bank does not encourage countertrade. However, the government has traditionally conducted countertrade with Eastern European countries and Cuba.

Customs Procedures: The customs clearance process can often consume two or more weeks. However, the formalities themselves are not particularly burdensome. Importers are required to submit an import introduction form and a current tax clearance certificate showing the country of origin of imported goods.

6. Export Subsidies Policies

The Government of Ghana does not directly subsidize exports. Under Ghanaian law, exporters are entitled to an 85 percent drawback of duty paid on imported inputs. However, only three companies have taken advantage of the duty drawback scheme since it came into existence in the late 1980s.

Ghana created an export finance company utilizing World

Bank/IDA funding to establish a capital pool to support lending by commercial and merchant banks to new-to-export companies. Ghana is not a member of the GATT Subsidies Code.

7. Protection of U.S. Intellectual Property

Maintaining a practice that antedates independence in 1957, Ghana offers protection to patents registered in the United Kingdom. Following independence, Ghana instituted separate legislation for copyright (1961) and trademark protection (1965). Ghana tends to give more attention to protecting copyrights and trademarks than to protecting patents, since the the former cases more often involve Ghanaian nationals. Ghana is a member of the Universal Copyright Convention, the World Intellectual Property Organization (WIPO), and the English-speaking African Regional Intellectual Property Organization. Ghana offers protection to intellectual property rights (IPR) holders who are citizens of fellow signatory countries to the conventions Ghana has ratified. The government is drafting its own patent legislation but, until it is finalized and ratified, the patent law of the UK still applies.

There have been no more than a handful of infringement cases filed in Ghana over the past five years. Aggrieved IPR holders have access to local courts for redress.

Patents (Product and Process): Fees for registration by local applicants are 15,000 cedis ($30) and $90 for foreign applicants.

Trademarks: Ghana has not yet become a popular location for fake designer apparel and watches. In cases where trademarks have been misappropriated, low price and poor quality tip off all but the most unsuspecting buyer.

Copyright: Copyright violations in Ghana may be judged in both the criminal and civil courts. 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.

New Technologies: The piracy of computer software and of unscrambled cable television signals occur in Ghana. The commercial impact of these infringements is difficult to establish and no substantiated estimates have been made public to date.

The greatest impact on U.S. business in terms of lost sales and revenue stems from piracy of videotapes. Locally pirated materials and bootlegged imports are commonplace. Observers are unaware of any significant export market for Ghanaian-pirated books, audio cassettes, or videotapes. While enforcement of foreign copyrights tends to be lax, in one case the Ghana Frequency Board denied a permit for a videotape rental establishment to install a satellite dish to obtain foreign television programming illegally.

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8. Worker Rights

a. Right of Association

Trade unions are governed by the Industrial Relations Act (IRA) of 1958, as amended in 1965 and 1972. Organized labor is represented by the Trades Union Congress (TUC). Established in 1958, the TUC represents a claimed membership of approximately 700,000 skilled and semi-skilled workers. The TUC disseminates information through a newspaper published free of government censorship. The TUC publicly criticizes the government at times for its economic policies as well as for failure to consult adequately with trade union leadership. While the right to strike is recognized in law and in practice, the government has on occasion taken strong action to end strikes, especially those which threaten vital interests or public tranquility. The IRA provides a mechanism for conciliation and then arbitration before unions can resort to job actions or strikes.

b. Right to Organize and Bargain Collectively

Except for civil servants, who are prohibited from joining or organizing a trade union, the right to organize and bargain collectively is uniformly respected. Although civil servants are prohibited from striking, and from joining or organizing a trade union per se, there is an active Civil Servants Association that has staged work-to-rule actions and pressed successfully for wage increases. In the private and parastatal sectors, the right to organize and bargain collectively is uniformly respected. Labor laws are applied uniformly throughout Ghana, which has no functioning export processing zone.

c. Prohibition of Forced or Compulsory Labor

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

d. Minimum Wage of Employment of Children

Child labor laws prescribe 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 economic circumstances and local custom oblige children to work to help support extended families. Persons caught violating laws prohibiting heavy labor and night work by children are occasionally punished.

e. Acceptable Conditions of Work

A tripartite committee of representatives of government, organized labor, and employers have established a minimum daily wage. Effective July 1, 1991, the minimum wage was 460 cedis (less than usd one dollar) per day. In real terms, the minimum wage is less than in 1980. The standard work week is 40 hours. Occupational safety and health regulations have been promulgated and violators are occasionally prosecuted.

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f. Rights in Sectors With U.S. Investment

U.S. investment in Ghana is dominated by an enterprise in the primary and fabricated metals sector. However, there is also significant investment in the petroleum, chemicals and related products, and wholesale trade sectors. Labor conditions in these sectors of the economy do not differ from the norm. U.S. firms in Ghana are obliged to adhere to Ghanaian labor laws and no instances of noncompliance are known.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		-27
Total Manufacturing		(D)
Food & Kindred Products	2	
Chemicals and Allied Products	(D)	
Metals, Primary & Fabricated	(D)	
Machinery, except Electrical	0	
Electric & Electronic Equipment	1	
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, November 1992

KENYA

Key Economic Indicators

(Millions of U.S. Dollars unless otherwise noted)

	1990	1991	1992 1/
	(Calendar year)		
INCOME, PRODUCTION AND EMPLOYMENT			
Real GDP (1982 Prices) 2/	9,100	9,320	9,506
Real GDP Growth (pct.) 3/	4.5	2.2	2.0
GDP (At Current Prices) 2/	8,643	8,324	8,277
By Sector:			
Agriculture	1,919	1,734	1,651
Electricity and Water	68	73	72
Manufacturing	848	855	863
Building/Construction	463	549	657
Finance, Insurance, Real Estate and Business Services	589	591	602
Trade,Restaurants/Hotels	813	830	839
Government, Health and Education	1,115	1,069	1,064
Net Exports of Goods and Services	2,192	2,214	2,317
Real Per Capita GDP (1982 prices)	377	373	367
Labor Force (millions)	9.9	10.5	11.1
MONEY AND PRICES (Annual Percentage Growth)			
Money Supply (M2)	20.0	19.7	20.0
Base interest rate (pct)	19.0	22.0	25.0
Personal Saving Rate (pct)	13.5	14.5	15.5
Consumer Price Index (1986 prices)	15.8	19.6	25.0
Exchange Rate (USD/KSh			
Official	23.3	27.3	31.3
Parallel	N/A	35.0	45.0
BALANCE OF PAYMENTS AND TRADE			
Total Exports (Goods) FOB	1,007	1,009	1,026
Exports to U.S.	45	41	39
Total Imports CIF	2,318	1,903	2,045
Imports from U.S.	154	104	160
Aid from U.S: Economic	46.0	35.1	19.1
Military	11.0	1.2	1.1
Other Bilateral aid	373	385	258
Multilateral aid	272	319	456
External Public Debt	6,840	7,100	6,800
Debt Service Payments (paid)	546	560	580
Gold and Foreign Exchange Reserves	386	302	255
Trade Balance	-991	-894	-1,018
Balance with U.S.	-109	-63	-121

1/ 1992 figures are estimates based on January-June 1992 data.
2/ GDP at factor cost
3/ Calculated in Kenya Shilling terms
4/ The Kenyan Government does not publish unemployment

figures, but the 1992 rate is most likely above 30 percent.

1. General Policy Framework

Despite policies aimed at increasing industrial growth and export production, agriculture remains the basis of the Kenyan economy. Although less than 20 percent of Kenyan land is arable, agriculture contributes 28 percent of gross domestic product (GDP), and provides 75 percent of total employment and 60 percent of foreign exchange earnings. Manufacturing, commerce, and tourism together account for an additional 25 percent. Coffee, tea, and tourism are the main foreign exchange earners. Import substitution companies dominate the industrial sector, providing 14 percent of GDP.

Kenya's economic performance declined in 1991 and 1992. The GDP growth rate halved to 2 percent and inflation increased steadily. Agricultural production dropped dramatically, resulting in massive imports of staple products. Factors largely beyond Kenyan control -- drought, and low prices for key commodity exports (coffee and tea) -- account for some of the trouble. Political instability associated with the shift to a multiparty system, coupled with the massive inflow of refugees from war-torn Somalia exacerbated the two-year recession. But many of Kenya's problems result from a reluctance to implement needed economic reforms.

In an effort to prod action on the reform agenda, major donors suspended program (cash) assistance of approximately $350 million in November 1991. The Kenyan Government liberalized certain sectors, decontrolled some prices (but not all), and began the process of liberalizing interest rate and foreign exchange controls. Although the government (in theory) also liberalized import licensing, a persistent lack of foreign exchange throughout much of the year minimized any practical short-term results.

In late 1991 the government embarked on a divestiture program, listing the parastatals to be privatized. Although the government did divest itself of a handful of entities, it remained in control of most of the "strategic" parastatals. These costly and inefficient organizations continue to divert scarce budgetary resources from more productive uses. The government also modernized the tax laws, widening the tax base and lowering income tax rates. Although Kenya attempted to broaden its value-added tax (VAT), the government partially backed down when faced with consumer protests. It did succeed in raising average VAT levels to 18 percent.

Monetary policy is still relatively controlled and segmented. In the last three years the government reactivated the use of cash ratio, credit restrictions, and the sale of medium term treasury bonds to reduce excessive growth of the money supply and domestic credit. The international community has expressed great concern over the high growth in money supply, currently estimated at 20 percent annually.

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2. Exchange Rate Policies

The Kenya shilling is pegged to a basket of seven hard currencies. The Central Bank maintains a flexible exchange rate system with frequent adjustments. Having declined 11 percent against the dollar in 1990, the Kenyan shilling fell another 17 percent in 1991. The parallel market rate varied greatly, reaching rates as high as 48 percent above the official rate.

The most important financial changes of the past year were the major adjustment in the exchange rate and the handling of foreign currency. In November 1991 the government introduced new foreign exchange bearer certificates (ForExC). These certificates, which the Kenyan Government hoped would encourage the repatriation of foreign exchange held abroad by Kenyan residents, are issued by the Central Bank and sold through commercial banks. They are denominated in dollars and the purchaser pays in dollars or in other hard currencies. The purchaser receives the current official value of his hard currency in Kenyan shillings and a certificate denominated in the amount of his purchase.

The certificate gives the bearer the right to purchase the same amount of foreign exchange he initially sold plus interest at the London Interbank Offering Rate from the date of issuance to the date of redemption. A legal secondary market for the certificates has developed in which they trade at a negotiated premium. In essence, the ForExC market has become a parallel legal market, or second window, which is more reflective of market values than the depreciating official rate. In late 1992, this "second window" was expanded to include the foreign exchange earnings of exporters with certain restrictions. Exporters of traditional items are permitted to retain 100 percent of their foreign exchange; non-traditional exporters are limited to only 50 percent. Tourism and services must still operate at the official exchange rate.

In December 1992, there were reports that the Central Bank was refusing to redeem foreign exchange certificates, retruning them to banks for either a statement of the nature of the transaction for which currency was being sought or verification of the certificates' validity. This unexplained action encourages black market activity, casts doubt on further liberalization of the foreign exchange system, and could undermine the functioning of the Kenyan economy.

3. Structural Policies

Aimed at encouraging private sector industrial growth, Kenya's structural policies emphasize expenditure rationalization, price decontrol, export promotion, interest rate liberalization, and capital market development. In the past year, the government abolished many quantitative import restrictions, replacing them with tariffs. It also dismantled price controls for a wide range of manufacturered items, but left them intact for most agricultural products.

Parastatals still control the importation and marketing of many essential food items and agricultural inputs. Other commodities such as fertilizer, cereal, and sugar must still be traded through government-owned marketing boards. High import duties and value added taxes act as trade barriers for certain products such as computers. Procurement decisions are sometimes dictated by donor-tied aid or influenced by political expediency or graft.

By the end of 1991 it was apparent that Kenya was avoiding implementation of economic reform measures central to the structural adjustment program launched in 1987. Reluctantly acknowledging a government record of failing to implement its own reform plans, donors agreed to suspend program (cash) assistance to Kenya at the Consultative Group Meeting (CG) in November 1991. Approximately $350 million was withheld, initially for six months, pending concrete action from the government on its reform promises. By April 1992 little had been accomplished, but the IMF and the Kenyan Government did agree to a Shadow Program which gave the government a one-year grace period to qualify for disbursement of the third tranche (SDR 45 million) of the IMF Structural Adjustment Facility, originally planned for early 1992. Donors have continued the suspension pending successful progress on both the Shadow Program and fulfillment of specific conditions on individual grants/loans. The midterm review by the IMF in September 1992 was inconclusive, and the donor suspension continues. Budget control, civil service reform, and privatization and reorganization of the parastatal sector remain major areas of concern.

4. Debt Management Policies

Kenya's debt service ratio is about 29 percent of total export earnings. The lack of foreign exchange reserves has been a major economic constraint. Down to less than a week of normal imports at various times during the year, the average reserve level for Jan.-June 1992 was $140 million, just three weeks' coverage. Most of these reserves were tied up in donor projects or reserved for payment of Foreign Exchange Certificates. Foreign debt also continued to climb, and the average annual debt service bill is now on the order of $580 million. Debt arrears, a relatively new phenomenon for Kenya, are on the order of $300 million, a big bite for a country which is proud to have never rescheduled foreign debt. The Kenyan Government is partially compensating for the donor suspension of $350 million in balance of payments assistance by not paying debt. While the suspension has exacerbated Kenya's foreign exchange "crisis", it has not caused it, as the government claims.

5. Significant Barriers to U.S. Exports

Licenses are required for all imports into Kenya and have long been a substantial trade barrier. Although the government has frequently proclaimed an intent to liberalize imports, license requirements are likely to remain so long as shortages of foreign exchange persist. As recently as August 1992, in its new Import Licensing Schedules, the government declared importers of non-essential goods ineligible to receive foreign exchange from the Central Bank of Kenya at the official rate. These importers have to seek foreign exchange from the ForexC market which attracts a high premium. In fact, few if any importers actually receive an official foreign exchange allocation, although a few are still permitted to request it.

Since 1990 the government, urged by the World Bank and IMF, has been steadily lowering tariffs. Kenya reduced tariffs on raw materials and intermediate goods by 15 percent in 1990, and an additional 5 percent in 1991. The top two tariff bands were reduced 10 percentage points to 60 and 50 percent, respectively, while the bottom band duty was increased from two two percent to ten percent. Several items which had been duty-free were placed in the bottom range. However, for the most part, manufactured goods retained high duties. For example, computers are currently assessed a combined duty and value added tax of 65 percent (reduced from 135 percent in 1991). The combined duty and VAT for automobiles ranges from 77 to 200 percent.

The government's Import Licensing Schedules divide goods into various categories. In theory, license requests for first category goods (high priority capital goods, raw materials, and intermediate inputs) are approved automatically and demand is controlled by tariff rates. A designated government agency must specially authorize the import of second category goods (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). 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. Because these are handled on a case by case basis, approvals can take a considerable time. Licensing for Schedule B (semi-essential items) depends upon Kenya's foreign exchange reserve position. Schedule C lists lower priority items which the government considers undesirable.

In June 1992 the government introduced a variable tariff for key imported food commodities including wheat, rice, milk powder, maize, and sugar. In theory, whenever world prices fall below local levels, the government alters the tariff to raise the floor price of the imported goods to prevent imports from undercutting local production.

The government maintains lower duties and sales taxes for selected priority items. Such items include palm oil and tallow, bicycles, steel billets, wire rods, graphite lead, windmills, power transformers, cables, and active ingredients used for the drugs, including veterinary drugs, fungicides and pesticides.

Trade barriers also exist in the following sectors: audio and visual works, construction, engineering, architecture, insurance, leasing, shipping and foreign travel. Audio and visual works are licensed, censored, and sold by one government-owned company, Kenya Film Corporation. Foreign companies offering services in construction, engineering and architecture often face discrimination in bidding for public projects. Local firms receive a ten percent preference on tender quotations; small projects are reserved for local companies. Kenyan buyers of foreign goods are forbidden from insuring imports abroad.

The major impediment to international leasing remains the the Kenyan Exchange Control Laws. Import licensing laws forbid the importation of equipment for leasing if the equipment is available locally. 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 must obtain a "Clean Report of Findings" from one particular government-appointed inspection firm with offices in major trading points such as New York, Baltimore, Chicago, New Orleans, and Houston. Quarantine regulations govern the importation of animals, plants, and seeds, which is only allowed 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.

Government procurement for ordinary supplies as well as materials and equipment for public development programs is a significant factor in Kenya's total trade. Since Kenya is a former British colony, United Kingdom firms dominate this market. Sales of many major items are frequently tied to the country providing the official development finance. Most Kenyan Government departments obtain goods and services locally through a central tender board.

Tender Boards conduct most government procurement. The main boards are the Central Tender Board, Ministerial Tender Boards, the Department of Defense Tender Board, and District Tender Boards. A government supplies manual outlines the proper procedures for these procurements. No written quote or contract is required to purchase goods and services which do not exceed KSh 2,000 ($64). Although three written quotes are required for purchases valued between $40-400, three or more "responsible" officers may make the final decision; the matter is not referred to any tender board. Goods worth over $4,000 must be purchased through open tender.

Procurement regulations apply to all bidders, both local and international. However, the regulations also provide for preferential treatment for domestic suppliers, products, and services. Firms with at least 51 percent Kenyan ownership may benefit from a maximum of a 10 percent perferential bias. Small contracters also receive preferential treatment for certain contracts.

Practice often differs from procedures set forth by these regulations. Tenders may be awarded to uncompetitive firms owned by highly placed government officials. Corruption, which has steadily increased over the past few years, can be found not only in the awarding of contracts but also in the allocation of import licenses and distribution rights. Prosecution for corruption above the very lowest ranks is extremely rare. United States firms should take special caution to insure compliance with U.S. laws forbidding bribery payments to officials to secure contracts.

Although Kenyan manufacturers are not permitted to distribute their own products, the government claims to protect them from monopolies through the Monopolies, Prices and Trade Restriction Practices Act. This act covers monopolies, mergers, and takeovers, and forbids certain restrictive and predatory practices with the aim of reducing concentrations of market power.

Foreign investors have limited access to domestic credit markets and are normally permitted to borrow locally only the amount needed to pay customs duty on capital items. Foreign investors may also be allocated 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 may purchase items locally free of sales tax. A manufacturing-under-bond scheme, begun in 1988, now has 10 operational firms. Although 41 firms have applied for licenses, some shied away due to lengthy and costly bureaucratic processes in import procurement. After some initial problems, the export-processing zone in Nairobi has now rented all available space and is considering constructing a second unit.

In June 1992, the government reduced the corporate tax rats to 35 percent. Royalties, interest, dividends, and management fees are subject to withholding taxes ranging from 12.5 percent to 30 percent. Kenya's tax treaties preventing double taxation of income normally follow the OECD model. There is no bilateral tax treaty with the United States.

6. Export Subsidies Policies

Locally manufactured products with less than 70 percent import content qualify for an export compensation scheme. Under this scheme, investors receive 20 percent compensation above their export earnings. Eligibility is not automatic; exporters must seek approval from the Ministry of Commerce. Petroleum products, chemicals, electric power, and certain agricultural products are ineligible. Red tape often complicates the approval process, as does graft. The Kenyan Government has promised to simplify procedures and to speed up the process for obtaining foreign exchange allocation. In light of the persistent lack of foreign exchange, this promise is not likely to be fulfilled in the immediate future.

Industrial buildings, fixed plant, and machinery for investments outside Nairobi and Mombasa receive a one-time 50 percent investment allowance tax deduction. Sites within Nairobi and Mombasa receive a 10 percent deduction.

Eighteen regional countries belong to the Preferential Trade Area (PTA). The PTA suspended until 1992 its restrictive Rules of Origin forbidding foreign firms to participate in the PTA market. (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 only 30 percent preferential treatment.) Kenya is a signatory of major international trade agreements such as the General Agreement on Tariffs and Trade (GATT) and the Lome Convention. However, Kenya did not sign all GATT's MTN agreements negotiated in the Tokyo Round.

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. Under these conventions, Kenya has agreed to recognize U.S. national treatment and "priority rights" for patents and trademark filing dates. Nevertheless, pirated books, records, videos, and computer software find their way onto Kenyan markets. Government inspection and existing Kenyan laws are inadequate. For example, the only manufacturer of records and cassettes in Kenya is Polygram Records Ltd. Polygram estimates that they account for approximately ten percent of the total cassette market of 2.5 million per year; the other 90 percent is pirated. Most videotapes in Kenya are also pirated.

In 1990, the Kenyan Government established an Industrial Property Office to protect industrial property rights, to screen technology transfer agreements and licenses, and to provide patent information to the public. Acting as a receiving office for international and domestic applications, this office grants patents and industrial design certificates. Newly enacted legislation also established an independent national patent law to replace pre-independence British procedures.

Although Kenyan laws regarding copyrights are not extensive, the Copyright Act of 1989 provides for protection from audio copyright infringement. Video copyright infringements are not covered by the law.

Trademark protection lasts seven years from the date of application. The first applicant for trademark protection is entitled to registration.

8. Worker Rights

a. Right of Association

All workers except central government civil servants are free to join unions of their own choosing. Approximately 25 percent of the industrialized work force (350,000-385,000 workers) belong to one of the country's 33 unions. The Trade Disputes Act permits workers to strike 21 days after submission of a written report to the Minister of Labor detailing the nature of the dispute. The military, police, prison guards, and members of the National Youth Service are prohibited by law from striking. There were no significant strikes in 1992.

b. Right to Organize and Bargain Collectively

While not having the force of law, the 1962 Industrial Relations Charter provides workers with the right to engage in trade union activities. Both the Trade Disputes Act and the Charter authorize collective bargaining. Wages and conditions of employment are established through negotiations between unions and management. Government wage policy guidelines limit wage increases to 75 percent of the annual rate of inflation. Collective bargaining agreements must be registered with the Industrial Court. Certain provisions of the Trade Disputes Act forbid employers from intimidating workers.

c. Prohibition of Forced or Compulsory Labor

The constitution proscribes slavery, servitude, and forced labor. Under the Chief's Authority Act, a local authority can require people to perform community service in an emergency. People so employed must be paid the prevailing wage. The International Labor Organization's (ILO) Committee of Experts has determined that this Act contravenes ILO Conventions 29 and 105 concerning forced labor.

d. Minimum Age for Employemnt of Children

Children under the age of 16 may not work in any industrial undertaking. These provisions do not apply to the agricultural sector, which employs about 70 percent of the labor force. Children may be employed as apprentices. Ministry of Labor officers enforce these minimum age statutes.

e. Acceptable Conditions of Work

Salaries for unskilled workers averaged less than thirty dollars per month in 1992. By law, the work week is limited to 52 hours, except for nighttime employees (60 hours) and agricultural workers (excluded). Nonagricultural employees receive one rest day in a week, one month's annual leave and sick leave. By law, total hours worked (i.e., regular time plus overtime) in any two week period for night workers cannot exceed 144 hours; the limit is 120 hours for other workers. Although the Labor Ministry enforces these regulations, few violations are reported. Health and safety standards can be found in the 1951 Factories Act which was amended in 1990 to include agriculture, government workers, and the service sector.

f. Rights in Sectors with U.S. Investment

Worker 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 an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		99
Total Manufacturing		-15
Food & Kindred Products	(D)	
Chemicals and Allied Products	-6	
Metals, Primary & Fabricated	-1	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	8	
Other Manufacturing	(D)	
Wholesale Trade		-6
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		78

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

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, November 1992

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Key Economic Indicators

(billions of naira unless otherwise indicated)

Income, Production, and Employment	1990	1991	1992 1/
Real GDP growth (pct.)	8.3	4.4	N/A
By Sector(1984 factor cost):			
Agriculture	35.3	37.0	N/A
Energy and Water	12.4	12.5	N/A
Manufacturing	7.4	7.8	N/A
Construction	1.7	1.8	N/A
Rents	2.3	2.4	N/A
Financial Services	7.9	8.2	N/A
Other Services	15.8	16.3	N/A
Government, Health and Education	7.6	8.4	N/A
Labor force (millions)	40	N/A	N/A
Unemployment Rate (pct.)	3.5	2.9	N/A
Money and Prices			
Money supply (M2) (Naira bn)	64.9	86.2	135.4
Base Interest Rate 2/	27.3	20.4	40.0
Personal Savings Rate 2/	17.8	13.9	19.5
Consumer Price Index (CBN)	292.8	330.9	387.2
Exchange Rate (Naira/$):			
Official (annual average)	8.0	9.9	16.7
Parallel	9.6	13.5	20.0
Balance of Payments and Trade ($ billions unless otherwise stated)			
Total Exports FOB 3/	13.8	12.3	N/A
Exports to the U.S.	6.0	5.4	4.6
Total Imports CIF 3/	4.9	7.8	N/A
Imports from the U.S.	0.5	0.8	1.1
Aid from U.S.($ mn)	11.5	11.2	16.5
Aid from Other Countries	N/A	N/A	N/A
External Public Debt ($ bn)	33.2	33.4	N/A
Debt Service Payments ($ bn)	3.8	3.6	N/A
Gold and Foreign Exchange Reserves (N bn) 4/	34.9	44.2	N/A
Trade Balance 3/	8.9	4.5	N/A
Balance with U.S.	5.5	4.6	3.5

1/ Figures projected from data available as of October 1992.
2/ Figures are actual, average annual interest rates, not changes in them.
3/ Merchandise only, not including services and income.
4/End of year figures.

Sources: Central Bank of Nigeria, IMF, U.S. Department of Commerce, and U.S. Embassy estimates.

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1. General Policy Framework

Though blessed with considerable human and material resources, Nigeria is one of the poorest countries in the world, with an annual per capita income of about $300. Its population of 88 million (according to a 1992 census) is the largest in Africa. Nigeria's crucial petroleum sector provides the government with about 90 percent of all foreign exchange earnings and 78 percent of budgetary revenue. Agriculture, which accounts for nearly 40 percent of GDP and employs about two-thirds of the labor force, is dominated by small-scale subsistence farming.

In July 1986, the government launched a Structural Adjustment Program (SAP), a comprehensive plan to revitalize the economy by reducing the role of the state and increasing reliance on market forces. SAP featured a large devaluation to encourage domestic production and to reduce reliance on imports. Other notable measures taken under SAP have been the abolition of many import licenses, commodity marketing 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 six years of SAP has been uneven, with major relaxations of fiscal discipline, and correspondingly large budget deficits, occurring in 1988 and from late 1990 onward. In recent years, budget deficits at the federal level have been financed primarily by borrowing from the Central Bank of Nigeria (CBN), which held about 83 percent of the government's domestic debt at the end of 1991. 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 which reports directly to the President, who has final authority over policy and who may issue binding directives to the Bank on such matters. To a great extent, monetary policy is determined by fiscal policy, since the CBN must accommodate the government's financing needs. In the last few years, the monetization of the government's large budget deficits has put strong upward pressure on price levels and sharply reduced the value of the naira on the parallel currency market. Inflation in the urban price index is running well above a 50 percent annual rate.

Since 1990, the CBN has repeatedly used "stabilization securities" in an attempt to counter the inflationary effects of the government's fiscal deficits. Stabilization securities are non-negotiable CBN liabilities issued involuntarily to banks judged 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. The CBN's goal in issuing large quantities of stabilization securities is to tighten conditions in the money market; the ensuing scramble for funds among banks drives up interest rates and theoretically strengthens the free-market value of the naira. Through September 1992, the CBN withdrew approximately 22 billion naira from the banking industry in this manner. As a result of such stringent monetary policies interbank interest rates increased from about 35 percent to nearly 100 percent between June and October 1992. The CBN has pledged to discontinue issuing stabilization securities in favor of a system of indirect monetary control based on open market operations in 1993.

2. Exchange Rate Policies

In 1989, Nigeria sought to bring its foreign exchange market under administrative control by instituting a two-tiered exchange rate system; an official rate determined at the Foreign Exchange Market (FEM) administered by the CBN through sales of foreign exchange to licensed banks, and an "autonomous", or free market rate determined in the interbank market. Until March 1992, the Central Bank intervened in the market by limiting each bank's allowable purchases, in an effort to slow or reverse the naira's fall. Accordingly, a gap developed between the official exchange rate and the parallel market rate, a spread that grew to as much as 75 percent just before a large devaluation on the official market in March 1992. Since that time, the Central Bank has met all hard currency demand for approved transactions by domestic banks at the official exchange rate, reducing the discrepancy between rates to between 5 and 15 percent.

Outside of the FEM and the bureaux de change, foreign investors may also purchase naira using Nigerian debt instruments obtained on the secondary market through the CBN's debt conversion program. This program can provide investors with a premium over the official exchange rate; special restrictions apply to dividend remittances and capital repatriation, however. Even for normal remittances, however, 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. Due to the large volume of undocumented transactions on the parallel market, the bureaux de change rate will always be less than the FEM rate.

3. Structural Policies

As stated in the December 1989 "Industrial Policy of Nigeria," the government maintains 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.

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An individual or company deriving dividends from any company shall enjoy tax free dividends for a period of three years if the company paying the dividends is incorporated in Nigeria, if the equity participation is incorporated into the country between January 1, 1987 and December 31, 1992, and if the receipient's equity in the company constitutes at least ten percent of the share capital of the company. In addition, if the company paying the dividends is engaged in agricultural production, processing of agricultural products, or production of petrochemicals or liquified natural gas, the period is extended to five years. In general, these tax holidays begin from the time production begins and the incentives are cumulative. Some of the concessions are specifically for new investments, while others can be applied to existing industries.

Nigeria requires that an international inspection service certify the price, quantity and quality before shipment for all private sector imports. All containerized shipments irrespective of value and all goods exported to Nigeria with a cost, insurance, and freight (CIF) value greater than $1,000 are subject to pre-shipment inspection.

4. Debt Management Policies

Nigeria's foreign debt ballooned from $13 billion in 1981 to $24 billion in 1986 when sharply lower oil revenues and continued high import levels created large balance of payments deficits. By the end of 1991, Nigeria's foreign debt had reached $33.4 billion, with about 53 percent of the debt ($17.8 million) owed to the creditor governments of the Paris Club, and the rest spread among London Club banks ($6 billion), commercial creditors ($4.5 billion), multilateral agencies ($3.6 billion), and others ($1.5 billion). Debt service payments after a third Paris Club rescheduling in 1991 were equivalent to 26.7 percent of exports.

Since embarking on its Structural Adjustment Program (SAP) in 1986, Nigeria has reached three standby agreements with the IMF, the most recent of which was approved in January 1991. Nigeria fell out of compliance with the standby shortly after approval, and it expired in April 1992. Despite discussions with the IMF before and after expiration of the 1991 standby agreement, the Nigerian Government had not been able to put a new agreement in place by October 1992. Accordingly, because Nigeria's rescheduling agreement with the Paris Club expired at the same time as its standby agreement, debt repayment obligations grew significantly during 1992. In January 1992, the Nigerian Government concluded an agreement with the London Club which gave commercial banks a menu of options from which to choose in reducing Nigeria's commercial debt, including debt buy-backs (at 40 cents on the dollar), new money bonds, and collateralized par bonds. As a result of the agreement, Nigeria has reduced its annual debt repayments but scheduled debt service in 1992 remains about $6 billion, an unmanagable 65 to 70 percent of export earnings were all interest and amortization payments to be made.

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5. Significant Barriers to U.S. Exports

Nigeria abolished all import licensing requirements and cut its list of banned imports in 1986. As of October 1992, the importation of approximately 22 different items is banned, principally agricultural items and textiles. These bans were initially implemented to restore Nigeria's agricultural sector and to conserve foreign exchange. Although the bans are compromised by widespread smuggling, the reduced availability of grains has raised prices for both banned commodities and locally produced substitutes. The 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. In October 1992, the wheat ban was temporarily lifted, allowing for imports of U.S. grain at least through the end of 1992.

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.

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 20 million naira (about $1 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. The list of reserved sectors is one factor that has prevented the conclusion of a bilateral investment treaty between Nigeria and the United States. Banking, insurance, petroleum prospecting, and mining continue to require 60 percent Nigerian ownership.

An expatriate quota system is in 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 generally uses an open tender system for awarding government contacts. Approximately five percent of all government procurement contracts are awarded to U.S. companies. Nigeria is not a signatory to the General Agreement on Trade and Tariffs Government Procurement Code.

6. Export Subsidies Policies

In 1976, the government established the Nigerian Export Promotion Council (NEPC) to encourage development of non-oil exports from Nigeria. The council administers various incentive programs including a duty drawback program, the Export Development Fund, tax relief and capital assests depreciation allowances, and a foreign currency retention program. The duty drawback or manufacturing in-bond program is designed to allow the duty free importation of raw materials to produce goods for export, contingent on the issuance of a bank guaranteed bond. The performance bond is discharged upon evidence of exportation and repatriation of foreign exchange. Though meant to promote industry and exportation, these schemes have been burdened by inefficient administration, confusion, and corruption, causing great difficulty and in some cases losses to those manufacturers and exporters who opted to use them.

The NEPC also adminsters the Export Expansion Program, a fund which provides grants to exporters of manufactured and semi-manufactured products. Grants are awarded on the basis of the value of goods exported and the only requirement for participation is that the export proceeds be repatriated to Nigeria. The grant amounts are small, ranging from two to five percent of total export value.

7. Protection of U.S. Intellectual Property

Nigeria, as a signatory to the Universal Copyright Convention (UCC), ensures that all holders of copyrights from other signatories of the UCC are treated equally under Nigerian law. The Nigerian government has also stated its intention to sign the Berne Convention and become a full member of the World Intellectual Property Organization (WIPO) before the end of 1992 thereby becoming party to most of the major international agreements on intellectual property rights. Cases involving infringement of non-Nigerian copyrights have been successfully prosecuted in Nigeria, but enforcement of existing laws remains weak, particularly in the patent and trademark areas. Despite active participation in international conventions and the apparent interest of the government in intellectual property rights issues, little has been done to stop the widespread production and sale of pirated tapes, videos, computer software and books in Nigeria.

The Patents and Design Decree of 1970 governs the registration of patents. 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. Registering a trademark gives its holder the exclusive right to use the registered mark for a particular good or class of goods.

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

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As of October 1992, the government was considering a revision of the Nigerian Patents Act of 1970. This change would establish a new government office, the Industrial Property Office (IPO) to maintain a registry of foreign industrial property transfers. The IPO would have the power to prohibit payment on contracts that do not have a certificate of registration and would be able to cancel registration when a contract is revised or amended. In addition, the new legislation appears to exempt from patentability some substances and products previously protected. The proposed changes are justified as being a means of encouraging development of local technology in the exempted fields without undue competition from abroad. If approved the new law could come into effect before the end of 1992. The United States has discussed the need for continued product protection of pharmaceuticals with Nigerian officials.

In the past, few companies have bothered to secure trademark or patent protection in Nigeria because it is generally considered to be ineffective. Losses from poor intellectual property rights protection are substantial, although the exact cost is difficult to estimate. The majority of the sound recordings sold in Nigeria are pirated copies and the entire video industry is based on the sale and rental of pirated tapes. Satellite signal piracy is common, but any infringement of other new technologies is infrequent, as most computer and computer-related technologies are not yet widespread. The International Intellectual Property Alliance estimated that U.S. companies lost USD 39 million in 1988 due to copyright piracy, excluding losses from computer software.

8. Worker Rights

a. Right of Association

All Nigerian workers, with the exception of members of the armed forces and employees of "essential services", may join trade unions. Essential sectors include, firefighters, police, employees of the central bank, the security printers and customs and excise staff. Utilities, the national airline, public sector enterprises and the post office are not considered essential services and are unionized. Nigerian labor unions have proposed that unions be banned only for the armed forces, firefighters and police. The government is unlikely to act on this proposal, however, until the transition to a civilian government is complete. Under Nigerian law, enterprises with more than 50 employees must recognize trade unions and pay or deduct dues. Most of the agricultural sector, the informal sector and practically all small industries and businesses remain nonunionized. The right to strike is recognized by law, except in the case of essential services. While the trade union movement has considerable latitude for action, it remains subject to government oversight. The government has established a single central labor body, the National Labour Congress (NLC), by forcibly merging the country's industrial unions. Nigerian labor unions are allowed to affiliate with international organizations, but only for training and educational purposes.

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b. Right to Organize and Bargain Collectively

Nigerian labor law permits both the right to organize and the right to bargain collectively. Collective bargaining is, in fact, common in many sectors of the economy. The Nigerian Industrial Court, an independent arm of the judiciary, handles complaints of antiunion discrimination. However, the government retains broad authority over labor matters and can intervene forcefully to end debate on issues which it feels contravene its essential political or economic programs. As a result, unions often take their demands directly to the government rather that to the employers.

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, while allowing child labor in home-based agricultural or domestic work. Casual observation of the informal sector in urban areas, however, suggests that child labor is widespread. Children between the ages of 13 and 15 are allowed, under specific conditions, to undertake apprenticeships in a wide range of crafts, trades and state enterprises. Apprentices over the age of 15 are not specifically regulated by the government. Primary education is compulsory in Nigeria though the law is only sporadically enforced, particularly in rural areas where most Nigerians live.

e. Acceptable Conditions of Work

Nigerian labor law establishes a 40-hour workweek, prescribes 2 to 4 weeks of annual leave, and sets a minimum wage for commerce and industry. The minimum wage has not kept up with Nigeria's high inflation rate and the falling value of the naira. The general health and safety provisions contained in Nigerian labor law, some aimed specifically at youth and female workers, are enforceable by the Ministry of Labour. Employers are required to compensate injured workers and dependent survivors of those killed in industrial accidents. Enforcement of these provisions remains spotty.

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.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		856
Total Manufacturing		92
Food & Kindred Products	(D)	
Chemicals and Allied Products	51	
Metals, Primary & Fabricated	-5	
Machinery, except Electrical	0	
Electric & Electronic Equipment	(D)	
Transportation Equipment	5	
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, November 1992, Vol. 72, No. 8, Table 11.3

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Key Economic Indicators

	1990	1991	1992 (est.)
Income, Production, and Employment (Billions of rand)			
Real GDP (1985 prices)	120.5	119.6	118.5
Real GDP growth (pct)	-0.5	-0.6	-2.3
By sector:			
Agriculture	12.3	12.5	12.5
Mining	25.1	27.7	30.1
Energy and Water	10.7	11.9	12.8
Manufacturing	59.9	66.6	72.6
Construction	7.4	8.2	8.8
Wholesale/retail trade	31.6	36.2	39.9
Financial services	34.2	39.7	45.1
Other services	4.0	4.6	5.3
General government	33.1	39.5	43.4
Net Exports of Goods and Services	5.5	7.2	4.9
Real Per Capita GDP (1985 rand)	3,171	3,075	2,977
Labor force (millions) (1)	11.1	11.3	11.6
Unemployment rate (pct)(1)	37.0	39.0	40.0
Personal savings to disposable income(pct)	1.4	2.1	3.0
Money and Prices (Annual percentage growth)			
Money Supply (M2)	13.1	16.1	11.8
Prime overdraft rate (pct at year-end)	21.0	20.25	17.25
Producer price index (year-end pct change)	12.0	11.4	8.5
Consumer price index (year-end pct change)	14.4	15.3	14.0
Exchange rate ($/rand, year average)			
Commercial rand	.39	.36	.35
Financial rand	.30	.32	.28

Balance of Payments and Trade
(USD billions)

	1990	1991	1992 (est.)
Total exports FOB	23.4	23.7	N/A
Total exports to U.S.	1.7	1.7	1.5
Total imports FOB	17.0	17.4	N/A
Total imports from U.S.	1.7	2.1	1.7
Aid from U.S. (fiscal yr)	32.0	50.0	80.0
External public debt	6.8	6.8	N/A
Debt service payments paid	2.0	1.6	N/A
Gold and forex reserves (gross)	7.3	9.8	11.8
Balance of payments on the current account	5.8	7.4	5.5
Trade balance with U.S.	-0.0	-0.4	-0.2

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(1) Statistics depending on population data are unreliable; official black population and unemployment rates are 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.

1. General Policy Framework

South Africa is a middle-income country with a modern industrial sector, well-developed infrastructure, and abundant natural resources. Most economists agree that South Africa has the potential to grow at an annual rate above five percent; yet annual economic growth over the past decade averaged less than one percent in real terms; no new net jobs were created in the manufacturing, mining, or agricultural sectors; and per capita incomes declined sharply. The rate of real GDP growth turned negative in early 1989, and contracted by one-half percent in both 1990 and 1991. The decline in the economy has become more severe in 1992, as the nation battles the longest recession in over eighty years. Besides being affected by the present worldwide recession and the worst drought of the century, 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;

-- Consumer inflation has persisted at double-digit levels each year since the early 1970s;

-- Labor productivity has been low and declining, 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; and

-- 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.

The South African Government has taken steps to address some of these structural problems. While there is a long way to go in eliminating the effects of apartheid and meeting the aspirations of the black community, some progress has been made in reducing 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 socioeconomic development for blacks, including education and health care, has increased in recent years, although it still remains far 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. 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. Economists believe that the downward trend in M3 growth and producer prices is beginning to have an impact on consumer price inflation.

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 and putting pressure on private capital markets. Since 1990, the government of President de Klerk has adopted more restrictive fiscal policies, although the 1992/93 budget, which anticipated a deficit equal to 4.5 percent of GDP, is again in trouble as spending in the first half of the fiscal year rapidly outpaced revenues. Estimates for the deficit before borrowing in fiscal 1992/93 now range around R20 billion, over 7 percent of GDP. Pressure is also growing for the government to use fiscal policy to address socio-economic needs in education, health care and housing for the majority of South Africans.

The South African Government controls substantial portions of the economy, including much of the petroleum, transportation, armaments, electric power, communications, aluminum, and chemical sectors. 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 large-scale privatization has been put on hold until an agreement on a non-racial democratic government is concluded.

2. Exchange Rate Policy

Faced with large scale capital outflows in 1985, the Reserve Bank reimposed comprehensive exchange controls, including a dual exchange rate previously abolished in 1983. The Bank maintains one exchange rate (the financial rand) for foreign investment flows and outflows, and another (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. This provides the Bank with wide latitude in influencing short term exchange rates.

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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 in nominal terms. In 1989, the nominal rand exchange rate became relatively stable against the U.S. dollar but continued to depreciate against a trade-weighted basket of currencies.

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 pre-qualify, with some preferences allowed for local content. Parastatals and major private buyers, such as mining houses, follow similar practices, usually inviting only approved suppliers to bid.

The primary source of government revenue in South Africa is income tax. Although the government planned to lower both individual and company tax rates over five years, the present recession-induced revenue crisis ended the plan after its first year. The 1992/3 budget kept the maximum personal income tax rate at 43 percent on incomes above R80,000 for married and R56,000 for single taxpayers, and the corporate income tax rate at a flat rate of 48 percent.

In September 1991, the government shifted from a 13 percent general sales tax to a 10 percent value-added tax levied on many additional goods and services that had been exempt from GST. It is likely that an increase in the VAT rate to at least 12 percent in the next budget will be necessary to make up for the shortfall in current government revenues and to meet increasing demands for social spending. The government is also negotiating with labor and consumer groups over the taxation of basic foods. South Africa raises additional revenue through customs duties, excise taxes, import surcharges, and 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 and provide substantial revenue.

4. Debt Management Policies

South Africa's external debt situation continued to improve in recent years. At the end of 1991, foreign debt was estimated at $18.1 billion, with the private sector accounting for about $11.4 billion of this total. The ratio of total foreign debt to GDP in 1991 was 16.9 percent, and interest payments to total export earnings was 5.9 percent. Debt repayment obligations in 1992 are estimated to be R4 billion to R5 billion, although increasing access to international capital markets should allow South Africa to refinance at least one-half of that debt.

In 1985, faced with large capital outflows, intense pressure against the rand, and a cutoff of its access to

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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 an arrangement with private creditors in 1986. In 1990, South Africa and its private creditors negotiated a third extension of that arrangement through the end of 1993.

South Africa is a member of the World Bank, although it will not be eligible for World bank loans until a more representative government is in place. It also belongs to the International Monetary Fund (IMF) and continues Article IV consultations on a regular basis. 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, including foodstuffs, clothing, fabrics, footwear, wood and paper products, refined petroleum products, and chemicals. 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.

Export Control laws: The lifting of Title III sanctions in the Comprehensive Anti-apartheid Act eased restrictions on the import of certain U.S. products into South Africa and permitted U.S. nationals to make 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 subsidiaries).

Many U.S. states and localities retain trade and financial sanctions against South Africa. One effect of these measures is to reduce the amount of U.S. exports of goods and services. For U.S. financial institutions, there are also other barriers imposed by South Africa. For example, foreign banks may not establish as branches, wholly foreign-owned firms may not be members of the Johannesburg Stock Exchange, and local borrowing by non-bank financial firms is subject to limitation.

6. Export Subsidies Policies

Government incentives to export are divided into four categories: compensation for a portion of import duties; a proportion (10 percent) of value added during manufacture; financial assistance for activities such as market research and trade fairs; and income tax allowances. Other direct and indirect export subsidies are available to local manufacturers, particularly for factories located in designated development areas. Subsidies include electricity and transport rebates, export finance and credit guarantees and marketing allowances, although these export policies are presently under review.

The Export Marketing Schemes (EMA): Several different programs provide incentives for local exporters. The General Export Incentive Scheme (GEIS) encourages the export of manufactured products with a high value-added content. Provisions of the Income Tax Act provide tax allowances for capital goods and property used to add value to base metals and intermediate products for export and income tax allowances for expenses incurred in promoting or maintaining an export market. The Export Marketing Assistance Scheme, a limited program, provides assistance for export market research and trade fairs and missions. The Structural Adjustment Program provides export incentives tailored to specific industries, most notably motor vehicles and textiles and clothing. Under the Regional Industrial Development Program, a new or relocating business can apply for incentives such as grants, profit-based incentives, relations incentives, or tax exemption by locating anywhere outside the Johannesburg-Pretoria and Durban areas.

7. Protection of U.S. Intellectual Property Rights

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. 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. Copyright legislation introduced in 1992 provides further protection for computer software.

8. Worker Rights

a. Right of Association

South Africa's Labor Relations Act entitles all private sector workers to freely join labor unions which are independent of direct government control. Amendments to the act in 1989, however, made unions liable for financial compensation to employers in the case of illegal strikes, with the burden of proof upon the unions. Following discussions between the de Klerk Government, employers, and union leaders, however, those amendments were rolled back in early 1991.

In the past, as unions increasingly assumed the role of voicing black worker demands for political rights, the government imposed restrictions on their political activities. Government actions in that respect included raiding union offices, restricting or banning union meetings and detaining trade union leaders. Such actions have now ceased. The only case of South African Government direct intervention in union activities since it lifted restrictions on trade union political activities in 1990 was the revelation of its financial support to a pro-government union aligned with the Inkatha Freedom Party.

b. 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 with the major exception of public servants, farm workers and domestic workers who are not covered by the Labor Relations Act. In November 1992 the Ministry of Manpower agreed to submit legislation to the 1993 parliamentary session that would extend the Labor Relations Act and other labor legislation to agricultural and domestic workers. At the same time, the Ministry agreed to begin consultations with labor on proposed public sector labor relations legislation. Increased efforts to unionize public workers resulted in illegal public sector strikes in the first nine months of 1992. The largest public sector strike, by the National Education, Health, and Allied Workers' Union, was particularly acrimonious and violent.

c. Prohibition of Forced or Compulsory Labor

South Africa does not constitutionally or statutorily prohibit forced labor; however, the country's system of 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. The Occupational Safety Act sets minimum standards for work conditions and employment, and the South African Government claims those standards are enforced.

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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. However, most U.S. firms operating in South Africa participate in a fair labor standrads program which generally results in more favorable conditions of work for their employees.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		(D)
Total Manufacturing		496
Food & Kindred Products	(D)	
Chemicals and Allied Products	123	
Metals, Primary & Fabricated	(D)	
Machinery, except Electrical	82	
Electric & Electronic Equipment	*	
Transportation Equipment	(D)	
Other Manufacturing	(D)	
Wholesale Trade		70
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

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

* - Less than $500,000

Source: U.S. Department of Commerce, Survey of Current Business, November 1992, Vol. 72, No. 8, Table 11.3

ZAIRE

Key Economic Indicators

(millions of U.S. dollars unless otherwise noted)

Income, Production and Population	1990 (a)	1991 (b)	1992 (c)
GDP (1980 prices)	5,340	5,020	4,718
GDP growth (pct)	- 2	- 5	- 8
Population (mil.)	34.5	35.6	36.7
Money and Prices			
Money Supply (bil z.)	560	18,280	500,000
Pbc. Sector Credit	455	5,700	n/a
Pvt. Sector Credit	203	1,200	n/a
Budget Surplus/Deficit (percent of GNP)	-9	-14	n/a
Inflation (percent)	243	3,700	2,700
Official Exchange Rate (z/USD)	719	15,587	950,000
Parallel Exchange Rate (z/USD)	n/a	40,000	975,000
Balance of Payments & Trade			
Total Exports (fob)	2,104	1,570	980
Exports to U.S. (cif)	317	302	n/a
Principal Exports:			
Copper (1,000 mt)	376	210	150
Cobalt (1,000 mt)	16	11	7
Oil (mil. brls.)	11	7	8
Coffee (1,000 mt)	100	88	n/a
Diamonds (mil. cts.)	18	17	12
Total Imports (cif)	1,796	1,240	900
Imports from U.S.	38	n/a	n/a
U.S. Aid:	44	46	5.5 (d)
Economic	40	46	5.5 (d)
Military	4	0	0
Other Aid	n/a	n/a	n/a
U.S. Direct Investm't	n/a	n/a	n/a
Ext. Public Debt	8,610	9,800	10,500
Debt Arrears	1,600	2,600	3,500
Gold/Forex Reserves	180	161	140
Balance of Payments:			
Trade	308	n/a	n/a
Current Account	- 456	n/a	n/a

(a) Provisional data.
(b) Estimates except for trade, exchange rate, and aid data.
(c) Projections.
(d) Humanitarian aid.

Sources: International Monetary Fund, U.S. Embassy Kinshasa, U.S. Department of Commerce

ZAIRE

1. General Policy Framework

Zaire's mixed economy has long been deteriorating, a product of crumbling infrastructure, mismanagement and capital depletion of state enterprises, and widespread corruption. Zaire's economic problems include ever increasing arrears to creditor countries and international financial institutions; hyperinflation fueled by uncontrolled monetary financing of continuing budget deficits; plummeting export revenue due to lower copper production as well as the diversion of much cobalt, diamond, and gold exports into extralegal channels; a growing current account deficit; and few hard currency reserves.

Zaire's economy has been in a state of virtual collapse since September 1991, when looting by members of the armed forces and civilians erupted in Kinshasa and spread to other urban centers throughout the country. The main causes of the disturbances were discontent with the economic situation and impatience with the pace of democratic reform. Thousands of expatriate managers and engineers -- key people in maintaining infrastructure and industry -- fled Zaire in the wake of the looting. The looting and the departure of much of the expatriate community accelerated the deterioration of Zaire's formal economic sectors, including manufacturing, food distribution, energy production and distribution, banking, communications, and mining. It also encouraged the return to traditional subsistence agricultural production and barter.

Zaire was in a state of political-economic paralysis throughout most of 1992 as a result of these disturbances. A government established in August of that year enjoys the confidence of a large part of the population, but its attempts to restore social and economic order have so far met with little success. The short-to-medium term prospects for economic reform in the country remain poor.

2. Exchange Rate Policies

Since August 1991 the government has permitted the zaire, the national currency, to float. The float was preceded by a 50 percent devaluation of the zaire against the dollar. The devaluation did little to discourage imports and nothing to encourage exports, and capital flight continued unimpeded, fueling rapid depreciation of the zaire against all hard currencies. As a result, the zaire has lost more than 99 percent of its value against the dollar and other hard currencies since the devaluation. Little hard currency was available from commercial banks, forcing would-be importers to turn to the parallel market. Similarly, a shortage of zaires in the banking system forced many exporters to turn to the parallel market for zaires to meet their payrolls and other local costs.

The government imposed new foreign exchange controls in the autumn of 1992 in an attempt to control capital flight. Banking industry specialists considered the controls ill-advised, opining that these and other measures adopted by the government would strangle what little private sector activity existed. They recommended that the government solve the country's more pressing economic problems by reducing the budget deficit and encouraging saving by raising interest rates to "market clearing" levels. With or without controls, however, foreign exchange will continue to be scarce in 1993.

3. Structural Policies

The Government of Zaire fell out of compliance with its last IMF structural adjustment program in 1990. A succession of governments has been unable or unwilling to come to terms with the International Monetary Fund regarding control of government disbursements, general monetary restraint, setting of positive real interest rates, and repayment of arrears to official creditors, including the IMF. Donors, agreeing that Zaire's economic crisis is beyond the point where partial remedies will stimulate economic recovery, are calling for a fundamental change in government priorities, and financial austerity sustained over a year or two, before they commit themselves to resuming development aid to Zaire.

It is thus highly unlikely that Zaire will attract U.S. investment during this period or provide an attractive market for U.S. exports. The prospects would be better if Zaire pursues an economic stabilization program as the donors have recommended.

4. Debt Management Policies

By the end of 1992, Zaire's total external public and publicly-guaranteed debt was slightly more than $10 billion. Its payment arrears were estimated to be about $3.5 billion. None of Zaire's debt was rescheduled in 1992, and during the year it failed to make almost all of its debt service payments to bilateral and multilateral creditors and commercial banks.

5. Significant Barriers to U.S. Exports

The major barriers to U.S. trade and investment in Zaire are its economic collapse, and continuing political instability and sporadic breakdown of law and order. Other obstacles include the absence of U.S. Government export financing, poor communication and transportation infrastructure, uncertain foreign exchange availability, absence of political risk insurance, and greatly reduced purchasing power as reflected in a local currency unit (the zaire) whose exchange value continues to plummet.

In November 1992, Zaire imposed import quotas. Goods are to be imported according to the availability of foreign exchange, and the government will draw up a list of priority goods and the quantities to be imported.

6. Export Subsidies Policies

There were neither export subsidies nor export processing zones in Zaire in 1992.

Zaire has set up a duty-free zone (Zone Franche d'Inga -

ZOFI) to attract potential investors. ZOFI offers generous economic inducements, but, other than ample hydroelectric power, infrastucture is lacking.

7. Protection of U.S. Intellectual Property

Zaire is a member of the World Intellectual Property Organization. Zaire is also 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. Right of Association

The right of workers to form and join trade unions is provided for in the Constitution and in legislation, but there are two exceptions. Magistrates and other employees of the judicial system are governed by a statute which stipulates that they may not create their own union. In addition, all military personnel (including gendarmes or the national police) are subject to a statute which states that they, too, cannot establish a union. Before April 1990, all trade unions were required by statute to affiliate with the National Union of Zairian Workers (UNTZA), the single legally recognized labor umbrella organization which was an integral part of the only political party then allowed, the Popular Movement for the Revolution (MPR). After April 24, 1990, when political pluralism was permitted, the UNTZA disaffiliated itself from the MPR and reorganized under new leadership chosen through elections deemed fair by outside observers. Other independent labor unions and nascent confederations emerged in the ensuing months, most of which organized along occupational lines. Some of these have antecedents which existed in the early years of Zaire's independence. The situation is still in flux. There is a loose confederation of government worker unions which has not selected its leadership.

The right to strike is recognized in Zairian law; however, "legal" strikes rarely occur since the law requires prior resort to lengthy mandatory arbitration and appeal procedures. Labor unions have not effectively defended the rights of workers in the deteriorating economic environment. Although the UNTZA and the other unions employed various means (including wildcat strikes) in 1992 in attempts to improve pay and working conditions, their impact was minimal. The most important work stoppage was a general strike at Matadi early in the year in support of a resumption of the National Conference; it ended after 3 weeks when troops of the 31st Airborne Brigade replaced longshoremen and other striking workers. Teachers and other civil servants also went on strike during the year for wage increases or to protest nonpayment of salaries.

Several instances of arbitrary dismissal of employees by government employers (various ministerial departments and state enterprises) were recorded during the first 8 months of 1992. A well-informed source noted that 90 employees at the

Office of the Prime Minister were arbitrarily fired between February and July. Two senior civil service union representatives were also dismissed on spurious grounds. The reason given was unauthorized participation in political activities, i.e., active support of opposition parties. Credible sources have asserted that General Kikunda Ombala, the chief executive officer of Air Zaire, a government-owned airline, dismissed personnel solely because of their political activity.

In 1992 the UNTZA participated actively in the Organization of African Trade Union Unity and maintained ties with a number of foreign trade union organizations.

b. Right to Organize and Bargain Collectively

Legislation provides for the right to bargain collectively. The UNTZA has negotiated about 1,000 collective bargaining agreements during the past several years. An agreement between the UNTZA and the employers association (ANEZA) provided for wages and prices to be fixed jointly each year under minimal government supervision. This system, which functioned until 1991, broke down as a result of the rapid depreciation of Zaire's national currency and has not been replaced by an alternative system. Continuing hyperinflation has encouraged a return to pay rates individually arranged between employers and employees, a decline in the influence of unions (at least in the formal economic sector), a tendency to ignore existing labor regulations, and a buyer's market for labor.

The Government has not promulgated the revisions to the Labor Code promised in 1990. These would strengthen the provisions of the law safeguarding the right to form unions and to bargain collectively. The revisions would also protect workers against antiunion discrimination.

There are no export processing zones in Zaire.

c. Prohibition of Forced or Compulsory Labor

Forced labor is prohibited by law in Zaire. However, the Zairian Prison Fellowship reported to the National Conference that inmates at the Lugumu and Angenga prisons were forced to work for the personal benefit of the wardens in 1992. The International Labor Organization Committee of Experts in its 1992 report reiterated its concern about the Zairian laws of 1971 and 1976 that provide for compulsory labor by Zairian nationals who are delinquent taxpayers or who fail to contribute to national development efforts.

d. Minimum Age and Employment of Children

The legal minimum age for employment is 18 years. Minors 14 years and older may be employed legally with the consent of a parent or guardian. Employment of children of all ages is common in the informal economic sector and in subsistence agriculture. Neither the Ministry of Labor nor the labor unions make an effort to enforce child labor laws. Larger enterprises do not commonly exploit child labor. There were credible reports that pro-Mobutu forces were drafting 13- to 17-year-old youths into the Special Presidential Division.

e. Acceptable Conditions of Work

Most Zairians are engaged in subsistence agriculture or commerce outside the formal wage sector. Most workers rely on the extended family and informal economic activity for support.

In particular, public sector salaries remained far below the minimum subsistence wage except at the highest levels of government service; public sector employees generally held a second job and some engaged in corruption. Since the law requires employers to provide medical benefits, this was often the only reason employees wanted to retain their jobs in the formal sector.

The maximum legal workweek (excluding voluntary overtime) is 48 hours. One 24-hour rest period is required every 7 days. The Labor Code specifies health and safety standards. The Ministry of Labor is officially charged with the enforcement of these standards, but there is little enforcement in practice. Minimum wages, safety, and health standards do not apply to employees engaged in subsistence agriculture.

f. Rights in Sectors with U.S. Investment

U.S. companies have invested in Zaire's 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. The health benefits and salaries they provide generally compare favorably with those given by Zairian firms.

ZAIRE

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		50
Total Manufacturing		-9
Food & Kindred Products	0	
Chemicals and Allied Products	(D)	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	(D)	
Other Manufacturing	0	
Wholesale Trade		*
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		41

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

* - Less than $500,000

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, November 1992

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Key Economic Indicators

(BILLIONS OF AUSTRALIAN DOLLARS UNLESS NOTED)

	1990	1991	1992 1/
INCOME, PRODUCTION AND EMPLOYMENT			
REAL GDP (1985 PRICES)	258.9	255.9	261.0
REAL GDP GROWTH (PERCENT)	2.5	-1.2	2.0
GDP (AT CURRENT PRICES)	376.5	379.2	394.3
BY SECTOR:2/			
AGRICULTURE	14.1	11.0	11.2(est)
ENERGY AND WATER	11.4	12.2	12.4(est)
MANUFACTURING	52.1	51.4	52.4(est)
CONSTRUCTION	29.6	29.3	29.9(est)
OWNERSHIP OF DWELLINGS	30.0	32.1	32.7(est)
FINANCE, PROPERTY AND BUSINESS SERVICES	41.8	42.4	43.3(est)
OTHER SERVICES	54.6	58.3	59.9(est)
GENERAL GOVERNMENT	6.7	7.0	7.1(est)
NET EXPORTS OF GOODS AND SERVICES	-4.0	2.5	2.6
REAL PER CAPITA GDP	15.2	14.8	14.7
LABOR FORCE (000S)	8,462	8,536	8,623
UNEMPLOYMENT RATE (PERCENT)	6.9	9.7	10.7
MONEY AND PRICES			
MONEY SUPPLY (M1)	42.8	46.3	52.0
BASE INTEREST RATE (PCT)	16.9	12.7	6.8
PERSONAL SAVINGS RATIO	7.0	6.0	6.4
CONSUMER PRICE INDEX (1989=100)	103.7	106.5	108.0
MANUFACTURING PRICE INDEX (1985=100)	115.7	112.7	N/A
EXCHANGE RATE (A$/U.S. CENTS)	79.4	73.0	74.0
BALANCE OF PAYMENTS AND TRADE			
TOTAL EXPORTS FOB	50.3	53.9	56.5
EXPORTS TO U.S.	5.7	5.6	5.7
TOTAL IMPORTS CIF	49.8	49.6	51.4
IMPORTS FROM U.S.	11.9	11.9	12.3
AID FROM U.S.	0	0	0
AID FROM OTHER COUNTRIES	0	0	0
GROSS EXTERNAL PUBLIC DEBT	76.1	79.5	78.2
DEBT SERVICE PAYMENTS (PAID)	6.2	7.1	6.5
GOLD AND FOREIGN EXCHANGE RESERVES	25.0	25.5	22.1
CURRENT ACCOUNT BALANCE	-18.9	12.8	13.9
TRADE BALANCE WITH U.S.	-6.0	-6.3	-6.6

1/ 1992 FIGURES ARE ALL ESTIMATES BASED ON AVAILABLE MONTHLY AND QUARTERLY DATA IN OCTOBER 1992.
2/ SECTORAL BREAKDOWN OF GDP (FACTOR COST) ONLY AVAILABLE IN AUSTRALIAN FISCAL YEARS (JULY-JUNE).
3/ IMF FIGURES

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1. General Policy Framework

Australia's gross domestic product (GDP) in 1992 was estimated to be A$394.3 billion. Real GDP is estimated to have grown by 1.5 percent, a substantial improvement from 1991's contraction of 1.2 percent. Nevertheless, the severe recession which began during the third quarter of 1989 and deepened throughout 1990-91 continued to be felt, with unemployment reaching a post-war high of 11.3 percent in October, 1992.

U.S. economic interests in Australia are substantial, including direct investment worth approximately $40 billion and a bilateral trade surplus approaching $4.2 billion.

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 17.5 million people. The production of agricultural commodities and primary products is an important component of the economy; 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. Export earnings are not well diversified; in Australian fiscal year (AFY) 1991-92 (ending June 30, 1992), primary and agricultural products accounted for 62.6 percent of the total value of goods and services exports. Australia has recently been working to strengthen its regional ties with Asian countries and with the United States.

To increase Australia's international competitiveness, the government has continued to reduce protective trade barriers and deregulate large segments of the economy. Privatization of government services at both the federal level (airlines, banks, telecommunications) and state levels (water treatment, transportation, electricity, banks) is being pursued. Trade reforms begun in June 1988 resulted in an end to import quotas on all but textiles, clothing, and footwear and lower tariffs on most imports. Although the 20 percent preference given by the federal government to Australian and New Zealand firms bidding on government contracts was abolished November 1, 1989, and offsets in October 1991, some state and territory governments continue to apply preferences and offsets in their contracts.

Given the slow pace of recovery from the recession, and very low (under 2 percent) inflation, the Australian Government increased both fiscal and monetary stimuli in 1992. Spending increased on public works projects, especially in the transportation sector; a one-time social welfare payment to the most needy was promulgated; and tax rules were modified to allow accelerated depreciation for certain types of investment. Official government interest rates were lowered from a high of 18 percent in early 1990 to below 6 percent as of mid-1992.

In February 1990, reserve levels required from banks, termed "non-callable deposits," were fixed at one percent of a bank's assets. These deposits with the Reserve Bank of

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Australia earn a below-market rate of interest that is no longer manipulated as monetary policy. All major Australian banks conform to the capital standards of the Bank for International Settlements in Basel, Switzerland.

The cash-money supply is now totally controlled through an open-market trading system of nine dealers who act as a conduit between the Reserve Bank and the financial system. Transactions may involve purchases, sales, or trade in repurchase agreements of short-term Treasury securities. Depending on liquidity conditions, the Reserve Bank may bypass dealers and buy or sell short-term Treasury Notes directly with banks on a cash basis. Banks do not normally hold liquid deposits of any size with the Reserve Bank. Instead, they hold call-funds with the authorized dealers. If a bank needs cash on a given day, it either borrows from other banks or withdraws funds it has on deposit with the dealers. Under the money supply control system, foreign exchange flows and government deficits and credits have only limited impact on the money supply.

After three consecutive years of budget surpluses, the government's expansionary policies combined with a recession-induced fall in tax revenues created a federal budget deficit of A$9.3 billion (2.4 percent of GDP) in AFY 1991/92. The deficit is projected to increase to 3.3 percent of GDP by the end of the current AFY (June 30, 1993). Public sector borrowing covered the deficit. Borrowing took the form of Treasury notes (A$1.9 billion), Treasury bonds (A$8.2 billion), and a drawdown of A$650 million in cash. Foreign currency debt fell by A$603 million. In AFY 1992/93 new debt issues totaling A$13 billion will have to be made to cover the projected budget deficit.

The challenge the government will face in 1993 is to avoid reigniting inflation while returning the economy to sustainable growth rates. A successful turn-around depends not only on a measured relaxation of policy restraints, but also on export-led growth, stable external markets and tourism. Despite easing fiscal and monetary policy substantially during the past two years and an almost A$4billion improvement in the current account in AFY 1991/1992, the economic forecast remains clouded, and business and consumer confidence alike have fallen during 1992.

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 fundamental 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. Initially broad in scope, the Australian Government's program is now focusing on industry-by-industry, microeconomic changes designed to compel businesses to become more competitive. The strategy has several principal premises, one of which is that protection of domestic industries must be reduced.

Toward those ends, a phased program to cut tariffs by an average of about 70 percent was begun July 1, 1988 to be completed on June 30, 1996. Specifically, in approximately equal phases, except for textiles, clothing, footwear (TCF) and motor 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 50 percent on March 1, 1992 and become zero when global quotas are terminated on March 1, 1993. Along with these measures, some of the few manufactured products still receiving bounties (production subsidies) will have those benefits reduced each year until the bounties expire. U.S. exports will benefit from these reductions.

In February, 1992 the government announced an economic stimulus plan which contained several structural reform elements. The TCF industries were granted A$30 million in AFY 1992/93, and an additional A$10 million in 1993/4, to adjust to lower tariff protection. A$116 million were allocated to a comprehensive job training program. The Australian Technology Group (ATG) was established to facilitate the industrial employment of technological advances. In the tax area, a 10 percent investment allowance was created to encourage establishment of major projects (above A$40 million) that are world competitive and that do not receive other forms of government assistance. Taxes on the profits of offshore banks located in Australia were reduced to 10 percent. The sales tax on new automobiles was reduced from 20 to 15 percent.

On the negative side, a 1989 customs law requires that freight costs from factory gate to export port and, where possible, seller's Australian marketing costs (agent commissions, printed material, etc.) and royalties be included in product import value for tariff calculation. This valuation method particularly affects U.S. exports of potash to Australia. However, the government has informed U.S. representatives that the effect of calculating transportation costs in value has been overcome through lowered tariff rates. Also, as noted in Section 5 (below), local content requirements on television advertising and programming and certain government procurement practices may also have adverse effects on U.S. exporters and service industries.

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4. Debt Management Policies

Australia's gross external public debt now exceeds A$78.4 billion, or 20.6 percent of GDP. That figure represents 42 percent of Australia's gross external debt; the remaining 58 percent is owed by the private sector. Interest payments on public debt totaled A$6.7 billion in AFY 1991/92, representing 9.7 percent of exports of goods and services. Private sector debt service totaled A$6.8 billion, an amount equal to another 9.8 percent of export earnings. On an overall basis, therefore, Australia's debt service ratio was 19.5 percent. The size of the gross foreign debt has resulted in Standard and Poor's downgrading Australia's general credit rating in October 1989 from AA Plus to AA; a rating reaffirmed in both 1991 and 1992.

5. Significant Barriers to U.S. Exports

The United States enjoyed a A$6.6 billion trade surplus with Australia in 1992. The United States is the number one source of imports in Australia, with a 25 percent share of Australia's import market and an estimated 90 percent share of the imported products purchased by the government. The United States and Australia recently initialled a Trade and Investment Framework Agreement, providing for regular consultations on trade and investment issues. The following are Australian trade policies and practices which affect U.S. exports to some degree.

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

Service Barriers: The Australian services market is generally open, and many U.S. financial services, legal, and travel firms are established here. In 1992 the government announced a complete liberalization of the banking sector and new foreign banks will be licensed to operate as either branches (for wholesale banking) or subsidiaries (for retail operations). The Australian Broadcasting Tribunal (ABT), which controls broadcast licensing, had ruled that not more than 20 percent of any given advertisement shown on Australian television can be produced by non-Australians (New Zealanders are treated as Australians). However, effective January 1, 1992 this rule changed to permit up to 20 percent of the time used for paid advertisements broadcast to be produced by non-Australians. Most U.S.-produced ads should gain access to broadcast time with this rule change.

On January 1, 1990, the ABT required that content regulations be applied to commercial television programming. Beginning with 35 percent for 1990, and increasing 5 percent a year (50 percent for 1993), 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

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Australian content to a 100 percent Australian production). Trade sources indicate that the content regulation has not yet had an impact on the amount of U.S.-sourced programming sold to Australian broadcasters. They expect, however, the local content restriction to affect sales in 1993, when it reaches 50 percent. The ABT content requirements have been vigorously opposed by the U.S. Government and Australia's commercial television stations, but the ABT has resisted efforts to abolish the requirements.

State governments restrict development of private hospitals. States' motives are to limit public health expenditures and to balance public/private services to prevent saturation and overuse -- major government fiscal concerns given that most medical expenses for private hospital care are paid through government health programs.

Standards: In 1992, Australia became a signatory to the GATT Standards Code. However, it still maintains restrictive standards requirements and design rules for automobile parts, electronic and medical equipment, and some machine parts and equipment. Currently, all Australian standards are being rewritten to harmonize them where possible to international standards with the objective of fulfilling all obligations of the GATT Standards Code. The Department of Industry, Technology and Commerce will consider submissions on standards from all sources during the review process. For the first time, state governments agreed in March 1991 to recognize each others' standards. As a result, state standards are being reviewed to harmonize with federal standards.

Labeling: Federal law requires that country of origin be clearly indicated on the front label of some products 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 mass or volume of packaging contents be expressed on labels to the nearest five milliliters or grams are expected to be changed as state standards are harmonized. These and similar regulations are being reconsidered along with other standards in light of compliance with GATT obligations, lack of utility, and effect on trade.

Motor Vehicles: Passenger vehicle tariffs, currently 35 percent, will be phased down to 15 percent on January 1, 2000. Local manufacturers of vehicles and automotive components can receive exemption from duty on finished vehicles they import for sale in Australia in an amount equal to the value of their exports of vehicles/components. Under the Motor Vehicle Standards Act of August 1, 1989, the import of used vehicles manufactured after 1973 for personal use is banned, except where the car was purchased and used overseas by the buyer for a minimum of three months. Commercial importers must apply for a "compliance plate" costing A$20,000 for each make of car imported. Left-hand drive cars must be converted to right hand 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.

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Foreign Investment: U.S. firms account for the largest single share of the stock of foreign direct investment in Australia. In February, 1992 the government announced significant liberalizations opening the economy even further to foreign investment. In the mining sector (excluding uranium), the 50 percent Australian equity and control guideline for participation in new mining projects, and the economic benefits test for acquisitions of existing mining businesses have been abolished. In almost all sectors of the economy, the thresholds above which foreign investment proposals must be examined by the Foreign Investment Review Board (FIRB) have been increased. Proposals to acquire interests in Australian companies or businesses with total assets greater than A$45 million, or takeover an off-shore company with Australian subsidiaries or assets valued above A$42 million are subject to FIRB examination. Proposals above the threshold will be approved unless found contrary to the national interest. The only sectors in which the new liberalizations do not apply are uranium mining, civil aviation, the media, and urban real estate.

Australia's Foreign Investment Review Board screens all foreign investment above a low threshold (US$3.7 million) for acquisitions. This appears to imply that a foreign investment would be less consistent with the national interest than a domestic investment would be. Australia also has barriers in its incorporation requirements that apply solely to foreign investors.

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. Note, however, that the restrictive legislation on equity participation is important for foreign investment in Australian minerals.

Government Procurement: In October 1991, the government abandoned the 30 percent offset 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. Nonetheless, in dismantling the offset program, the government removed a major trade irritant between the U.S. and Australia.

Australia is not a member of the GATT government procurement code, but has said it will examine the code for possible adherence when the current Uruguay Round of revisions are complete.

Beginning on February 1, 1992, the government implemented a Restricted Systems Integration Panel (RSIP) scheme. The RSIP is 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. Several U.S. firms were named initial members of the panel. The Embassy and the Australian Information Industry Association have strongly opposed the panel's establishment.

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 requirements 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) in Australia, leaving the market solely to local products used for oral purposes, but not labeled as such.

Fruit Drinks: Non-carbonated 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, has been rescinded.

6. Export Subsidies Policies

The Australian Government provides export market development-reimbursement grants of up to A$250,000 in any one year 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" (in effect 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 export or compete with cheaper foreign-made substitutes. Existing bounties are to be phased down until they expire. On July 1, 1991, qualifying thresholds for bounties were raised. Bounties and their expiration dates are: photographic film - December 31, 1992; 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 some possibly extended or converted to tariffs.

The government provides support and research and development grants to Australian industry for trials and development of internationally competitive products and services for which the Federal or state governments are the primary purchasers. In the AFY 1992/93 budget announced August 18, the government cancelled plans to reduce the 150-percent corporate tax deduction allowance for research and development to 125 percent on June 30, 1993. It will instead remain at the current level, and eligibility requirements will be tightened.

Electricity production is within the purview of state governments, some of which subsidize the industry and/or selected users of electricity. States also control railroads and rates; some use rail charges as a form of indirect taxation to overcome their legal inability to levy income and some sales taxes. New South Wales and Queensland charge high freight rates for coal partly for that reason. Other states charge high prices to move wheat by rail, a factor which hurts Australian wheat's competitiveness on world markets. 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

Patents, trademarks, designs, and integrated circuits copyrights 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 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.

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Trademarks: Trade names and marks may be protected for seven years and renewed at will 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. However, as part of its overall economic reform program, the government has focused on reducing import restrictions on copyrighted works in order to increase competition and reduce prices. The government's Price Surveillance Authority (PSA) has identified the parallel import provisions of the copyright law as the ostensible cause of limited competition. The PSA recommended and the Parliament has passed a bill that will reduce parallel import protection for books if, within 30 days of publication abroad, those persons having distribution rights within Australia have not begun distributing here. After 30 days, anyone may import legally-produced copies from abroad for local distribution. The U.S. Embassy has made submissions to the Australian Government contesting this proposal, particularly the adverse effect it would have on normal channels of distribution for textbooks. In June, 1992 the government decided to eliminate parallel import protection for sound recordings, and legislation to effectuate this change is being drafted. In late 1992, the PSA presented a preliminary recommendation that Parliament consider legislation to allow the parallel importation of computer software.

The Australian Copyright Act provides protection regarding public performances in hotels and clubs, and against video piracy and unauthorized third-country imports. However, no protection is accorded against the commercial rental of sound recordings without royalty payments, even though the Embassy has urged the government to do so. No complaints about unauthorized public showings of films have been received for over five years. The Attorney General's Department monitors the effectiveness of industry bodies and enforcement agencies in curbing the illegal use of copyrighted material.

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.

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8. Worker Rights

a. Right of Association

Australian law and practice generally provide workers, including public servants, freedom of association both domestically and internationally. In November, however, the International Labor Organization (ILO) noted that the Australian Government's requirement that unions have at least 10,000 members to be registered under the federal system could "unduly influence workers' free choice of unions." The ILO recommended that the Australian Government change the membership requirement to allow small unions access to benefits currently not available because they cannot register under the federal system. The Australian Council of Trade Unions, the principal labor organization in Australia, is affiliated with the International Confederation of Free Trade Unions.

Australian workers enjoy the right to strike, which is well established in practice. The right to strike is not, however, protected under domestic law, and unions may be held liable for damages resulting from labor disputes. Strikes are frequent but usually of short duration. In general, industrial disputes are resolved through direct employer-union negotiations or under the auspices of the various state and federal industrial relations commissions whose mandates include conciliation and arbitration.

b. Right to Organize and Bargain Collectively

Australian workers are granted the right, by law and in practice, to organize and bargain collectively, and to be represented in negotiating the prevention and settlement of disputes with employers. Workers are also protected by law and in practice from antiunion discrimination. A pattern of centralized wage negotiations with quasi-judicial arbitration and settlement, supplemented by industry-wide or company-by-company collective bargaining, has generally prevailed since the establishment of the Commonwealth Conciliation and Arbitration Commission in 1904. The Industrial Relations Act of 1988 made important technical changes in the basic system, creating a new Industrial Relations Commission with expanded scope for performing essentially the same tasks as its predecessor.

c. Prohibition of Forced or Compulsory Labor

Although there are no domestic laws on forced labor, Australia has ratified and fully respects ILO Convention 105 concerning forced labor.

d. Minimum Age for Employment of Children

Although there is no federally mandated minimum age for employment, state-imposed compulsory education requirements, monitored and enforced by state educational authorities, prevent children from joining the work force until they are 15 to 16 years old, except in individual cases involving administrative approval for absence from school because of reasons such as illness, disability, or family hardship. In addition, federal and state ministries of labor monitor and enforce a complicated network of legislation (which varies from state to state) governing such interrelated factors as minimum school-leaving age, minimum age to claim unemployment benefits, and minimum age to engage in specified occupations.

e. Acceptable Conditions of Work

Although a formal minimum wage exists, it is not used. Instead, most workers are covered by differing minimum wage rates for individual trades and professions which are embodied in a comprehensive system of "awards," determined by the various quasi-judicial state and federal industrial relations commissions after submissions by union, employer, and government representatives. In many cases involving individual business enterprises, the commissions approve wage rates previously negotiated and agreed upon by employer and union representatives. Where market conditions warrant, higher wages than those provided for in industrial awards ["over-award payments"] are common. The lowest current federal award of about US dollars 234 per 38-hour week is for clothing workers. This is combined with other regularly provided benefits and government entitlements for low-income familiesg.

For employees of incorporated organizations--a majority of Australian workers--a complex body of federal and state regulations, as well as decisions of the corresponding industrial relations commissions, prescribes a 40-hour or shorter workweek, paid vacations, sick leave, and other benefits. In a limited number of cases, workplace health and safety standards are also prescribed.

An intergovernmental body called the National Occupational Health and Safety Commission [also known as "Workplace Australia"] develops advisory standards and codes of practice which can be the basis for new laws. The Occupational Health and Safety [Commonwealth Employment] Act of 1991 gives a federal employee the legal right to cease work if he or she believes that particular work activities pose an immediate threat to health or safety. Most states and territories have laws which grant similar rights to their employees.

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.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		2,828
Total Manufacturing		6,141
Food & Kindred Products	899	
Chemicals and Allied Products	2,400	
Metals, Primary & Fabricated	460	
Machinery, except Electrical	492	
Electric & Electronic Equipment	134	
Transportation Equipment	526	
Other Manufacturing	1,229	
Wholesale Trade		1,179
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		10,148

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

Source: U.S. Department of Commerce, Survey of Current Business, November 1992, Vol. 72, No. 8, Table 11.3

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Key Economic Indicators

Income, Production, Employment	1990	1991	1992 Proj
GNP (billion renminbi) 1/	1,740	1,958	2,145
- Real GNP Growth (pct)	5.0	7.0	9.5
GNP Per Capita (rmb)	1,522	1,725	1,880
Gross Value Indus. Output - (billion yuan) 2/	2,202	2,312	2,700
Real GVIO Growth (pct)	7.6	9.0	12.0
Gross Value Agric. - Output (billion yuan 2/	738	827	900
Real GVAO Growth (pct)	6.9	3.0	3.0
Population (millions)	1,143	1,158	1,170
Official Unemployment - (avg pct for year)	2.5	2.3	2.5
Size of Labor Force (mil) 3/	560	565	568
Money and Prices			
Money Supply (M1) 4/	840	1040	1200
Money Supply (M2) 4/	1666	2025	2350
Govt. Budget Surplus/ - Deficit as pct. of gnp	-2.9	-3.4	-4.0
Commercial Interest Rates	N/A	N/A	N/A
Savings Rate 5/	40.4	39.3	40.0
Investment Rate 5/	37.1	36.0	38.0
General Retail Price Index (Pct. Change, Dec/Dec)	5.4	4.2	6.5
Official Exchange Rate - (year-end) (rmb/usd)	4.8	5.5	5.8
Parallel Exchange Rate 6/ - (year-end) (rmb/usd)	5.8	5.9	6.8
Balance of Payments and ... (Billions of U.S. Dollars)			
PRC Exports (FOB)	62.1	71.9	83.8
U.S. Imports from China - (CIF) 7/	15.2	19.0	25.0
PRC Imports (CIF)	53.4	63.8	77.4
U.S. Exports to China - (FAS) 7/	4.8	6.2	6.7
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	50.0	56.0	61.0
Debt Service Paid 3/	7.0	7.0	9.0
Foreign Exchange Reserves, - Year-End (incl. gold)	27.8	44.0	45.5
Current Account Balance	11.9	13.2	10.0

Sources: State Statistical Bureau (SSB) Yearbook, People's Bank of China Monetary Data, International Monetary Fund and World Bank reports, USG trade data and Embassy estimates.

Notes: 1/ Source for GNP data for 1990 is the IMF. Source for 1991 is China's State Statistical Bureau (SSB). GNP per capita and real per capita GNP growth are calculated using this data. Real GNP growth is based on Chinese statistics.

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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/ U.S. Embassy estimates.

4/ These figures are in billions of rmb. M1 and M2 are U.S. Embassy estimates based on data released by the central bank. Because of definitional problems, the estimate for M2 is more accurate.

5/ Estimates of Gross National Savings as a percentage of GNP and Gross Domestic Investment as a percentage of GNP are as estimated by the IMF in May 1992.

6/ The parallel exchange rate is an embassy estimate based on an average of year-end prices of foreign exchange sold at the domestic forex swap centers. The black market price of forex is somewhat (though not markedly) higher.

7/ U.S.-China bilateral trade is based on U.S. Government data. Trade totals are from Chinese Customs Data.

1. General Policy Framework

The remarks made by senior leader Deng Xiaoping during his tour of prosperous southern China in January 1992 accelerated the process of systemic economic reform and opening to the outside world and were reflected in the policy pronouncements of the 14th National Communist Party Congress. Discussions of free markets for goods and services figured prominently at the Congress. The guidelines for the eighth five year plan (1991-1995) and outline for the next ten years, approved by the National People's Congress in 1990, continue to reaffirm the primacy of state ownership while promoting economic reform measures. The period of economic retrenchment of the late 80s ended in 1991, paving the way for a new series of reform measures. Helped by low inflation rates, Chinese policymakers are willing to move ahead as rapidly as possible, albeit with an eye on social tensions.

The Chinese economy has been growing at a rapid pace since the last quarter of 1990. The Gross Value of Industrial Output (GVIO), led by the non-state owned enterprise sector, has registered strong growth so far in 1992, exceeding 17 percent in the first and second quarters, and annual GNP growth appears likely to reach 10-11 percent, surpassing the planned figure of 9 percent. However, structural problems in the industrial sector continue to plague China's economic future, giving rise to adjustment measures and increasing calls for restructuring and reform. On the agricultural side, China will see its fourth straight year of bumper grain harvests, leading to difficulties in storing and distributing the near record output. Production has diversified, with livestock husbandry accounting for nearly one-fourth of GVAO, and a growing variety of fruits and vegetables appearing on the markets.

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Prices are rising, with estimates for national average retail price indices exceeding 5 percent and certain urban indicators reaching 10-13 percent. Transportation bottlenecks and rising demand for certain key industrial inputs will continue to put upward pressure on prices, as will the high levels of credit directed at industrial investment. However, for the country as a whole, inflation is expected to remain below 7 percent, moderate, but a significant increase on the previous figure of 4.2 percent.

The industrial sector is the target for new reform policies designed to resolve the low efficiency and heavy losses of state-run enterprises. New regulations issued by the State Council in July 1992 gave enterprises greater autonomy in management, distribution, and personnel decision-making. Emphasis has also been placed on allowing firms to issue shares either internally to their workforce or in some cases on the nascent stock markets in Shanghai and Shenzhen. The centerpiece of the proposed reform measures remains 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. Effective implementation of this law will take time and will depend on the dynamism of the implementing organizations and their leaders for its effectiveness, as well as the ability of the central government to reform the network of provincial and local authority over enterprises. Provision of low interest loans through policy-driven state bank lending will still play the dominant role in industrial policy.

China's external economic performance remains strong. The 1991 balance of payments figures showed positive balances on both the capital and current accounts, with the latter reaching $13.2 billion. As a result, China added $14.1 billion to its official reserves in 1991, bringing the total stock of foreign exchange reserves (as of April 1992) to $43.5 billion, approximately ten months of import cover. Reflation of the economy in 1992-93 could lead to some moderation of China's trade imbalance with the U.S. Although U.S. exports to China for 1992 have surpassed 1989 levels, imports from China continue to rise with the result that the U.S. trade deficit with China, based on U.S. Department of Commerce figures and U.S. Embassy estimates, will increase from $12.7 billion in 1991 to approximately $19 billion in 1992.

Chinese fiscal policy remains embryonic. The central budget deficit is growing as a result of high administrative spending by government agencies and continuing subsidization of industries as well as certain key input prices. Though fiscal deficits are still thought to be manageable in terms of percentage of GNP (approximately 4 percent), the rate of growth of the deficit is cause for concern. (Note that this would increase to close to 9 percent of GNP if forced lending from the banking system were included.) In addition, deficit financing through increasing government bonds sales adds to the interest payment burden. China's system of taxation, in which the center negotiates a share of tax rovenues 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 almost impossible in the short run. Experiments in center-provincial fiscal relations are underway, but the results are unclear. Recent economic growth has boosted tax receipts and price liberalization will ease the subsidy burden somewhat. However, China's road to a rational fiscal policy remains arduous.

Monetary policy has been relatively relaxed since the fourth quarter of 1990, with M2 growing at about 27 percent annually. Money supply growth has not yet been accompanied by high inflation. A certain portion of funds has also gone to continue the "monetization" of rural areas, or to settle chains of debt among state firms. Consumers do not exhibit inflationary expectations and maintain a savings rate in excess of 30 percent. Credit flowing into non-productive investment or into the booming capital construction sector is beginning to raise inflationary concerns, but so far seems to have been absorbed. The banking system continues to espouse strengthening the role of the central bank and using monetary levers to control the economy. Authorities do not enjoy the use of sophisticated financial levers and must instead rely on crude credit controls. Foreign currency swap centers have been established, increasing the availability of foreign exchange (over $22 billion total volume this year), reducing the black market in foreign currency and narrowing black market and swap rates.

2. Exchange Rate Policies

The Chinese currency, the renminbi (RMB), is not freely convertible. An administered exchange rate, set daily by the central exchange authorities, generally applies to trade transactions under the State Plan. There is also a second rate determined in foreign exchange adjustment ("swap") centers, where joint ventures and other foreign invested enterprises, domestic entities that are allowed to retain rights to their foreign exchange earnings, and certain individuals may buy and sell foreign exchange or foreign exchange quotas at rates established through a regulated auction system. Outside the official dual rate system, there is a black market for foreign exchange, which is apparently diminishing in significance but is still sizable.

The authorities use a variety of means to control the allocation of foreign exchange under the dual rate system. Foreign exchange earned by a state enterprise must initially be surrendered to the Bank of China in exchange for local currency at the administered rate. After each sale, the government gives the enterprise a foreign exchange quota according to a retention ratio determined by the government. Retention ratios vary greatly among regions, firms, and products. Domestic firms are permitted to trade only retention quotas among themselves rather than the foreign exchange itself.

The authorities also restrict access to the swap centers for prospective buyers and sellers of foreign exchange. Foreign exchange may be purchased in the swap centers only for the importation of goods deemed by the state to be "necessary" for China's development. Swap center purchases of foreign exchange for non-trade-related foreign exchange transactions are restricted. Foreign exchange flows among swap centers in different parts of the country are limited.

These controls on the demand for, and supply of, foreign exchange in the swap centers affect the swap rate itself, which therefore cannot be called a market determined exchange rate. Moreover, the authorities are positioned to influence the swap rate more directly by intervening in the market or shutting down trading if fluctuations in the rate extend beyond set bands.

During 1992, both the official and swap market exchange rates showed significant devaluation. From January through August, the official exchange rate remained relatively constant, fluctuating in a narrow range around 5.45 RMB/dollar. Beginning in mid-September, however, the official rate began to devalue. By December 31st, the official exchange rate stood at 5.77/dollar, for a total year-on-year devaluation of 5.8 percent in 1992.

While the official exchange rate remained constant for the first half of 1992, the swap center rate depreciated. Starting 1992 at 5.91/dollar, the swap center rate had reached 7.00/dollar by mid-August. This represented a depreciation of 18.4 percent since the beginning of the year. In the two week period from July 25th to August 15th, the swap center rate depreciated by almost ten percent By December 26th the rate was 7.3/dollar; this represents a total year-on-year devaluation of 23.5 percent for 1992. The observed devaluations of the swap center rate in recent months appear to be caused by high import levels, year-end foreign exchange purchases by foreign-funded enterprises to meet annual foreign exchage balancing requirements, and speculation by those who expect further devlauations of the currency.

3. Structural Policies

China's structural policies appear to be undergoing a major realignment. Recent policy statements by major national leaders indicate that free markets and guidance planning will soon officially replace central planning as the basis of the country's economic system. But Chinese policymakers indicate that non-mandatory guidance planning will continue to be used to guide the development of Chinese industry and, probably, agriculture. The Chinese State Planning Commission announced that it will reduce the number of mandatory industrial output targets by one half and will completely eliminate production quotas for agricultural products. Moreover, the central government is emphasizing more than ever greater openness of the national economy to foreign trade and investment, in stark contrast to pre-reform policies of maximizing national economic self sufficiency.

The country's state-run industrial enterprises, about two-thirds of which either generate no profits or lose money, are the focus of the current structural reform program. While shying away from large scale privatization of state-run industries, the State Council in July 1992 issued regulations designed to give these firms greater autonomy over their personnel, pricing, and investment decisions in order to make them more responsive to market forces, including allowing bankruptcy for enterprises which chronically show losses. Concerns over possible social and political instability, notably labor unrest, means implementation of this program will proceed cautiously.

Policymakers have stressed the role of foreign trade and investment in promoting structural reform of the economy, drawing inspiration from remarks made by senior leader Deng Xiaoping during a trip in early 1992 to the Shenzhen Special Economic Zone, an area designed specifically to draw foreign capital and to encourage exports. Various "development zones", which extend favorable policies to foreign investors, have proliferated in emulation of the Shenzhen model. Communist Party policy documents urge the creation of special economic zones in the interior provinces to help those areas catch up with the more prosperous coastal region.

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 continues to increase. At the end of 1991, China's total outstanding external debt was officially reported at $60.56 billion. Of this total, an estimated 17 percent is in short-term loans, the rest is in long- and medium-term debt. Outstanding debt at the end of 1991 was equivalent to 17 percent of 1991 GNP or 103 percent of merchandise exports. The debt service ratio as ~~of the end of 1991 is estimated to be between 11-13 percent of~~ export earnings, although exact figures are not available. China's debt service ratio in 1992 -- China's peak foreign debt repayment year -- will not exceed 20 percent and is below internationally recognized danger levels.

Most of China's loans come from the Asian Development Bank, the World Bank, and Japan; these creditors provide approximately 60 percent of all China's governmental and commercial loans. Hong Kong/Macao, France, the UK, and Germany are also major lenders. 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 large foreign exchange reserves. From a base of large reserves accumulated during the period of tight import controls, China's continued favorable export performance has allowed the country to amass foreign exchange reserves of $43.5 billion by April, 1992. Reserves are expected to continue to increase in 1992, but more slowly than in 1991.

Debt management responsibility is shared by several central government agencies, including the State Planning Commission, the Ministry of Finance, the newly-formed State Council Economic and Trade Office, People's Bank of China, and the Ministry of Foreign Economic Relations and Trade. Annual quotas for foreign borrowing are allocated to localities and enterprises through the central planning process. The State Administration of Exchange Control (SAEC) is responsible for enforcing quota restrictions, approving out-of-plan borrowing, and ensuring that borrowers are capable of repaying their loans. Since mid-1989, all foreign loans nationwide (including those of Sino-foreign joint ventures) must be registered with the SAEC. Efforts have been made to further tighten management guidelines for international commercial loans and guarantors' responsibilities.

5. Significant Barriers to US Exports

China continues to impose barriers to U.S. exports, despite its stated goal of reforming and liberalizing its trade regime. On October 10, 1991 the United States Trade Representative (USTR) self-initiated a Section 301 investigation of China's market access barriers. The investigation focussed on import prohibitions and quantitative restrictions, import licensing requirements, technical barriers such as testing and certification requirements, and the failure to publish import laws and regulations.

On October 10, 1992 the United States and China signed a Memorandum of Understanding which successfully concluded the 301 investigation. Once implemented, the provisions of the MOU will greatly reduce many of China's major non-tariff import barriers. China is not currently a member of the GATT, but its application is under active consideration.

China has maintained a multi-layered web of import restrictions. China's import licensing system covers 53 broad categories of goods or about half of China's imports by value. The United States-China Market Access MOU commits China to phase out import barriers -- including licensing requirements, quotas, controls, and restrictions -- in many key U.S. export sectors beginning on December 31, 1992 and continuing until December 31, 1997. The MOU calls for access to increase progressively until barriers are removed completely.

Export sectors affected by the MOU which are of interest to U.S. firms include: autos, auto parts, computers, telecommunications, electrical appliances, medical equipment, chemicals, agrichemicals, pharmaceuticals, film and instant print film, instant cameras, photocopiers, beer, wine, alcoholic beverages, mineral waters, wood products, steel, and a wide range of machinery products. The Chinese have agreed to liberalize import controls on key U.S. agricultural exports such as fruit, wheat and other grains, and edible oils.

While time frames for liberalization vary from product to product, approximately 75 percent of all import licensing requirements, quotas, controls and restrictions will be completely eliminated by the end of 1994.

In some sectors of interest to U.S. companies, the Chinese market began the process of opening on December 31, 1992. For example, import barriers to telecommunications, instant cameras, and instant print film were lifted on that day. In other key areas, removal of barriers begins later. Barriers on products such as oscilloscopes will be fully lifted by December 31, 1993. Those on computers, various auto parts, electrical appliances, and medical equipment will be eliminated by December 31, 1994. On automobiles and auto parts, the Chinese agreed to immediately lift quantitative restrictions on imports by U.S. joint ventures in China to meet existing and expansion needs in the future.

One of the most formidable barriers has been the lack of transparency. Many of China's trade laws, rules and regulations have heretofore been unavailable. In line with the requirements of the General Agreement on Tariffs and Trade (GATT), the Chinese have committed to make their trade regime transparent. China has agreed to : 1) Publish openly and promptly all laws, regulations, and decrees that govern trade, including information of commercial interest to U.S. companies. Some laws and regulations have already been published. 2) Establish a central repository for the publication of all trade regulations. 3) Put a halt to the use of restricted internal directives to govern trade so that only trade laws that are published will be enforced. 4) Make the import approval process transparent, identify all agencies involved, and maintain an appeals process.

Behind these various policies stood a philosophy of import substitution, i.e., China should not import goods which it produces itself. China has agreed to eliminate the use of import substitution policies and measures, and has promised that it will not subject any imported products to such measures in the future, nor will it deny approval for imports because an equivalent product is produced in China. Import substitution lists have been publicly disavowed.

China's standards and testing requirements have held imports to a higher quality standard than domestic products, sometimes to protect domestic producers or to exclude products considered unnecessary for China's development. In the MOU, China made a commitment to open its markets to U.S. products, especially agricultural products, and to eliminate standards and testing barriers.

On agricultural standards issues, China has affirmed that it will: 1) Resolve within 12 months questions about scientifically unjustified phytosanitary restrictions on citrus fruits, stone fruit, apples, grapes, wheat, and tobacco. 2) Negotiate with the United States within 12 months a veterinary protocol based on sound science regarding the import of animal breeding stock. 3) Confirm that domestic wood conservation policies do not apply to wood imports. China has agreed to uniform application of testing and certification standards for non-agricultural products as well.

China's tariffs also formed a wall, of sorts, with tariffs as high as 250 percent on goods such as automobiles. The Chinese government has pledged to reduce significantly, by no later than December 31, 1993, tariffs on edible fruits and nuts, vegetable oils, photographic and cinematographic goods, miscellaneous chemical products, iron and steel articles, machinery and mechanical appliances, electrical machinery and parts, perfumery, cosmetic and toiletry preparations, and games.

In the past two years, China made a number of unilateral reforms to improve its trade regime. China adopted the

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Harmonized System for customs classification and statistics, effective January 1, 1992 and, in conjunction with its adoption, reduced tariffs on 225 items. China also eliminated import regulatory taxes on April 1 this year. As noted earlier, the Ministry of Foreign Economic Relations and Trade (MOFERT), has begun to publish some of its trade rules, laws, and regulations. MOFERT has been designated by the State Council as the sole source authorized to issue and publish trade related regulations in the future.

While the bilateral market access agreement reduces or eliminates many of the most serious barriers to the trade in goods, China has only recently begun to reform the services sector. China has recently permitted "experiments" in a number of service sectors by authorizing one or two foreign firms to establish joint ventures in accountancy, legal services, and insurance. In general, 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. With the exception of an "experimental firm," 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. Except for the "experimental firms," foreign law firms cannot be registered as official representative offices, nor can accountants be registered as CPA's.

There are also significant barriers to investment. For example, Chinese regulations and policies place strong pressure on most foreign investors to export. Encouraging localization -- greater use of domestic versus import components -- is another central goal of Chinese investment policies. 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. 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.

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 PRC channels for support.

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 efforts are underway to define and assign enterprise responsibility. Tax rebates are available for exporters as are duty exemptions on imported inputs for export production. China's swap markets allow exporters to exchange foreign exchange at a rate higher than the official rate.

7. Protection of U.S. Intellectual Property

China has made progress in recent years in the enactment of laws and regulations to protect intellectual property, although some of its laws were badly flawed when first issued. A copyright law was passed in 1990 and went into effect in June 1991. China has become a member of a number of international intellectual property organizations, including The World Intellectual Property Organization, The Paris Conventions on the Protection of Industrial Property, and The Madrid Pact of the Protection of Trademarks.

Because of serious flaws in China's nascent IPR regime, and the substantial theft of intellectual property in China, the United States Trade Representative identified China in April 1991 as a priority foreign country and instituted a Special 301 investigation in May. Subsequent negotiations and discussions associated with the Special 301 investigation resulted in the signing of a Memorandum of Understanding (MOU) on the Protection of Intellectual Property on January 17, 1992 in which China pledged to make improvements in its IPR regime that will significantly increase protection for copyrighted works, patents, and trade secrets. It also provided product patent protection for chemicals, including agricultural chemicals and pharmaceuticals in China.

The intellectual property rights agreement established a good foundation for a world class IPR regime in the future. Nonetheless, the scale of the piracy of computer software, video and sound recordings, and printed materials is still considerable. Enforcement will remain a problem for some time. Resistance from the industries in China that have been among the main pirates of intellectual property, and widespread public ignorance of the concept of IPR protection, will make enforcement a formidable task.

China's new Copyright Law, effective June 1, 1991 represented an important effort on the part of the Chinese to institutionalize protection of intellectual property. However, the law still failed to provide proper protection to foreign works. To address these inadequacies in the copyright law, the U.S.-China MOU required China to make the Berne Convention effective in Chima by October 15, 1992 and the Geneva Phonogram Convention by June 30, 1992. The MOU also committed China to treat computer software as a literary work under Berne, thus making the Berne Convention applicable to computer software in China. Based upon another provision of the MOU, the United States and China established bilateral copyright relations on March 17, 1992 which obligated China to protect U.S. works during the interim period before accession

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to the Berne Convention. China has since followed through on its commitment to join the Berne Convention and has become a full member. By October 30, China had joined the Universal Copyright Convention. In addition, State Council regulations were also issued on September 29, 1992 to implement the Berne and Universal Copyright Conventions.

The new Copyright Law provided some copyright protection for newly published computer software, but not of an international standard. In joining the Berne Convention, however, China will be liable to protect software as a literary work, for a period of 50 years. Registration is not required for protection, but it is still unclear if legal remedies will be available if foreign software is not registered. In the meantime, U.S. software companies are still reluctant to sell or license their products in China because of extensive software pirating. Software pirating may also significantly affect computer hardware sales, as some Chinese manufacturers have undercut U.S. manufacturers by offering computer packages utilizing pirated U.S. software. There are reportedly cases of computer hardware counterfeiting for domestic and export sales, but we have little data on the extent of this problem. Inadequate protection of chemical and pharmaceutical products, software, books, and sound recordings reportedly cost U.S. manufacturers millions of dollars every year in lost sales. U.S. industrial associations who have investigated Chinese infractions have estimated that the Chinese have made illegal copies of software with an annual U.S. market value of $150 million, although some industry groups have put the losses at a much higher figure of of $300 million per year. Finally, lost hardware sales caused by counterfeit production and the low package prices offered for Chinese-made computers which include pirated software could be in the tens of millions of dollars.

In terms of patent protection, the United States-China IPR MOU committed China to bring about important improvements in the protection of patented products and a bill was passed on September 4, 1992 to amend China's patent law, to go into effect on January 1, 1993. The revisions will include extending protection for products and processes. The amendments also extend patent protection from 15 to 20 years from the date of filing, and give the patent holder rights over importation.

Another important feature of the United States-China IPR MOU is the administrative protection which will be granted to U.S. pharmaceutical and agricultural chemicals as of January 1, 1993. China has agreed to provide full product patent protection for pharmaceutical and agricultural chemical products that have been patented in the United States from 1986 until 1993 that have not been marketed in China. Most other Western countries have subsequently acquired these same rights.

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. The law is under revision to tighten these features.

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Pirating of books, tapes, and computer software in China remains widespread. Prosecution of infringers, as with the Trademark Law, needs to be instigated by the injured company, even after the Copyright Law becomes effective.

8. Worker Rights

a. Right of Association

The PRC's 1982 Constitution guarantees "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 (with the exception of some private and individual enterprises) to have a union. China's only union, the All China Federation of Trade Unions (ACFTU), while nominally an independent organization, is closely controlled by the Communist Party as reiterated in the 1992 Union Law passed by the National People's Congress. There are no independent trade unions in the PRC. Virtually all state-sector workers and nearly 90 percent of all urban workers belong to ACFTU chapters. About 20 percent of the workers in Chinese/Foreign joint ventures and wholly foreign-owned ventures are unionized, and union officials attribute this relatively low rate of unionization to the newness of so many firms. If a worker is unemployed he is not considered a union member.

b. Right to Organize and Bargain Collectively

The Chinese 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 decision making process over wages and wage reforms. Other than in a few cases where laid-off workers' "living wages" were in jeopardy, trade unions have limited themselves to channelling workers' complaints to the management of individual enterprises or municipal labor bureaus. There is a three-tiered dispute settlement procedure for workers or management to use. Worker congresses, organized in most Chinese enterprises, technically have the authority to remove incompetent managers and approve major decisions affecting the enterprise (notably bonus/wage distribution systems). 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.

c. Prohibition on Forced or Compulsory Labor

China has not ratified ILO Convention 105 on forced labor. China's longstanding practice is that all prisoners, including political prisoners, work whether sentenced by a court to "reform through labor" or by an administrative or other extra-judicial proceeding to "reeducation through labor". Chinese officials claim that China's prison population (officially numbered at 1.2 million) produce goods worth RMB 2.5 billion annually, primarily for use within the prison system or for domestic sale, but there is strong evidence that some of these products are exported. In August

1992 the United States and China concluded a Memorandum of Understanding on Trade in Prison Labor Products, which facilitates information exchange to allow both sides to enforce their laws and regulations prohibiting trade in prison labor goods.

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 1990 the State Council reiterated a previous Ministry of Labor circular, which imposes severe fines, withdrawal of business licenses, or jail for employers who hire children under the age of 16. Enforcement of the provisions of the circular is spotty and the employment of child labor is still fairly common, especially in rural areas.

e. Acceptable Conditions of Work

China does not have a labor code. The terms and conditions of employment, including wages, are generally unilaterally determined through administrative regulation, although increasing numbers of workers are legally permitted to individually bargain on provisions in their labor contracts. Technically speaking there is no minimum wage law. Regulations set a basic "living wage", which operates essentially as a minimum unemployment benefit and varies from city to city. Those actually employed tend to earn considerably more. While Chinese wages (averaging perhaps $30 per month) are low, most workers receive at least as much in bonuses, and food and rent supplements, and enjoy highly subsidized rents. 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 very poor and the absence of a national labor code makes enforcement of safety regulations extremely 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.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category Amount		
Petroleum		89
Total Manufacturing		162
~~Food & Kindred Products~~	~~(D)~~	
Chemicals and Allied Products	34	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	(D)	
Electric & Electronic Equipment	(D)	
Transportation Equipment	(D)	
Other Manufacturing	22	
Wholesale Trade		90
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		341

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

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, November 1992

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Key Economic Indicators

(Millions of HK$ unless otherwise noted)

	1990 1/	1991 1/	1992 2/
Income, Production and Employment			
Real GDP (1980 prices)	262,603	273,547	287,220
Real GDP Growth (%)	3.2	4.2	5.5
GDP (at current prices)	559,623	643,728	755,730
By Sector			
Agriculture	1,679	1,750(est)	N/A
Energy and Water	12,871	13,412(est)	N/A
~~Manufacturing~~	~~96,255~~	~~100,298(est)~~	~~N/A~~
Construction	31,339	32,655(est)	N/A
Rents	28,451	29,646(est)	N/A
Finance 3/	116,402	121,291(est)	N/A
Other Services 4/	188,593	196,514(est)	N/A
Government, Health and Education	83,943	87,469(est)	N/A
Net Exports of Goods and Services	28,374	21,250	26,622
Real Per Capita GDP (1980 prices)	46,034	47,534	49,430
Labor Force (000's) 6/	2,774	2,826	2,840
Unemployment Rate (%) 5/	1.3	1.8	2.1
Money and Prices (Annual Percentage Growth)			
Money Supply (M2) 6/	22.4	13.3	14.8
Base Interest Rate 6/ 7/	10.0	8.5	6.5
Personal Savings Rate 6/ 8/	5.5	3.5	1.5
Retail Inflation 9/	N/A	N/A	N/A
Wholesale Inflation 9/	N/A	N/A	N/A
Consumer Price Index 10/	106.6	114.5	124.0
Exchange Rate (US$/HK$)	7.789	7.771	7.735
Balance of Payments and Trade			
Total Exports (FOB)	639,874	765,886	922,892
Exports to U.S. (FOB)	154,123	173,672	217,090
Total Imports (CIF)	642,530	778,982	941,010
Imports from U.S. (CIF)	51,788	58.837	66,485
Aid from U.S.	-0-	-0-	-0-
Aid from Other Countries	-0-	-0-	-0-
External Public Debt	-0-	-0-	-0-
Debt Service Payments	-0-	-0-	-0-
Gold and Foreign Exchange Reserves 11/	24,692	28,996	N/A
Trade Balance	-2,656	-13,096	-18,118
Balance with U.S.	102,334	114,835	150,605

1/ Revised August estimate
2/ Consulate projection
3/ Incl. financing, insurance, real estate, & business services
4/ Incl. wholesale, reta 1, import/export trades, restaurants, hotels, transport, storage, and communications
5/ Average figures; seasonally adjusted

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6/ End of period
7/ Prime lending rate
8/ Savings deposit rate
9/ The HK Government provides only the consumer price index
10/ Oct 89-Sep 90 = 100; cpi covers urban households with monthly expenditure of HK$2,500-9,999 (approximately 50% of households)
11 Foreign currency assets of Exchange Fund (U.S. dollars)

1. General Policy Framework

The Hong Kong Government pursues economic policies of non-interference in commercial decisions, low and predictable taxation, government spending increases within the bounds of real economic growth, and competition subject to regulation and law. Market forces determine wages and prices with price controls limited only to certain government-sanctioned monopolies in the service sector. There are no restrictions on foreign ownership of capital, nor are there export performance or local content requirements. Profits can be freely repatriated. These policies have spurred high rates of real growth, low unemployment, rising wages, and an overall steady increase in standard-of-living judged in economic terms.

The constantly growing economy has produced additional tax revenues independent of modest regular increases in excise taxes, and more recently a real estate and business profits tax, which currently stands at 17.5 percent. Personal income is taxed a maximum rate of 15 percent. Property is taxed; interest, royalties, dividends, capital gains, and sales are not. As such, in spite of the growth of government spending from approximately 14 percent of gross domestic product in the mid 1980s to about 19 percent by the early 1990s, the Hong Kong Government has still run surpluses and amassed large fiscal reserves.

The Hong Kong Government levies no import tariffs. However, domestic consumption taxes (referred to as duties in Hong Kong) are imposed on certain goods, including tobacco, cosmetics, soft drinks, alcoholic beverages, methyl alcohol, and some fuels. Although these taxes are levied equally on local manufactures and imports, Hong Kong importers of U.S. wines complain that a grape-based wine duty discriminates since Chinese "wines" are charged a lower tax. The Hong Kong Government has replied that Chinese rice wines are different products and that grape-based Chinese wines are charged exactly the same duties as U.S. and other grape-based wines.

The Hong Kong Government maintains a strict link between the Hong Kong and U.S. dollars, which forces Hong Kong policymakers to keep Hong Kong's interest rates in line with U.S. rates. The Hong Kong Government affects short term rates by controlling liquidity in the interbank market and by its influence over the banking cartel which sets Hong Kong's commercial interest rates.

A possible threat to Hong Kong's economy arises from the question of the Most Favored Nation (MFN) status of the People's Republic of China. Should MFN status be revoked,

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China-based firms owned by Hong Kong residents could lose up to $1.2 billion in income and 43,000 jobs in the first year alone.

2. Exchange Rate Policies

The government links the Hong Kong dollar to the U.S. dollar at the rate of about 7.8 Hong Kong dollars to one U.S. dollar. This policy has existed since October 1983. 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 government, citing reasons of stability, has ignored repeated calls to delink the Hong Kong dollar from the U.S. dollar in order to give Hong Kong more control over domestic interest rates.

The price competitiveness of U.S. exports is affected in part by the value of the U.S. dollar in relation to third country currencies Thus, if the dollar depreciates against the Japanese yen and European currencies, U.S. goods should become more competitive. In fact, Hong Kong has imported more U.S. goods over the last five years, although the role of currency factors cannot be definitively established.

3. Structural Policies

Hong Kong's non-interventionist policies, which have worked in bringing a rising level of prosperity and low unemployment to the British colony also provide overall an attractive barrier-free market for the U.S. goods exporters and service providers. 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.

Hong Kong is a GATT member and signatory to the GATT Government Procurement Code. As such, the central government buys goods through open, competitive international bidding. However, autonomous state-owned corporations such as the mass transit railway system and airport project are not covered by the code. Neither are services purchased by any arm of the government. The Hong Kong Government stresses that non-GATT purchasing decisions whether by the central government or autonomous enterprises are subject to objective, non-discriminatory criteria.

4. Debt Management Policies

The Hong Kong Government carries minuscule public debt at present. In part to finance infrastructure related to building a new airport, the government issued debt on its own account by the end of 1991. With quarterly tranches of HK$500 million, the total outstanding amount is expected to reach HK$5 billion (US$641 million) within two years. According to a July 1991 agreement with the People's Republic of China, the Hong Kong Government will be free to borrow a sum not exceeding HK$5 billion; any debt larger than that will be permitted only if both sides agree. The latest British airport finance proposal (no consensus from the Chinese yet) showed that the maximum debt related to the airport would be HK$5.9 billion (repayment of debt by the year 1999) and that for an airport railway, the maximum debt would be HK$17 billion (repayment of debt by the year 2006).

5. Significant Barriers to U.S. Exports

Aviation-related procurement: The Hong Kong Government is building a multi-billion dollar new airport. Although U.S. companies earned several early bids for project management and financing consultancies, UK and UK-affiliated firms have won approximately 70 percent of the value of major construction and design contracts through mid-1992, including for the terminal building and site preparation. Some U.S. firms complained of favoritism. Airport project officials denied the charges, citing the long and successful track record of various winners in Hong Kong construction.

Upon inquiry, the United States Government found no overt discrimination, but asked that bidding criteria be made more transparent. Airport officials replied favorably and expect American firms to compete aggressively for airport equipment contracts like advanced radars and people mover systems. Note: An American-Japanese consortium won a major contract in October 1992 to construct one of the key bridges which will link the new airport to Hong Kong proper.

Government sanctioned monopolies controlled by UK-affiliated firms provide air cargo and aviation maintenance at the current international airport, shutting out U.S. investment to provide these services. The government has said that severe space constraints limit the number of service providers which can operate at the current cramped facility. The new airport executives have adopted a more flexible stance toward competition by inviting bids for air cargo and maintenance on an open basis. The government is considering permitting multiple suppliers of these services at the new airport, in spite of intense lobbying by the current providers to maintain their monopolies. Because the current service suppliers most likely will continue to serve the new airport, U.S. hopes for winning ground services contracts will hinge on the government's ability to resist importuning to maintain monopoly arrangements.

Telecommunications: The government in 1992 announced that the wired voice telephone service will be opened to competing networks on a non-discriminatory basis in 1995. The government began inviting bids in September 1992. A monopoly will still exist in basic long distance telephone service under a government contract with the Hong Kong Telephone company, another UK-controlled firm with shares publicly traded in Hong Kong. This franchise effectively bars U.S.-owned long distance companies from offering basic long distance service originating in Hong Kong.

Lawyers: U.S. and other foreign law firms have sought permission to associate with local law firms to offer their clients a 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 practise 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 the proposals for the regulation of foreign law firms' practise in the territory. The responses received in late August 1991 indicated that greater flexibility was needed to permit a range of associations between local and foreign law firms. Additionally, an objective, nondiscriminatory and competency-based scheme has been proposed to assess credentials of foreign lawyers for admission requirements. The Hong Kong Government favors the Law Society's proposals.

In January 1992, the executive council approved, in principle, statutory provisions for the regulation of foreign lawyers and law firms. According to the new proposal, foreign lawyers and law firms must register with the Hong Kong Law Society. The Hong Kong Law Society will administer a transfer test for foreign lawyers. The proposed bill will be discussed in the legislative council in early 1993.

Banking: Foreign banks are not allowed to establish subsidiaries in Hong Kong, and post-1978 entrants are limited to one branch.

6. Export Subsidies Policies

The Hong Kong Government does not subsidize exports either directly or indirectly. The quasi-governmental Hong Kong Trade Development Council, which engages in export promotion activities, is financed by net proceeds of an *ad valorem* charge of 0.05 percent on all exports and on imports other than foodstuffs and by miscellaneous internally generated income from sources such as advertising fees and publication sales. The Council also contributed about half of the HK$10 million in legal fees to fight dumping claims against local manufacturers.

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.

There is no original grant of patents in Hong Kong and Hong Kong patent law is identical to UK patent law. The registration of patent ordinance provides for the registration in Hong Kong of UK patents and European (UK) patents. On July 2, 1990 the Hong Kong Government established the Intellectual Property Department which took over the registration work of patents and trademarks and has assumed all the statutory responsibilities. Patent 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. In February, 1992 the trademark (amendment) ordinance was enacted to include the registration of services. The Customs and Excise Department is responsible for enforcing the criminal aspects of intellectual property rights. In 1991, there were 682 seizures of trademark offenses with a total value of HK$105 million, with 127 firms being prosecuted. Counterfeiting and trademark infringement carry maximum penalties of HK$100,000 and imprisonment for two years on summary offenses, and HK$500,000 and imprisonment for five years on indictable offenses. All goods seized are liable to forfeiture.

Copyright protection in Hong Kong derives from UK 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. The law reform commission is now conducting a review of Hong Kong's copyright and design law with a view to its modernization and localization (a consultative paper was released in early 1991).

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 HK$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 HK$50,000 and imprisonment for two years.

The Business Software Alliance (BSA), a U.S. industry group, has claimed that software piracy is a serious problem in Hong Kong and the government should do more to control it. It is true that pirated diskettes are readily available in certain notorious retail outlets. However, up to now the industry has not provided reliable numerical estimates of potential losses. In spite of this, the authorities have made earnest and expensive efforts to arrest and convict pirates. Still, many of the culprits have been first time offenders and the courts have suspended jail sentences. The BSA claims the lack of jail terms has failed to deter continuing piracy. The Law Reform Commission, in its consultative paper, has proposed removing possession of pirated diskettes from the criminal statutes. The BSA opposes. The Government has countered that it opposes end user piracy and that the Law Commission study is only a recommendation. Furthermore, the government asserts that ample civil remedies, such as injunctions, exist. The government has offered to cooperate with the United States to explore if additional steps can reasonably be taken to curtail software piracy.

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8. Worker Rights

In general, the protection afforded under Hong Kong ordinances extends to all workers, both local and foreign, in all sectors. Injuries and occupational diseases qualifying for compensation, while normally not specified by industry, cover injuries resulting from use of industrial machinery as well as disease caused by exposure to physical, biological, or chemical agents.

a. 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. The Hong Kong Government does not discourage or impede union formation or discriminate against union members. Workers who allege anti-union discrimination have the right to have their cases heard by a government labor relations body.

b. Right to Organize and Bargain Collectively

The right to organize and bargain collectively is guaranteed under local law. However, the latter is not widely practised 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.

d. Minimum Age of Employment of Children

Under 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 work place inspections to ensure that these regulations are being honored. During 1991, extensive inspection activities found 39 children working in violation of the law.

e. Acceptable Conditions of Work

Wage rates are determined by supply and demand. There is no legislated minimum wage. Hours and conditions of work for women and young persons aged 15 to 17 in industry are regulated. There are no legal restrictions on hours of work for men. Overtime is restricted in the case of women and prohibited to all persons under age 18 in industrial establishments. 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.. Rights in Sectors with U.S. Investment

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

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		342
Total Manufacturing		950
Food & Kindred Products	(D)	
Chemicals and Allied Products	163	
Metals, Primary & Fabricated	(D)	
Machinery, except Electrical	241	
Electric & Electronic Equipment	247	
Transportation Equipment	0	
Other Manufacturing	212	
Wholesale Trade		2,299
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		3,591

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

Source: U.S. Department of Commerce, Survey of Current Business, November 1992, Vol. 72, No. 8, Table 11.3

INDONESIA

Key Economic Indicators

(Billions of Rupiah (Rp) unless otherwise noted)

	1990	1991 prelim.	1992 est.
Income, Production and Employment			
Real GDP (1983 Rp)	115,110	122,705	126,147
Real GDP growth (pct)	7.1	6.6	6.0
GDP (current prices)	197,000	227,000	258,220
Real GDP by sector			
Agriculture	22,357	22,057	23,300
Mining	17,489	19,108	20,000
Manufacturing	22,277	24,461	27,000
Electricity, gas, water	726	843	1,000
Construction	6,673	7,403	8,100
Retail trade, hotels	18,565	19,557	20,700
Transport, communications	6,308	6,816	7,300
Banking, finance	4,894	5,517	5,800
Real estate	2,999	3,120	3,200
Government	8,783	9,030	9,300
Other services	3,981	4,192	4,400
Real per capita income ('000 of 1983 Rp)	599	638	682
Labor force (million)	75.9	78.2	80.5
Unemployment rate (pct)	3.3	2.8	3.2
Money and Prices			
Money supply (m2, pct rise)	44.2	17.1	15.0
Interest rates 1/	18.3	15.2	12.0
National savings (pct GDP)	25.0	25.0	25.0
Consumer price index 2/	117	129	137
Change in CPI	9.5	9.5	6.0
Wholesale price index 3/	178	187	198
Exchange rate (rp/$) 4/	1,843	1,950	2,047
Balance of Payments and Trade ($ Million)			
Exports FOB	26,807	29,430	32,500
Oil and gas	11,931	11,439	11,000
Non-oil and gas	14,876	17,991	21,500
Exports to U.S. FOB	3,365	3,508	4,490
Imports FOB	-21,455	-24,626	-26,000
Oil and gas	- 3,222	- 3,343	- 2,600
Non-oil and gas	-18,233	-21,283	-23,400
Imports from U.S. CIF	2,520	3,397	3,700
Services (net)	- 8,592	- 9,016	-10,000
Current account	- 3,240	- 4,212	- 3,500
Official debt service	6,645	7,400	7,800
Official reserves	8,661	9,868	12,000
U.S. direct investment	3,226	3,458	3,600
Total foreign assistance 5/	4,516	4,755	4,948
of which U.S.	145	133	160

1/ Interbank fund rates.
2/ End of period. FY 1988/89 equals 100. Fiscal years are from April 1 to March 31.

INDONESIA

3/ Period average, 1983 equals 100.
4/ Period average.
5/ Fiscal year basis total is amount pledged at the annual Consultative Group (CG) Donors Meeting (does not include all special assistance and aid outside the CG context).

1. General Policy Framework

The Indonesian economy is slowly shifting from reliance ~~on the oil and gas sector to a broader base. In 1991 non-oil~~ manufacturing accounted for 17 percent of gross domestic product (GDP), oil and gas production and refining for 15.6 percent, agriculture for 19.5 percent, and trading, hotels and restaurants for 16.6 percent. Real growth in GDP averaged 6.3 percent per year from 1986 through 1991, with 7.1 percent in 1989 and 1990 and 6.6 percent in 1991. The 1992 result is expected to be at least 6.0 percent.

Faced with lower oil prices in the early 1980s and the need to create more than two million jobs annually, the Government of Indonesia in 1983 launched its ongoing program of "deregulation and debureaucratization." The twin goals are to give freer rein to the private sector and reduce dependence on petroleum as a source of export earnings and tax revenues. The program began with a loosening of controls on the financial sector. Subsequent measures liberalized conditions for foreign and domestic investment, reduced tariffs and import licensing restrictions, eased export requirements, revitalized capital markets and the banking system, and reformed the domestic shipping regime. Indonesia has not had capital controls for some years. In the most recent deregulation packages, released in June 1991 and July 1992, the government reduced duties on hundreds of categories of imports and eased or eliminated trade barriers to a number of other goods, including various iron and steel products and some classes of used machinery and capital plant. Although the deregulation packages have had far-reaching effects, government agencies and state-owned enterprises continue to control production and imports of key commodities and a few other products.

The deregulation packages have been effective: economic growth has been robust; the private sector plays a more prominent role in the economy; and the economy is becoming remarkably well diversified. The non-oil manufacturing sector has expanded at an average annual rate of about 12 percent over the past five years. Private investment has also been vigorous, although the 1992 levels of approved domestic investment are substantially lower than the giddy 1991 levels. Approvals of non-oil foreign investments in 1992 will, for the third year in succession, exceed $8 billion.

In 1990 and 1991, strong domestic demand, fueled by vigorous private and public investment, strained limited infrastructure and pushed up inflation. In response, the government tightened monetary policy and established a foreign commercial borrowing review team to review projects with public sector participation which require foreign commercial financing. It also set ceilings for annual foreign commercial borrowing by banks and public sector entities. Policy makers remain concerned about the future debt-servicing implications of sharply higher private sector foreign borrowing.

In 1992 the government eased monetary policy somewhat and interest rates fell from 22 percent for three-month time deposits in the fourth quarter of 1991 to below 17 percent in September 1992. Deposit rates dropped more rapidly than lending rates. The government's ability to affect interest rates is hampered by the lack of long-term debt instruments in the Indonesian capital market.

The government's fiscal tools are limited in that it is statutorily barred from running a budget deficit or surplus. Foreign donors finance a major share of development expenditures through bilateral or multilateral aid programs.

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 based on a basket of major trading currencies, including the 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 November 1, 1992 was 2,055 rupiah per dollar.

3. Structural Policies

In general, the government allows the market to determine price levels. The government enforces a system of floor and ceiling prices for certain "strategic" food products such as rice. In some cases, business associations, with government support, establish prices for their products. In 1990 the government established a new domestic clove trading system; the purchasing body's clove buying has been supported with central bank liquidity credits. Direct government subsidies are confined to a few goods such as fertilizers and certain refined petroleum products. The government is committed to reducing subsidies for agricultural inputs.

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). In 1985, a value-added tax (VAT) was introduced. Import duties are another important source of government revenue. Companies can apply for an exemption from or a rebate of import duties and VAT paid on inputs used to produce exports. A few products remain subject to export taxes. In October 1989 export taxes on sawn lumber were raised to prohibitive levels; and in May 1992 a previous export ban on logs was replaced by high export taxes. According to government officials, total tax compliance in Indonesia is about 55 percent.

4. Debt Management Policies

Indonesia's medium and long term foreign debt totals

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about $78 billion, with $55 billion owed by the state sector and $23 billion by the private sector. In 1992 Indonesia will pay approximately 32 percent of total export earnings in principal and interest payments on its foreign debt. The government has not rescheduled private or official debt for many years.

The cabinet-level team set up by the government in September 1991 to oversee foreign borrowing has had a measurable effect on controlling public offshore debt. The team is charged with reviewing applications for foreign commercial credits to finance projects in which the government or a state-owned enterprise is involved. Financing for purely private projects is not directly affected, although the government's well-publicized concern about offshore borrowing and higher spreads have probably led some private companies to look more carefully at their borrowing plans. The team is also charged with prioritizing the use of offshore funds by project and with establishing borrowing ceilings. In October 1991 the team announced ceilings on public sector foreign commercial borrowing and guidelines for private sector borrowing through FY 1995/96 ranging from $5.5 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, although at least one of those projects is scheduled to go ahead as a purely private entity.

5. Significant Barriers to U.S. Exports

Import Licenses: Since 1986, import licensing requirements have been relaxed in a series of deregulation packages. Items still subject to import licensing include some agricultural commodities (rice, wheat, sorghum, sugar), alcoholic beverages, and some iron and steel products. Remaining import licensing requirements may be waived for companies importing goods to be incorporated into subsequent exports. The importation of most types of completely built-up passenger vehicles is forbidden, although the government is expected to issue an automotive deregulation package in early 1993. Tariffs and surcharges have often replaced licenses as the preferred method of protecting certain domestically produced goods. Several surcharges which were presented in the June 1991 deregulation package as twelve-month measures were renewed in the July 1992 package.

Services Barriers: Services barriers abound, although there has been some loosening of restrictions, particularly in the financial sector. For example, entry by foreign banks, securities firms, other non-bank financial institutions, and life and property insurance companies is limited to joint ventures with local companies; in all cases, the capitalization requirements are higher than for domestic firms. In addition, foreign banks are limited to one branch each in eight cities, and fifty percent of the deposits of state-owned enterprises must be placed in state-owned banks. Foreign companies incorporated in Indonesia may issue stocks and bonds through the capital market. Foreigners are permitted to purchase up to 49 percent of a company's shares listed on the stock exchange.

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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 second expatriate staff to the local firms.

Indonesia imposes a quota on the number of foreign films which may be imported in a given year. Importation and distribution of U.S. films must be handled through a single organization, the European and American Film Importers Association (AIFEA). A decree which increases the number of companies permitted to bring in U.S. films and videos is expected to be implemented in early 1993.

Standards, Testing, Labelling, and Certification: In May 1990 the Government of Indonesia issued a decree which stated that the Department of Health must decide within one year of receipt of a complete application for registration of new foreign pharmaceutical products. 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 differential treatment between foreign and domestic investors, national treatment for foreign investments does not exist. With the qualified exceptions of new investment in export processing zones and other specified areas or of investments of more than $50 million, foreign investment must be in the form of joint ventures. The minimum Indonesian equity is usually 15 percent. Laws and regulations also set forth rules on divestiture, but they are enforced liberally. Although wholesale distribution of products manufactured by a joint venture is permitted, retailing and distribution are 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, 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 ownership is generally restricted to Indonesians. There are numerous restrictions on the employment of expatriates by both domestic and foreign/joint venture firms, and obtaining expatriate work permits can be a challenge.

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 to be followed. Under a 1984 Presidential Instruction

("Inpres-8") on government-financed projects, the government seeks concessional financing which meets the following criteria: 3.5 percent interest and a 25 year repayment period which includes 7 years' grace. Some projects proceed, however, on less concessional terms. Foreign firms bidding on certain government-sponsored construction or procurement projects may be asked to purchase and export the equivalent in selected Indonesian products. Government departments and institutes and state and regional government corporations are expected to utilize domestic goods and services to the maximum extent feasible. (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 November 1992 only one such enterprise had made a public offering.

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 use in 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 Representative's Special 301 "Watch List" under the provisions of the 1988 Omnibus Trade and Competitiveness Act.

Patents: Indonesia's first patent law 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 pharmaceutical products by non-patent holders. The patent law and accompanying regulations include product and process protection for both pharmaceuticals and chemicals.

Trademarks: A new Trademark Act will take effect on April 1, 1993. Under the new law, trademark rights will be determined by registration rather than first use. After registration, the mark must actually be used in commerce. Well-known marks are protected; cancellation actions must be lodged within five years of the trademark registration date. It is not yet clear how the Trademark Office will handle pending applications which were filed under the previous trademark legislation.

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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 and video cassettes and textbooks has been vigorous, although software producers remain concerned about piracy of their products. 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 pirating, but leakages 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. Right of Association

Private sector workers, including those in export processing zones, are free to form or join unions without prior authorization. However, in order to bargain on behalf of employees, a union must register as a mass organization with the Department of Home Affairs and meet the requirements for recognition by the Department of Manpower. While there are no formal constraints on the establishment of unions, the recognition requirements are a substantial barrier to recognition and the right to engage in collective bargaining. The one union recognized by the Department of Manpower is the All Indonesia Workers Union (Serikat Pekerja Seluruh Indonesia, SPSI). Its membership is approximately 994,500, or about 1.4 percent of the total work force. However, if agricultural workers and others in categories such as self-employed and family workers who are not normally union members are factored out, the percentage of union members rises to approximately six percent.

Civil servants are not permitted to join unions and must belong to KORPRI, a nonunion association whose central development council is chaired by the Minister of Home Affairs. Teachers must belong to another association, the PGRI. Though technically possessing the same rights as a union, it has not engaged in collective bargaining.

All organized workers, with the exception of civil servants, have the right to strike. In practice, state enterprise employees and teachers rarely exercise this right. Before a strike can occur in the private sector, the law requires intensive mediation by the Department of Manpower and prior notice of the intent to strike. However, no approval is required. Nonetheless, because the legal requirements are often either difficult to meet or unknown to the workers, most strikes are technically illegal.

b. The Right to Organize and Bargain Collectively

Collective bargaining is provided for by law, but only recognized trade unions may engage in it. Once notified that 25 employees have joined a registered union, an employer is obligated to bargain with them. Before a company can register or renew its company regulations it must demonstrate that it consulted with the union or in its absence a committee consisting of employer and employee representatives.

Labor law applies equally in export processing zones. Regulations expressly forbid employers from discriminating or harassing employees because of union membership.

c. Prohibition of Forced or Compulsory Labor

Forced labor is strictly forbidden. Indonesia has ratified ILO convention No. 29 concerning forced labor.

d. Minimum Age for Employment of Children

The Department of Manpower acknowledges that there is a class of children under the age of 14 who, for socio-economic reasons, must work and legalizes their employment provided they have parental consent and do not engage in dangerous or difficult work. The workday is limited to four hours. Employers are also required to report in detail on every child employed, and the Department of Manpower carries out periodic inspections. Critics, however, charge that the inspection system is weak and that employers do not report when they employ children.

e. Acceptable Conditions of Work

The law establishes 7 hour workdays and 40 hour workweeks, with one 30 minute rest period for each 4 hours of work. In the absence of a national minimum wage, minimum wages are established for regions by area wage councils working under the supervision of the National Wage Council. Ministerial regulations provide workers with a variety of other benefits, such as social security, and workers in more modern facilities often receive health benefits and free meals. However, enforcement of labor regulations is limited and a number of employers do not pay the minimum wage or provide other required benefits. The failure to implement government regulations has been a significant cause of strikes.

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.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		2,869
Total Manufacturing		206
Food & Kindred Products	(D)	
Chemicals and Allied Products	98	
Metals, Primary & Fabricated	11	
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, November 1992, Vol. 72, No. 8, Table 11.3

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Key Economic Indicators

(trillions of yen unless otherwise noted)

	1990	1991	1992
Income, production and employment			
Real GNP 11/	403.4	421.3	427.9 1/
Real GNP Growth rate (pct)	5.2	4.4	2.0 2/
Real GDP Growth rate (pct)	5.2	4.4	1.9 2/
GDP (at current prices)	425.7	453.0	424.2 1/
Real GNP by sector			
11/Agriculture & fisheries	10.5	11.0	11.2 13/
Manufacturing	125.2	130.7	133.3 13/
Construction	35.2	36.8	37.5 13/
Electricity, gas	13.3	13.9	14.2 13/
Wholesale, retail	55.3	57.7	58.9 13/
Finance and insurance	25.3	26.4	26.9 13/
Real estate	40.1	41.9	42.7 13/
Services	57.4	60.0	61.2 13/
Per capita income (mil.yen)	3.27	3.39	3.45 13/
Labor force (million)	63.8	65.1	65.6 3/
Unemployment rate (pct)	2.1	2.1	2.1 3/
Money and Prices			
Money supply (M2+CD annual avg., pct)	11.7	3.6	1.2 4/
Commercial interest rates (10-yr govt bonds; yr-end)	7.10	5.38	4.81 5/
Savings rate (pct) 6/	14.1	N/A	N/A
Investment rate (pct) 7/	32.6	32.0	31.0 1/
CPI (1990 equals 100)	100.0	103.3	105.0 3/
WPI (1985 equals 100)	90.3	90.8	89.7 8/
Exchange rate (yen/dol)	144.8	134.5	127.9 8/
Trade (bil dol) 12/			
Total exports, FOB	286.9	314.5	250.7 9/
Total to U.S., FOB	90.3	91.5	69.7 9/
Total imports, CIF	234.8	236.7	172.8 9/
Total from U.S., CIF	52.4	53.3	39.3 9/
Balance with U.S.	37.9	38.2	30.4 9/
Balance of payments (bil dols)			
Current account	35.8	72.9	73.1 10/
Trade account	63.5	103.0	84.1 10/
Service & trans.	-27.8	-30.1	-10.9 10/
Long-term capital	-43.6	37.1	-0.5 10/
Basic balance	-7.8	110.0	72.6 10/
Short-term capital	21.5	-25.8	-0.8 10/
Gold and forex reserves (year-end)	77.1	69.0	69.2 5/

1/ Jan-June, S.A.A.R.
2/ Jan-June, year-over-year
3/ Jan-August, average S.A.
4/ Jan-August, average, N.S.A.
5/ End of September
6/ Savings as percent of personal disposable income

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7/ (Public and private domestic fixed capital formation and inventory investment)/nominal GNP
8/ Jan-September average, N.S.A.
9/ Jan-September total, N.S.A.
10/ Jan-August total, N.S.A.
11/ Total and sectoral real GNP figures in 1985 yen
12/ Japanese Government figures
13/ Estimate

1. General Policy Framework

With a nominal gross national product (GNP) of $3.4 trillion in 1991, Japan is the world's second largest economy after the United States. Over the past several decades, the country has generally enjoyed growth rates higher than the industrial country average, and many of its export sector producers have achieved competitive preeminence. 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.

Between 1987 and the first half of 1991, Japan experienced relatively strong real economic growth with low unemployment. However, the overheating of the economy led to rapid increases in land and share prices, and to a jump in the inflation rate to 3.5 percent in early 1991 from near zero in 1987. Growth slowed significantly beginning in the middle of 1991. The slowdown was prompted largely by monetary tightening aimed at containing the increases in land and share prices. This policy led to deflation of share and land prices, which has helped to slow, successively, residential investment, plant and equipment investment, and lately, personal consumption. The economy is expected to remain sluggish through at least the first half of 1993.

The slowdown has reversed earlier trends in Japan's external accounts. The global trade surplus peaked at nearly $100 billion in 1986 before declining in each of the next four years. However, as growth of domestic demand slowed and net foreign demand reemerged, the Japanese current account surplus began to rise again in 1991. The increase has been exacerbated in the short run by the impact of renewed appreciation of the yen on the prices of Japanese traded goods. Having fallen to 1.2 percent of GNP in 1990, the Japanese current account surplus rose again to over 2 percent of GNP in 1991 and is likely to reach 3 percent of GNP (about $110 billion) in 1992.

Responding to the severe asset deflation and general slowdown in the domestic economy, the Government of Japan in late August 1992 announced a yen 10.7 trillion economic stimulus package, including increased spending on public investment, new lending to the business and housing sectors, and purchases of land for future public works projects. The official estimate of the economic impact of the stimulus package was that it would add 2.4 percentage points to economic growth over the next 12 months. However, the actual impact is expected to be considerably less, since much of the package involves the shifting of assets rather than new contributions to final demand.

Notwithstanding the August 1992 package and earlier stimulus efforts by the Japanese Government, fiscal policy in Japan has remained relatively tight since 1982, when the Government of Japan began to take steps to constrain the growth of government debt. The general government budget (central and local governments, plus social insurance) has been in surplus since 1987, with the government taking in more in tax and non-tax receipts than it puts out in expenditures and transfers. Nearly all of the government surplus arises from the inclusion of the Social Security surplus in government budget figures. Despite recurrent pressures for greater spending and income tax cuts, the Government is determined to avoid at all costs a return to deficit bonds (government debt to finance noninvestment spending).

After a period of tightening beginning in late 1989, monetary policy moved into an easing cycle in mid-1991. Five cuts in the official discount rate in the year from July 1991 brought the rate down to 3.25 percent, and other rates have fallen in concert. Nevertheless, money supply growth remained very sluggish through the latter part of 1992: the growth in M2 plus CDs on a year-over-year basis in September 1992 was negative for the first time since the Bank of Japan began collecting statistics in 1968. Weak corporate demand for funds due to the economic slowdown and over-investment during the late 1980s, combined with the reluctance of banks to lend against collateral (usually land) whose price is falling, lay behind the slow growth of liquidity. As the economy has failed to pick up steam in the fall of 1992, the Bank of Japan is facing growing pressure to ease monetary policy further.

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 coordinates economic policies (including exchange rate policy) with the United States and its other Group of Seven (G-7) partners.

The appreciation of the yen between 1985 and 1988 reduced the competitiveness of Japanese exports and contributed to the reduction of Japanese external surpluses through 1990. Between 1988 and 1990, the yen again depreciated, which -- in combination with the subsequent economic slowdown -- had the lagged effect of once again increasing Japan's surpluses in 1991 and 1992. The growth of the surpluses has been exacerbated in the short run by a renewed appreciation trend since early 1990, which has raised the dollar value of Japan's exports

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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 Structural Impediments Initiative (SII), launched in 1989, identified structural problems that stand as impediments to trade and to the reduction of payments imbalances. In joint reports, Japan undertook to resolve a range of structural issues.

The first annual report on SII (May 1991) points to progress in a number of areas. For example, the Government of Japan has made solid progress in deregulating portions of its distribution system, including reform of the large scale retail store law, liberalizing its foreign direct investment regime, improving 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. In the July 1992 report, Japan undertook to maintain progress in the 1990 joint report and made a number of new commitments in the areas of distribution, and exclusionary business practices. 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 anticompetitive practices. Substantial additional actions are also needed to make business relationships more open and transparent by, for example, addressing anticompetitive aspects of cross-shareholding, strengthening shareholder's rights, and encouraging stricter disclosure requirements. Furthermore, it remains important that the Japanese Government follow through steadily on its ten-year public investment plan, undertake a more rapid phase-in of lease law reform, and continue to streamline customs clearance procedures.

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 somewhat decreased such direct 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.

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, medical equipment, pharmaceuticals, 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 Neogtiations. 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), government procurement, and the services sector. Antidumping is also a key issue with Japan.

U.S. and Japanese negotiators concluded agreements over the past three years in the areas of government procurement, supercomputers, governemnt procurement of non-R&D satellites, semiconductors, major products, wood products, paper, telecommunications equipment, and government computer procurement. In addition, the Government of Japan agreed to ease rules on value-added telecommunications services, to strengthen copyright protection of U.S. music recordings, and to resolve a dispute involving amorphous metals, whose market entry has been facilitated. Discussion of market barriers in the areas of autos and auto parts, and medical equipment and pharmaceuticals continues.

Conventional trade policy measures are not the greatest current obstacles to selling into the Japanese market. Instead of tariffs and official discrimination against imports, U.S. exporters, in areas ranging from glass to auto parts, 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 businesspeople.

Impediments to trade in services have become prominent on the U.S.-Japan trade agenda in recent years. The United States and Japan concluded accords partially liberalizing access to the legal services market (1987), promoting free and open procurement of major projects 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 some restrictions on financial services, though remaining barriers continue to be reviewed in the 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 Arrangements established leaner and more transparent procedures for foreign bidders with respect to a limited number of large construction projects. In 1991 that arrangement was revised to improve the procedures and add new projects. In reviews since that time, we have made a number of suggestions to improve procedures and further expand project coverage. 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. In September 1992, the Japanese Government established a study commission on the legal services issue, the objective of which is to make recommendations for its resolution. We have also requested bilateral talks on insurance, as this industry sector will soon undergo its forst major revision in 50 years.

Government procurement in Japan conforms to the letter of the General Agreement on Tariffs and Trade (GATT) procurement code. In November 1991, Japan agreed to implement procedural improvements unilaterally that will increase opportunities for U.S. suppliers. Uruguay Round negotiations seek to expand significantly the coverage of the code, including in Japan. The United States will continue to monitor Japanese government procurement 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 Specific (MOSS) Talks resolved a host of standards problems and set in motion a continuing dialogue through MOSS follow up meetings of experts. During President Bush's visit in January 1992 the Office of the Trade Ombudsman (OTO) resolved or began resolving 49 additional standards complaints of U.S. companies. In the July 1992 SII report, the Japanese Government reaffirmed its commitment to a transparent and objective standards and regulatory framework and agreed to publish a report identifying outstanding problems and suggesting solutions by spring 1993. However, standards problems will continue, given Japan's continued reliance on prescriptive rather than performance standards (that can more easily incorporate technology advances), Japanese industry standards that effectively limit competition, and slow bureaucratic procedures for changing standards.

As a result of a Japanese Government commitment in the SII, foreign investment into Japan in most sectors is now subject to only ex post notification to the Ministry of Finance (MOF). (Previously, all foreign investors were required to notify MOF of their intention to invest 30 days before the investment took place.) Japan continues to restrict foreign investment in certain sectors, including aircraft, space development, atomic energy, agriculture, fisheries, forestry, oil and gas production and distribution, leather and leather product manufacturing, and tobacco manufacturing. In addition, 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 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, and a low percentage of publicly traded common stock. The difficulty of acquisition of existing companies inhibits foreign investment.

6. Export Subsidies Policies

Japan adheres to the 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. Of the $11.8 billion that Japan has allotted for official development assistance in 1992, approximately 50 percent will be for bilateral loan aid; the rest will be provided in the form of grants. Japan has eliminated loan aid tied to Japan alone. 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 (approximately 15 percent of all Japanese loan aid), and (2) tied feasibility studies (provided by grant aid) for untied (loan aid) projects which result in project specifications more suited to Japanese than foreign bidders. These issues are the subject of continued multilateral discussions with the OECD Development Assistance Committee.

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 association and the GATT talks.

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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 30 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, patent examiners and Japanese courts interpret patent applications narrowly and the courts 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, averaging two years and three months and sometimes taking three to four years. Infringement carries no penalty until an application is approved. In April 1992, Japan amended the trademark law to protect service marks explicitly.

Japanese copyright protection of algorithms and programming languages remains ambiguous. Sales of pirated 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 enforce vigorously national treatment rights, and a revised copyright law was passed in 1991 which took 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 1969, 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 is still very difficult to get an injunction against a third party transferee of purloined trade secrets.

8. Worker Rights

a. Right of Association

The Right of Association as defined by the International Labor Organization (ILO) is protected in Japan.

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b. Right to Organize and Bargain Collectively

This right is assured by the Japanese constitution. Approximately 25 percent of the active work force belongs to labor unions. Unions are free of government control and influence. The right to strike is implicitly assumed by the constitution, and it is exercised frequently. 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.

c. Prohibition of Forced or compulsory Labor

The Labor Standards Law prohibits the use of forced labor and the law is vigorously enforced.

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 set regionally, not nationally. The Ministry 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.

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 an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		4,195
Total Manufacturing		10,437
Food & Kindred Products	434	
Chemicals and Allied Products	2,934	
Metals, Primary & Fabricated	201	
Machinery, except Electrical	(D)	
Electric & Electronic Equipment	1,269	
Transportation Equipment	1,662	
Other Manufacturing	(D)	
Wholesale Trade		4,851
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		19,483

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

Source: U.S. Department of Commerce, Survey of Current Business, November 1992, Vol. 72, No. 8, Table 11.3

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Key Economic Indicators

(Billions of Korean Won unless otherwise indicated)

	1990	1991	1992
Income, Production and Employment			
Real GDP (1985 Prices)	131,502.9	142,590.9	150,433.0
Real GDP Growth (PCT)	9.2	8.4	5.5
GDP (at current prices)	172,723.8	207,516.9	236,445.0
By Sector			
Agriculture/Forestry/Fisheries	15,583.5	16,714.8	n/a
Mining and Manufacturing	50,682.8	57,966.7	n/a
Construction	22,884.1	32,056.0	n/a
Gas/Water	26,496.0	36,312.9	n/a
Other Services	79,961.5	96,522.5	n/a
Real per capita GNP (thousands won 1985 prices)	3,072	3,299	3,450
Labor Force (000S)	18,487	19,012	19,400
Unemployment Rate (PCT)	2.4	2.3	2.4

Money and Prices

	1990	1991	1992
Money Supply (M1) 1/	15,905.3	21,752.4	26,000.0
Yield on Corporate Bonds (PCT)	16.4	18.8	16.4
Savings Rate (PCT)	36.0	36.1	n/a
Investment Rate (PCT)	37.1	39.3	n/a
Consumer Price Index (1990 base)	100.0	109.3	116.5
Wholesale Price Index (1985 base)	107.5	113.3	116.7
Exchange Rates (Won/USDollar)			
Average	708.0	733.6	781.0
Year-End 1/	716.4	760.8	785.0

Balance of Payments and Trade

(In million U.S. Dollars)

	1990	1991	1992
Total Exports FOB	65,016	71,870	78,500
Exports to U.S.	19,360	18,559	18,600
Total Imports CIF	69,844	81,525	83,500
Imports from U.S.	16,943	18,894	18,800
Aid from U.S.	0	0	0
Aid from other countries	0	0	0
External Debt Outstanding 1/	31,700	39,300	42,000
Annual Debt Service Payment	7,250	5,060	5,000
Gold and Forex Reserves 1/	14,822	13,733	16,000
Balance on current account	-2,179	-8,728	-5,000
Trade Balance (Customs Basis)	-4,828	-9,655	-5,000
Balance with U.S. (Customs Basis)	2,418	-335	-200

1/ Data are for end of period.
Sources: U.S. Embassy estimates; Bank of Korea; Economic Planning Board; and the Ministry of Finance

1. General Policy Framework

The South Korean Government's economic policies through the mid-1980's emphasized rapid export-led development,

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protection of domestic industries, and, after the emergence of large current account surpluses in 1986, the reduction of the Republic of Korea's large external debt. Government intervention in the economy to promote these objectives has been pervasive since the end of the Korean War. Restrictions on foreign participation in the economy through trade and investment have been common. In the latter part of the 1980s, removal of explicit import prohibitions and steadily increasing domestic demand began to push Korea toward a more mature stage of economic development.

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 and a sharp appreciation of the Korean currency. The government reacted by implementing stimulative policies; the growth rate rebounded to 9 percent in 1990 and 8.4 percent in 1991, exceeding the 6.8 to 7.2 percent the Bank of Korea considers optimal for the economy.

A widening current account deficit, declining competitiveness in major world markets, and accelerating inflation of near 10 percent caused the government to shift gears. In late 1991 it began an economic stabilization policy aimed at cooling domestic demand, particularly household consumption and the construction sector. This policy resulted in real GNP growth falling sharply to 5.4 percent over the first nine months of 1992, according to government estimates. Slower growth has helped redress Korea's current account deficit, estimated at $5 billion for 1992, by reducing import growth to 2.4 percent. Inflation has been reined in, with the consumer price index rising by a modest 4.5 percent for the first eight months of 1992. Stock market prices had already fallen sharply from their peak in 1990. Government wage guidelines applied to large firms call for overall annual compensation hikes of 5 percent or less. Most firms have settled with their employee organizations on wage and benefit packages that exceed the 5 percent target, but are below the 17-20 percent hikes of the past three years. Unemployment averaged 2.5 percent in the first half of the year.

The money supply (M2) increased an average 18.4 percent during the first ten months of 1992, closely tracking the government's target growth rate of 18.5 percent. However, due to continued inefficiencies in the heavily protected financial sector, domestic interest rates in November 1992 remained at 16.4 percent, as reflected in the estimated yield on three year corporate bonds. Actual rates in the active curb loan market are higher.

Koreans clearly are concerned about declining growth rates and stubborn current account deficits because exports have historically been the engine for economic growth. Labor-intensive small and medium sized businesses have been hardest hit by the growth slowdown, which many view as symptomatic of Korea's declining international competitiveness. The economy was an issue in the 1992 presidential campaign. The 1993 budget, approved by the National Assembly in December 1992, is only moderately

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stimulative, with increased levels of assistance to small and medium sized businesses and spending hikes for big ticket railway and airport infrastructure projects. The growth of defense outlays will be curbed to single digit levels at 9.8 percent. The government predicts a return to annual growth rates of six to seven percent in 1993, with moderate inflation.

2. Exchange Rate Policies

The won depreciated against the U.S. dollar for the third year in a row after four consecutive years of appreciation. It dropped 3.4 percent, from 760.8 won per dollar on December 31, 1991 to 787.5 won on November 23, 1992. As of November 23, 1992 the won had depreciated against the dollar by 11.9 percent since March 2, 1990 (the date the "market average rate" system was implemented), and by 15.4 percent since the end of April 1989 (peak). On July 1, 1992 the government announced that the daily fluctuation band (DFB) of the won-dollar rate would widen to plus/minus 0.8 percent, compared with the previous limit of 0.6 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.

There is no basis at this time to conclude that Korea is manipulating its exchange rate in order to prevent effective balance of payments adjustments or to gain unfair competitive advantage in international trade. However, pervasive foreign exchange and capital controls significantly constrain supply and demand in the currency market and provide the potential for manipulation.

3. Structural Policies

South Korea's economy is based on private ownership of the means of production and distribution. The government, however, has actively intervened in the economy through a variety of means, including comprehensive economic development plans, aggressive development of target industries through low interest "policy loans," and discretionary enforcement of regulatory policies. This has resulted in a high degree of concentration of capital and industrial output in a small number of large business conglomerates, or "chaebols." The most recent Korean Government estimates indicate that the 30 largest "chaebols" account for 45 percent of the total capital of the domestic financial sector, and 28 percent of total manufacturing capacity. The Korean Government uses discretionary authority such as tax audits and a tight grip on the financial sector -- including the appointment of senior commercial bank personnel -- to maintain effective control over Korean industry.

Historically, the import regime in Korea 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-1980s, Korea has eliminated most explicit import prohibitions outside of the agricultural area. Many of the problems U.S. exporters now experience are rooted in the maze of regulations which make up complicated licensing requirements, rules for inspection and approval of imported goods, country of origin marking requirements, and other standards often inconsistent with international norms.

In their January 1992 summit meeting, Presidents Bush and Roh Tae-Woo launched the Presidents' Economic Initiative (PEI), which established four joint working groups in the areas of import clearance, standards, investment, and technology. Three rounds of consultations were held from April to August to review relevant U.S. and Korean policies. In September 1992, the working groups made specific recommendations that, if fully implemented, would significantly improve the business environment for U.S. exporters and investors in Korea. A six month review of implementation of PEI recommendations is scheduled for March 1993.

4. Debt Management Policies

As Korea's current account slipped back into deficit in 1990-91, renewed external borrowing drove its outstanding gross foreign debt to $40.8 billion by the end of June 1992. Net foreign debt reached $13 billion in June 1992, up slightly from $12.5 billion in December 1991.

Reflecting rising current account deficits and increased foreign borrowing, Korea's outstanding gross foreign debt grew steadily from 1990 to 1991, but began to level off in 1992, reaching $40.8 billion at the end of June 1992. Net foreign debt reached its highest level in four years, $13 billion at the end of June 1992, up slightly from $12.5 billion at the end of 1991. Korea's 1992 debt service ratio is projected at about 5 percent. The total debt service to GNP ratio was 1.8 percent in 1991 and is estimated at 1.7 percent for 1992. The stabilization of Korea's debt position can be attributed in some measure to policies adopted in September 1991, when the government temporarily banned long-term inter-bank bank loans and reduced the availability of foreign currency loans. Government officials predict that Korea can balance the current account by 1994.

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

With the signing of the "Super 301" agreements in May 1989, the Korean Government committed to eliminate over a three-year period a number of important structural barriers in Korea's trade and investment regimes. Most of the formal requirements of those agreements have been met, although the Korean Government has yet to fully comply with some specific provisions. For example, in the cosmetics trade, an area where U.S. firms are very competitive, full liberalization of wholesaling has not been completed. Unfortunately, as formal barriers have fallen, more subtle secondary barriers have effectively prevented the widespread liberalization envisioned under the terms of the agreements.

Standards, testing, labelling, and certification requirements effectively limit U.S. exporters' access to the Korean market. Unreasonably tough and arbitrarily enforced phytosanitary, standards, and labelling requirements have adversely affected U.S. exports of agricultural products, pet food, and cosmetics. Type approval and testing requirements have affected U.S. exports of electric motors and electronic equipment. The Toxic Chemical Control Law implemented July 1, 1992 effectively limits U.S. chemical exports to Korea in part by requiring U.S. firms to release detailed proprietary information on the composition of their products. In December 1992, as part of the Presidents' Economic Initiative, the Korean Government issued a prime ministerial decree outlining improved procedures for standards and rulemaking, including a requirement for public notice, minimum comment periods, and an adjustment period prior to implementation.

Licenses are required for all imports to Korea but they are usually granted automatically, except for prohibited or regulated goods. These goods now include over 200 mostly agricultural products. Under Korea's GATT balance of payments (BOP) agreement, the government is committed to progressively eliminate most of these import restrictions by 1997. However, BOP liberalization of agricultural products to date has been largely limited to products with little import potential. Under a separate agreement, the Korean Government has also agreed to liberalize beef imports by 1997. In the interim, beef imports are restricted technically by a quota system. A quasi-governmental agency has been designated as the sole importer, and the simultaneous buy-sell system has been implemented in a manner which is still restrictive.

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, Korea's average tariff rate for all products was 10.1 percent in 1992. In January 1990 the Korean Government announced that it would postpone further tariff reductions under an ongoing five-year tariff reduction plan for one year to offset revenue cuts resulting from the elimination of the national defense tax. The effective date for completion of the tariff reduction package is now January 1, 1994. The average tariff rate on agricultural products is 18.5 percent. It will be reduced to 17.8 by 1993 and to 16.6 percent by 1994. However, tariffs are significantly higher on many agricultural products of major interest to the United States, frequently reaching 50 percent.

Korean safeguard regulations permit the government to impose special "emergency tariffs" of up to 100 percent on imported goods to protect domestic industry, and this measure was used with increasing frequency in 1992. To date, three U.S. products have been significantly affected by "emergency tariffs": canned pork, batteries, and glass products. In December 1992, the Korean Government agreed to phase out "emergency tariffs" on imported industrial goods within one year. However, they will be retained for agricultural imports.

One of the most pervasive formal barriers to U.S. exports in Korea is the restriction on the ability to import on credit. Use of limited deferred payment terms (generally 60-90 days) 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 terms based on international norms for deferred payments.

Investment in most professional services remains restricted for foreign firms in Korea. The Korean Government has taken some concrete measures over the past three years to improve the treatment of foreign financial institutions in Korea under a phased plan for liberalization of the financial sector. New measures implemented in 1992 include increasing slightly foreign banks' access to won funding and opening the fund management market to foreigners on a limited basis. The Korean stock market was also opened to foreign investors on a limited basis in 1992. In November 1992, the government announced that certain foreign firms, including insurance companies, could purchase land for headquarters or residences under strict conditions. However, full deregulation of the financial services sector is not currently planned until at least 1997, and the government continues to deny national treatment to foreign financial entities in significant areas. Foreign banks continue to face severe difficulties in meeting the local financing needs of their traditional clients. In the securities area, foreign firms face stiff criteria for branch establishment and a limited scope of permissible activities.

The significant barriers to U.S. investment in Korea are one of the key areas of discussion in the Presidents' Economic Initiative. The Korean Government systematically targets favored industries for development through the provision of low interest "policy loans." U.S. investments often do not receive national treatment under Korean law or in practice. Also, foreign-invested firms face other discriminatory lending practices by domestic financial institutions and restrictions on access to offshore funding, including offshore borrowing, intra-comapny transfers, and inter-company loans. Foreign equity participation requirements remain in some sectors. In some, only joint ventures are permitted, and in others foreign equity participation is restricted to less than 50 percent. Land ownership by foreign individuals and firms is restricted. Although the Korean Government is moving to expand the number of sectors in which only notification of a foreign investment is required, government approval of investments is still needed in many sectors. These approvals often are time consuming to obtain, sometimes taking years. However, even in sectors in which notification is allowed, the government reserves the right to reject notification of a proposed investment. Downstream services by foreign firms, including distribution, remain restricted.

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The government 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 regular "frugality campaigns" against "over-consumption" that hit 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." Domestic industry often puts pressure on the government to use its authority against foreign companies. In December 1992, foreign firms in the recently liberalized cosmetics sector simultaneously were undergoing customs valuation audits and investigation of their import procedures. The Korean 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 streamlining of Korea's complex import clearance procedures is an important topic under the Presidents' Economic Initiative. The Korean Government is now implementing PEI recommendations for improvement of customs and import clearance procedures which will be reviewed in March 1993.

Since June 1990, the Korean Government has been in the process of acceding to the GATT Government Procurement Code, although the accession process has been delayed by U.S. and other country attempts to expand and modify substantially the code in the Uruguay Round.

6. Export Subsidies Policies

Since the early 1980's, the Korean Government has eliminated a number of indirect export subsidies, including the special depreciation allowance for large exporting firms and overseas construction firms. In 1988, the Korean Government terminated the provision of export loans to large firms not affiliated with business conglomerates. However, in response to South Korea's growing trade deficits, the government resumed the provision of short-term export loans to large exporting firms in April 1992.

This new measure is added to existing programs of support for Korea's export industries, including customs duty rebates for raw material imports used in the production of exports; short-term export loans for small and medium sized 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 October 1991 the 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. Export subsidies to the shipbuilding industry are within OECD guidelines.

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

7. Protection of U.S. Intellectual Property

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 November 1992, the National Assembly ratified the United States-Korea Patent Secrecy Agreement signed in January 1992.

In 1992 the Korean Government continued to take steps to complete the legal framework for protection of U.S. intellectual property rights (IPR). Nevertheless, enforcement remains a problem, particularly in the copyright area. In April 1992, the U.S. Trade Representative upgraded Korea to the Special 301 "Priority Watch List," largely as a result of copyright violations, and lack of effective enforcement of existing laws.

Patents: Patent experts report that, while Korea's patent laws are satisfactory, the actual extent of patent protection in 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 despite regular crackdowns by the authorities. Of increasing concern is the export of counterfeit goods from Korea. In August 1992 the Korean Government expanded its list of country destinations requiring physical inspection of foot wear shipments to 22. Although Korean law allows prosecutors or police to investigate trademark infringement cases without the filing of a formal complaint, U.S. firms have complained that Korean prosecutors often give such cases low priority and provide little or no information about the status or results of these investigations.

Copyrights: Korea and the United States established copyright relations when Korea joined the Universal Copyright Convention in 1987. Korean Government administrative measures outlined in the 1986 United States-Korea IPR Agreement were intended to provide retroactive protection for books copyrighted from 1977 to 1987, software copyrighted from 1982 to 1985, and all pre-1987 sound and video recordings. To date, the Korean Government has had some success in curbing pirating activities, particularly in the area of printed materials, through the use of tax and trademark infringement laws. However, software piracy continues to be widespread. 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. U.S. companies also argue that the relatively low penalties do not act as a disincentive to potential violators. In 1992 the Korean Government drafted additional legislation to increase penalties for software infringement, but did not address the issue of the complaint requirement.

In the area of sound and video recordings, the Korea Government has not made effective use of its administrative authority to block fraudulent registration, resulting in a huge list of falsely registered works. The Koreans have proposed several mechanisms for protecting these works in the future, but have refused to deregister existing false registrations.

New Technologies: In November 1992 the National Assembly passed legislation to extend IPR protection to semiconductor mask works which seems compatible with U.S. law. The legislation is currently under review by the U.S. Government. If the Korean law is compatible, Korea could seek reciprocal protection for its chips under U.S. law, provided it demonstrates that no "unauthorized duplication" is occurring. Some recent violations have been reported in the area of telecom chip production. Legislation to protect trade secrets, passed in December 1991, is scheduled to take effect in December 1992. It is still not clear whether the regulations will provide adequate protection for business confidential information. A prime ministerial decree effective January 1, 1993 mandates the handling of such information in such a manner that legitimate commercial interests are protected. In 1992 the Korean Government enacted new legislation to regulate cable television. The U.S. Government views the legislation with concern because certain provisions may inhibit market access for U.S. firms.

8. Worker Rights

a. Right of Association

The Constitution gives workers, with the exception of most public service employees and teachers, the right to free association. The government has refused to legalize the teachers' union, because the teachers (including 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. The government refuses to recognize labor federations which are not part of, or not affiliated with, the country's two legally recognized labor groupings, the Federation of Korean Trade Unions (FKTU) or the independent Korean Federation of Clerical and Financial Workers. Other labor federations or groups, which often hold dissident or radical political views, are not recognized by the government, but continue to carry out most activities of a labor union.

In December 1992, the Supreme Court ruled for the first time that the Labor Ministry must recognize the independent Korean Federation of Press Unions as legal, and that affiliation to the FKTU is not required in order to be registered as a legal labor federation.

Strikes are 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. 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, although semi-autonomous labor commissions exist to conciliate, mediate and sometimes arbitrate labor disputes. Parties can, and frequently do, appeal cases adjudicated by the Central Labor Commission to the High Court, and ultimately, the Supreme Court. 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. There is a small-scale convict work program which allows convicts to volunteer for unskilled work in small and medium sized construction and industrial firms. Convicts who participate in the work program are paid a wage close to or above Korea's minimum wage.

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

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Ministry of Labor.

e. Acceptable Conditions of Work

The Labor Standards and Industrial Safety and Health Laws 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 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 electric 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 an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		(D)
Total Manufacturing		960
Food & Kindred Products	158	
Chemicals and Allied Products	166	
Metals, Primary & Fabricated	30	
Machinery, except Electrical	7	
Electric & Electronic Equipment	286	
Transportation Equipment	156	
Other Manufacturing	157	
Wholesale Trade		346
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, November 1992, Vol. 72, No. 8, Table 11.3

MALAYSIA

Key Economic Indicators

(millions of Malaysian ringgit (M$) unless otherwise noted)

	1990	1991	1992 est.
Income, Production, and Employment			
GNP (Current prices)	109,663	123,530	140,547
Percent change	14.8	11.8	13.8
GDP (1978 prices)	79,155	86,302	93,624
Percent change	9.8	8.6	8.5
By Sectors (78 prices):			
--Agriculture	14,821	14,818	14,996
--Manufacturing	21,323	24,307	27,467
--Mining and Petroleum	7,749	7,939	8,190
--Utilities	6,960	1,690	1,944
--Construction	2,844	3,250	3,689
--Whole and retail trade	8,755	10,098	11,208
--Financial Services	7,655	8,726	9,764
--Government Services	8,522	8,964	9,457
--Other Services	1,656	1,821	1,976
Per Cap GDP (M$-1978 prices)	4,473	4,747	5,032
Labor Force (Thousand)	7,046	7,247	7,461
Unemployment Rate (pct)	6.0	4.3	4.1
Government Finance			
Federal Gov't Revenues	29,521	34,053	38,106
Federal Gov't Expend	35,037	31,296	33,766
Federal Deficit	5,516	6,858	5,310
Percent of GNP	5.4	5.5	3.8
Public Sector Deficit	2,018	2,777	3,598
Percent of GNP	1.8	2.2	2.5
Money and Prices			
Money Supply (M1) (Jul)	24,240	26,903	27,364
Money Supply (M2) (Jul)	83,903	96,092	106,811
Prime Rate (Pct)	7.5	9.5	9.5
Klibor (12 month)	7.9	8.78	8.05
Nat Savings/GNP (Pct)	29.5	28.0	31.1
Investment/GNP (Pct)	33.9	37.2	37.0
Inflation (CPI)	3.1	4.4	4.6
Balance of Payments and Trade			
Merchandise Exports	78,322	94,497	104,608 (a)
-- of which, to U.S.	13,483	15,985	10,519 (b)
Merchandise Imports	73,119	100,831	105,854 (a)
-- of which, from U.S.	13,233	15,477	8,958 (b)
Merchandise Balance	5,166	-466	4,637
Services (Net)	-9,935	-12,301	-12,858
Current Account	-4,522	-12,459	-7,871
M$/US$ (Average)	2.70	2.73	2.53
Assistance from the U.S.	1.5	1.5	1.5
Investment and Debt			
Foreign Debt	41,577	43,592	42,592

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-- Public Sector	36,564	37,114	35,124
-- Private Sector	5,013	6,478	7,615
Debt Service Payments (c)	6,813	7,166	6,725
Debt Service Ratio (c) Pct	7.5	6.2	5.6
Official Net reserves	27,025	30,452	40,016

(a) Government of Malaysia Projection
(b) U.S. Embassy Estimates
(c) Excluding Prepayments

1. General Policy Framework

Since independence in 1957, the Malaysian economy has shown sustained growth and has diversified away from the twin pillars of the colonial economy: tin and rubber. Annual 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; real GDP fell by one percent. Since then, the economy has rebounded, led by strong growth in foreign investment and manufactured goods exports. In 1993, real GDP growth is expected to be around 8.5 percent. Malaysia's 1993 budget, tabled in Parliament October 30, 1992 introduced a number of significant tariff changes described below which went into effect immediately.

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 financial institutions. Through the National Equity Corporation, the government has (generally minority) equity 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 privatize many entities, including the telecommunications organization, the national electricity company, the national airline, and the government shipping firm.

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 important roles 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. Through 1990, the government was prepaying its foreign debt. A sharp rise in the domestic investment ration (up from 24.7 percent in 1987 to about 37 percent in 1992) has been accompanied by a decline in savings and a corresponding turnaround in the current account -- from a surplus of 8.9 percent of GNP in

1987 to a projected deficit of 9.7 percent in 1992. Much of this has been financed by direct investment, but there are no longer excess funds with which to prepay debt. The debt burden remains manageable, but requires continued tight fiscal policy to remain so.

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, 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. Following a three-year period when the dollar-ringgit rate traded in a narrow range (M$2.70-M$2.75 per US$), the ringgit rose rapidly during the first two months of 1992 to M$2.50 per US$, and then again settled in a narrow range.

Payments, including repartriation 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. Individual foreign exchange transactions above M$10,000 required an exchange control license. For transactions up to M$10 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 average 10.2 percent on a trade weighted basis, and import licenses are required only for few 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; imports of tobacco are restrained by high import duties and the government's authority to impose quota restrictions. 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: Corporate and individual income tax is the largest single source of revenue for the government and accounted for 34.7 percent of revenue in 1992. Indirect taxes, comprising export and import duties, excise taxes, sales taxes, service taxes, and other taxes accounted for 35.7 percent of 1992 revenue. 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 1993 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 applied to new investments for which application was made between October 1, 1986 and December 31, 1991. Currently, a foreign investor can hold 100 percent of the equity of a Malaysian subsidiary if it exports at least half of its output, has at least 50 percent value-added domestically (or, failing that, has M$50 million, about $20 million, in foreign-funded assets), and does not produce items that compete with those being made for the local market.

For companies exporting less than 50 percent of output, foreign equity is generally limited to a 51 percent share. 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$43 billion ($17.2 billion) at the end of 1991. Malaysia's debt service ratio declined from a peak of 18.9 percent in 1986, to 6.2 percent in 1991, and to an estimated 5.6 percent by the end of 1992. However, as noted in Section 1, the government is no longer prepaying external debt, and observiers forecast modest increases in the debt/GNP and debt service ratios.

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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 ($20) per kilogram plus five percent *ad valorem*. While this reduces significantly leaf imports, the effect of the high tariffs appears to have the greatest impact against cheaper, lower quality leaf from suppliers other than the United States. 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 relatively new development, the government first proposed an import quota of 1.5 million kilograms for flue-cured tobacco. The quota was subsequently raised to 2.5 million kilograms. This quota could likely have a significant negative impact on U.S. sales of at least $10 million annually in U.S. tobacco exports to Malaysia.

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 the 1993 budget, 649 items,e.g., personal computers, footwear, optical goods, nuts, and fruits had their import duties abolished or reduced by between 30 and 10 percent. In contrast, virtually all Malaysian agricultural exports to the U.S. enter duty free.

High Import Duties On Alcoholic Beverages: Tariffs on all alcoholic beverages have been raised sharply in the 1993 budget. Of particular interest to U.S. exporters are higher duties of M$228 ($91.2) per decaliter on wine and M$74 ($29.6) per decaliter on beer. The new duties obviously will force up retail prices considerably, will have a significant negative impact on imports, and will encourage 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.

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 onto the Malaysian market. Until January 1991, the East Malaysian states of Sabah and Sarawak maintained separate import regimes for poultry products which permitted the import of U.S. chicken. Now, however, similar bans have been implemented in those states as well. Since the implementation of the ban, a significant domestic poultry industry has developed and

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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. The LPN is 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 most 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 significantly limits foreign participation. For example, established branches of foreign banks face a requirement that they incorporate by September 1994. New foreign bank entry is limited to the acquisition of minority interest in existing domestic banks. 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, although this share is significantly less than their percentage of the market before discriminatory restrictions were imposed. No new insurance or 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. 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. However, only foreign minority-owned firms may be members of the Kuala Lumpur Stock Exchange.

Standards: Malaysia has extensive standards and labelling requirements, but these appear to be implemented in an objective 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, telecommunications 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 Government offers low-cost (subsidized) export credit schemes designed for developing countries importing Malaysian palm oil, but the response from importers has been limited.

Malaysia also provides tax incentives to exporters, including:

- Abatement of adjusted income for exports made on or after January 1992 provides for an abatement equal to 50 percent of proportion of sales represented by exports. The rate of abatement to be reduced to 25 percent for exports made on or after January 1993. This incentive will be abolished in tax year 1994.

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

- Double deduction of certain expenses such as overseas advertising and travel, and supply of free samples abroad incurred for promoting exports is provided to resident companies seeking opportunities to export products made in Malaysia.

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, and the Paris Convention.

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 (*inter alia* 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. Right of Association

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, and the power 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 (23 strikes in 1991), 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. 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. Enterprises granted "pioneer" status are protected from union demands for terms of employment exceeding those specified in the Employment Act of 1955 during the period of their pioneer status (normally 5 years). The restriction does not apply to wages or benefits not covered by the Employment Act.

c. Prohibition of Forced or Compulsory Labor

Malaysia adheres to ILO Convention 29 prohibiting forced or compulsory labor. Malaysia has effective legal sanctions against such abuses. The ILO has in the past criticised Malaysia for laws dating from the pre-independence period that require prisoners and Internal Security Act (ISA) detainees to work. Malaysia states that its current constitution, which prohibits forced labor, takes precedence over these individual outdated laws. In reaction to ILO criticism, Malaysia renounced ILO Convention 105 on forced labor.

d. Minimum Age for Employment of Children

Employment of children is covered by the Children and Young Persons (Employment) Act of 1966, which 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 6 hours per day, more than 6 days per week, or at night.

e. Acceptable Conditions of Work

The Employment Act of 1955 sets working conditions, most of which are at least on a par with standards in industrialized countries. Minimum standards of occupational health and safety are set by law and enforced by the Ministry of Human Resources. Other laws provide for retirement programs and disability and workman's compensation benefits. No comprehensive national minimum wage legislation exists, but certain classes of workers are covered by minimum wage laws. Plantation and construction work is increasingly being done by contract foreign workers; working conditions for contract workers often are significantly below those of direct hire workers. In addition, many of the immigrant workers, particularly illegal ones, may not have access to Malaysia's system of labor adjudication. The Malaysian Government has moved to legalize illegal immigrant workers in plantations, largely to prevent the exploitation of these workers.

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.

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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 nonAmerican companies 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 in the past interpreted this law to preclude the EIWU from organizing electronic component workers.

In September 1988, the Minister of Human Resources announced that the Government would permit electronic component workers to unionize. The National Electronics Industry Workers (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.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		516
Total Manufacturing		687
Food & Kindred Products	7	
Chemicals and Allied Products	40	
Metals, Primary & Fabricated	3	
Machinery, except Electrical	-21	
Electric & Electronic Equipment	561	
Transportation Equipment	0	
Other Manufacturing	97	
Wholesale Trade		129
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		1,332

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

Source: U.S. Department of Commerce, Survey of Current Business, November 1992, Vol. 72, No. 8, Table 11.3

NEW ZEALAND

Key Economic Indicators 1/

(Millions of NZ dollars unless otherwise noted)

	1990	1991	1992
Income, Production, and Employment			
Real GDP (1983 prices)	35,388	35,455	35,108
Real GDP growth rate (percent)	-0.7	0.2	-1.0
Agriculture	-5.1	3.9	1.6
Fishing/hunting/forestry/mining	11.0	-1.7	8.6
Manufacturing	1.7	-5.2	-3.0
Electricity/gas/water	-4.9	2.6	-0.4
Construction	-0.2	-6.6	-22.7
Trade/restaurants/hotels	1.3	-1.5	-0.3
Owner-occupied dwellings	2.0	2.2	1.7
Transport/communications/business and personal services	2.9	0.2	1.4
General government services	-1.8	-0.8	0.8
Net exports of goods and services	-505	-414	1,383
Real per capita GDP (1983 NZ$)	10,441	10,372	10,159
Labor force (000s)	1,587	1,624	1,630
Unemployment rate (percent)	7.3	9.9	11.1
Money and Prices			
Money supply (M1)	8,837	8,912	9,152
Base lending rates	15.80	14.90	11.80
Personal savings rate	5.0	3.9	5.0
Investment rate (gross fixed capital formation as percent of GDP)	28.5	28.1	23.7
Consumer price index (December 1988 equals 100)	105.9	111.7	113.6
Producer Price Index (final quarter 1982 equals 100)	171.2	174.8	175.7
Exchange Rate (annual average)			
$1.00 = NZ$ x.xx	1.70	1.68	1.78
NZ$1 = $x.xx	0.588	0.595	0.562
Balance of Payments and Trade 2/			
Total exports FOB	15,228	15,850	17,876
Exports to U.S.	1,995	2,064	2,289
Total imports VFD 3/	14,420	14,051	14,216
Imports from U.S.	2,599	2,413	2,598
Aid receipts	0	0	0
External public debt	29,911	28,036	27,790
Interest on external public debt	1,525	1,692	1,682
Gold and foreign exchange reserves	5,447	5,990	5,466
Trade balance	808	1,799	3,660
Balance with U.S.	-605	-349	-309

1/ Reporting year ending March 31 (N.B. In 1989, New Zealand moved from an end-March fiscal year to an end-June fiscal year. The National Income Accounts, however, retained an end-March year.)
2/ Trade and fiscal year ending June 30
3/ "Value For Duty", equivalent to "Customs Value" (cv) in U.S. statistics.

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 early 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 fall in oil prices in the mid-1980s threatened the viability of these projects, which contributed to an increase in government debt.

The performance of the 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. High employment was achieved, but at the price of high inflation, misallocation of resources, and chronic balance of payments problems. In 1984, the new Labour Government embarked on a program of deregulation and structural change aimed at reducing protectionism and government economic intervention. After an auspicious start, in 1988 the Labour Party leadership withdrew support for 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. Nonetheless, the change of direction introduced by the Labour Government was maintained by the National Party Government.

The Labour Government reduced the fiscal deficit from 6.8 percent of GDP in FY1984 to 1.2 percent in FY1990. However, when National Party took office, burgeoning welfare expenditures threatened to undo 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 extended that process to retirement benefits and introduced partial user charges for health care and education. The FY1993 budget continued to focus on expenditure control, but did not introduce new policy initiatives. The result has been significant progress on the expenditure side of the budget, with total expenditure falling from nearly 43 percent of GDP in FY1991 to around 39 percent of GDP in FY1992, with a further reduction to 37 percent expected by FY1995. At the same time, revenues have been disappointing due to weak economic performance. The deficit was around 3.5 percent of GDP in FY1991 and FY1992, and is expected to remain around that level for the next few years.

The Reserve Bank of New Zealand Act of 1989 requires the Reserve Bank to direct monetary policy towards achieving price stability. While the Act provides the Reserve Bank greater operating independence, it also requires that the Reserve Bank Governor and the Ministry of Finance agree on policy targets. The current 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. This target was reached earlier than expected, with the CPI for the last quarter of 1991 only 1 percent above December 1990. This level was maintained through the September quarter of 1992, giving New Zealand the lowest inflation level among OECD member countries. Forecasts suggest that inflation will remain within the target range during 1993.

The structural reforms introduced have brought strong productivity gains, but output gains have been elusive. The resultant "labor shedding" increased unemployment to 11.1 percent in the March quarter of 1992 -- the highest level since the 1930s. In the June quarter of 1992, unemployment fell to 10 percent. While part of this improvement was seasonal, unemployment probably has peaked, although reduction of the current high level will be gradual. GDP declined by 1 percent in the financial year ending in March 1992, despite growth in the last three quarters of the period. Recovery started in the export sector, but now appears to be consolidating, with recent improvements in domestic consumption and business investment. Prospects for 3-4 percent growth appear good over the next few years.

2. Exchange Rate Policies

The New Zealand dollar was floated in March 1985 as part of a broadly 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 1992, the New Zealand dollar was worth about 12 percent less on a trade-weighted basis than at the time of the float. However, it appreciated by nearly 15 percent *vis-a-vis* the U.S. dollar during this period, and U.S. goods and services remain competitively priced in New Zealand.

In pursuing price stability, the Reserve Bank monitors following 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 improved, profitability and income were hard hit. Profits are now improving, and investment in the sector is beginning to recover. 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 Government were labor market rigidities and a 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 Government 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 generating more flexible workplace arrangements with consequent improvements in productivity.

The December 1990 initiative also included immediate reductions in expenditures for social benefits through better targetting, 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 assistance for housing. Plans to better target the provision of retirement benefits were only partially successful due to strong public resistance.

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 a peak of 77 percent of GDP in 1987. In June 1992 gross public debt was NZ$48 billion, equivalent to 64 percent of GDP. 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$4.1 billion in FY1992, equal to 5.5 percent of GDP and 14.2 percent of expenditures. External debt accounted for 43 percent of the total in mid-1992, down from 51 percent of total debt in 1987. Interest on public external debt in FY1992 equalled nearly 8 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 were reduced in four stages between July 1, 1988 and 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, where New Zealand has made liberalization offers.

New Zealand has 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 were 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.

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Approval by the Overseas Investment Commission (OIC) is required for foreign investments over NZ$10 million or investments of any size in specified sectors. The review of investments above NZ$10 million applies to both acquisitions and greenfields investments. Specified sectors are commercial fishing and rural land. Foreign investment in commercial fishing is limited to a 24.9 percent holding, unless an exemption is granted by the Ministry of Agriculture and Fisheries. While the level of ownership is not restricted for rural land, foreign purchasers are required to demonstrate that the purchase is beneficial to New Zealand. In practice, the OIC approves virtually all investment applications without attaching performance requirements, and its approval procedures have not been an obstacle for U.S. investors. New Zealand generally provides national treatment after entry. Full remittance of profits and capital is permitted through normal banking channels.

The U.S. Government recognized the generally liberal trading environment in New Zealand by concluding a bilateral Trade and Investment Framework Agreement (TIFA) in October 1992. The TIFA provides for periodic government-to-government consultations on bilateral and multilateral trade and investment concerns.

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.

In August 1992, New Zealand repealed Section 51 of the

Patents Act 1953, which contained permissive rules for compulsory licensing of pharmaceutical products. While these provisions had not been used for several years, in 1990 a number of applications were filed with the Commissioner of Patents, generating a great deal of concern by international pharmaceutical companies. The repeal of Section 51 brought New Zealand's Patent Act into conformity with the intellectual property legislation in other industrialized countries. As a result, in September 1992 the United States removed New Zealand from the Special 301 watch list of countries lacking adequate intellectual property protection.

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 on possible options for reform. Interested parties were invited to submit comments on the study by November 16, 1990. In December 1991, a recommendations paper on trademarks was issued, and recommendations on patents were published in February 1992. Recommendations on designs and other issues were released in October 1992, and a recommendation paper on parallel importing is expected in December 1992. After consideration of public comments on these four papers, the Ministry of Commerce will frame its final recommendations to the Cabinet.

8. Worker Rights

a. Right of Association

New Zealand workers have unrestricted rights to establish and join organizations of their own choosing and to affiliate those organizations with other unions and international organizations. The principal labor organization, the New Zealand Council of Trade Unions, is affiliated with the International Confederation of Free Trade Unions. 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, may not strike if work stoppages threaten public safety. Legislation enacted in 1991 prohibits strikes designed to force an employer to become a party to a multicompany contract.

b. 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. The Employment Contracts Act of 1991 ended compulsory membership in labor unions, which now represent less than half of all wage earners. As a consequence of the Act, unions no longer have an inherent right to represent any particular group of workers. Employment relationships are to be based on contracts negotiated either by the individual employees or their bargaining agent, which may be a union, another voluntary association of workers, or a private consultant.

Mediation and arbitration procedures are carried out independently of government control. The Employment Court hears cases arising from disputes over the interpretation of labor laws. In addition, a less formal body, the Employment Tribunal, is available to handle wage disputes and assist in maintaining effective labor relations. There are no export processing zones.

c. Prohibition of Forced or Compulsory Labor

New Zealand laws prohibit forced or compulsory labor. Inspection and legal penalties ensure respect for these provisions.

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. The Department of Labour effectively enforces these laws.

e. Acceptable Conditions of Work

New Zealand law provides for a 40-hour workweek with a minimum of 3 weeks' annual paid vacation and 11 paid public holidays. There is a government-mandated minimum wage for workers 20 years of age and older; most minimum wage earners also receive a variety of welfare benefits. A majority of the work force earns 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. 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 an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		(D)
Total Manufacturing		558
Food & Kindred Products	(D)	
Chemicals and Allied Products	133	
Metals, Primary & Fabricated	(D)	
Machinery, except Electrical	(D)	
Electric & Electronic Equipment	10	
Transportation Equipment	(D)	
Other Manufacturing	323	
Wholesale Trade		57
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, November 1992, Vol. 72, No. 8, Table 11.3

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Key Economic Indicators

(Millions of Pesos Unless Otherwise Noted)

	1990	1991 (proj.)	1992
Income, Production and Employment			
Real GDP (1985 prices)	717,255	710,530	713,372 2/
Real GDP Growth (pct.)	2.7	(0.9)	0.4 2/
GDP (at current prices)	1,070,900	1,239,129	1,359,785 2/
By sector:			
Agriculture	235,956	262,352	292,354
Energy and Water	24,299	30,625	32,760
Manufacturing	267,485	315,938	334,303
Construction	64,903	62,083	65,970
Ownership of Dwellings/ Real Estate	61,673	73,238	86,615
Financial Services	42,531	48,406	54,446
Other Services	260,421	317,453	356,065
Government Services	77,031	85,997	91,568
Health and Education (Private)	19,942	25,543	30,005
Net Exports of Goods and Services	(59,337)	(27,439)	(49,000)
Real Per Capita GDP ('85 BPS)	11,666	11,302	11,084
Labor Force (000)	24,850	25,631	26,380
Unemployment Rate (percent)	9.4	10.6	10.3
Money and Prices			
(Annual percentage growth)			
Money Supply (M2)	18.8	15.7	9.5 4/
Loan Rate (Secured) 3	24.32	22.75	19.98 5/
Personal Saving Rate 3/	10.67	12.35	9.35 5/
Wholesale Price Index (Metro Manila)	10.2	13.5	7.2 2/
Consumer Price Index	14.1	18.7	9.3 6/
Exchange Rate (Pesos/USD)			
Official	24.31	27.48	25.50 6/
Parallel	24.93	27.71	25.42 6/
Balance of Payments and Trade			
(Millions of U.S. Dollars)			
Total Exports FOB 7/	8,186	8,839	9,460 4/
Exports to U.S. (U.S. data)	3,383	3,472	3,780 4/
Total Imports FOB 7/	12,206	12,052	13,950 4/
Imports from U.S. (U.S. data)	2,472	2,269	2,510 4/
Aid from U.S. 8/	172	263	292
Aid from Other Countries 8/	902	968	1,232
External Public Debt	23,044	24,116	24,360
Debt Service Payments (Paid)	3,675	2,992	3,340
Gold and foreign exchange reserves	1,993	4,470	4,950 6/
Trade Balance 7/	(4,020)	(3,213)	(4,490)
Balance with U.S.	911	1,203	1,270

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1/ 1992 Figures are full-year estimates based on latest available data as of October 1992.
2/ Projected from six-month actual data.
3/ Figures are actual, average annual interest rates, not changes in them. Personal savings rate includes both special and regular savings deposits.
4/ Projected from eight-month actual data.
5/ Projected from eight-month actual data.
6/ Projected from nine-month actual data.
7/ Merchandise trade.
8/ Bilateral loans and grants (actual draw-downs).

Sources: National Economic and Development Authority, Central Bank of the Philippines, Department of Finance, U.S. Survey of Current Business.

1. General Policy Framework

About one-fourth of Philippine Gross Domestic Product (GDP) comes from agriculture. The remaining 75 percent is closely divided between the industrial and service sectors. Economic growth from 1986 to 1991 followed a boom-bust cycle. After a two-year recession (1984 and 1985) which hit investment and industrial output hard, the domestic economy, spurred by political changes and aided by accommodative monetary and fiscal policies, reverted to positive growth in 1986 and grew by an average rate of 5.7 percent annually from 1987 to 1989. After 1989, economic growth began to sag. The economic slowdown reflected the emergence of macroeconomic imbalances evidenced by double-digit inflation, ballooning fiscal and trade deficits, and declining international reserves. These imbalances resulted from structural weaknesses in the domestic economy, as well as from a spate of natural calamities, perceptions of political instability following a major coup attempt, and global uncertainties triggered by the Gulf crisis.

The Philippines has suffered from a chronic trade deficit since the oil shocks of the 1970s. Macroeconomic policies (such as defense of the exchange rate via high interest rates) and structural weaknesses (such as poor linkages between the export sector and domestic producers of raw materials and inefficiencies of industries developed behind high protection of an import substitution approach) have hindered stronger export growth. A strengthening domestic currency -- a result of strong non-merchandise trade receipts, a growing preference for higher-yielding peso assets, the liberalization of the foreign exchange market, and the still relatively sluggish demand for imports -- has been an additional bane for exporters.

In mid-1991, the Philippines implemented a stabilization program supported by the IMF aimed at reducing inflation and curbing the fiscal and trade deficits. Money supply and expenditure control have brought inflation down to single digits, tamed the trade and fiscal gaps, and raised international reserves to more comfortable levels. The price of stabilization was stagnant output, higher unemployment, and public sector underspending. Like 1991, the National Government's fiscal deficit ceiling for 1992 (set at nine billion pesos) is being met through expenditure cuts because of revenue shortfalls. Most of the deficit is being financed by domestic borrowing, primarily via Treasury Bills, partly because of budgetary difficulties in generating the needed peso counterpart funds for foreign loans. Treasury Bills are also used as monetary tools, in addition to open market operations such as repurchase and reverse repurchase transactions. Domestic debt servicing currently eats up about one-fourth of the National Government's budget pie, compared with 15 percent for foreign debt payments. The Philippines' 28.4 billion dollar foreign debt, which the Ramos Administration is committed to honor, remains a major concern of policymakers.

Based on partial 1992 indicators, the economy appears poised for a recovery. However, resumption of strong economic growth in the near-term is constrained by increasingly inadequate infrastructure. Shortages of electrical power and inadequate telecommunications networks are major concerns. Imports of power generators are currently allowed tax and duty-free to help address the problem of inadequate power supply. Infrastructure problems are a major focus of the Government's development efforts.

From a more positive perspective, the recent economic woes have also led to a rethinking about the relatively closed Philippine economy. The Philippines has embarked on a program of long-resisted structural reforms -- particularly on trade, foreign exchange regulations, and foreign investment -- that brightens prospects for more sustainable economic growth and longer-term economic stability.

2. Exchange Rate Policy

The Philippine foreign exchange system can be described as a "managed float", with monetary authorities intervening through a combination of interest rate adjustments and direct intervention. The Philippine Government has traditionally attempted to maintain an overvalued peso, given the high import component of the country's export products, high debt servi.e costs on the country's $29 billion in foreign borrowings, and strong demand for imported consumer goods by those able to afford them. Because of weak demand for foreign exchange, primarily attributed to zero GNP growth and flat demand for imports, the peso began a steady appreciation in April 1991 from 27.84 to the dollar to 24.60 at mid-October, 1992; it is not expected to exceed 24.80 by year end.

By August 1992 the Philippine Government had lifted all foreign exchange controls on current transactions, the first step towards complete deregulation. (Partial forex decontrol began in January 1992.) The new guidelines completely abolish restrictions on capital repatriation and profit remittances; mandatory surrender of all foreign exchange earnings from non-trade transactions is eliminated; restrictions on buying and selling foreign exchange, holding foreign exchange accounts, and taking foreign exchange out of the country for deposit and investment are also abolished. Deregulation has legalized the black market; under the new guidelines foreign exchange can be bought or sold without permission or licensing from the Central Bank. A thriving parallel market continues to exist. For long-term transactions, the Central Bank continues to require approval on dollar loans from foreign currency accounts, and restricts the amount of borrowings foreign firms can obtain from local banks (subject to the borrowing firm's debt to equity ratio).

3. Structural Policies

In spite of much resistance from Congress and vested interests, the Philippine Government has taken important steps to reform and liberalize its foreign trade regulations. The Philippines' import liberalization program, revived in 1986, has deregulated about 96 percent of 2,900 commodities identified for import liberalization. As the program nears completion, coverage has expanded to include economically sensitive products, such as farm commodities. To complement quantitative liberalization, in July 1991 the Government issued an executive order to rationalize and simplify the tariff structure. Tariff levels will, in general, be phased down from nine rates (maximum 50 percent) to four rates (maximum 30 percent) by 1995. However, exceptions have been provided for about 200 specific items for various reasons of national interest.

In 1992, the Government revised foreign exchange regulations to allow immediate repatriation and remittance privileges without prior Central Bank approval. Foreign exchange earners are now generally free to buy and sell foreign exchange (previous rules called for the mandatory surrender of forex earnings to the banking system), keep foreign exchange in foreign currency accounts and take foreign exchange out of the country for deposit or investment abroad.

The Foreign Investment Act of 1991 now allows 100 percent foreign ownership in activities not covered by investment incentives or included on the foreign investment negative list. Previous laws generally limited foreign ownership to 40 percent of capital stock. Roughly 50 percent of the economy is now open to 100 percent foreign equity without prior government approval. In July 1992, an American Desk was set up in the Philippine Board of Investment to identify and promote potential opportunities for U.S. investors.

4. Debt Management Policies

Under the Marcos regime, the country's foreign debt increased by 19 percent per year. When the Aquino Administration came to power in 1986, it inherited $26.2 billion in foreign debt (equivalent to 88 percent of 1985 GNP) and a debt service burden equivalent to 35 percent of export receipts. As of June 1992 the Philippines foreign debt was $29.4 billion, roughly 55 percent of projected 1992 GNP. The debt is overwhelmingly public sector (78 percent) and about 40 percent of it is owed to commercial banks or suppliers. Debt servicing consumes about 25 percent of export earnings.

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From 1986 to 1992 the Aquino Administration worked to reduce its debt service burden through rescheduling accords, various debt stock reduction schemes, and a gradual shift towards longer-term and more concessional sources of financing. A great deal of debt relief has already been obtained in 1992. The long awaited $4.8 billion commercial debt package (which included a debt buyback of $1.1 billion) was completed on December 1st; the Philippine Government has completed its fourth Paris Club rescheduling agreement with 11 of 14 official creditors; and $891 million in swap contracts owed to commercial bankers have been settled. The Philippines under Aquino maintained a firm commitment to servicing the country's debt. President Fidel Ramos has said he will continue this policy in spite of Congressional and other calls for foreign debt cancellations or caps on debt service.

The Philippines experienced some difficulty in meeting monetary targets set in an 18-month IMF Standby Agreement approved in February 1991. Originally, there were seven drawings scheduled under the agreement, of which only four had been completed when the Philippines fell out of compliance in early May. On October 7, 1992 the IMF board approved the Philippines' second performance review allowing the release of $140 million, with an additional $80 million to be released in February 1993 if year-end 1992 targets are met. Other multilateral and bilateral donors under the Philippine Assistance Program continue to pledge financial resources to the Philippines for balance of payments, economic stabilization, and project lending. For the year 1991, the Philippines was the fifth largest recipient of U.S. aid.

5. Significant Barriers to U.S. Exports

Tariffs and other import charges: The Government undertook tariff reform as part of a broader trade liberalization 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, 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.

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The lifting of the import levy on all imported commodities (except petroleum and petroleum products), effective May 1, 1992 has paved the way for more imports.

However, effective August 29, 1992 E.O. 8 raised tariffs, up to a maximum of 100 percent, on 205 items (for which quantitative restrictions are being lifted) representing about five percent of the items falling under the regime of E.O. 470. Increased tariffs, which will be progressively phased down in three years, are designed to assist local producers expected to be adversely affected by the on-going import liberalization program. For corn, poultry, and swine products, increased tariffs are to take effect November 1, 1992. There is an ongoing debate, however, as to whether this affords the Philippines enough protection (i.e. whether the tariffs need to be higher and phased down over a longer time period). By July 1, 1995 most of the rates above 50 percent will fall to 30 percent as in E.O. 470.

Import Licenses: Under the government's import liberalization program (ILP), prior clearances from Philippine government agencies, such as the Central Bank, the Board of Investments (BOI), the Department of Agriculture, 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 October 1992, licensing requirements have been lifted on about 2,770 items representing nearly 96 percent of the 2,900 products identified for liberalization over a twelve year period. In the first ten months of 1992, the Central Bank (CB) issued three implementing circulars deregulating the importation of over 280 items: a) on April 27, electronic components and fertilizer made up most of 100 items; b) on July 29, 42 items included additional electronic components and parts, semi-synthetic antibiotics and veterinary medicaments, and used fishing vessels and tankers; and c) on September 25, about 140 items covered all fish and fish preparations, household appliances, raw sugar, and new buses and vans for the transport of goods. On November 1, 1992 import restrictions are to be lifted on farm commodities such as corn, poultry, swine, and their products. There is debate, however, at the highest levels as to whether this action should be postponed.

Those products which require an import license include more economically sensitive products covered by the BOI's progressive industrial development programs. The ILP will continue to exclude over 100 products 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.)

Services Barriers - 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. However, they are not allowed to establish additional deposit-taking branches or obtain universal banking licenses which would allow them to participate in investment banking activities. They also must meet performance requirements if they engage in trust business. The Central Bank is currently studying the possibility of allowing the entry of additional foreign banks, as well as increasing the maximum level of foreign participation in domestic banks.

Insurance: After suspending the licensing of new life and non-life insurance firms since 1947 and 1966, respectively, the Government opened up the life and non-life insurance businesses to new entrants in March 1992. In order to be allowed to engage in the insurance business, prospective entrants must be domestically incorporated and no more than 40 percent foreign-owned. The entry of new foreign firms (defined in the Philippine Insurance code as companies organized under laws other than the Philippines') remains suspended.

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, subject to a maximum of 40 percent foreign share of total exchange membership.

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 decrease in the incidence of piracy, although it remains widespread (see below).

Standards, Testing, Labelling, and Certification: The generic 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. However, given the structure of the industry, those costs were disproportionately borne by foreign-owned firms. The Philippines is a signatory to the GATT Standards Code.

Investment Barriers: Philippine regulation of investment in activities not eligible for investment incentives lessened considerably in 1991 when the Foreign Investment Act of 1991 went into effect. The Foreign Investment Act increased the number of industries in which foreigners can take up to 100 percent ownership without prior government approval. Enterprises whose activities qualify for incentives under the Government's Investment Priorities Plan may register with the Philippine Board of Investment to avail of such incentives, but are generally subject to a 40 percent foreign ownership cap. More than 40 percent foreign ownership may be allowed BOI-registered firms when the activity qualifies as "pioneer" or at least 70 percent of production is for export. However, the firm must agree to divest to maximum 40 percent foreign ownership within thirty years from registration with the BOI.

Foreign investment entry, whether in preferred or non-preferred industries, must not violate nationality requirements imposed by the Constitution and specific laws. For example, rural banking, mass media, the practice of licensed professions, and retailing concerns must be fully Filipino-owned. Foreign ownership is limited to 40 percent in industries such as public utilities, domestic air transport, private security agencies, exploitation of natural resources, inter-island shipping, small-scale mining, and private construction contracts; to 30 percent for advertising, public relations, savings and loan associations, pawnshops and banking; and 25 percent for public construction contracts. Currently, only Filipino citizens or corporations at least 60 percent Filipino-owned may own land. Pending legislation seeks to allow foreign ownership of land in industrial estates.

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. BOI-registered companies are allowed to employ foreign nationals in technical or supervisory positions for a period not exceeding five years from registration (extendible for limited periods at the discretion of the BOI). Foreign nationals may retain the positions of President, Treasurer and General Manager (or their equivalents) beyond this five-year period when the majority of capital stock is foreign-owned.

Under liberalized foreign exchange regulations introduced in January 1992 there are currently no restrictions on the remittance of profits and repatriation of capital associated with a foreign investment, for as long as the investment has been duly registered with the Central Bank or a custodian bank duly authorized by the foreign investor. Without need for prior Central Bank approval, banks are now authorized to sell and remit/repatriate the equivalent foreign exchange at the market-determined exchange rate prevailing at the time of actual transfer.

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 a new scheme which took effect March 16, 1992 imports from all countries valued over $500 are subject to pre-shipment inspection. The Philippine Government has been working to make customs procedures more transparent and to minimize widely reported irregularities and corruption in the system.

The Bureau of Customs is retaining Home Consumption Value (HCV) as the basis for customs valuation, despite persistent requests from the Philippines' trading partners that this system be abandoned. Government officials say that a shift to another system in the collection of customs taxes is not advisable at this time considering the Philippines' need for additional revenues (Department of Finance Secretary del Rosario claims that the government will lose roughly 16 billion pesos ($650 million) in annual revenue collections, if the present HCV is shifted to a fair market value scheme). The Philippines is not a signatory to the GATT Customs valuation code.

6. Export Subsidies Policies

Enterprises registered with the BOI are entitled to tax and duty exemptions under the Philippine Omnibus and Investment Code of 1987. 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.

Exporters may avail of foreign currency deposit unit (FCDU) loans from a U.S. dollar-based credit facility from the FCDU of a local commercial bank up to seventy percent (70 pct) of the Letter of Credit (L/C), Purchase Order (P.O.) or Sales Contract (S.C.) without prior Central Bank approval. The CB continues to operate a rediscounting window which allows exporters to borrow at less than market rates. However, only the balance of the value of the L/C, P.O., or S.C., not financed by an FCDU loan, may be rediscounted. Export financing is available to all Philippine exporters and there is no preferential rate for domestic companies. The Philippines is a signatory to the GATT subsidies code.

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. However, the lack of adequate and effective protection for intellectual property rights (IPR) in the Philippines remains a major bilateral trade problem. Reflecting the limited progress in this regard, the Philippines was moved from the U.S. Trade Representaive's "special 301 watch list" to the "priority watch list" in 1992. The Philippines argues that U.S. standards of intellectual property protection are too high for developing countries.

Philippine laws on intellectual property protection, modeled on U.S. laws, are generally good, with some important exceptions. The key difference is provision for broad compulsory licensing of patents and school textbooks.

The Philippine Department of Trade and Industry has taken some steps to improve enforcement of intellectual property rights. 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. However, current jail sentences and fines imposed on intellectual property infringers are not sufficient to act as real deterrents. Insufficient funding support (an offshoot of current budget problems) hampers the effective operation of agencies tasked with IPR enforcement. Where intellectual property owners must have recourse to the courts, enforcement tends to be slow. Many prosecutors are not familiar with intellectual property laws. As a result, intellectual property owners often complain of arbitrary decisions.

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Patents: The main problems with the present law are provisions which allow issuance of a compulsory license under lenient conditions beginning three years after the patent is granted, and a requirement that places low ceilings on royalty payments (in general, 5 percent of net wholesale price; and for products in BOI-promoted industries, 3 percent of net wholesale price). Several pharmaceutical products have been subjected to compulsory licensing, but, considering the years that provision has existed, the actual number of licenses is small. Naturally occuring substances (plants or cells, for example) are not patentable.

Trademarks: Trademark counterfeiting is widespread and remains the most serious violation of intellectual property rights in the Philippines. Many well-known international trademarks are copied, including denim jeans, designer shirts, and personal beauty and health care products. Philippine law requires trademark owners to file an affidavit of use or justified nonuse every five years to avoid cancellation of registration after five years. However, justified nonuse of a mark must be for reasons totally beyond the control of a registrant. To be eligible for trademark protection, all license arrangements between foreign companies and Philippine companies must be submitted to, approved by, and registered with the Patents, Trademark and Technology Transfer Board. 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. Video piracy is a problem, but the Motion Picture Export Association of America reports continuing cooperation with the Government's Videogram Regulatory Board (VRB). Copyright protection for sound recordings, currently set for thirty (30) years, is shorter than the internationally accepted norm of fifty (50) years. Computer software is pirated, prompting software owners to organize in order 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. Another problem involves copyright infringement complaints against cable t.v. stations which retransmit copyrighted works without due authorization from the copyright owners.

8. Worker Rights

a. Right of Association

The right of workers, including public employees, to 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 5,252 trade unions. Subject to restrictions in the labor code and emergency executive powers, strikes in the private sector are legal, and they take place frequently. The right to strike and the status of employees in statutory government agencies, such as the Philippine National Railways (PNR) and the Port Authority, have not been clearly resolved. Strikes by public sector employees occurred frequently during the year. The Supreme Court ruled in favor of the suspension of and dismissal orders against some 2,000 striking public schoolteachers, issued by the Secretary of the Department of Education, Culture, and Sports (DECS) in 1990. A complaint by the teachers was reviewed in 1991 by the Committee of Experts of the International Labor Organization (ILO) which found that the suspension and dismissal orders are not in conformity with the principal of Freedom of Association and urged the government to review the orders and reinstate the affected teachers without loss of pay. The new secretary of DECS is looking into and studying the case of the dismissed teachers. He has ordered reinstatement of some. However, a small number of the remaining teachers staged a hunger strike to protest the government's enforcement of the law. They ended their 143-day strike on August 26, 1992. The local ILO representative publicly endorsed the administration's stance on this issue.

b. Right to Organize and Bargain Collectively

Labor's right to organize and bargain collectively is provided for in law. These rights were expanded and strengthened by the passage of the Labor Law Reform Act of 1989 (the Herrera Bill), which balances the need for greater stability in labor relations with full respect for worker rights. Since 1986, the number of collective bargaining agreements in force has increased from 3,112 to 4,331. Labor legislation is applied uniformly throughout the country, including in the export processing zones.

c. Prohibition of Forced or Compulsory Labor

The government prohibits forced labor, and there are no reports of it being practiced.

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. President Corazon Aquino signed on June 17, 1992 Republic Act 7610. The act provides, in part, that children below 15 years may be employed provided the employer shall a) secure for the child a work permit from the

Department of Labor and Employment; b) ensure the protection, health and safety and morals of the child; c) institute measures to prevent exploitation or discrimination taking into account the system and level of remuneration, and the duration arrangement of working time and d) formulate and implement a continuous program for training and skill acquisition for the child. The implementing rules have not yet been promulgated by the Department of Labor and Employment. Senator Ernesto F. Herrera, Chairman of the Senate Committee on Labor has sought to amend Section 12 of RA 7610 to make the statute conform to Convention 59 of the International Labor Organization (ILO). He filed Senate Bill 803 which sets the minimum employable age of Filipino children at 15 years. This bill will also strengthen the integrity of the provisions of the Labor Code governing employment of children below 15.

e. Acceptable Conditions of Work

The official minimum wage in the Manila region at the prevailing exchange rate at the end of the year was $4.80 per day. Outside Manila, the minimum varies in each of the 12 regions, ranging from $2.60 to $4.59 per day (based on $1=P24). For agricultural workers on plantations, the minimum wage ranges from $2.77 to $3.16, depending on the size of the agricultural establishment; $2.77 is the minimum for non-plantation agricultural workers. 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. There is a pending bill in Congress proposing another wage increase of P25.00 a day. This was filed by Senate Labor Committee Chairman Herrera. Public hearings are being conducted. President Ramos has expressed preference for collective bargaining rather than legislation, and increases in non-wage benefits rather than a minimum wage increase.

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. Members of the American Chamber of Commerce meet regularly in the organization's industrial relations committee to consult and to coordinate labor-management relations activities. 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.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		168
Total Manufacturing		952
Food & Kindred Products	331	
Chemicals and Allied Products	354	
Metals, Primary & Fabricated	19	
Machinery, except Electrical	-5	
Electric & Electronic Equipment	164	
Transportation Equipment	0	
Other Manufacturing	88	
Wholesale Trade		141
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		1,261

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

Source: U.S. Department of Commerce, Survey of Current Business, November 1992, Vol. 72, No. 8, Table 11.3

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Key Economic Indicators

(Millions of Singapore Dollars, unless stated otherwise)

	1990	1991	1992 Estimate
Income, Production, Employment			
Real GDP (1985 Prices)	57,073	60,896	64,245
Real GDP Growth (Pct)	8.3	6.7	5.5
GDP (At Current Price)	63,673	69,076	73,339
By Sector: (1985 Prices)			
Agriculture	177	160	162
Energy and Water	1,203	1,281	1,341
Manufacturing	16,558	17,431	17,509
Construction	3,050	3,609	4,213
Commerce 1/	10,026	10,672	10,428
Financial Services	15,838	16,691	17,470
Other Services	5,783	6,173	6,408
Govt. Devmt Expenditure on Health and Education	283.0	508.3	901.4
Net Exports of Goods and Services	4,664	8,099	8,669
Real per Capita GDP ('85 British Pounds Sterling)	21,098	22,047	22,498
Labor Force ('000s)	1,516	1,554	1,585
Unemployment Rate (Pct)	1.7	1.9	2.0
Money and Prices			
Money Supply (M2) (Pct Growth)	20	12	na
Base Lending Interest Rate 2/	7.7	7.1	6.8
Prime Personal Saving Rate 3/	3.9	3.3	2.25
Retail inflation (sales volume index)	142.2	143.3	156.8
Wholesale Inflation 4/	90.8	86.3	82.5
Consumer Price Index	106.3	110.0	112.1
Exchange Rate SD/USD	1.8	1.7	1.5
Balance of Payments and Trade			
Total Exports Fob (USD)	48,823	56,286	57,556
Exports to U.S.(USD)	10,382	11,168	12,082
Total Imports cif (USD)	56,310	63,091	65,256
Imports from U.S.(USD)	9,015	9,960	10,806
Aid from Other Countries	0	0	0
External Public Debt	67.9	40.8	na
Debt Service Ratio	0.2	0.1	0.1
Gold and Foreign Exchange Reserves	48,033	55,324	58,506
Trade Balance 3/	-14,599	-12,315	-13,244
Balance with U.S.	2,671	2,074	2,194
(U.S. data - est	1,800	1,200	1,200)

1/ "Commerce" is standard item measured as a component of GDP instead of "rent"

2/ Refers to actual average interest rate quoted by 10 leading banks

3/ Merchandise trade

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4/ Refers to manufactured products price index
5/ Refers to average rate of 10 leading banks and the government owned Post Office Savings Bank

1. General Policy Framework

Singapore is a tiny 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 in 1965, 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 encouraged two way flows of trade and investment. That policy has been a resounding success. Total trade in 1991 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. Annual real GDP growth, which averaged nine percent over the last decade, slipped to 6.7 percent in 1991. Growth is expected to weaken further in 1992, to about 5.5 percent.

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; efficient, and strike-free labor; and significant tax concessions to foreign investors. The government has run a budget surplus for most years since independence. The country's considerable reserves are conservatively invested and well protected. 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 45 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 adequate liquidity in the banking system. There are no controls on capital movements, limiting 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.

Although inflation is moderate by international standards, 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 has succeeded in engineering a gradual slowdown to a sustainable economic growth rate of around 5 percent, down from a peak of 11 percent in 1988.

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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 active local foreign exchange market.

The Singapore dollar has appreciated nearly 20 percent against the U.S. dollar since 1988. This has made U.S. products more competitive in the Singapore market. In October 1992, the U.S. dollar hit an all-time low of SD 1.59, down from SD 2.18 at the end of 1986. There has been little apparent impact on Singapore's export performance to date, but a trade-off is developing between export competitiveness and internal price stability. Singapore lifted all restrictions on foreign exchange transactions and international capital movements in 1978 and places no restrictions on reinvestment or repatriation of earnings and capital.

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 11th biggest U.S. export customer in 1991 and in the first nine months of 1992. Prices for virtually all products are determined by the market. Singapore's tax policy is designed to maintain its international competitive position. Foreign firms are taxed on the same basis as local firms; corporate tax is 30 percent. There are no taxes on capital gains, turnover, value added, or development. The government maintains tariffs on a few products (notably automobiles) and levies excise taxes on cigarettes, alcohol, petroleum products, and motor vehicles aimed at curbing "socially wasteful" behaviour and a burgeoning vehicle population. There are no non-tariff barriers to foreign goods.

Many of Singapore's public policy measures pertaining to the economy, public finance, trade, industrial expansion, immigration, and education are aimed at attracting foreign investment and maintaining an environment that is conducive to their operation and profitability. Investment policies are direct and designed to benefit both parties. Although the government seeks to develop more high-tech industries, it does not impose production standards, require purchases from local sources, or specify a percentage of output for export.

This economic policy has attracted U.S. investment totalling over USD 9 billion. 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. Typically, 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 nearly three quarters 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 30 percent of Singapore's total trade (excluding re-exports) and a quarter of its non-oil exports.

Over the last few years, the government has been promoting Singapore as a high-tech manufacturing and service hub for the expanding Southeast Asian region, to maintain the country's economic expansion in the face of scarce resources and labor supplies. The 1992 budget reflected this developmental policy. It called for increased spending on education, training, and research and development to improve productivity instead of relying on foreign labor 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. The budget eliminated double taxation on repatriated profits from foreign investments, and reduced the corporate tax to 30 percent.

The government appears determined to push productivity to reduce reliance on foreign labor and has introduced differing recruiting limits and levy rates based on skill levels for industry. Levies can impose a considerable financial burden, but are also a driving force for low-technology, labor-intensive activities to move to neighboring countries.

4. Debt Management Policies

Singapore's external public debt was a mere USD 41 million at the end of 1991, 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 USD 35 billion at the end of 1991 -- nearly USD 12,700 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. Significant Barriers to U.S. Exports

Singapore maintains one of the world's most open trade policies. About 95 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.

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U.S. exports to Singapore grew 10.5 percent in 1991 to USD 10 billion. Imports from Singapore, meanwhile, increased 7.6 percent to USD 11.2 billion. Over the last two years, the U.S. trade deficit with Singapore has, according to U.S. data, gradually shrunk from USD -1.8 billion in 1990 to USD -1.2 billion in 1991.

Singapore maintains some market access restrictions in the services sector. For example, foreign investment in the financial, legal, insurance, and stock broking services sectors is limited by regulation and administrative practice. Local retail banking is limited to those foreign banks with full licences -- the Monetary Authority of Singapore has issued no new ones issued since 1970. Foreign banks are not allowed additional branches or off-premises ATMs, restrictions which do not apply to local banks. Foreign legal firms are not allowed to hire or form partnerships with local law firms. Insurance and stock broking firms are required to apply for licences; no new insurance licence has been granted for several years. Foreign participation is also prohibited or limited in a number of sensitive sectors, such as arms manufacturing, airlines, mass transit, broadcasting, public utilities, and property. Doctors, engineers, and architects have experienced problems in obtaining local certification of their professional qualifications.

The parastatal Singapore Telecom maintains a 15-year (beginning 1992) monopoly on all "basic telecommunications services", except cellular services in which it has a 5-year monopoly. Although the Telecommunications Authority of Singapore, a new regulatory body created in April 1992, is expected to continue to restrict sale of value-added network services by broadly defining the scope of "basic services", gradual liberalization of telecommunications policy is likely to continue. An example of a recent step in that direction was the elimination of volume-sensitive charges on the sale of leased-line data services to third parties. Authorities are scheduled to begin selling Singapore Telecom shares to the public.

Although the government recently opened up membership on the Stock Exchange of Singapore (SES) to foreign firms, it limits foreign ownership of Singapore banks and other companies it deems to be of strategic import to a fixed percentage. To date only seven foreign firms are on the Stock Exchange. The number is expected to increase as the SES has drawn up guidelines to encourage multinational companies and their Singapore operations to list shares on the exchange in any internationally accepted currency except the Singapore Dollar.

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 SD 9.50 per kilogram, roughly equivalent to a 5 percent tariff.

Singapore's Economic Development Board uses tax and other

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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 are 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 seek civil remedies or criminal prosecution. Some pirating operations have shut down, but concerns remain with regard to the adequacy of enforcement, particularly as computer software piracy remains widespread. U.S. pharmaceutical manufacturers complain that a loophole in Singapore's patent law (Compulsory License Act) allows government hospitals to buy "copycat" drugs when convenient, costing them considerable sales. Official consultations are on-going on how to improve Singapore's otherwise positive record on IPR protection in the context of the U.S.-Singapore bilateral trade and investment framework agreement.

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8. Worker Rights

a. Right of Association

Singapore's constitution gives all citizens the right to form associations (Article 14), including trade unions. Parliament may, however, impose "such restrictions as it considers necessary or expedient in the interest of the security of Singapore or any part thereof, public order or morality." 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 an interlocking relationship with the Government.

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 average, collective bargaining agreements are renewed every two to three years.

c. Prohibition of Forced or Compulsory Labor

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

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. However, Singapore has no minimum wage or unemployment compensation. Because of a continuing labor shortage, wages have generally stayed high. The Government enforces comprehensive occupational safety and health laws. Enforcement procedures, coupled with the promotion of educational and training programs, 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 they are in general paid less than Singaporeans.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		905
Total Manufacturing		2,619
Food & Kindred Products	(D)	
Chemicals and Allied Products	148	
Metals, Primary & Fabricated	8	
Machinery, except Electrical	1,007	
Electric & Electronic Equipment	1,395	
Transportation Equipment	-22	
Other Manufacturing	(D)	
Wholesale Trade		437
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		3,961

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

Source: U.S. Department of Commerce, Survey of Current Business, November 1992, Vol. 72, No. 8, Table 11.3

TAIWAN

Key Economic Indicators
(In Billions of New Taiwan Dollars (NTD) Unless Noted)

	1990	1991	1992 est 1/
Income, Production, Employment			
Real GDP (at 1986 prices)	3,883.6	4,164.6	4,451.3
Real GDP Growth (pct)	4.9	7.2	6.9
GDP (at current prices)	4,222.0	4,704.1	5,189.9
By Sector:			
Agriculture	174.24	173.93	181.65
Mining & Quarrying	18.05	18.56	24.80
Manufacturing	1,450.45	1,618.84	1,736.60
Construction	205.49	229.09	61.80
Energy and Water	121.75	131.48	142.40
Commercial Services	649.27	742.89	844.90
Transport & Communication	259.30	289.67	351.80
Financial Services	797.87	886.11	1,002.70
Gov't & Other Services	545.58	613.57	643.25
Net Exports of Goods and Services	230.38	237.81	140.59
Real Per Capita GDP (at 1986 prices) (NTD)	191,975	203,600	215,692
Labor Force (000)	8,423	8,569	8,760
Unemployment Rate (pct)	1.0	1.5	1.6
Money and Prices (Annual Percentage Growth)			
Money Supply (M2)	-6.6	12.1	16.0
Base Interest Rate 2/	10.9	10.3	9.1
Net Savings Rate	22.7	23.0	21.1
Retail Inflation	4.1	3.6	4.4
Wholesale Inflation	-0.6	0.2	-2.9
Consumer Price Index (1986 base year)	110.69	114.70	119.77
Exchange Rate (US$/NTD)			
Official	0.0371	0.0374	0.0398 3/
Parallel	0.0372	0.0373	0.0397 3/
Balance of Payments and Trade			
Total Exports (fob) 4/	67.2	76.2	82.4
Exports to U.S.	21.7	22.3	24.0
Total Imports (cif) 4/	54.7	62.9	71.4
Imports from U.S.	12.6	14.1	15.3
External Public Debt (US$ million)	898	714	620
Debt Service Payments (paid) (US$ million)	2,292	1,976	2,000
Gold and Foreign Exchange Reserves (US$ million)	78,065	88,325	90,000
Trade Surplus 4/	12.5	13.3	11.0
Trade Surplus with U.S.	9.1	8.2	8.7
(U.S. data	11.2	9.8	(est)7.6

1/ Estimates are based on data from the Directorate General of Budget, Accounting and Statistics, or extrapolated from data available for part of 1992.
2/ Figures are actual, average annual interest rates, not changes in rates.

3/ Average of figures at end of the month.
4/ Merchandise trade. Figures may vary from U.S. statistics.

1. General Policy Framework

With a personal income level now nearly half that of the United States, Taiwan is shifting from a low wage manufacturing economy heavily dependent on exports to a more mature high income economy where domestic consumer spending is the leading source of economic growth. Exports and savings as a proportion of GNP remain high by the standards of industrialized countries, but are falling as households choose to spend more in pursuit of a higher standard of living. The public sector, which carries very little foreign debt, is also spending aggressively on infrastructure to bring Taiwan's public amenities up to first world levels. Faced with high production costs, the agricultural sector is contracting. Zero growth is the authorities' official policy for the agricultural sector.

The Taiwan authorities have embarked on a very ambitious six year program of infrastructure improvement which requires levels of public spending in excess of revenue. This has obliged the authorities in the past two years to borrow substantial sums for the first time since the mid-1970's. All of the money raised has been through bond sales into the domestic capital market. As domestic savings have exceeded domestic private investment, there has not been much concern with public borrowing crowding out private investment. Public sector spending has become an important component of economic growth. This development program, while promising to boost GDP, may also fuel already soaring inflation.

Taiwan faces a problem with inflation and at times has called upon monetary policy to help moderate the rise in the Consumer Price Index. Open market operations and changes in the discount rate are the principal tools used to control money supply. Historically, money supply has been allowed to grow very rapidly and, in terms of both broad and narrow measures, growth continues to exceed officially announced guidelines. Efforts to rein in such growth, however, have resulted in rising interest rates and public pressure to back off. The Central Bank of China (CBC) adjusts money supply to maintain overnight interbank lending rates in a narrow band, rather than to achieve money supply growth targets.

2. Exchange Rate Policy

Taiwan has a floating exchange rate system in which rates are set independently by bankers and customers. However, the exchange rate does not fully reflect forces of supply and demand, as the Central Bank of China (CBC) retains a number of restrictions on capital movements and exchange transactions. The largest banks authorized to deal in foreign exchange are controlled by the authorities; foreign banks participate as well. Taiwan's interbank foreign exchange market includes a dozen major international currencies and is linked to the Hong

Kong and Singapore markets. In October 1992 the ceilings on nontrade related capital inflows and outflows were raised from $3 million to $5 million, but other liberalization measures remain to be taken.

Between January and July of 1992 the NT dollar appreciated against the U.S. dollar from 25.13:1 to 24.51:1. Since then, however, the NT dollar has gradually depreciated, reaching 25.29:1 by mid-October 1992. At the same time the CBC has amassed the world's largest foreign exchange reserves, reaching $90 billion by mid-October 1992. In 1992, the United States asserted that the authorities unfairly manipulated the exchange rate through a variety of means. The CBC asserts that the depreciation of the NT dollar and the accumulation of foreign exchange reserves do not indicate a policy of manipulating the exchange rate, but rather reflect market forces.

3. Structural Policies

The Taiwan authorities have steadily allowed market forces to play an increasing and now dominant role in directing the economy. They have reduced tariffs, in many cases markedly, on a wide range of products in January 1992. These policies coupled with rapidly rising income have led to the creation of a large and growing consumer market potentially of great value to U.S. vendors.

Regarding agricultural products, however, Taiwan's tariff and pricing structure still pose obstacles for U.S. exports. Tariffs on many agricultural goods run as high as 40 to 50 percent, and such products as rice, peanuts, small red beans, sugar, chickens and duck parts, and pork products face *de facto* bans. Further, a combination of high import duties, commodity taxes on diluted fruit and vegetable juices, protected agricultural production, and especially an inefficient distribution system characterized by layers of high markups has created retail food prices higher than those that would prevail in a more liberalized market.

The authorities retain some capacity to influence prices through large state-owned firms which account for nearly one third of the economy. Electricity, water, petroleum products, transportation, sugar, and steel are all either partly or entirely in the hands of state-owned firms. Although a Fair Trade Commission has been set up to thwart noncompetitive pricing schemes, state-run firms are exempt from its coverage for five years. The Taiwan authorities have plans to privatize much of the state-owned sector, but so far have made only modest progress.

4. Debt Management Policies

Taiwan is virtually free of foreign debt. By the end of June 1992, Taiwan's long-term outstanding external public debt totalled $700 million, compared to its gold and foreign exchange reserves of almost $90 billion. These international reserves suffice to meet Taiwan's capital requirements for nearly 18 months of imports. Taiwan's debt service payments in 1991 totaled about $2 billion, accounting for only 2.35 percent of exports of goods and services. With these huge international reserves in hand, Taiwan's central authorities and state-owned enterprises see little need to incur foreign debt, even with the spending anticipated for the six-year (1991 - 1996) national development plan (although some state enterprises may be considering partial financing of projects). As of June 30, 1991 the outstanding external public debt accounted for only one percent of the central authorities' total outstanding public debt.

In fact, Taiwan has become a supplier of official credit in the world. Taiwan set up the International Economic Cooperation Development Fund (IECDF) in 1988 through which it provides "friendly" less developed countries with low interest loans. In addition, Taiwan has permitted the Asian Development Bank (ADB) to float small bonds in Taiwan.

5. Significant Barriers To U.S. Exports

Import Licenses: Taiwan has been gradually reducing its import licensing system. As of May 1992, 5,915 import items do not require a license. Of the 3,107 that do require some kind of licensing, 2,174 require only pro forma import visas from commercial banks, 691 require import licenses from the Board of Foreign Trade (BOFT), and 242 are banned outright. Of the 691 BOFT items, 56 require additional approval by the Council of Agriculture and other agencies. When licenses are required, the importer often faces the time consuming task of obtaining additional approvals from numerous concerned agencies.

Services Barriers: Foreign banks face discriminatory limits in terms of branching, types of products they can offer, and NT dollar deposit taking. Ceilings on foreign exchange liabilities restrict activity in the foreign exchange market. These limits restrict foreign banks from competing more widely with domestic banks in the local market. Foreign activity in the stock market is restricted as well. For instance, foreign institutional investment is restricted, while individual investment is banned.

Currently only U.S. insurance firms may establish branches in Taiwan and a maximum of three life and three nonlife firms will be approved per year. Only branches may be set up and no mutual companies may enter the market. Approvals for new products are long and cumbersome. An amended insurance law in 1992 provides for the establishment of new local insurance companies and opens the market to insurance firms from other countries.

Standards, Testing, Labelling, and Certification: Taiwan lacks an internationally accepted set of pesticide tolerance levels for imported fruits and vegetables. Not having these tolerances established sometimes impedes trade of imported fruit and vegetables.

Investment Barriers: Foreign investment is widespread and welcome with some exceptions. Foreign investment is prohibited in such industries as agriculture, petroleum refining, telecommunications, housing construction, and cigarette and liquor manufacture. Equity participation is limited in several other industries, including shipping, mining, and securities trading. Foreign ownership of companies listed on the Taiwan stock exchange (Taiex) is limited to ten percent, with no more than five percent ownership allowed for each institutional investor. Foreign individuals are not allowed to acquire shares on the Taiex. Local content requirements, phased out in most industries over the past several years, remain in place for the automotive industry.

Procurement Practices: Most public procurement which exceeds NT dollar 50 million ($2 million) must go through the state-owned Central Trust of China. However, there are a number of exceptions to this. In addition, each agency has its own set of regulations, making the process confusing, cumbersome, and lacking in transparency. A five percent price differential given to domestic bidders and short lead times on major tenders restrict foreign participation.

Customs Procedures: In a 1986 exchange of letters between AIT and CCNAA, Taiwan agreed to abide by the GATT Customs Valuation Code, but disputes over valuation and classification continue. In order to simplify procedures, Taiwan's Customs authorities began in June 1992 to allow importers who have opened a deposit with Customs to clear merchandise first and pay tariffs later.

6. Export Subsidies Policy

Exports of rice and sugar are indirectly subsidized through guaranteed purchase prices higher than world prices. Producers of some fruit, poultry, and livestock receive financial assistance with packaging, storage and shipping via marketing cooperatives and farmers associations. Rice exports are primarily humanitarian aid and the small amount of sugar exports (produced solely by a state-run company) virtually all go to the United States in order to maintain the U.S. quota for Taiwan.

7. Protection of U.S. Intellectual Property

Taiwan is improving the regulatory framework for protecting intellectual property rights (IPR). Taiwan's Legislative Yuan (LY) passed a new copyright law in May 1992 and is expected to review revised patent and trademark laws during its spring 1993 session. The Taiwan authorities are now drafting legislation to protect trade secrets, industrial designs, and semiconductor chips. Although the authorities have stepped up IPR enforcement efforts, large scale piracy of computer software and compact discs remains an intractable problem. A memorandum of understanding between AIT and CCNAA signed in June 1992 provides a comprehensive program for resolving IPR related problems, much of which will be phased in over the next year.

Taiwan is not a party to any international IPR agreements but has stated its intention to conform to international IPR standards, including those in the GATT Uruguay Round Trade Related Intellectual Property (TRIP) agreement.

Patent issues: Taiwan does not protect pharmaceutical and agricultural chemical products patented in the United States prior to the enactment of Taiwan's Patent Law in 1986 (i.e., "pipeline protection"). Pharmaceutical products now reaching the market in the United States therefore generally lack protection in Taiwan. Taiwan has indicated a willingness to negotiate on this issue. AIT has also indicated to Taiwan authorities concern about the broad compulsory licensing provisions in the current Patent Law, and has asked that consideration be given to amending those provisions in the current draft of the law.

Trademark issues: Counterfeiting of famous name products, while decreasing over the past several years, remains a problem. The Trademark Law and recently passed Fair Trade Law provide a basis to prosecute offenders, but up to now they have received lenient treatment. The Ministry of Justice has recently instructed prosecutors to deal more harshly with IPR offenders, in accordance with existing laws.

Copyrights: Piracy of copyrighted materials remains a major problem on Taiwan. Through stepped up enforcement, the authorities have been able to reduce the unlicensed sale, rental and public broadcast of copyrighted films and sound recordings. Efforts to stop the export of counterfeit software and compact discs have been much less successful. Industry representatives say Taiwan remains the world's primary source of counterfeit software, and a major source of counterfeit compact discs.

New Technologies: Taiwan is attempting to protect new technologies through such legislation as a Cable TV law, due to be considered in the September 1992 legislative session, the revised Patent Law (which covers microorganisms), and the semiconductor, chip, industrial design and trade secrets bills now being drafted.

The International Intellectual Property Alliance (IIPA) estimates that Taiwan's piracy of software, movies, records, and books cost U.S. companies $370 million annually in Taiwan.

8. Worker Rights

a. Right of Association

Taiwan's Labor Union Law (LUL) permits all workers to organize a union except for civil servants, education personnel, and munitions industry workers. In practice, however, other laws and regulations, biased enforcement by the authorities, and antiunion measures taken by employers still limit the right of association. For example, the LUL and the Civic Organization Law, revised in July 1992, require all civic organizations, including labor unions, to register. Failure to register can be result in a maximum two-year jail sentence. Furthermore, the LUL tightly restricts labor unions from forming competing unions and confederations. As of June 1992 most of Taiwan's 3,679 officially registered labor unions have close relations with management and the ruling Kuomintang (KMT) party. Since the lifting of martial law in mid-1987, however, some workers have defied the LUL and formed quasi-formal federations.

b. Right to Organize and Bargain Collectively

According to the LUL, the Collective Agreement Law, and the Law Governing the Handling of Labor Disputes, workers have the right to organize and bargain collectively. In practice, however, employers have reportedly sometimes fired labor union leaders, especially those from independent labor unions, who tried to exercise that right. Legal restrictions on the right to strike and provisions for involuntary mediation or arbitration further weaken workers' positions in collective bargaining. As of June 1992 only 294 formal collective agreements were in force.

c. Prohibition of Forced or Compulsory Labor

Taiwan's Labor Standards Law (LSL) prohibits forced or compulsory labor. Violation of the law is punishable by a maximum jail sentence of five years. As of June 1992 the only reports of alleged forced or compulsory labor concerned prostitution.

d. Minimum Age of Employment of Children

The Labor Standards Law sets the minimum age for employment at 15 years (i.e., after compulsory education ends). There are few known cases of child labor.

e. Acceptable Conditions of Work

Economic growth and the LSL have combined to improve the conditions of work. The LSL provides for a 48-hour work week (8 hours per day, 6 days per week), leave, overtime pay, severance and retirement pay, and a minimum wage. On August 1, 1992 the authorities raised the minimum monthly wage from NT dollar 11,040 ($436) to NT dollar 12,365 ($489). The average monthly wage in the manufacturing sector is about NT dollar 25,000 ($992). In addition to wages, employers are also required to pay 70 percent of workers' insurance premiums and provide other fringe benefits.

f. Rights in Sectors with U.S. Investment

U.S. firms and joint ventures generally abide by Taiwan's labor regulations. In terms of wages and other benefits, U.S. firms tend to provide model work conditions. Worker rights do not vary significantly by industrial sector, but working conditions do.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad on an Historical Cost Basis - 1991 (Millions of U.S. dollars)

Category		Amount
Petroleum		-4
Total Manufacturing		1,642
Food & Kindred Products	36	
Chemicals and Allied Products	504	
Metals, Primary & Fabricated	23	
Machinery, except Electrical	122	
Electric & Electronic Equipment	806	
Transportation Equipment	(D)	
Other Manufacturing	(D)	
Wholesale Trade		374
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		2,012

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

Source: U.S. Department of Commerce, Survey of Current Business, November 1992, Vol. 72, No. 8, Table 11.3

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Key Economic Indicators

(Millions of U.S. dollars unless noted)

	1990	1991	1992(est)
INCOME, PRODUCTION, EMPLOYMENT			
Real GDP (1972 prices)	24,700	26,780	28,720
Real GDP growth rate (pct.)	10.0	7.9	7.0
GDP at Current Prices	80,157	93,300	103,000
Percentage Breakdown of GDP by Major Sectors:			
Agriculture	12.4	11.9	11.5
Manufacturing	26.1	26.4	26.8
Construction	7.2	7.6	7.7
Electricity and water supply	2.3	2.3	2.3
Transport and communication	6.8	6.6	6.5
Wholesale & Retail Trade	15.2	15.2	15.2
Financial Services	6.1	6.6	7.0
Other Services	20.3	19.8	19.4
Public Admin and Defense	3.6	3.6	3.6
Per Capita GDP (current dols)	1,408	1,630	1,750
Labor Force (000s)	31,130	31,930	32,730
Unemployment Rate (pct.) 1/	3.8	4.2	4.7
MONEY AND PRICES			
Money Supply (M2 - bn baht)	1,529	1,832	2,150
Annual Growth Rate (pct.)	26.7	19.8	18.0
Commercial Interest Rate (pct. at year end)			
Base Interest Rate	11.5	9.8	5.0
Saving Deposit	10.0	8.5	6.0
Prime Rate	16.3	14.1	12.0
National Savings/GDP (pct.)	29.8	30.0	N/A
Domestic Investment/GDP (pct.)	36.1	35.0	N/A
Wholesale Prices (pct. change)	3.4	6.9	5.0
Consumer Prices (pct. change)	6.0	5.7	5.0
Exchange Rates (B/USD avg)	25.59	25.52	25.45
TRADE AND BALANCE OF PAYMENTS 2/			
Total Exports, FOB	22,790	28,235	32,500
Exports to U.S.	5,224	6,046	7,000
Total Imports, CIF	32,742	37,917	39,000
Imports from U.S.	3,598	3,988	4,000
U.S. Aid (FY)	22	12	14
Foreign Aid (FY)	258	123	N/A
External Public Debt (LT)	11,510	12,803	14,000
Ext. Debt Service Payments	2,749	3,577	N/A
Net International Reserves	12,403	16,788	19,000
Trade Balance	-9,952	-9,682	-6,500
Balance with U.S.	1,626	2,058	3,000

1/ Includes available but not looking for work.
2/ Estimates based on January-August data.

Sources: Bank of Thailand; Ministry of Commerce; National Economic and Social Development Board; U.S. Department of Commerce; and U.S. Embassy estimates.
Data available as of October 20, 1992.

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1. General Policy Framework

Thailand's economic development policies are based on a competitive, export-oriented, free market philosophy. Its economy is in transition from an agricultural economy to a more open and broadly based one with a large manufacturing sector. Although the majority of the Thai labor force remains engaged in agricultural production, manufacturing, wholesale and retail trade, and service industries now account for almost two-thirds of the gross domestic product.

Real annual economic growth averaged over ten percent from 1987 to 1991. Growth and investment slowed modestly during 1991; high domestic interest rates, economic uncertainty due to the February 1991 military coup, and the effects of the Gulf War contributed to the slowdown. The events of May 1992, which culminated in political violence, further undermined domestic and foreign investor confidence. However, the Thai economy remains fundamentally strong, and exports continued to expand rapidly during the first half of 1992. Barring further domestic or external shocks, Thailand should maintain solid economic growth for the foreseeable future.

Serious infrastructure bottlenecks, which have worsened considerably during the past five years of rapid growth, remain deterrents to investment; metropolitan Bangkok's public works (communications facilities, ports, roads and mass transit, and electricity grid) are already overtaxed and are under increasing pressure. Recent drought and a persistent shortage of water in some regions may also limit growth. Efforts to improve infrastructure and promote decentralization of industry to areas outside of Bangkok are underway.

For the past five years Thailand has experienced a substantial and rising budgetary surplus as revenues were fueled by growth, and government investment expenditures lagged planning. For 1991 the government's overall surplus reached four billion dollars. This cushion allowed the government the flexibility to reduce import tariffs in a number of sectors and to restructure the tax system. These import duty cuts, and the January 1, 1992 introduction of a value added tax, will reduce the 1992 surplus. Import tariff revenues, in particular, were substantially lower in the first half of 1992 in comparison to the same period in 1991.

The Bank of Thailand (Thailand's central bank) has acted to maintain high domestic real interest rates to brake the rapid growth of the economy and restrain inflation. Rising wage rates could affect Thailand's competitiveness vis-a-vis other countries in the region; wage gains continue to substantially outpace the growth of the consumer price index. 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.

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2. Exchange Rate Policy

Since November 1984 the Thai baht has been pegged to a basket of currencies of principal trading partners. The composition of the basket is a closely guarded secret, but the U.S. dollar appears to represent 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 the 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 not requiring Bank of Thailand preapproval and on spending by Thai tourists and businessmen abroad. In April 1991 and May 1992 additional rounds of foreign exchange liberalization substantially simplified foreign exchange reporting requirements and allowed banks to offer foreign currency accounts to individuals and businesses. The central bank also raised the limits on Thai capital transfers abroad and allowed free repatriation (net of taxes) of investment funds, dividends, profits, and loan repayments. It allowed exports to be paid for in baht without prior permission, and companies to transfer foreign exchange between subsidiaries without having to change those funds into baht.

3. Structural Policies

The appointment of the first Anand administration in March 1991 set the stage for a flurry of legislative and regulatory reforms. The Anand government reduced market distortions, made tax policies more transparent and, in general, liberalized the domestic market. Although the nation's trade and current account deficits are large in relation to total GDP, the overall balance of payments remains in surplus due to tourism earnings and large inflows of foreign capital. This payments surplus and a substantial budgetary surplus have allowed the Thai government to reduce customs duties and liberalize its import regime. A wider reform of the import regime, reducing the number of tariff rates and eliminating most tariffs above 30 percent, is being pursued. Thailand is also planning broad tariff reductions as part of the ASEAN Free Trade Area, scheduled for implementation beginning in January 1993. Thailand's trade relations have traditionally been oriented toward distant markets, particularly North America, Europe, and Japan, but the government hopes the ASEAN Free Trade Area will increase intra-ASEAN trade as well.

The Thai Government has also largely implemented a major reform of its taxation system aimed 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. On January 1, 1992 Thailand implemented a value added tax system replacing a multi-tiered business tax (essentially a turnover tax) with a single rate of 7 percent on value added. In 1991 the government increased personal income tax deductions and lowered the top marginal tax rate to 50 percent, further lowering it to 37 percent and again increasing deductions in 1992. The corporate income tax rate was unified at 30 percent.

Thai financial authorities have been taking steps to open up the commercial banking system. In addition to freeing up foreign exchange controls, the government has lifted the ceiling on deposit rates. It is gradually reducing the amount 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. In March 1992 it licensed seven new mutual fund companies, ending a 17 year monopoly. In May 1992 the central bank authorized banks and finance and security companies to engage in additional activities, and banks are now able to underwrite securities.

4. Debt Management Policies

During the second half of 1990, the Bank of Thailand's tight monetary policy caused domestic interest rates to rise sharply. The prime lending rate reached 16.5 percent and remained above 15 percent for most of 1991. Rates have since declined slightly. As a result of the disparity between high domestic rates and declining international lending rates, Thai private sector external borrowing continued its rapid growth of 1990 (when private external debt reached almost $14 billion) throughout 1991 and the first half of 1992. Net capital inflows, largely private sector borrowing, totalled $11 billion in 1991.

The Thai Government is enjoying its fifth consecutive budgetary surplus. Thailand has used some of this fiscal surplus to reduce foreign and domestic obligations, which have declined gradually since 1987. Total public sector external obligations fell to $11.5 billion at the end of 1990, but borrowing by state owned enterprises caused the Thai public sector to be a modest net external borrower during the closing months of 1991. Borrowing by state enterprises is subject to review by the Minister of Finance and an annual cap, currently $2.5 billion, on new obligations.

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 a broad reform of customs duties is now being pursued by the Thai government, but it remains unclear if tariff reductions on agricultural products will be included.

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, a practice which may particularly affect agricultural products with seasonally fluctuating prices. 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 to $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 39 items must be registered as "specific 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, 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. During the past twelve months the Ministry of Commerce, which is in charge of administering import licensing, dropped such restrictions on 31 categories of items, including rice preparations, wood products, high fructose syrup, paper products, tiles, porcelain sanitary ware, gas cylinders, and some machinery and automotive items. 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 corn for animal feed, among others.

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 comprises around 5 percent of total commercial banking assets at present. Foreign branches (except for

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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 well established foreign banks. In aggregate, foreigners are limited to a maximum 25 percent shareholding in each Thai bank; no person or group of related persons, whether Thai or foreign, may hold more than five percent of the shares of each Thai bank. 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 law and regulations limit foreign equity in new local insurance firms to 25 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.

Under Thai law aliens, except Americans, are forbidden to engage in the brokerage business and thus are not allowed to obtain seats on the Stock Exchange of Thailand. A 1979 law limits all foreign ownership of Thai finance and credit foncier companies to 25 percent, although higher foreign participation to a maximum of 40 percent in then licensed firms was grandfathered when the law was enacted.

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.

7. Protection of Intellectual Property

Improved protection for U.S. copyright, patent, and trademark holders has become one of the most prominent trade issues between the United States and Thailand. Thailand has made progress in some areas of intellectual property protection. In 1992 a new Trademark Act became effective, providing increased penalties for infringement and protection for service, certificate, and collective marks. It has led to improved enforcement of trademarks. In April 1991 Thailand was designated (and remains) a "Priority Foreign Country" under the Special 301 provisions of the 1988 amendments to the Trade Act of 1974. It had been on the "Priority Watch List" since 1989.

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 separate prosecution division for intellectual property protection. In mid-1991 the police began to raid larger audio and video targets and to seize equipment used in illegal copying. In December 1991 the U.S. and Thailand formally concluded a Section 301 investigation of Thailand's copyright enforcement in response to a petition filed by three U.S. trade associations, although active efforts by both governments to reduce copyright piracy continue. While improvements have been made in enforcement efforts during the last two years, copyright piracy of audio and video tapes and computer software remains extensive. The Thai Government has indicated it will continue its efforts to increase enforcement. 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 protects software under the "other works in the scientific domain" category, but there have been no Thai court decisions to test the advisory opinion to date. In June 1992 Thai police and representatives of the Business Software Alliance conducted raids against pirate software vendors in Bangkok. (All of these raids were settled by arrangement between the copyright holder and infringer without going to court.) Thai Government officials have indicated publicly that the government is considering adding a specific provision to the copyright law covering software protection.

Although in October 1992 the United States formally concluded a Section 301 investigation of Thailand's patent protection of pharmaceuticals in response to a petition filed by the U.S. Pharmaceutical Manufacturers Association, both governments will continue to discuss ways to resolve U.S. concerns over Thailand's patent protection. Legislation extending patent protection to pharmaceuticals and agricultural machinery and increasing the length of protection to 20 years, became effective September 30, 1992, but that legislation contains onerous compulsory licensing provisions and lacks transitional protection. The new law also created a Pharmaceutical Patent Board with broad powers to inquire into the operations of pharmaceutical patent holders.

8. Worker Rights

a. Right of Association

The Labor Relations Act of 1975, Thailand's basic labor law, guarantees to workers in the private sector most internationally recognized worker rights, including freedom of association. Workers have the right to form and join unions of their own choosing; to decide on their constitutions and rules; and to formulate their policies without outside interference. Once a union is established, the law protects members from discrimination, dissolution, suspension, or termination because of union activities. In addition, unions have the right to maintain relations with international labor organizations. In April 1991 the government amended the 1975 Act to exempt state enterprise workers and enacted another act, which dissolved existing unions in this sector, replacing them with "associations" (one for each state enterprise) upon application of at least 30 percent of the enterprise's employees. Associations do not have the right to confederate and have not yet been allowed to affiliate with international labor organizations.

b. Right to Organize and Bargain Collectively

The 1975 Act grants Thai workers the right to organize unions and employee associations without outside interference and to bargain collectively over wages, benefits, and working conditions. Following the dissolution of state enterprise unions, there are about 600 private sector unions registered in Thailand. Civil servants, like state enterprise workers, may not form unions, but are allowed membership in employee associations. The law denies the right to strike to civil servants, state enterprise workers, and workers in "essential" services such as education, transportation, and health care. In the private sector, collective bargaining usually occurs in individual firms; industry-wide collective bargaining is almost unknown.

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

The Thai government raised the minimum employment age to 13 in January 1990. Thailand restricts the employment of children between 13 and 15 to "light work" in non-hazardous jobs, and requires Department of Labor permission before they can begin work. Employment of children at night is prohibited. The government has announced its intent to increase compulsory education from six to nine years in the next few years; this will make possible further raising of the minimum employment age to 15. In the last three years, the government has also more than doubled the size of the labor inspector corps concerned with child labor law to enhance enforcement of those laws.

e. Acceptable Conditions of Work

Working conditions vary widely in Thailand. Medium and large factories, including most multinational firms, generally meet international health and safety standards. Eight hour days are the norm. Wages usually exceed the legal minimum. Children are not employed, and employees enjoy various additional benefits. However, in Thailand's large informal sector, especially outside the Bangkok area, health and safety standards are often ignored. Despite recent personnel increases, the corps of labor inspectors remains too small to adequately investigate and pursue all potential violations of Thai labor law. Most industries have a legally mandated 48 hour maximum workweek. The major exception is commercial establishments, where the maximum is 54 hours. Transportation workers are restricted to no more than 48 hours per week.

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 other 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 an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		889
Total Manufacturing		492
Food & Kindred Products	34	
Chemicals and Allied Products	82	
Metals, Primary & Fabricated	(D)	
Machinery, except Electrical	9	
Electric & Electronic Equipment	298	
Transportation Equipment	0	
Other Manufacturing	(D)	
Wholesale Trade		162
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		1,543

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

Source: U.S. Department of Commerce, Survey of Current Business, November 1992, Vol. 72, No. 8, Table 11.3

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1. General Policy Framework

The European Community (EC) exercises supranational authority over some aspects of economic policy of the twelve Member States (Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, and the United Kingdom). The EC has responsibilty for non military trade and agriculture 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 Member States retain independent authority for macroeconomic policies, although members of the Exchange Rate Mechanism of the European Monetary System are limited in their conduct of interest and exchange rate policies.

2. Exchange Rate Policy

The Maastricht Treaty, which by the end of 1992 had been ratified by all Member States except Denmark and the UK, provides for economic and monetary union as early as 1997, characterized by a single currency, a common monetary policy, and a single central bank. Currently, the EC Member States coordinate their exchange rate policies through the European Monetary System (EMS) and, specifically, the Exchange Rate Mechanism (ERM) in which nine of the twelve currently participate. The UK and Italy have withdrawn their currencies from the ERM, but plan to reenter at an appropriate future time. Greece has not yet joined the ERM.

The ERM aims at promoting monetary, price, and exchange rate stability in Europe (not at influencing trade flows with the United States and other third countries) and is consistent with the Articles of Agreement of the International Monetary Fund. Since the EMS was created in 1979, there have been periods both of U.S. dollar strength combined with a U.S. trade deficit with the EC and of dollar weakness combined with a U.S. trade surplus with Europe.

The ERM currencies fluctuate against each other within their ERM limits and against non-ERM currencies in response to supply and demand in foreign exchange markets. Currently, nine Member States participate in the ERM; these nine are committed to limiting fluctuations against each other to a narrow band of plus or minus two and one quarter percent (plus or minus six percent for those in the wider band) around central bilateral parities.

Central rates can be realigned to offset accumulated cost and price imbalances. In the fall of 1992 the ERM underwent several partial realignments, reflecting market perceptions that the weaker currencies were overvalued. In September the UK and Italy dropped out of the ERM, allowing their currencies to float, and Spain devalued the peseta by five percent. In November the Spanish peseta and Portuguese escudo were devalued by six percent.

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3. Structural Policies

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

Regulatory Policies -- Single Market Program:

Overview: The European Community's Single Market ("1992") Program is well on the way to completion. Once it is achieved, most intra-EC controls on the movement of goods, capital, and services will disappear. By the end of 1992 the EC had adopted 95 percent of the necessary directives. Although the Single Market officially opened on January 1, 1993, in practice there will be some delays in certain areas. Member States must still transpose many of the directives into national law, and they have not reached consensus on several measures (e.g., movement of cultural treasures and pets, and a new import regime for bananas). Because necessary standards are not yet in place for many product-related directives, they will not immediately replace Member State regulation. Other measures have long grace periods before they come into effect. Movement of people remains problematic; Member States have been slow to ratify the necessary intergovernmental conventions and there is some resistance, e.g., from the UK, to the total abolition of border controls.

Goods, Capital, and Services: For goods, capital, and services, the net effect should be freer movement, fewer Member State regulations for products and service providers to meet, and real consolidation of markets. Some aspects of the program raise problems for U.S. exporters, including directives on procurement for utilities and on television broadcasting, and conditions for negotiation of mutual recognition agreements on testing and certification of regulated products (all discussed in Section 5 below).

Veterinary Regulations: In the area of veterinary regulation, the Community has adopted a large body of new legislation under the 1992 Program that is designed to harmonize standards and complete the single market for live animals and animal products. In some cases, such as meat inspection, this will mean that Member State slaughterhouses will now be subject to the same requirements as facilities in third countries. However, in many other areas where EC legislation did not previously exist, new Community-wide requirements have been established that could pose problems for imports from third countries. Notable among these is a set of new directives that will require every consignment of live animals or animal products entering the Community from third countries to undergo documentary, identity, and physical checks by veterinarians at designated frontier posts. The Commission has invited the U.S. and other principal third country suppliers of these products to enter into consultations on the entire package of veterinary legislation with the objective of identifying areas where disruptions in trade can be avoided through the application of equivalent standards.

Environmental Measures: Pending environmental measures may also affect the trade and business climate. Among them, a proposal for a carbon dioxide/energy tax would substantially raise energy costs for industry, although loopholes exempting energy-intensive industry and making the tax contingent on similar actions by trading partners diminish the likely impact. Another draft directive could raise producer costs by mandating extensive recycling of all packaging materials, possibly enforced by Member State fiscal and economic measures.

4. Debt Management Policies

Debt management policies are determined by the individual Member States of the Community.

5. Significant Barriers to U.S. Exports

Services Barriers:

Broadcasting: The "Television Without Frontiers" directive requires a majority of television transmission time to be reserved for European entertainment programs "where practicable". The United States believes this provision is contrary to the General Agreement on Tariffs and Trade (GATT). The United States has held consultations with the EC on this issue and reserved its right to take further GATT action. This issue is also being addressed in the Uruguay Round services negotiations.

Telecommunications: U.S. exports of telecommunications services to the EC are restricted by a variety of EC policies. For instance, the United States has requested that the Community allow foreign telecommunications firms to use proprietary protocols, and to ensure that non-EC competitors have access to reserved services on an equal basis with EC competitors. Another 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, Labelling and Certification:

The U.S.-EC dialogue on standards, testing, and certification has, on balance, been positive. However, many non-European interests still cannot participate directly in CEN (European Committee for Standardization) and CENELEC (European Committee for Electrotechnical Standardization) and, at this time, the ISO and IEC (International Organization for Standardization, International Electrotechnical Commission) present a very limited means by which non-Europeans can participate in those standards bodies.

Some of the EC's directives on standards require conformity assessment to be performed by EC notified bodies, thus imposing additional costs on U.S. exports to the EC. To resolve this problem, the EC has offered to negotiate agreements on Mutual Recognition of Conformity Assessment (MRAs), which would would allow manufacturers of both parties to have product assessment performed in their country and recognized by the other side. In October 1992, the United States and EC held exploratory discussions in Brussels concerning MRAs. The EC's mandate for the MRAs makes reference to a "Rules of Origin" regulation. This regulation would require that U.S. notified bodies only certify products in which "the last substantial process or operation" was performed in the United States. This requirement could potentially cause problems for products which are assembled in the United States from parts produced offshore.

The EC Commission is a signatory of the GATT Agreement on Technical Barriers to Trade (Standards Code).

Government Procurement Practices:

In September 1990 the EC Council of Ministers adopted a directive liberalizing procurement in the EC in four areas -- telecommunications, water, energy, and transport -- which are not covered by the current GATT Government Procurement Code. The directive entered into force 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's Article 29, tenders with a majority proportion of non-EC content in the total value of the tender may be rejected without explanation. Bids of EC origin must also be granted a three percent price preference over non-EC bids. The directive provides for the extension of EC treatment to third countries with whom the EC reaches an agreement. The United States has announced that it will take retaliatory action under Title VII of the Omnibus Trade and Competitiveness Act of 1988 if the EC directive goes into effect without the extension of EC treatment to U.S. products. The EC is a signatory of the Government Procurement Code. In the current negotiations to expand the Code, the United States is trying to extend coverage to the four sectors covered by the directive and thereby escape the discriminatory impact of the directive.

Other Significant Barriers to U.S. Exports:

Oilseeds: At the request of the United States, members of the 1989 GATT oilseeds panel were reconvened in early 1992 and issued a second opinion in March finding that the revised EC oilseed regime, adopted in December 1991, failed to redress the impairment of the GATT rights and benefits to U.S. soybean exporters from the 1962 zero duty bindings. The EC rejected the panel's conclusion, but did agree to GATT Article XXVIII negotiations with the United States and other interested parties. These negotiations failed to resolve the dispute, and on October 5th, the United States notified the GATT of its intention to retaliate, i.e., withdraw similar concessions. Subsequently, high level meetings between U.S. and EC negotiators were able to narrow differences, and the two sides reached a mutually acceptable conclusion on November 20th.

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Corn Gluten Feed: Despite the conclusion in October 1991 of a United States-EC Memorandum of Understanding (MOU) intended to ensure the duty free entry into the EC of corn gluten feed, some EC Member States continued to impose import levies. On November 20, 1992 the United States and the EC reached agreement on the outstanding customs classifications problem, and the EC suspended collection of the levies. As of early January, however, the Community had not yet finalized implementation of the November agreement.

Malt Sprout Pellets: Irish customs authorities, in consultation with the EC Commission, reclassified malt sprout pellets as a dutiable category despite the fact that the product has entered the EC duty free for more than twenty-five years. In November 1992, the United States reached a settlement with the EC under which historical levels of this product can continue to enter the EC duty-free.

Third Country Meat Directive and Hormone Ban: After nearly eight months of technical consultations, the United States and EC reached agreement in November 1992 on most of their outstanding differences over meat inspection and signed an exchange of letters that provides for eventual self-certification of U.S. slaughterhouses by the U.S. Department of Agriculture. However, the EC's ban on the sale of hormone treated meat for human consumption continues to constitute a significant barrier to exports of U.S. beef to the Community.

Shipbuilding Subsidies: Members of the EC provide subsidies and other forms of assistance to their shipbuilding and repair industries. The EC Commission sets ceilings for subsidies annually. Over the last several years they have reduced the ceiling from about 25 percent to the current level of nine percent of gross investment. On June 8, 1989 the Shipbuilders Council of America (SCA) filed a Section 301 petition seeking the elimination of subsidies and trade distorting measures for the commercial shipbuilding and repair industry. In response, the United States Trade Representative undertook to negotiate a multilateral agreement in the OECD to eliminate all subsidies for shipbuilding by OECD member countries. There remain several outstanding issues of concern to the United States: injurious pricing, restructuring, export credits, and home credit schemes. Although no agreement was reached during an April 1992 OECD meeting, the United States is exploring the propects for resuming negotiations.

Wine Certification and Enological Practices: U.S. wine exports continue to face uncertain access into the European Community market. The United States and EC have a temporary agreement allowing U.S. wine producers to use wine treatment practices which are not approved in the Community, and U.S. wine exporters to use a simplified export certificate. The Community continues to link these access questions to the U.S. commitment for greater legal protection for EC wine names in the United States. The United States has expressed its willingness to discuss greater protection for Community wine names within the rulemaking process of the U.S. Government. The current agreement will expire in April 1993. In its place, the United States seeks to conclude an agreement that makes permanent both the certification system and the acceptance of U.S. wine treatment practices.

Data Privacy: The EC Commission has proposed a broad package of legislation which would harmonize laws in the EC concerning "protection of individuals in relation to the processing of certain personal data." Many U.S. companies are concerned that this legislation could adversely affect them by restricting their operations in the EC or the transfer of data between the United States and the Community, although the latest version of the proposal did address many of these concerns. These concerns are shared by EC industry.

Animal Testing of Cosmetics: The EC Council of Ministers approved amendments to the Cosmetics Directive which will ban, from January 1, 1998 sales in the EC of cosmetics tested on animals and cosmetics the ingredients of which were tested on animals. The Council permitted exceptions however, in cases where adequate alternative testing methods had not been developed. If such a ban goes into effect, it would constitute a trade barrier for U.S. cosmetics exporters.

Leghold Traps: A ban on imports and domestic sales of certain species of fur from countries where the leghold trap is in use will come into force in 1995 unless agreement is reached on international standards for humane trapping. Although U.S. fur exports could be stopped as a result of this ban, a one-year moratorium is possible.

Tariffs: In general, EC tariffs are not considered to be a major barrier to U.S. industrial exports. EC variable levies (duties based on the difference between international and EC prices), on the other hand, present considerable tariff-like barriers to U.S. agricultural exports. 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, electronics products (including semiconductors, computer parts, and scientific equipment), medical equipment, tobacco, and certain chemicals (including soda ash). These tariffs are being negotiated in the Uruguay Round.

6. Export Subsidy Policies

Agricultural export subsidies (also known as export restitutions or refunds) are widely used by the EC to offset competitive disadvantage to EC agricultural exports caused by high EC internal support prices. Export subsidies enable the EC to dispose of its surplus production at prices that match, and often undersell, U.S. agricultural exports to foreign markets. The impact on U.S. agricultural exports, particularly grain, runs to billions of dollars. As a result, disciplining export subsidies remains a central objective for the United States in the Uruguay Round. On November 20, 1992 the United States and the EC agreed to levels of reductions in the value and volume of export subsidies for Uruguay Round agricultural negotiations, key to resumption of the Uruguay Round negotiations.

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The European Community is a signatory of the GATT Subsidies Code.

7. Protection of U.S. Intellectual Property

The European Commission is committed to securing a high level of protection for intellectual property rights (IPR) in the EC. The Commission believes that completion of the Single Market will require harmonization of the scope of IPR protection so that trade within the Community will not be distorted based on the absence or inadequate protection of rights in certain Member States. The Commission has proposed directives in certain areas where inadequate IPR protection is seen as hindering development of EC industry (biotechnology patent, patent term restoration for pharmaceuticals, satellite and cable retransmission of copyrighted materials), and has adopted directives covering software copyright and semiconductor 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 has adopted directives establishing rental and lending rights, 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 were required to implement the directive in national legislation no later than January 1, 1993, but a number had not completed action by that date. 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
on an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		17,810
Total Manufacturing		85,664
Food & Kindred Products	9,060	
Chemicals and Allied Products	18,845	
Metals, Primary & Fabricated	3,941	
Machinery, except Electrical	17,878	
Electric & Electronic Equipment	5,539	
Transportation Equipment	9,796	
Other Manufacturing	20,606	
Wholesale Trade		16,243
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		119,717

Source: U.S. Department of Commerce, Survey of Current Business, November 1992, Vol. 72, No. 8, Table 11.3

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Key Economic Indicators

(Billions of Austrian Schillings (AS) unless stated)

	1990	1991	1992 1/
Income, Production and Employment			
Real GDP (1985 prices)	1,565.6	1,614.1	1,646.4
Real GDP growth (pct.)	4.4	3.1	2.0
GDP (at current prices)	1,793.6	1,917.9	2,046.9
By sector:			
Agriculture	56.7	53.0	55.0
Energy and water	46.5	48.6	52.5
Manufacturing/mining	475.1	497.7	527.5
Construction	124.5	138.9	152.7
Rents	N/A	N/A	N/A
Financial services	298.4	325.1	348.2
Other services	481.3	518.8	554.6
Public services	248.0	268.9	285.3
Net exports of goods and services	-736.7	-786.1	-835.9
Real per capita GDP (in AS, 1985 prices)	202,750	206,280	208,670
Labor force (1,000s)	3,516	3,601	3,663
Unemployment rate (pct)	5.4	5.8	5.9
Money and Prices (annual percentage growth)			
Money supply (M2)	0.1	1.4	-1.2
Base interest rate 2/	8.72	8.69	8.55
Personal savings rate 2/	13.3	13.4	12.8
Retail inflation 2/	3.3	3.3	4.0
Wholesale inflation	2.9	0.8	0.0
Consumer price index (1986=100)	109.5	113.1	117.6
Exchange rate (AS/USD) 3/	11.37	11.38	11.00
Balance of Payments and Trade			
Total exports (fob)	466.1	479.0	495.0
Exports to U.S.	14.9	13.5	12.8
Total imports (cif)	556.2	591.9	597.0
Imports from U.S.	20.2	23.4	22.1
Aid from U.S.	0	0	0
External public debt 4/	135.4	148.5	168.5
Debt service payments	18.0	12.5	20.8
Gold and foreign exchange reserves (year-end)	137.9	148.3	N/A
Trade balance 5/	-90.1	-112.9	-102.0
Balance with U.S. 5/	-5.3	-9.9	-9.3

1/ 1992 figures are all estimates based on available data in October 1992 and economic forecasts.
2/ Figures are actual, average annual rates, not changes in them.
3/ There is only an official rate, no parallel rates.
4/ Federal government only.
5/ Merchandise trade only.

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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 present Grand Coalition Government formed in December 1990 has successfully reduced the budget deficit by fiscal austerity, implemented income and corporate tax reform and deregulation, and encouraged industrial restructuring. A top priority has been European integration, and membership in the European Community (EC). In July 1991, the EC Commission issued a positive opinion (avis) on Austria's membership application. Formal membership negotiations are expected to start in 1993, although this depends on the timing of ratification of the Maastricht Treaty by the twelve existing Member States; Austria could become a member of the EC by 1995. Meanwhile, Austria will participate in the European Economic Area (EEA), a free trade zone agreement between EC and EFTA, which Austria ratified on September 22, 1992. The Government prepared extensive new legislation in 1992 to prepare Austrian industry and business for the EEA and ultimately the EC, and is expected to cut subsidies, reform the pension system, and continue privatization and deregulation.

Through fiscal austerity, the Austrian Government succeeded in reducing the budget deficit from 3.5 percent of GDP in 1990 to 3 percent in 1992. The budget deficit target is 2.7 percent of GDP in 1993. The deficit is primarily financed in the domestic capital market. To reduce the deficit further, the Government will have to undertake structural reforms, including cuts in Government contributions to the pension system, health, and social programs. The goal of Austrian monetary policy is to maintain stability of the schilling/German mark rate, primarily through adjustments of short-term interest rates.

Austria has benefited from the economic liberalization occurring in Central and Eastern Europe (CEE). Over the past three years, Austria has considerably increased trade and investment activities in the region. Austrian exports to the region for the first half of 1992 increased by 13.3 percent and imports by 9 percent over a similar period in 1991. Because of geographical proximity and long standing ties, Austria has been an important gateway for Western companies interested in that area's markets. The Austrian Government, as part of the EFTA, implemented a free trade agreement with Czechoslovakia. Similar accords with Hungary and Poland are pending. Among other loan and guarantee programs, 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 is a member of the General Agreement on Tariffs and Trade (GATT) and extends 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 (ANB) pegs the schilling to the German mark (7.04 AS to 1 DM) to facilitate trade and other transactions by avoiding exchange-rate fluctuations vis-a-vis Germany, Austria's most important trading partner. In July and September 1992, the ANB followed the German Bundesbank's lead in reducing interest rates. In October 1992, the ANB autonomously cut interest rates to help stimulate the weakening Austrian economy. The value of the U.S. dollar has dropped considerably *vis-a-vis* the schilling since 1990, and U.S. products have become more competitive on the Austrian market. This pegging mechanism is not expected to change.

On November 4, 1991 the ANB waived all remaining controls on cross-border capital movements and gave the country a fully liberalized foreign exchange regime. Austria's new Capital Market Law on Public Securities became effective January 1, 1992 and was an important step towards deregulating and liberalizing capital markets. U.S. issuers of bonds and securities are free to place offerings in the Austrian capital market.

3. Structural Policies

There are a number of Austrian regulations which still 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. Austria's participation in the EEA will require a number of changes so that about 60 percent of Austrian laws and regulations will conform with EC norms. In 1992, the Austrian Government drafted new laws in the field of competition and subsidies, cartels, mergers, and government procurement which should liberalize these sectors. The Social Partnership, the system whereby the leaders of Austria's labor, business, and agriculture institutions maintain an on-going dialogue and give their concurrence to new economic legislation, has a strong influence on the full range of economic policies.

Monopolies exist in Austria for salt, alcohol, and tobacco which limit 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 as a result of Austria's participation in the European Economic Area, but Austria won two and three year transition periods, respectively, until EC rules are fully effective. Otherwise, since the middle of 1992, only electricity and pharmaceuticals have been subject to price controls.

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The personal income and corporate tax reform of 1989 has improved Austrian business climate. The top corporate tax rate is now 30 percent. To adapt Austria's tax structure to EC regulations, the Government cut the 32 percent value added tax on cars to the standard 20 percent rate in late 1991. For environmental reasons, a sales tax between 0 and 14 percent, depending on the automobile's gasoline consumption, was introduced as a substitute.

There are no government policies which discriminate specifically against U.S. exporters. The same rules and regulations on investments apply to both foreign and Austrian investors; foreign investors are treated the same way as domestic ones. Important regulations which affect investment include those which cover real estate acquisition, the Business Code of 1973, the Limited Liability Company Act, the Joint Stock Corporation Act, the Cartel Act, and the Product Liability Act. In Austria one has to 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.

4. Debt Management Policies

Austria's external debt management does not affect U.S. trade. At the end of 1991, Austria's external federal government debt amounted to AS 148.5 billion, or 15.8 percent of the Government's overall debt. The foreign debt consisted of 94.5 percent bonds and 5.5 percent credits and loans. Austria's foreign debt is denominated as follows: 39.3 percent in Swiss Francs, 28.2 percent in German marks, 27.3 percent in Japanese yen, 4.4 percent in Dutch guilders, and 0.8 percent in U.S. dollars. The average maturity of the debt was 7.3 years in 1991, the average interest rate 6.5 percent.

Austria's public external debt amounted to 7.7 percent of GDP in 1991 and is expected to rise to 8.2 percent in 1992. Debt service for Austria's external federal debt amounted to AS 12.5 billion in 1991, equal to 0.7 percent of GDP and 1.6 percent of total exports of goods and services. The 1992 external federal debt service of about AS 20.8 billion is estimated to reach 1.0 percent of GDP and 2.5 percent of total exports. According to the "Institutional Investor," Austria's creditworthiness is the eighth best in the world and its bonds are rated AAA. Austria has been a significant lender to the countries of Central and Eastern Europe and the former Soviet Union.

5. Significant Barriers to U.S. Exports

Generally, there are no major political, cultural, tariff, nontariff, or other barriers that inhibit or restrict trade in U.S. goods and services. However, some Austrian regulations or requirements may discourage or delay U.S. imports but do not represent legal barriers of a discriminatory nature.

Discretionary licenses are required for imports of some

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food products, including dairy products, red meats, poultry, grains (except rice), fruits, vegetables, and sugar. A number of countries in Eastern Europe, particularly Hungary and Czechoslovakia, have complained about Austrian restrictions on their agricultural and industrial exports. The import quota on cement and its compounds implemented in September 1991, was extended to the end of 1992. The Austrian Government imposed the restriction because of charges that Czechoslovak producers were dumping cement in Austria.

Austria's service barriers are primarily in banking, insurance, and legal services. Foreign services companies are required to obtain business licenses, as are Austrian firms. A bank requires a license from the Finance Ministry which may be denied 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. Lending limits for foreign bank branches are based on local, rather than parent, capital. Insurance companies wishing to operate in Austria must establish a branch office and have at least two managers resident in Austria. Other financial services, such as accountants, tax consultants, and property consultants require specific proof of their qualifications from the management, such as university education or a number of years of practice. Other service companies also require a business license, one of the preconditions of which is legal residence. As a result, U.S. service companies often have to form a joint venture with an Austrian firm. U.S. companies holding investments in several EEA member countries might also benefit from more liberal regulations.

Imports of foodstuffs, 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 the sometimes 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.

A new regulation implemented in September 1992 requires that all imported tropical forest products be identified and labeled. As a next step, the Government is planning to define areas with sustainable forests and those with endangered forests in a future supplemental regulation.

The Austrian Government maintains no significant investment barriers and it has a special interest in foreign investment which creates new jobs in high-technology sectors, improves productivity, or restructures and strengthens traditional industries. Takeovers of healthy domestic enterprises are permitted. The Government continues to strongly promote foreign investment in Austria. Repatriation of earnings, interest payments, and dividends, as well as of proceeds from disinvestment, is not restricted. Foreign direct investment in the nationalized sector is restricted and license requirements or reciprocity apply to foreign investments in banking and insurance. Investors have to deal with complicated administrative procedures to obtain approval for new operations. It is also complicated for foreigners to purchase real estate, due to the different environmental regulations and land utilization plans of individual provinces. For example, enviromental and administrative approval of one recent large U.S. investment took nearly two years.

Austria ratified and implemented the GATT Code on Government Procurement. Provincial and municipal governments are not, however, required to comply with the rules. Austria does not have restrictive "buy-national" legislation, 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. The Austrian Government is currently working out a new law to adapt to the EC's procurement rules which will cover both provincial and municipal purchasing. The changes will have no direct implications for U.S.-based suppliers, since the GATT Government Procurement Code will continue to govern those relations. However, since procurement will be liberalized for companies incorporated in other EEA countries, U.S. firms in these states will also benefit. For certain products, such as medical equipment and computers, intensive service and maintenance requirements may require the presence of a representative or subsidiary in Austria.

All telecommunications equipment, including customer premises equipment, private networks, cable TV networks and value-added services, is subject to approval by the Austrian Post and Telegraph Administration (PTT). The Austrian approval policy for customer premises equipment tends to be liberal.

6. Export Subsidies Policies

The Government provides export promotion loans and guarantees within the framework of the OECD Export Credit Arrangement and the GATT Subsidies Code. In light of economic reforms in the Eastern European countries and their significant debts to Austria, the Kontrollbank; Austria's export financing agency, revised its overall guarantee policy in the middle of 1991. 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. In October 1992, the Austrian Government announced a plan to extend soft loans to developing countries to help them finance imports. 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.

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7. Protection of U.S. Intellectual Property

Austrian laws are fully consistent with international standards. Austria is a member of the World Intellectual Property Organization as well as of the Bern 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.

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 are 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.

To adapt to EC rules, Austria is now working on amending the copyright law to include protection for computer software. There are no estimates of losses to U.S. firms caused by intellectual property infringements in Austria but they 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," which has significant influence on economic policy. All workers except civil servants are members of the Austrian

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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.

f. Rights in Sectors with U.S. Investment

Since labor laws practices are uniform throughout Austria, worker rights in the sectors in which U.S. capital is invested do not differ from those in other sectors of the economy.

AUSTRIA

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		(D)
Total Manufacturing		223
Food & Kindred Products	24	
Chemicals and Allied Products	-1	
Metals, Primary & Fabricated	4	
Machinery, except Electrical	53	
Electric & Electronic Equipment	85	
Transportation Equipment	(D)	
Other Manufacturing	(D)	
Wholesale Trade		603
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, November 1992, Vol. 72, No. 8, Table 11.3

ARMENIA

Key Economic Indicators

(millions of rubles unless otherwise noted)

	1990	1991	1992 proj
Income, Production, & Employment			
Real GDP (1990 prices)	9,693	8,743	5,246
Real GDP growth (percent)	-9	-12	-40
GDP (at current prices)	9,693	15,671	66,395
Labor force (millions)	n/a	n/a	2.065
Unemployment rate (percent)	n/a	n/a	3
Money and Prices (Annual percentage)			
Base interest rate	n/a	n/a	8-10
Personal saving rate	n/a	n/a	9-10
Consumer price indexes	10	175	740 [1]
Exchange rate (USD/ruble)	n/a	n/a	1/400
Balance of Payments and Trade			
Total merch exports (mill $)	40	35	22
Total imports (mill $)	470	418	282
Aid from U.S.	n/a	n/a	45.1 2/
External public debt	See Section 4		
Gold and foreign exchange reserves (millions of U.S. dollars)	n/a	n/a	15.9
Trade balance (mil $)	-430	-383	-260

1. January to June 1992.
2/ Other U.S. assistance was available through regional programs for which a country-by-country breakdown is not available.

Figures are from the Armenian State Statistical and Analysis Committee or from international financial institutions. They should be considered as orders of magnitude only.

1. General Policy Framework

After declaring independence in September 1991, Armenia is now passing through a painful transition period, with all the confusion and disorganization that comes with creating a new political and economic entity in the wake of the collapse of the USSR. While the Armenian leadership has made a commitment to economic reform, Armenia has not yet been able to create the governmental and institutional framework necessary to implement its reform goals. Instead, Armenia is relying on an *ad hoc* system of government; much confusion exists over which laws are actually in force.

Armenia's economy is in a deep depression, the severity of which is exacerbated by political conflict with Azerbaijan. During the first six months of 1992, Armenia's gross domestic product was estimated to be about 48 percent less than it was during the same period in 1991. During 1992 about 70-80 percent of the labor force was idle because their places of work were shut down due to energy shortages or trade problems.

Armenia's economy is dominated by its industrial sector, emphasizing light industry and machine building, and wholly depends on imports of raw materials and energy. Exports, mostly machinery and processed food, have been almost exclusively to other former Soviet republics. Azerbaijan's blockade of Armenia and unrest in Georgia, which disrupts Armenia's only remaining rail and road link to the other Newly Independent States, have caused serious problems with supplies of energy, food products, construction materials, and consumer goods. Energy shortage in particular adversely affected the Armenian economy, forcing about 85 percent of its industry to shut down for the winter; Armenia produces only about five percent of its energy requirements.

Although Armenia had already privatized agricultural land before independence (80 percent of arable land has been privatzed to date), the country has not been able to implement economic reform as quickly as Armenian officials had hoped. In early 1992, Armenia set out a very ambitious economic reform program, including accelerated privatization and the passing of many key economic reform laws. However, Armenia's pursuit of fundamental economic reform slowed considerably as deficit spending increased. Parliament was unable to pass essential laws on banking, the budget, and bankruptcy. The parliament passed a privatization law on July 29, 1992 and a special implementation committee, formed in late October, will decide on an actual privatization plan. Because of a lack of consensus within the government about how to proceed with privatization, the plan will probably not be finally formulated until well into 1993.

Armenia's monetary and fiscal reform policies are heavily dependent on Russian policies. Armenia has decided in the near term to remain in the ruble zone.

Armenia's relationship with the West has changed drastically since the Soviet period. Key Western countries including the United States answered urgent requests for economic assistance and pledged to support democratic forces and reformers by providing humanitarian food and medical assistance.

Armenia joined the IMF, the World Bank and the European Bank for Reconstruction and Development (EBRD) in 1992. The World Bank anticipates lending Armenia about $100 million in the next one to two years to cover things such as essential imports, institution building, and housing and power infrastructure. Armenia was also granted GATT observer status in 1992.

2. Exchange Rate Policies

In October 1992 Armenia signed an agreement with Russia to remain within the ruble zone. The exchange rate for the ruble in Armenia fluctuates with the market-determined rates set in Russia. In December, rates were about 400 rubles to the U.S.

dollar.

3. Structural Policies

Armenia suffers from serious structural problems including a relatively undiversified economy, a heavy reliance on trade within the former Soviet Union (particularly for energy and food commodities), and the problems of transport and energy mentioned above. Armenian officials say that in the face of the Azerbaijani blockade, which has severely limited their economic resources, they have no choice but to remain within the ruble zone and be subject to a large extent to Russia's monetary policy. Armenia also resorted to widespread deficit spending, which contributed to high inflation. Armenia's deficit is estimated at about 10 billion rubles and is financed mostly through Russian credits.

In January 1992, the Armenian Government liberalized prices on all but a few essential commodities such as bread, milk, and fuel. Although Armenia had at least three wage increases during 1992, wages have not kept pace with inflation and the population seems to be living off savings. The government continues to subsidize prices of various commodities including some foods, energy, housing, and other services.

Under the former Soviet regime, Armenia served as a defense research center and producer of defense-related goods, particularly electronic guidance systems and other spare parts. After the breakup of the Soviet Union, many of these institutes, including a nuclear weapons research facility, either sharply reduced their workload or closed down altogether. While some of the former defense factories have converted to production of consumer goods, very few have been able to make the transition sucessfully.

4. Debt Management Policies

Russia has taken on responsibility to manage Armenia's share of the external debts (0.86 percent) and assets of the former Soviet Union. Further negotiations are expected among the former republics of the Soviet Union (FSU). At present, commercial and official creditors have extended the FSU a one year debt deferral on certain payments due in 1992.

5. Significant Barriers to U.S. Exports

A significant barrier to U.S. exports is the lack of sufficient infrastructure to support trade: telecommunications, transportation, banking, reliable power supplies, and office space, are all in short supply. Legal reforms are needed in almost all areas. The customs sector, in particular, is still undeveloped without any clearly defined regulations or procedures.

Armenia is dependent on imports for almost all its energy needs. Azerbaijan's energy blockade of Armenia severely restricts Armenia's energy imports and its ability to manufacture and export goods. With the decline in production, Armenian authorities have implemented measures that discourage exports of some goods in an attempt to ensure domestic availability. Such measures include a system of export quotas and licenses. In addition, in an attempt to increase its hard currency reserves, the government imposed on Armenian export industries a 25 percent surrender requirement on foreign currency earnings in January 1992. This requirement was eliminated later in the year. Armenia has no import taxes or other restrictions.

To normalize its trade and investment relations with Armenia, the United States has proposed a new network of bilateral economic agreements. The U.S.-Armenia trade agreement, which provides reciprocal Most Favored Nation status, was signed and entered into force in April 1992.

The U.S.-Armenia bilateral investment treaty, which establishes a bilateral legal framework to stimulate investors, was signed in September 1992 and awaits approval by both the Armenian Parliament and U.S. Senate. A U.S.-proposed draft bilateral tax treaty, which would provide U.S. businesses relief from double taxation of income is under consideration by the Armenian government. An Overseas Private Investment Corporation (OPIC) incentive agreement, which allows OPIC to offer political risk insurance and other programs to U.S. investors in Armenia, was also concluded in 1992 and is in force.

6. Export Subsidies Policies

One of the legacies of a centrally-planned economy is government subsidies to state-owned enterprises, but these subsidies are aimed at maintaining production and employment rather than being specifically targetted at supporting exports.

7. Protection of Intellectual Property Rights

Armenia has stated its intention of complying with international standards of intellectual property protection, but it has yet to adhere to the relevant international conventions. The U.S.-Armenia trade agreement includes commitments on protection of intellectual property. Armenia lacks the administrative infrastructure required for effective enforcement of intellectual property rights. Russia's patent office continues to issue letters of protection and to perform all other legal operations concerned with the protection of industrial property for Armenia.

8. Worker Rights

a. Right of Association

The absence of a new constitution hinders advancement of legal guarantees providing workers the right to form or join unions of their own choosing without previous authorization. The existing trade unions are holdovers from the Soviet period and were not freely chosen by workers.

b. Right to Organize and Bargain Collectively

Despite the passage of a privatization law, to date nearly all enterprises, factories, and organizations remain under state control. As a result, voluntary direct negotiations between unions and employers without the participation of the government cannot not take place. At the same time, hno legislation specifically addresses the right to organize and bargain collectively. The government continues to establish overall wage levels and to set minimum wage standards. There are no export processing or other special economic zones.

c. Prohibition of Forced or Compulsory Labor

There is no legal prohibition of forced or compulsory labor, but reportedly it is not practiced.

d. Minimum Age for Employment of Children

Parliament has not yet passed reform legislation addressing the minimum age for employment of children. The statutory minimum age for employment under Soviet law is 16.

e. Acceptable Conditions of Work

The minimum wage is set by governmental decree, not by legislation. Industrial enterprises presently operate at only 10 to 15 percent of capacity in the current, exceptionally depressed economic climate. By existing statute, "employed" workers at these idle factories continue to receive two-thirds of their base salary.

f. Workers Rights in Sectors with U.S. Investment

There is currently no appreciable U.S. direct investment in Armenia.

AZERBAIJAN

Key Economic Indicators*

(Millions of rubles unless otherwise noted)

	1990	1991	1992 proj
Income, Production and Employment			
Real GDP Growth (%)	-11.7	-0.7	n/a
GDP (March 1992 prices)	14,696	22,409	n/a
by sector:			
Agriculture	4,014	4,636	n/a
Energy			
Manufacturing	3,727	9,625	n/a
Construction	1,255	1,877	n/a
rents	n/a	n/a	n/a
financial services	n/a	n/a	n/a
government, health, and education	3,783	n/a	n/a
Net export of goods	678	1,190	n/a
Real per capita GDP	2,060	3,094	n/a
Labor force (millions)	3.959	3.990	n/a
Unemployment (%)	7.7	8.8-10	n/a
Money and Prices (annual percentage growth)			
Retail inflation (%)	n/a	87	792
Wholesale inflation	n/a	272	261
Consumer price index	n/a	86.5	n/a
Exchange rate (rubles per USD)			
Official	.5995	.5571	n/a
Commercial	1.564	1.67	n/a
Tourist	5.64	101.10	300.00
Balance of Payments and Trade			
Total exports	6,400	12,200	n/a
Exports to U.S.	n/a	0.02	n/a
Total imports	5,700	11,000	n/a
Aid from the U.S.	n/a	n/a	n/a 1/
External public debt	n/a	10,800	18,000
Reserve (USD million)	n/a	85.5	n/a
Trade balance	n/a	1,200	n/a
Balance with the U.S.	n/a	-1,213	n/a

* Figures are from official Azerbaijan sources. They should be considered as orders of magnitude only.

1/ For 1992, U.S assistance was available through regional programs for which a country-by-country breakdown is not available.

1. General Policy Framework

Since declaring independence in November 1991, Azerbaijan has been largely preoccupied with transforming its political climate. In May 1992, Azerbaijan held its first democratic elections for president. The country is moving much more slowly, however, toward its goal of a decentralized, market economy.

Azerbaijan has considerable economic potential, with fertile agricultural land and rich mineral resources, including oil, natural gas, and iron ore. Its major industries, all of which need to be modernized, include oil refining, petrochemicals, oil production equipment, and light industries such as food, beverages and clothing. Azerbaijan led the former Soviet Union's republics in economic growth during 1971-85.

The move to create a market economy, with Turkey as a model, has been hampered both by domestic and foreign events. Azerbaijan is engaged in a civil war with the autonomous province of Nagorno Karabakh, and an undeclared international war with the Republic of Armenia. Its economy has been put on a war-footing which has complicated what would have been a difficult path in peaceful times. Under the former central planning system, Azerbaijan's economic growth was dependent on trade with the other Soviet republics. The disruption of these inter-republican trade links has resulted in severe shortages of raw material imports, and lost markets for Azerbaijani goods.

The government has adopted some laws aimed at encouraging foreign investment and trade, but the task is far from complete.

Fiscal policy: The budget deficit for 1992 is projected to be 1.3 billion rubles, which is within the government's objective of three percent of the gross domestic product. To date, the government has been unwilling to reduce the high subsidies for bread and other key commodities. Instead it may raise taxes (it established a value added tax of 28 percent in 1992) and issue government bonds.

Monetary policy: The Azerbaijan government buys its rubles from the Central Bank of Russia. To deal with a ruble shortage, the government introduced the manat (at a rate of 10 rubles = 1 manat) that now circulates in parallel with the ruble (but has not achieved wide circulation). Preparations for withdrawal from the ruble zone are being made, though no date has been set.

Azerbaijan joined the IMF, the World Bank and the European Bank for Reconstruction and Development (EBRD) in 1992. The World Bank will be coordinating assistance efforts for Azerbaijan and hosted a pre-consultative group meeting in December to discuss Azerbaijan's technical assistance needs and priorities. The Bank also anticipates lending Azerbaijan about $90 million in the next one to two years to assist in institution building and the petroleum sector.

Azerbaijan has requested GATT observer status.

2. Exchange Rate Policy

There are three ruble exchange rates currently in use:

the official rate used for commercial transactions; the commercial rate, used to calculate the rate at which export industries must surrender some of their hard currency earnings for rubles; and the tourist rate for individuals and non-commercial transactions. Under the surrender requirement, export industries must exchange for rubles at the government's central bank up to 85 percent of their hard currency earnings. Another foreign exchange control is the limit on the amount of foreign currency a private citizen of Azerbaijan may take out of the country.

3. Structural Policies

Azerbaijan is beginning a process of major structural change which is difficult to assess since many of the laws implementing these changes are still in a rough-draft stage.

Pricing policies: While the government has raised prices or removed price controls on some consumer goods, it has continued to maintain high subsidies on 14 major groups of commodities (particularly bread) in the face of increased costs for much-needed imported goods (in particular wheat). These subsidies and price controls, however, have had little direct effect to date on the market for U.S. exports, which are primarily petroleum industry products for Azerbaijan's state-owned oil companies.

Tax policies: The government is in the process of drafting new tax and customs laws. Almost all the major tax laws now in effect pre-date independence, except the value added tax (VAT), and the enterprise profit tax which was revised in January 1992. Of specific interest to foreign businesses are the following:

The enterprise profit tax, which offers a three-year tax holiday for completely foreign-owned businesses, and a lower rate (25 percent) for joint ventures with at least 30 percent foreign ownership.

The VAT law exempts goods (but not services) imported from outside the Commonwealth of Independent States and offers a tax credit on capital goods.

Payroll taxes of 37 percent of wages and salaries are paid by the employer.

Royalties on oil extraction were increased on January 1, 1992 to 78 rubles per ton for onshore oil and 137 rubles per ton for offshore.

Foreign investment policies: The foreign investment law adopted in January 1992 outlines certain guarantees regarding repatriation of profits, reinvestment rights, and freedom from some import and export licenses and customs fees.

Privatization, land reform, and industry restructuring are not likely to move quickly in the near term. Alternative draft laws on privatization are under review. The government appears interested in privatizing the oil and gas sector. Enterprise subsidies will probably continue because the government is trying to minimize the fall in production.

4. Debt Management Policies

Azerbaijan has not signed the memorandum of understanding under which the Newly Independent States accepted joint and several liability for the debt of the former Soviet Union (which designates its share as 1.64 percent). Azerbaijan objects to the way in which assets of the former Soviet Union have been allocated and has not yet worked out with the Russian Federation how its share of the debt will be managed and serviced. Azerbaijan would like to broaden the concept of assets to include the proceeds of sale of military equipment.

5. Significant Barriers To U.S. Exports

The most significant barrier to trade with the United States is Azerbaijan's lack of hard currency reserves with which to buy imported goods. To increase its hard currency reserves, the government has imposed surrender requirements on foreign currency earned by export industries, which create disincentives to export. For instance, exporters of electrical power and natural gas must exchange 85 percent of their hard currency earnings for rubles at a confiscatory rate. The IMF has estimated that in 1991, 35 percent of foreign exchange earnings were taxed away through such surrender requirements.

Another barrier is the uncertainty regarding the extent and pace of economic reforms. Trade and investment regimes are in flux. For example, the laws and regulations of the former Soviet Union remain largely enforce in many sectors, e.g., foreign exchange.

A third barrier is the lack of sufficient infrastructure to support trade: telecommunications, transportation, banking, office space, and experience with Western accounting practices are all in short supply.

Standards and testing requirements: Petroleum equipment is subject to standards and testing requirements. Feasibility studies are required of large-scale construction and mineral exploitation projects.

Investment barriers: The government's Council of Ministers must pre-approve all foreign investments. Mineral exploration, prospecting, and extraction rights are granted by concessionary agreements with the approval of the Council of Ministers. There are restrictions on the number of foreign personnel that an enterprise may hire, and on the private ownership of land. Legislation is being drafted to ease some of the land ownership restrictions.

To normalize its trade and investment relations with Azerbaijan, the United States has proposed a new network of bilateral economic agreements. The Azerbaijani government is considering a draft U.S.-Azerbaijan trade agreement, which would provide reciprocal Most Favored Nation status.

A U.S.-proposed draft U.S.-Azerbaijan bilateral investment treaty, which would establish a bilateral legal framework to stimulate investment, is also under consideration by the Azerbaijan government. The United States has also provided to Ajerbaijan a draft bilateral tax treaty, which would provide U.S. businesses relief from double taxation of income. An Overseas Private Investment Corporation (OPIC) incentive agreement, which allows OPIC to offer political risk insurance and other programs to U.S. investors in Azerbaijan was also concluded in 1992.

6. Export Subsidies Policies

One of the legacies of a centrally-planned economy is government subsidies to state-owned enterprises, but these subsidies are aimed at maintaining production and employment rather than being specifically targetted at supporting exports.

7. Protection Of U.S. Intellectual Property

Azerbaijan has yet to adhere to the international conventions that protect intellectual property. A patent law is being drafted. One problem is the sale in Azerbaijan of goods imported from third countries bearing counterfeit trademarks or produced without paying royalties. There is no evidence, however, that Azerbaijan is a producer of such goods. The draft U.S.-Azerbaijan bilateral trade agreement proposed by the U.S. contains commitments on protection of intellectual property.

8. Worker Rights

a. Right of Association

Azerbaijani labor unions still operate as under the Soviet system. However, the Azerbaijan Labor Federation has severed its links to Moscow, and certain unions are the center of antigovernment political activity and operate without hindrance or restriction. The unions, to which all workers belong, are highly dependent upon the government. There is a right to strike, and increasingly workers are making use of this right. Unions and workers are not directly subjected to any human rights abuses. Unions are free to form federations and participate in international bodies.

b. Right to Organize and Bargain Collectively

Collective bargaining is at a rudimentary level; wages are still decreed by relevant Government ministries for organizations within the Government budget. There are no export processing zones.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is prohibited by law and is not known to be practiced..

d. Minimum Age for Employment of Children

The minimum employment age is 16. Children of 14 are allowed to work during vacations with the consent of their parents and certification of a physician. Children of 15 may work if the workplace's labor union does not object.

e. Acceptable Conditions of Work

There is a nationwide administrative minimum wage set by government decree. The minimum was raised several times in 1992 as the ruble collapsed. It is not known how effectively the minimum wage was enforced. The legal workweek is 41 hours.

Health and safety standards exist but are by and large ignored at the workplace.

f. Rights in Sectors with U.S. Investment

There little significant U.S. investment in Azerbaijan.

BELARUS

KEY ECONOMIC INDICATORS*

(in billions of rubles unless noted otherwise)

	1990	1991	1992(1)
Income, production and employment			
GDP (current prices)	40.4	71.88	421.0
Real GDP growth (pct)	-2	-2	n/a
GNP (current prices)	n/a	n/a	421.3
Gdp by sector			
agriculture	n/a	n/a	74.1
Manufacturing	n/a	258.4	231.9
Construction	n/a	n/a	37.9
Labor force (000)	5148.5	5019.7	4831.2
Unemployment (pct)	n/a	.04	.30
Money and prices			
money supply	n/a	n/a	n/a
base interest rate(pct)	3.0	5.0	20.0
Personal savings rate/ per capita	1633 r	2243r	857r
retail inflation	104.7	194.1	837.3
Wholesale inflation	102.0	250.4	1562.3
Consumer price index	252.8	687.9	957.0
Exchange rate (avg)	n/a	n/a	110(2)
(rubles per dol)	-	-	364(3)
Balance of Payments and Trade			
Exports to U.S. (dols 000)	n/a	n/a	20,140
Imports from U.S. (dols 000)	n/a	n/a	71,531
Aid from U.S.(mil dols)	n/a	n/a	38.6 (4)
Aid from other countries (billions of dols)	n/a	n/a	2.0
Trade balance (millions of dols)	n/a	n/a	250.0

(1) Jan-sept. 92
(2) Avg. Exchange rate 1-6/92
(3) avg. Exchange rate 7-12/92
(4) Other U.S. assistance was available through regional programs for which a country-by-country breakdown is not available.

* Figures should be considered as indicators of order of magnitude only.

1. General Policy Framework

Belarus formally declared its independence on July 27, 1991. Together with Russia and Ukraine, Belarus was a founding member of the Commonwealth of Independent States in December 1991. In September 1991, Stanislav Shushkevich, was elected Chairman of the Supreme Soviet and Head of State. The government is headed by Prime Minister Kebich, who together with the Council of Ministers, directs economic policy.

BELARUS

Guided by the premise, "evolution not revolution," the Belarus Government maintains a tight control over the pace of reform due to fears over the potential for social unrest caused by decreased living standards and unemployment. As a result, food and energy subsidies remain largely in place.

Belarus has a diversified economy which had generated one of the highest standards of living in the former USSR. Belarus can meet all its own basic food needs with the exception of feed grains, sugar, and vegetable oil. The agriculture sector accounted for an estimated 23 percent of Net Material Product (NMP) and 19 percent employment in 1991 and is biased toward livestock which contributes some 60 percent of the agricultural output. Belarus's industrial sector produces about 60 percent of its NMP, and about 31 percent of employment in 1991. The industrial sector is biased toward heavy industry with concentration in machine building, electronics, chemicals, defense-related production, and construction materials. Virtually all enterprises are state-owned.

The industrial sector has experienced major supply, demand, and price shocks as it relies on other CIS countries to supply 70 percent of its raw materials and to absorb 40 percent of Belarus's output. The military complex requires drastic restructuring which will require substantial amounts of investment, along with changes in operations and ownership.

The economy is energy-intensive because of traditionally low energy prices. More than 90 percent of primary energy consumption is met by imports. At world prices, the IMF estimated the value of net energy imports in 1991 to be about $5 billion.

Belarus also faces a number of environmental problems related to the Chernobyl accident and its heavy industrial base. Agricultural activity is still restricted in areas damaged by the Chernobyl accident.

Fiscal and monetary policies: The Government of Belarus initially allowed itself a deficit of no more than 6 percent of government expenditure. In October, however, Parliament approved a government proposal to raise the deficit to 12 percent of government expenditures, excluding Chernobyl-related expenses. The Supreme Soviet in October raised the minimum wage to 2,000 rubles per month; in December, the minimum wage was again increased to 3,000 rubles per month, (effective January 1, 1993), to compensate for a new round of price increases. According to government statistics and amendments to the budget, the cost of subsidizing staple goods and energy-related services totaled 77 billion rubles in 1992.

Belarus has limited control over its monetary policy. The Central Bank of Russia retains sole authority to issue rubles. While Belarus has not left the ruble zone, it has introduced a coupon system and limited the use of the ruble in an attempt to gain more control over the money supply.

The volume of money in Belarus's economy increased dramatically since last year. In July alone , credits to otherwise insolvent enterprises exceeded the government's entire 1992 goal of R200 billion. Mounting pressure to monetize the country's large inter-enterprise arrears of over 160 billion rubles led to a deal among large enterprises mutually to cancel out debts owed to each other, thereby reducing the inter-enterprise arrears by 126 billion rubles. According to the National Bank of Belarus, Belarus owes Russia 65 billion rubles, with Russia's arrears to Belarus exceeding 100 billion rubles.

The National Bank of Belarus (NBB) is a weak financial institution, hampered by lack of technical and financial expertise and political interference. Establishing monetary control is impeded by the practice of monetizing the fiscal deficit and outright cancelling outstanding debts of state enteprises. The refinance rate of the NBB serves as an indirect subsidy to state enterprises as the rate is lower than commercial credit or the inflation rate.

The banking system has a two-tiered structure consisting of: a) the National Bank, and b) commercial banks and credit institutions, which maintain correspondent accounts with the National Bank in which they store free money assets.

The five specialized banks that make up the commercial banking sector are largely owned by the state enterprises. Private commercial "banks" have been established by small groups and enterprises but are lacking in resources.

Belarus joined the IMF, World Bank and the European Bank for Reconstruction and Development (EBRD) in 1992. The World Bank anticipates lending Belarus about $410 million in the next one to two years for such things as essential imports, institution building and private sector development in agriculture. The EBRD has already approved a $38 million telecommunications project.

Belarus was granted GATT observer status in 1992.

2. Exchange Rate Policy

Belarus is in the ruble zone. Experiencing a chronic shortage of rubles in 1992, the government issued coupons or Belarusian "rubels" in late May in an effort to supplement the circulation of currency and to protect the Belarusian market. In November, the government implemented a decree which limited the use of the Russian ruble; all food sales in retail enterprises are to be conducted in Belarusian rubels. The government utilizes the rubel to pay part of student grants and pensions and up to 80 percent of wages.

Tight limits on the exchange of rubles for Belarusian currency have been imposed: foreigner travelers are allowed to exchange up to 250 rubles/day if on business; others face a 30% commission. The existing exchange rate is set at 10 Russian rubles for every one Belarusian rubel

3. Structural Policies

The government is anxious to attract foreign investment and has introduced a series of reform to improve the investment climate. The Supreme Soviet has passed legislation which regulates bankruptcy, leasing, private companies and privatization but there are few concrete implementing policies. There remains considerable government intervention in the operations of state enterprises over prices and profit margins.

In June the government published its plan for an economic program which included the introduction of inducements for investors. The program aims to remove all restrictions on formation of joint ventures and direct foreign investment in Belarus, allows leasing of land and buildings by foreign firms, permits the sale of non-profitable enterprises and provides foreign investors with a two-year tax holiday.

The plan, however, has yet to be translated into legislation. As the economic crisis worsens, the government has taken steps to increase its control over foreign trade, e.g. reimposing a monopoly on the export of ferrous and non-ferrous metals, as a means to obtain precious hard currency income.

Although the Supreme Soviet has not yet passed a privatization law, a privatization decree dated September 1991, allows for worker buy-out of small and medium firms. Large-scale privatization is proceeding slowly. By the end of 1992, 47 of the 117 enterprises privatized were medium to large government enterprises.

4. Debt Management Policies

Belarus was a signatory to the G-7 agreement on the former Soviet Union debt; its share was set at 4.13 percent. In the economic agreement signed with Russia in July, 1992, Russia assumed all of Belarus's FSU debt obligations, while Belarus gave up all rights to FSU assets.

5. Significant Barriers to U.S. Exports

Joint ventures with more than 30 precent foreign ownership are entitled to export their products without a license and enjoy a three-year tax holiday on profits commencing when the company earns its first profits and if the product is manufactured by a joint venture in Belarus. If the company sells goods or services of third parties--so called "middleman activity"--the tax holiday on profits does not apply. Hard currency earnings from the export of products of a 30 percent foreign-owned joint venture can be disposed of by the enterprise after payment of appropriate taxes.

These taxes include: a) individual income tax, b) value-added tax (of 28% percent), c) excise tax, if the company produces specified goods, e.g. cigarettes and alcohol, d) real estate and land taxes, e) tax on the use of natural resources, depending on the volume of natural resources extracted and on polluting substances emitted or disposed of into the environment, f) fuel tax.

To date, there is no law on currency regulation in

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Belarus, although a draft law is on the Supreme Soviet's agenda. In March 1992, the Supreme Soviet issued a decree entitled "temporary rules for hard currency regulation and the conducting of operations with hard currency on the territory of the republic of Belarus." Under this decree, hard currency earnings from the export of products made by an enterprise with at least 30 percent foreign investment remain at the disposal of such enterprise. All other enterprises must/must sell a certain portion of their hard currency earnings to the government of Belarus. The exact percentage of after-profit income to be sold depends upon the type of goods and services sold by such enterprises for hard currency and ranges from 30-70 percent.

To normalize its trade and investment relations with Belarus, the United States has proposed a new network of bilateral economic agreements. The U.S.-Belarus trade agreement, which will provide reciprocal Most Favored Nation status, was concluded and was ratified by the Belarus Parliament in December 1992. An exchange of diplomatic notes is required to put the agreement into force.

A U.S.-Belarus bilateral investment treaty, which would establish a bilateral legal framework to stimulate investment, is under discussion. A bilateral tax treaty, which would provide businesses relief from double taxation of income, is also being considered by both governments. An Overseas Private Investment Corporation (OPIC) incentive agreement, which allows OPIC to offer political risk insurance and other programs to U.S. investors in Belarus, has also been concluded and is in force. The U.S. Export-Import Bank is open for short term cover (maturities up to 360 days) in Belarus.

6. Export Subsidies Policies

One of the legacies of a centrally-planned economy is government subsidies to state-owned enterprises, but these subsidies are aimed at maintaining production and employment rather than being specifically targetted at supporting exports.

7. Protection of U.S. Intellectual Property

Belarus is not a member of the World Intellectual Property Organization nor a party to any international conventions on protection of intellectual property. The U.S.-Belarus trade agreement, which is not yet in force, includes commitments on protection of intellectual property.

8. Worker Rights

The independent trade union movement is slowly developing. The largest trade union in Belarus, the Federation of Trade Unions of Belarus, consisting of 5 million members is not an independent organ as it still follows government directives.

BELARUS

a. Right of Association

A law on trade unions, passed by the Belarusian Supreme Soviet in April, allows the formation of independent trade unions. However, workers are often automatically inducted into the government-affiliated "Federation of Trade Unions." The Federation's active role in controlling social programs such as pension funds will impede the growth of truly independent trade unions.

b. Right to Organize and Bargain Collectively

Existing legislation provides the right to organize and bargain collectively and bars discrimination against trade union organizers. In practice, however, there have been reported cases of dismissals and threats of loss of employment against independent union members. The Supreme Soviet recently passed a new law on labor disputes which has not yet been published in final form.

c. Prohibition of Forced or Compulsory Labor

There is no explicit prohibition on compulsory labor. Belarus has ratified one of the ILO's forced labor conventions. Penal labor in the production of manufactured goods exists.

d. Minimum Age of Employment of Children

Existing law establishes 16 as the minimum age for employment. Exceptions are made in certain cases where the primary wage earner is incapacitated.

e. Acceptable Conditions of Work

The Supreme Soviet has the responsiblity to set a minimum wage which is periodically in response to inflation. The labor code limits the work week to 41 hours, with a required 24-hour rest period. Many workers, however, find themselves underemployed and are forced to take unpaid leave due to decline in factory production. The law establishes minimum conditions for workplace safety and employee health. However, enforcement of these standards is lax.

f. Rights in Sectors with U.S. Investment

Not applicable

BELGIUM

Key Economic Indicators

(Billions of Current Belgian francs (BF) unless noted)

	1990	1991	1992 (Proj)
Income, Production, Employment			
Real GNP (Billion 1985 francs)	5,699	5,785	5,884
Real GDP growth rate (pct.)	3.3	2.1	1.5
GNP at current prices	6,520	6,834	7,159
Real GDP by sector			
Agriculture	128	150	N/A
Industry	1,485	1,934	N/A
Construction	336	389	N/A
Services	3,739	4,360	N/A
Real per capita income (BF)	625,596	673,545	691,427
Size of Labor Force (1,000s)	4,251	4,268	4,291
Unemployment Rate (pct.)	8.3	8.7	9.4
Money and Prices			
Money Supply (M1)	1,308	1,282	1,360
Tender rate (pct.)	10.3	9.0	9.2
3-month Treas. bill rate (pct.)	9.60	9.36	8.8
L-T Govt. bond yield (pct.)	10.06	9.28	8.8
Govt. deficit as pct. of GNP	-5.6	-6.3	-5.7
Savings rate (pct. of GNP)	21.9	22.0	22.2
Investment rate (pct.of GNP)	12.8	3.0	2.5
Consumer Price Index (pct.)	3.5	3.2	2.7
Wholesale price index (pct.)	0.6	-1.1	1.0
Exchange Rate BF/$ (avg.)	33.41	34.18	32.53
Balance of Payments and Trade			
Total Exports FOB	3,943	4,024	4,159
- Exports to U.S.	170	151	146
Total Imports CIF	4,002	4,119	4,329
- Imports from U.S.	182	197	196
Aid from U.S.	0	0	0
External Public Debt	1,111	1,107	1,053
Annual external debt service	261.9	297.8	N/A
Overall Debt Service payments	381.1	669.4	538.2
Gold and Forex reserves	439.9	730.3	787.1
Current Account	152	153	300
Balance with U.S.	-12	-46	-50

1. General Policy Framework

Belgium, a highly developed market economy, belongs to the OECD group of leading industrialized democracies. With exports and imports each equivalent to about 60 percent of GNP, it depends heavily on world trade. Belgium ranked as the ninth-largest trading nation in 1991. About 75 percent of its trade takes place with other European Community (EC) members. Belgium's service sector (including the public sector) accounts for 65 percent of GNP, compared with 33 percent for industry and two percent for agriculture. Belgium imports many basic or intermediate goods, adds value, and then exports final products.

The country exports twice as much per capita as Germany and five times as much as Japan. Belgium's trade advantages are derived from its central geographic location, and a highly skilled, multi-lingual, and productive workforce. For the 30 years through 1991, Belgium enjoyed the second-highest average annual growth in productivity for all OECD countries (ranking after Japan).

Belgium's major exports to the world are cars, electrical equipment, cut diamonds, iron, plastic, organic chemical products, and refined petroleum. The country's main exports to the U.S. include diamonds, chemicals, refined petroleum products, textiles, steel, and steel products. Main imports from the rest of the world are organic chemical products, plastic, steel, rough diamonds, assembled cars, and electrical equipment. Major imports from the U.S. include petroleum products, transportation equipment, diamonds, computers and related equipment and services.

Belgium and the United States have strong reciprocal trade relations. Belgium accounts for 2.3 percent of all U.S. exports, which ranks it 12th worldwide as an importer of U.S. goods. Including U.S. exports which pass through Belgium to other countries, Belgium is the United States' 10th largest overseas market. Belgium serves as an entry point for many American products on their way to European and worldwide destinations.

The U.S. generally maintains with Belgium one of our most favorable balances of trade in the world. In 1991, the U.S. exported $10.6 billion worth of merchandise to Belgium and imported $3.96 billion from Belgium, for a surplus of $6.64 billion.

Belgium's high dependency on exports to European trading partners with slowing economies, a reduction in domestic investment and consumption, and high domestic interest rates tied to German rates led to a slowdown in Belgium's economic growth to 1.5 percent in 1991, the slowest growth since 1985. For 1992 growth could be 1.5 percent, but much depends on the economic results in Germany and other neighboring countries. After falling significantly in most of the 1980s, Belgium's unemployment level has grown steadily since the middle of 1989, but at a level consistently below the EC average.

A low level of inflation and a government goal set in May 1990 of linking the Belgian franc to the German mark, coupled with recently high current and capital account surpluses, make the Belgian franc one of the strongest currencies within the European Monetary System (EMS). The BF did not come under attack by speculators during the September 1992 European monetary crisis. This strength will help the country in its efforts to meet the economic convergence criteria for the proposed European Economic and Monetary Union (EMU). The current Christian Democratic-Socialist four-party coalition puts great emphasis on achieving full membership in EMU by 1997. The focal point of economic policy for the Dehaene Government, which was installed in March 1992, is to reach the

Maastricht Treaty's annual public sector budget deficit target of three percent of GNP by 1996. High interest bills on public debt accumulated mostly before 1982 make this a difficult target.

Belgium offers many advantages to foreign investors, including a well-educated, productive, and generally prosperous population. Belgium's elaborate infrastructure and extensive transportation, banking, and communications systems combine to make the country a prime location for U.S. 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.

In previous decades, Belgium's only major natural resource was coal, which was used in extensive steelworks. Now all coal mines are closed, and the steel industry has restructured. Today Belgium is mainly a "transput" economy, i.e., the vast majority of processed goods are imported as raw materials, then transformed and mostly reexported. The principal sectors of Belgium's industrial base include pharmaceuticals, high technology, automobile assembly, textiles, steel products, chemicals, refined petrochemicals, and petroleum products.

State-owned enterprises constitute only a small percentage of the economic activity of the country. The enterprises include primarily public services such as the post office, telephone company, railways, and the national airline Sabena, as well as some public sector banks.

2. Exchange Rate Policy

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 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 permitted in the ERM) in a first stage. Consequently, the BF short-term interest rate differential with the DM disappeared almost overnight. Recently, the BF has stayed within 0.1 percent of the DM.

The recent turbulences on the foreign exchange markets in Europe have once again illustrated the effectiveness of such a "strong franc" policy. Despite a potentially damaging cumulative budget deficit, financial markets apparently believe that the BF is as good as the DM, and steer clear of any speculation against it.

3. Structural Policies

Belgium does not discriminate 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 last case, the EC's external tarriff and the quota structure of the Common Agricultural Policy (CAP) apply. The Belgian Government's attitude toward free trade enjoys widespread support throughout the business community.

Subsidies: Since the law of August 1980 on Regional Devolution in Belgium, the budgets for investment incentives have been devolved to Belgium's three regions: Flanders, Brussels, and Wallonia. Tax measures designed to attract new investment, however, remain the privilege of the Federal Government. According to a 1990 report by the EC Commission, Belgium ranks fifth in terms of government support to the private sector within the EC. According to EC statistics, Belgium's state aid to manufaturing totalled 4.1 percent of GDP 1990. The IMF calculates that, in 1985-89, Belgium provided subsidies equal to almost twice the amount of corporate tax revenue it received. In August 1990, the EC Commission stated that such high levels of subsidization seriously distort competitiveness within the EC, and ordered the Belgian authorities to stop all capital grants and interest rebates as of August 1, 1991. Under EC guidelines, only support for energy-saving measures, environmental friendly investments, and scientific research are permitted. The regional authorities, responsible for the implementation of the investment incentives, subsequently altered their regulations. So far, the EC Commission has accepted only the Walloon Regional Government's revision of investment incentive rules. The Flemish and Brussels Regions are still seeking EC approval.

Investment: No restrictions in Belgium apply specifically to foreign investors. All investors, Belgian or foreign, must obtain special permission to open department stores, provide transportation, produce and sell certain food items, cut and polish diamonds, and sell firearms and ammunition.

Tax structure: Belgium's tax structure was substantially revised in 1989, but the top marginal rate on personal income is still 55 percent. Corporations are taxed on income at a standard rate of 39 percent and a reduced rate ranging from 28 percent to 39 percent. However, studies show that the actual corporate taxes paid by companies in Belgium are far below the official rate of 39 percent. Actual income tax rates paid have gone down from 23.8 percent in 1989 to 19.8 percent currently. The discrepancies between official tax rates and taxes paid are due to tax planning opportunities, the gap between actual profits and taxed profits, and the complexity of the corporate tax system Branches of foreign offices are taxed on total profits at a rate of 43 percent, or at a lower rate in accordance with the provisions contained in the double taxation treaty. Under the present bilateral treaty between Belgium and the U.S., that rate is 39 percent.

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 two parties are reviewing draft language for a new treaty. In the meantime, a protocol to the 1970 treaty was concluded in December 1987 and was approved by the Belgian Parliament in April 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 5 percent (a feature which was actively sought by the American business community).

4. Debt Management Policies

Belgium's public sector is a net external debtor, but the net foreign assets of the private sector push the country into a net creditor position. Only 13.1 percent of the Belgian Government's overall debt is owed to foreign creditors. Moody's top 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, its economic union with Luxembourg, 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. Because of 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 by the Belgian government has also been restricted. 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, the EBRD and the Paris Club. Belgium is a leading donor nation, and it closely follows development and debt issues, particularly with respect to Zaire and some other African nations.

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

In January 1993, when the EC's internal market is to be fully integrated, Belgium will have harmonized most, if not all, of its trade rules in both the commodity and services sectors with those of the eleven other 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 subcontractors 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 9 percent to Brussels. As a consequence, many U.S. defense companies have avoided 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. U.S. suppliers may benefit from the EC Utilities Directive to liberalize public procurement in excluded sectors (including telecom), provided the provisions which allow for discrimination against non-EC suppliers are not implemented. These discriminatory provisions, if applied, would trigger retaliation under Title VII of the 1988 Trade Act. Value-added and information services may also be opened to competition from the private sector, as will the cellular phone market, but invisible barriers of entry are likely to persist (e.g. technical specifications tailored to those of the national champions, long and expensive approval procedures).

- Broadcasting and Motion Pictures: Belgium voted against the EC broadcasting directive (which required quotas on non-European entertainment programming but nondiscrimination among European suppliers) 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.

- 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 eliminated the limit in October of 1990. A Government review of the qualitative restrictions on the activities of foreign legal consultants is being considered.

- Car registration tax: In June 1992, the Belgian Government passed a car registration tax which had a significant impact on the importation of U.S. cars, jeeps, and minivans into

Belgium. In determining how to set the new registration tax, Belgian government officials chose vehicles with large engines, in particular those of 3.0 liters or greater. Since U.S. imported vehicles tend to be of larger engine size, though not necessarily more powerful than European models, a number of imported American vehicles will be affected by the new tax. Cars assembled locally or in Europe by US firms were not affected seriously due to engine sizes which conform more to general European demand. While government officials maintain that the new tax was not directed against the U.S., and affected imports from a number of countries, the new tax affects imported U.S. vehicles most heavily.

6. Export Subsidies Policies

There are no direct export subsidies offered by the Government of Belgium to industrial and commercial entities in the country. The Government does conduct an active program of trade promotion, however. The social expenditure relief (reduction of social security contributions by employers, generous rules for cyclical layoffs) offered to companies by the Government, and the trade promotion activity (subsidies for participation in foreign fairs and the compilation of market research reports) may approach 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 the 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.

Despite an EC-imposed January 1, 1993 deadline for implementation of the EC software copyright directive into law, a draft Belgian copyright bill to fulfill the EC requirements remains pending. The draft bill provides for an eight percent levy on blank audio and video tapes, as well as their recording devices, plus an eight percent levy on the import price of photocopiers, as compensation for the illegal copying of music and video recordings. Unathorized copying of computer hardware and software would also be penalized through fines and imprisonment.

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 World Intellectual Property Organization (WIPO) is also available.

8. Worker Rights

a. Right of Association

Workers have the right to associate freely and to strike. However, in certain narrowly defined circumsyances, such as the provision of essential public services, the public employees' right to strike is not explicititly recognized. With an estimated 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 harrassment and persecution. Significant strikes in 1992 ocurred in the health care, transportation, metalm teaching, and shipyard sectors.

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.

b. Right to Organize and Bargain Collectively

The right to organize and bargain collectively is recognized and exercised freely. Labor legislation and practice are uniform throughout Belgium. Every other year, management and the unions negotiate a nationwide collective bargaining agreement, covering 2.4 million private sector workers, which establishes the framework for negotiations at plant and branch level for the subsequent two years. The right to due process and judicial review are guaranteed for all protected activity. Effective mechanisms exist for adjudicating disputes between labor and management. Belgium maintains a system of labor tribunals and regular courts which hear disputes arising from labor contracts, collective bargaining agreements, and other matters. There are no export processing zones, and labor legislation and practice are uniform throughout Belgium.

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 15, but there is compulsory schooling until the age of 18. Children may study and work part time from age 15 to 18. New legislation was adopted in 1992 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 40 hour week is mandated by law, although many collective agreements call for work weeks of between 36 and 39 hours. The legal minimum wage is currently BF 38,095 per month (or 1,229 dollars at one dollar = BF 31) for full-time workers over age 21. In Belgium, as in other countries, minimum wage rates probably contribute to unemployment. By law, workers in the private sector receive at least four weeks of vacation per year and an annual bonus equal to approximately 85 percent of one month's pay. 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.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		294
Total Manufacturing		4,002
Food & Kindred Products	383	
Chemicals and Allied Products	2,092	
Metals, Primary & Fabricated	157	
Machinery, except Electrical	(D)	
Electric & Electronic Equipment	240	
Transportation Equipment	199	
Other Manufacturing	(D)	
Wholesale Trade		2,145
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		6,441

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

Source: U.S. Department of Commerce, Survey of Current Business, November 1992, Vol. 72, No. 8, Table 11.3

BULGARIA

Key Economic Indicators

	1990	1991	19921/
Income, Production, Employment			
Real GDP (billions of 1990 lev) I,E/	42.0	32.8	29.5
GDP at current prices I,E/	42.0	185.0	300
Real GDP Growth Rate (PCT) I,E/	-11.8	-22.9	-10
Real GDP by Sector I,E/			
Industry (billions 1990 lev)	21.7	16.0	13.3
Agriculture	7.4	6.8	6.2
Trade and Services	12.9	10.0	10
Per Capita Income (US$) I,E/	2,214	988 2/	1448
Size of Labor Force (1000's) G/	4,096	4,161	4150
Unemployment Rate (PCT) G,E/	0.2	9.0	15
Money and Prices			
Money Supply (Ml, Bil. Lev) G/	28.7	49.5	66.7
Commercial Interest Rate (PGI) G/	5.6 3/	60.0	48
Gross Domestic Savings Rate I,E/	2.24	2.08	2.1
Gross Domestic Investment Rate	2.29	2.27	2.25
Consumer Price Index G,E/ (Dec. 1990 Equals 100)	100	520	936
Wholesale Price Index	n/a	n/a	n/a
Exchange Rate (year-end)			
Official 4/	3.0	21.5	23
Parallel	7.0	22.5	24
Balance of Trade and Payments (current $) G,E,I/			
Total Exports (FOB) ($ bil.)	8.46	3.74	3.89
Total Imports (FOB) ($ bil.)	10.8	3.78	4.30
Total Exports to U.S. ($ mil.)	227.0	56.4	99.0
Total Imports From U.S. ($ mil.)	73.5	142.2	85.0
Trade Balance with U.S. ($ mil)	153.5	-85.8	14.0
Aid From U.S. ($ mil., fiscal year)	2.2	88	40.0
Aid From Other Countries (Including International Financial Institutions)	n/a	724	600
External Public Debt ($ bil.)	10.0	11.3	13.0
Annual Debt Service Paid ($ mil.)	40.3	3.7	80.5
Annual Debt Service Scheduled ($ mil.)	116.4	47.4	85.
Gold and Foreign Exchange Reserves ($ Bil.)	.12	0.535	1.18

E/ U.S. Embassy Estimate
G/ Government of Bulgaria
I/ International Financial Institutions
1/: 1992 Figures are estimates for year-end
2/: Per capita incomes are calculated at following exchange rates:
1990 2.1 lev/dollar
1991 18 lev/dollar
1992 23 lev/dollar

BULGARIA

3/: Home mortage rate for 1989/1990 was 2.6 percent
4/: Rate fluctuated between 22.1:1 and 23:2 from January-October 1992

1. General Policy Framework

In late 1991, the new government of Filip Dimitrov inherited an economy in serious recession and still shackled by the economic structures erected by the old communist regime. The government pledged to continue Bulgaria's ambitious stabilization program, in cooperation with the IMF and the World Bank. It also pledged to begin a fundamental structural reform of the Bulgarian economy. The government of Professor Lyuben Berov was sworn in on December 20, 1992. It is expected to follow the reform policies begun under the previous two non-socialist governments, albeit with a prominent role for the state as buffer and redistributor. The Berov Government has said it will follow a "social market approach" in line with classic West European Christian- or Social-Democratic programs.

The Economic Stabilization Program adopted in 1991 with the support of the IMF, the World Bank, and the G-24 Nations, shrank the budget deficit and slowed inflation, but sparked a severe recession. Bulgaria was further hit by the collapse of its COMECON trade (80 percent of the total), and United Nations sanctions against Iraq in 1990 and Serbia in 1991. The economic structural reform program has been partially adopted, with some draft legislation awaiting parliamentary action. Furthermore, caution, uncertainty, and a high turn-over in the bureaucracy have hindered a speedy translation of reform legislation into practice.

Despite stagnation in the standard of living over 1992, imports of U.S. consumer goods, including automobiles, have risen due to the relative weakness of the dollar versus European convertible currencies.

The central bank (BNB) sought to bring inflation down from a 5 percent to a 2-3 percent monthly rate by the end of 1992, using a normal range of policy instruments. Although monthly rates fell to an average 2 percent in July and August, they rose in September. Inflationary pressures grew again late in the year, including increases in utility and transportation prices. During the year, the BNB gradually reduced interest rates. Tension developed between the Bank, which tried to maintain positive real interest rates, and the Ministry of Finance, which sought to finance the budget deficit at the lowest possible cost.

The Government struggled to keep the cash budget deficit to 4.5 percent of GDP (later increased to 4.8 percent with IMF aproval) in spite of lagging tax revenues and pressure to increase transfer payments. It financed the deficit through a combination of central bank borrowing and Treasury Bill sales. In October 1992, Bulgaria began to service current interest due on its foreign commercial debt prior to starting rescheduling negotiations. The Government also made a payment on Paris Club (official creditor) debt rescheduled in 1991. Debt service payments will put further pressure on the 1993 budget deficit. In September, the Government introduced into Parliament a comprehensive tax reform proposal, including a unitary 20 percent VAT to replace an unwieldy system of turnover taxes.

In 1992, Parliament passed a Privatization Law, a revised Foreign Investment Law, a Banking Law, and amended the Land Reform Act to improve conditions for foreign investment. As first steps in revising the Commercial Code and intellectual property laws to meet international standards, a Corporation Law was passed and a new draft Patent Law was introduced into Parliament. In late 1992, the newly-formed Privatization Agency announced plans to begin privatizing state firms by the end of the year.

Bulgaria has observer status in the GATT and has formally applied to become a contracting party. Bulgaria is also in the process of negotiating free trade agreements with the EC and EFTA

2. Exchange Rate Policies

From January to October 1992, the lev strengthened somewhat in nominal terms (from 23.2 to 22.1/dollar). In real terms, considering inflation, it strengthened considerably. The BNB intervened in the currency market to stabilize the slow nominal lev appreciation. In doing so, the BNB doubled the country's convertable currency reserves to more than one billion dollars. With the resumption of interest payments to commercial creditors and projected revival of demand for capital goods imports, the dollar is expected to strengthen significantly to 30-35 leva/dollar in 1993. The BNB 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. For goods such as autos and some machine tools the United States remains fully competitive with Western Europe and Japan.

Only some of the commercial banks are licensed to effect currency operations abroad. Companies may freely buy foreign exchange for imports from the interbank market. Individual Bulgarian citizens may buy only 500 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. Capital gains transfers appear to be protected under the revised Foreign Investment Law, and free and prompt transfers of returns on investment are guaranteed by the United States-Bulgaria Bilateral Investment Treaty. A permit is required for hard currency payments to foreign persons for direct and indirect investments and free transfers unconnected with import of goods or services.

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3. Structural Policies

Bulgaria's new market-oriented laws on Accounting, Land Reform, Competition, Foreign Investment, and the Central Bank and Corporation Laws do not inhibit U.S. exports, which are more affected by the government's tight monetary policy and Bulgaria's isolation from trade financing. A revised Patent Law has had its first reading in Parliament. A new Copyright Bill is being drafted. Futher revisions in the Commercial Code (regarding commercial activity and bankruptcy) and draft Bankruptcy and Security and Exchange Laws are mooted. Implementation of reforms is hindered by slow decision making and bureaucratic red tape.

The Dimitrov government announced plans to privatize about 100 individual state enterprises by mid-1993. By the end of 1992, it plans to announce a systematic program to privatize several sectors of the Bulgarian economy during 1993, including construction, building materials, transportation, and tourism. While two potential breaches of contract against U.S. firms by newly autonomous state enterprises were successfully resolved, one can expect a certain unpredictability in commercial dealings until privatization is well rooted.

In September 1992, the government introduced a package of tax legislation to Parliament, including a unitary 20 percent value-added tax that in mid-1993 is to replace the current turnover tax. 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 1992, 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.

4. Debt Management Policies

Bulgaria's former communist regime more than doubled the country's external debt from 1985 to 1990. With more than $10 billion outstanding, the government declared a debt service moratorium in March 1990. Bulgaria continued to service three small convertible-currency bond issues. Of Bulgaria's current $12 billion 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 the Western banks because of the moratorium remains the main barrier to imports from the U.S. and elsewhere.

Debt service due in 1992 is equal to about 40 percent of export earnings. The debt to GDP ratio is 138 percent. Bulgaria rescheduled its official (Paris Club) debt for one year in April 1991 and again in December 1992. These agreements defer proncipal payments through April 1993. Bulgaria's negotiations with its commercial creditors (London Club), snagged since mid-1990, restarted after Bulgaria resumed partial interest payments in October 1992. The parties hope to reach a Brady Plan-type agreement by March 1993, although negotiations could last until mid-year, given the wide difference remaining in both sides' proposals for a strike price.

Bulgaria's standby arrangement with the IMF expires in April 1993. Negotiations on a longer program await the formation of a new government. Bulgaria also is the recipient a $250 million Structural Adjustment Loan from the World Bank.

5. Significant Barriers to U.S. Exports

Import licenses are required for a specific, limited list of goods. Among others, 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.

The Bulgarian Government states that its system of standards 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 encourages 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, or its equivalent in other convertible currency, are taxed at 30 percent rather than the normal 40 percent on profits.

Under the January 1992 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. Foreigners may not own agricultural land, real estate, or natural resources, but may lease for up to 70 years. Foreign persons may freely repatriate earnings and other income from their investments at the market rate of exchange. Although less clearly covered in the law, Bulgaria also committed itself to the free repatriation of capital gains in the Bilateral Investment Treaty signed in September 1992.

Foreign investors are required to obtain a licence to own or have controlling interest in: banking or insurance; firms manufacturing arms, ammunition, or military equipment; in so-far unspecified geographic areas; and research, development and extraction of natural resources. Although requirements for such licences have not yet been published in the State

Gazette, those laid down so far are reportedly nominal.

There are no specific local content or export performance requirements, nor specific restrictions on hiring of expatriate personnel. Bulgaria committed itself in the Bilateral Investment Treaty to 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. There have been problems of lack of clarity in some tendering procedures (e.g., the extension of the E-80 superhighway from Plovdiv to the Turkish border). The Bulgarian Posts and Telecommunications Committee is expected to award major telecom contracts under European Investment Bank, EBRD, and World Bank aegis by the end of 1992. U.S. investors are also finding that, in general, neither remaining state enterprises nor private firms are used to responding to competitive bidding to supply goods and services within Bulgaria to them.

Bulgaria's new harmonized tariff schedule increased average tariffs, although a 15 percent Import Tax was eliminated. (The import tax remains on 10 agricultural commodities.) The new schedule did reduce the overall range of tariff rates and eliminated spikes. 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 as a result of the United States-Bulgaria TRade Agreement. 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 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 is drafting intellectual property rights laws in line with Western European models. A New Patent Law has had its first reading in Parliament, but the date of its final passage is uncertain. A new Copyright Law is being drafted. There is currently no protection for trademarks. Production and trade secrets are nominally protected under Article 14 of the Protection of Competition Act. In accord with the April 22, 1991 United States-Bulgaria 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.

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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 of misuse of their trademarks. They say that under current Bulgarian law, it is impossible to prosecute trademark violators. The U.S. Embassy has no figures of estimated losses to U.S. firms.

8. Worker Rights

a. Right of Association

Under the existing Communist-era 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. Bulgaria has two large trade union confederations, The Confederation of Trade Unions of Bulgaria (KNSB), and Podkrepa. The KNSB is the successor to the trade union integrated with the old Communist Party, but now claims to be independent. Podkrepa, the independent confederation created in 1989, was one of the earliest opposition forces, but is no longer a member of the ruling UDF coalition and has formed an operational alliance with KNSB.

b. Right to Organize and Bargain Collectively

A new Labor Code, now under parliamentary debate, will institute collective bargaining and codify prohibitions against anti-union discrimination. Podkrepa officials have expressed concern that these prohibitions are insufficient; when this report was written, the Code had not been completed. In early 1991, wages were set by a Trilateral Commission involving the government, management, and trade unions. The Commision was disbanded early in 1992 by the government, but has been reconstituted as the Commission for Social Partnership. Unions remain vocally disaffected by the Government's inattention to the Commission. Collective bargaining was to have been instituted in July 1992, but is not yet in effect. As privatization and demonopolization have remained stalled, negotiating partners were not always clearly identifiable, and the Commission is still involved in negotiating wage agreements at the national level.

c. Prohibition of Forced or Compulsory Labor

Article 48(4) of the new Constitution states that no one may be compelled to carry out labor. Special military labor battalions totalling between 5,000 and 10,000 conscripts, mostly members of ethnic minorities, still exist, however. These conscripts fulfill their military physical labor under difficult working conditions.

d. Minimum Age of Employment of Children

According to the unamended Labor Code, the minimum age for employment of children is 16, and 18 for dangerous work. Employers and Ministry of Labor and Social Welfare enforce these provisions. As industries are privatized, and more small businesses appear, enforcing prohibitions against child labor will become more difficult. An increasing number of children are engaged in street trading in central Sofia, where a number of informal bazaars have become fixtures.

e. Acceptable Conditions of Work

Article 48(5) of the Constitution states that workers have the right to healthy and secure conditions of work, to a minimum level of compensation, to a wage corresponding to their work, and to breaks and vacations according to conditions set forth in the law. A national minimum wage, set by the Trilateral Commission in 1991, was adjusted upward in 1992 as inflation and devaluation of the currency dramatically increased the cost of living. Bulgaria has a national labor safety program with standards established by the current labor code. The generally poor state of much industrial equipment which is often outdated and lacking spare parts, complicated enforcement of safety standards.

f. Rights in Sectors with U.S. Investment

Overall U.S. investment is relatively small as of late 1992. 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 1992. Conditions are comparatively better in this sector than in others.

There are no current sectoral statistics on U.S. investment in Bulgaria.

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Key Economic Indicators

(Millions of Canadian Dollars Unless Otherwise Stated)

	1990	1991	1992	
Income, Production, Employment				
Real Gross Domestic Product (billions of 1986 C$)	563.1	553.5	558.2	1/
GDP Growth Rate (pct):	-0.5	-1.7	0.8	2/
Real GDP by sector at factor cost: (billions of 1986 C$):				
Manufacturing:	90,907	84,889	84,321	1/
Finance, insurance and real estate:	77,783	,80,769	83,297	1/
Trade:	58,018	57,149	59,212	1/
Community, business and personal services:	63,196	61,050	60,508	1/
Transportation and communications:	39,981	40,199	41,297	1/
Construction:	32,329	30,915	29,916	1/
Mining:	19,833	20,012	20,176	1/
Agriculture:	11,306	11,331	10,862	1/
Utilities:	15,142	15,832	16,026	1/
Logging and forestry:	2,763	2,483	2,584	1/
Real Per Capita Personal Disposable Income:	14,457	14,325	14,416	1/
Personal Savings Rate (pct):	10.1	10.3	10.5	1/
Total Labor Force (000's):	13,681	13,757	13,794	3/
Unemployment Rate (pct):	8.1	10.3	11.5	3/
Money, Interest Rates, Prices - end of period				
Money Supply (M2):	264,139	279,589	292,288	4/
Bank of Canada Rate (pct):	11.72	7.67	5.69	5/
Chartered Banks' Prime Rate (pct):	12.75	8.00	6.25	5/
90-Day Commercial Paper (pct):	11.62	7.52	6.80	5/
Consumer Price Index (1986 = 100)	119.5	126.2	128.3	(E)
Annual Percent Change	4.8	5.6	1.6	(E)
Industrial Product Price Index (1986 = 100)	109.7	108.6	108.6	(E)
Annual Percent Change:	0.3	-1.0	0.0	(E)
Exchange Rate (one C$ = US cents) (average annual noon rate)	85.71	87.28	80.24	5/
Balance of Payments and Trade				
Merchandise Exports:	146,520	141,728	150,950	6/
To the U.S.:	110,475	107,617	119,394	6/
Merchandise Imports:	136,600	135,948	143,418	6/
From the U.S.:	93,727	93,733	103,866	6/
Merchandise Trade Balance:	9,920	5,780	7,532	6/
Balance with U.S.:	16,748	13,884	15,528	6/
Current Account Balance:	-25,709	-29,249	-29,220	6/
Balance with U.S.:	- 2,727	- 4,835	- 6,186	6/
Gold Holdings (Million US$):	740.6	735.1	649.0	5/

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Official Int'l Reserves (Million US$):	18,581	16,901	12,777	5/
Gross External Debt: (Billion C$):	333.5	360.0	N.A.	
Debt Service Payments: (Million C$):	27,115	27,338	28,664	6/

(E) U.S. Embassy projection
N.A. Not available
1/ Second quarter actual data, seasonally adjusted at an annual rate.
2/ Second quarter percent change annualized.
3/ Third quarter average
4/ M1 plus chartered banks non-personal notice deposits + personal savings deposits, average of wednesdays
5/ Third quarter end of period
6/ First half of 1992 annualized

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 lower income persons and provinces. Also important are government-owned Crown Corporations such as the Canadian Broadcasting Corporation, the Canadian National Railway and Petro-Canada, and provincial electric utilities.

Canada is a major producer of natural resources and related products. Forestry, mining, and energy products are leading exports. The economy is also fully industrialized and produces highly sophisticated consumer goods and capital equipment. Canada is the largest trading partner of the United States, with merchandise exports of US$91.1 billion to the United States, and merchandise imports from the U.S. valued at US$85.1 billion in 1991. Vehicles and parts accounted for approximately 30 percent of U.S. merchandise exports to Canada in 1991. The stock of total foreign direct investment in 1991 was C$130 billion, of which U.S. foreign direct investment amounted to C$85 billion. Roughly 45 percent of the assets of Canadian manufacturing companies are foreign-owned; of this total, about 80 percent belong to U.S. firms.

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. Both federal and provincial governments also undertook privatization of selected Crown Corporations.

The deficit and related expansion of government debt are the most pressing problems facing fiscal policymakers at the federal and provincial level. The federal government's net debt in 1992 will exceed 60 percent of Gross Domestic

Product. 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 over 40 percent of the federal budget, and public debt service payments account for about an additional 25 percent of 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 Canada's central bank. The governor of the Bank is responsible for conducting monetary policy. The Bank's main monetary policy tool is management of cash balances with the chartered banks. Other tools used to control the money supply include open market operations, such as purchase and resale agreements with money market participants, and the Bank Rate (the interest charge on central bank advances), which 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.

2. Exchange Rate Policy

The Canadian dollar is a fully convertible currency, and exchange rates are market determined. There are no exchange control requirements imposed on export receipts, capital receipts, or payments by residents or non-residents. The Bank of Canada operates in the exchange market on almost a daily basis for purposes of maintaining orderly trading conditions and smoothing rate movements.

3. Structural Policies

Prices for most goods and services are established by the market without government involvement. The most important exceptions to market pricing are government services, services provided by regulated monopolies (electricity, telephone), most medical services, and supply-managed agricultural products (eggs, poultry, dairy products).

The principal sources of federal tax revenue are corporate and personal income taxes and the goods and services tax (GST), a multi-stage seven percent value-added tax on consumption. Canadian federal personal and corporate income tax rates are comparable to U.S. rates.

Federal government regulatory regimes affect foreign investment (see section 5 below) and also U.S. firms in the financial services sector. Although foreign-owned bank subsidiaries are subject to federal restraints on their operations and growth, U.S. banks have been exempted from most of these restrictions under the U.S.-Canada Free Trade Agreement (FTA). However, the federal government still prohibits the entry of direct branches of U.S. parent banks. In mid-1992 further financial sector reforms, which largely eliminate the remaining barriers among banks, trust companies, and insurance companies, were implemented.

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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.

Transportation is not included in the FTA. Based on a mutual desire for a liberalized North American market, in October 1990 the U.S. and Canada announced a joint initiative to negotiate a new "open skies" agreement covering transborder air services.

Telecommunications policies: Umbrella telecom legislation (Bill C-62) now pending before Parliament would bring provincially-owned telephone companies under federal jurisdiction, exempt resellers from regulation and ownership requirements, and give the Minister of Communications broad discretionary licensing authority. Carriers providing basic services would be regulated and foreign ownership limited to 20 percent. The CRTC, Canada's telecom regulatory agency, opened the long distance market to competition in the recent Unitel decision.

4. Debt Management Policies

Canada's net external indebtedness rose from C$115 billion (26 percent of GDP) in 1984 to C$232 billion (34 percent of GDP) in 1992, a relatively high figure for an industrial country. While foreigners have been receptive to holding Canadian securities and such purchases contribute to the strength of the Canadian dollar, the sharp rise in external indebtedness has made the Canadian dollar and economy increasingly vulnerable to shifts in international investor confidence.

5. Significant Barriers to U.S. Exports

On January 1, 1989 Canada and the United States began to implement a free trade agreement which will eliminate over a ten year period virtually all tariff and non-tariff barriers to trade between the two countries. On January 1, 1994 the North American Free Trade Agreement (NAFTA), if ratified, will add Mexico to the free trade area. Nevertheless, a number of Canadian practices constitute barriers to U.S. exports to Canada.

Canada applies various restrictions to imports of barley and barley products, ice cream and yogurt, fresh fruit and vegetables, eggs, and poultry. All of these restrictions affect U.S. exports and the United States has pursued some of these issues under the GATT.

Provincial legislation and Liquor Board policies regulate Canadian importation, pricing, and and retail distribution of alcoholic beverages. The Free Trade Agreement addresses these policies as they relate to wine and sprirts (listing, distribution, and pricing) and provides dispute settlement procedures. Discrminatory provincial beer practices were grandfathered under the FTA, but remained subject to GATT disciplines.

Several problems exist in the area of standards and labeling. The FTA chapter on technical standards provides for the accreditation of U.S. certification organizations and testing laboratories in Canada. The Canadian accreditation agency, the Standards Council of Canada, has been slow in processing U.S. applications, but in October 1992 it accredited two major U.S. testing and certification bodies.

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. The NAFTA will address this problem. Also, 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." Canada has agreed to eliminate this practice in the NAFTA.

Canada restricts the direct export of Pacific salmon and herring by requiring that a portion of the Canadian catch be landed in Canada before being exported. An interim agreement reached following FTA dispute settlement permits direct export (i.e. sale at sea) of a portion of the catch by Canadian licensees. This interim agreement is due to be evaluated in the spring of 1993.

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. Various restrictions on advertising aimed specifically at the Canadian market restrict U.S. access to the Canadian market for publications and print media advertising.

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. In 1990 Canada announced plans to phase out postal subsidies and replace them with direct subsidies to Canadian publishers. However, transitional postal rates adopted during the phase-out period have in fact maintained or increased the discrimination against foreign publications.

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 (as amended by the FTA) requires the federal government to review and approve foreign investment to ensure "net benefit to Canada." The Act exempts from prior government approval foreign investments in all new ("greenfield") businesses, and acquisitions worth less than C$5 million (C$150 million for U.S. investors in 1992 dollars). 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.

Further to the legal position on culture embodied in the Investment Canada Act, Investment Canada enforces a federal book publishing policy known as the "Baie Comeau Policy". Canada prohibits the majority acquisition of Canadian book publishing and distributing companies, and requires that foreign-owned subsidiaries in Canada be divested to Canadians within two years if the ownership of the parent changes hands. Exceptions are possible for the acquisition of "financially distressed" companies, subject to certain conditions. Investment Canada also has specific policies regarding foreign investment in the film distribution sector.

In the banking sector, the Bank Act of 1980 made chartering of foreign-owned banking subsidiaries possible for the first time. However, foreign banks are still not permitted to enter Canada as direct branches. Foreign banks are also unable to acquire a domestic Canadian bank, since no single entity (person or corporation) can hold more than 10 percent of a Canadian bank's capital. The FTA eliminated other discriminatory restrictions on U.S. bank subsidiaries in Canada.

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 acquisitions of provincial firms are subject to restrictions preventing foreign control.

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. 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, generally in the defense area, 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. The Free Trade Agreement eliminated subsidies on agricultural products shipped to the United States through West Coast ports.

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.

7. Protection of U.S. Intellectual Property

The Canadian Government has long-standing legislation to protect intellectual property rights, and these laws are effectively enforced.

1987 amendments to the Canadian Patents Act significantly improved protection for patented drugs and 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. On June 23, 1992 the Canadian Government introduced amendments to the Patent Act which would eliminate compulsory licensing for pharmaceuticals, thereby extending patent protection to the standard 20 years.

Canada passed a law protecting semiconductor chip design in 1990 (Integrated Circuit Topography Act) but it has not yet entered into force.

8. Worker Rights

a. Right of Association:

Except for members of the armed forces, workers in both the public and private sectors have the right to associate freely. These rights, protected by both the federal labor code and provincial labor legislation, are freely exercised.

b. 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. Among Canada's non-agricultural workforce, approximately 37 percent is organized into trade unions.

c. Prohibition of Forced or Compulsory Labor:

There is no forced or compulsory labor practiced in Canada.

d. Minimum Age Employment of Children:

Generally, workers must be 17 years of age to work in an industry under federal jurisdiction. Provincial standards (covering approximately 90 percent of the national workforce) vary, but generally require parental consent for workers under 15 or 16 and prohibit young workers in dangerous or nighttime work. In all jurisdictions, a person under 16 cannot be employed in a designated trade, or, in other words, become an apprentice before that age.

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.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		10,847
Total Manufacturing		32,360
Food & Kindred Products	2,492	
Chemicals and Allied Products	6,719	
Metals, Primary & Fabricated	3,325	
Machinery, except Electrical	2,726	
Electric & Electronic Equipment	2,364	
Transportation Equipment	6,350	
Other Manufacturing	8,384	
Wholesale Trade		4,388
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		47,595

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

Source: U.S. Department of Commerce, Survey of Current Business, November 1992, Vol. 72, No. 8, Table 11.3

CZECHOSLOVAKIA

Key Economic Indicators

(Billions of Czechoslovak Crowns Unless Otherwise Noted)

	1990	1991	1992 1/
Income, Production & Employment			
Real GDP Growth (Pct.)	-0.3	-13.4	-5-10
GDP (At Current Prices) 2/	811.3	977.8	n/a
By Sector:			
Agriculture	52.87	n/a	n/a
Energy and Water	3.16	n/a	n/a
Manufacturing	402.13	n/a	n/a
Construction	69.58	n/a	n/a
Rents	n/a	n/a	n/a
Financial Services	n/a	n/a	n/a
Other Services	283.57	n/a	n/a
Real Per Capita GDP (Crowns)	46,422	39,194	n/a
Labor Force (000's)	7,250	6,862	n/a
Unemployment Rate (Percent)	1.0	4.1	5.5
Money and Prices			
Money Supply (M2)	584.3	698.2	748.0
Base Interest Rate (%) 3/	n/a	13.16	12.76
Personal Saving Rate (% chng)	-0.2	8.0	6.2
Wholesale Inflation (%)	4.5	69.9	9.2
Consumer Price Index (%)	10.0	57.9	11.8
Exchange Rate (Kcs/USD)			
Official	17.95	29.49	28.77
Parallel (Vienna Market)	38.01	32.28	29.85
Balance of Payments and Trade			
Total Exports FOB 4/ (Billion U.S. Dollars)	11.74	10.64	10.6
Total Imports CIF 4/ (Billion U.S. Dollars)	13.24	10.71	11.00
Aid from U.S. (Million U.S. Dollars)	0.0	55.0	67.0
External Public Debt (Billion U.S. Dollars)	8.09	9.37	9.78
Debt Service Payment (Paid) (Billion U.S. Dollars)	1.1	1.5	.75
Gold and Foreign Exchange Reserves (Billion U.S. Dollars)	1.2	1.9	5.0
Trade Balance 4/ (Billion U.S. Dollars)	-1.5	-0.08	-0.4

1/ 1992 figures are all estimates based on available monthly data in August 1992.
2/ GDP at factor cost
3/ Figures are actual, average annual interest rates, not changes in them.
4/ Merchandise trade

CZECHOSLOVAKIA

1. General Policy Framework

On January 1, 1993 Czechoslovakia formally divided into two independent states, the Czech and Slovak Republics. This report, written before the dissolution of the federal Czechoslovak state, focuses on conditions in Czechoslovakia as a whole rather than treating the Czech and Slovak Republics separately. As of December 1992, both republics had substantially the same policies and practices with respect to trade and investment, with the few exceptions noted in specific areas of the report. Both the Czech and Slovak Governments have committed to continue with economic reforms and to cooperate closely on a broad range of activities after Czechoslovakia splits. At least initially, both republics will be governed by existing federal laws.

By early December 1992, the two republic governments had concluded over two dozen agreements as a framework for their post-separation relationship. Nevertheless, numerous aspects of the relationship will remain unsettled at the date of separation, and negotiations pertaining to Czechoslovakia's separation are likely to continue well into 1993. Due to unsettled issues and the high possibility of unexpected turns occurring as the separation proceeds, it is difficult to predict whether the policies reviewed in this report will remain in both republics as described for the federal government.

The same core of senior government officials who charted Czechoslovakia's federal economic policy from 1990 - 1992 are expected to remain in key policy positions in the Czech Republic. Czech Republic economic policy is therefore generally expected to be an extension of the federal economic policies followed since 1990. While the Slovak government has made a public commitment to continue economic reform, the Slovak reform program may diverge from past federal policies and policies currently applied by the Czech Republic. As a group, the key economic policymakers in Slovakia emerged in senior government roles after the June 1992 elections. Most of their economic policies are not yet clear.

The Czechoslovak economy is well into a government planned shift away from eastern markets and towards the west. Under the former regime, the Soviet Union had been this country's dominant trading partner. The Czechoslovak economy had been geared to producing low-quality goods for the Soviet market in exchange for oil and convertible rubles. The demand for hard currency and overall decentralization of foreign markets has therefore led the government to de-emphasize its economic ties to the East. By early 1992, Germany overtook the combined countries of the former Soviet Union in total trade with Czechoslovakia.

In 1992, the government also initiated the first of two planned "waves" of large-scale privatization during which approximately 1,500 formerly state-owned companies were offered for sale to citizens who acquired shares by bidding on companies using government-issued vouchers. Additionally, approximately 25,000 small firms have been privatized through local auctions between January 1991 and December 1992.

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Czechoslovakia continues towards its goal of European Community (EC) membership. Although the issue has been made much more complex by the imminent division of the country, the federal government continues to use EC standards for the upgrading of its telecommunications, transportation, customs, banking, and environmental regulations with an eye towards future membership. Czechoslovakia signed an Association Agreement with the EC in December 1991. Although the agreement has not yet been ratified, its trade provisions have been in effect since March 1992. They are expected to remain in effect in both new republics in 1993.

While the budgets of the two republics and the federal government have been planned to be in balance, they had a combined deficit of about $270 million as of October 1992 and are expected to have a $200 million deficit at the end of the year, representing about 2 percent of the combined budget. At the end of 1992, the percentage figure for the budget deficit in Slovakia is likely to be substantially higher than in the Czech Republic. In 1993, there will no longer be a federal budget. Both republic governments have declared the intention to have balanced budgets. So far, the government has been able to finance its deficits through the issuance of treasury bills through the State Bank and loans from other financial institutions. The chief cause of the current deficit, according to central bank officials, has been generous social programs combined with an overall decline in revenue.

The federal government currently uses three tools to control the money supply. The chief instrument is setting the level of reserve requirements. Current requirements are 3 1/9 percent, up recently from 2 1/8 percent, in order to absorb incoming capital and prevent a rise in the inflation rate. Second, based on "gentlemen's agreements" which the State Bank maintains with commercial banks in the country, interest rates and other lending parameters are controlled. Last, the State Bank has occasionally set credit ceilings. However, credit ceilings were removed in September 1992.

2. Exchange Rate Policy

In January 1991, Czechoslovakia introduced the partial convertibility of the crown under the Foreign Exchange Act of 1990. Foreign exchange policy was further liberalized in early 1992. Under this act, any domestic or foreign company which is registered in Czechoslovakia may apply to freely exchange crowns for hard currency in business-related, current-account transactions. Current-account transactions include the import of goods and services, royalties and interest payments, and dividend remittances. Repatriation of earnings from U.S. investments is guaranteed by the United States-Czechoslovakia Bilateral Investment Treaty (BIT), which entered into force on December 19, 1992 and which remains in effect in both successor republics. Capital-account transactions and hard currency loans still require permission from the State Bank. 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.

The federal government relies on a stable crown as a means of attracting foreign investment to Czechoslovakia, and towards that end works to ensure that the exchange rate is maintained at a stable level. This rate, set by the central bank, is pegged to a basket of five international currencies. Since January 1991 the crown rate has remained stable relative to the basket of currencies to which it is pegged, in the range of 26-28 crowns per dollar. Parallel market rates converged during 1991 and usually remain within 5 percent of the internal Czechoslovak exchange rate.

3. Structural Policies

The shift from a centrally-planned economy to a free market continues to require broad, fundamental changes to legal, financial, and political structures. All legislation that has an economic impact is being redrafted to conform with EC norms. Some of the major changes are outlined below.

Restitution: From 1990 - 1992, four laws were enacted to return to private owners property seized by the government after February 1948. Claimants must be Czechoslovak citizens residing in Czechoslovakia. The deadline for filing restitution claims was September 1991 for non-agricultural property and December 1992 for agricultural lands. Claimants initially file their claim directly with the current property holder and an estimated 90 percent of claims are settled in this manner. While there are no central records kept on restitution claims, an estimated 150,000 non-agricultural properties have been retrurned under the restitution laws and an estimated 15,000 disputed claims are currently being resolved through the courts. There are no estimates yet for the number of agricultural restitution claims.

Privatization: The government began privatization of the economy in 1991 through the privatization of small businesses ("small-scale privatization") and in 1992 through the privatization of large state enterprises ("large-scale privatization"). The small-scale privatization has taken place through local auctions of small businesses not reclaimed through the restitution process. No central records are kept as these auctions are conducted at the local level, but an estimated 25,000 small businesses have been privatized through this method between early 1991 and December 1992; an estimated 5,000 to 10,000 small businesses remain to be privatized.

Large-scale privatization began in July 1991 and is being conducted in two waves. In the first wave, about 1,500 Czech and 700 Slovak enterprises were scheduled to be privatized between June 1991 and December 1992. Czechoslovakia's large-scale privatization process was the first to use the voucher coupon method. Under this system, Czechoslovak citizens could buy for a nominal fee (thirty dollars, about one week's average wage) a book of vouchers which could be used to bid on the shares of enterprises being privatized. Approximately 80 percent of Czechs and Slovaks eligible to participate in the voucher program (8.5 million citizens) are participating in the first privatization wave. A second

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wave of large-scale privatization is set to begin in early 1993. Some Slovak officials have indicated that the second wave of large-scale privatization may proceed more slowly in Slovakia, and that the voucher method may play a less important role than traditional direct sales of state enterprises.

In addition to the voucher method, both republics have conducted large-scale privatization through more traditional methods such as direct sales, auctions, and joint ventures with foreign investors. When the first two large-scale privatization waves have been completed in the Czech Republic by the end of 1993, an estimated 70 percent of large-scale enterprises will be in private hands. Privatization in Slovakia may proceed more slowly.

Commercial Code: A new, comprehensive commercial code which replaces six Communist era commercial laws was implemented in January 1992. It brings commercial law into compliance with EC commercial norms. Key elements of the law which are particularly important to U.S. business interests are: a) the government no longer screens foreign investments, with the principal exception of the privatization of state enterprises; b) nearly all restrictions on foreign investment have been eliminated; and c) foreign persons may conduct business activities under the same conditions and to the same extent as Czechoslovaks. These rights are also guaranteed for U.S. investors under the United States-Czechoslovakia BIT.

Taxes: Both republics have agreed to implement a new tax system beginning in January 1993. The tax system was revised to be suitable for a market-oriented economy and conform with EC tax policy. Key elements of the tax are the replacement of a four tier turnover tax (from 0 to 29 percent) with a two tier value added tax (VAT) of 23 percent on most goods and 5 percent on food and a few essential commodities. The overall price increase due to the VAT is expected to be about 5 percent. Corporate and personal income tax above a nominal income level will be in the 45 - 50 percent range.

Price Liberalizaton: About 95 percent of all price controls were eliminated in 1991. Items still subject to price regulation are housing rents, utilities, gasoline and heating fuel, railroad and urban transportation, and health services.

In November 1992, a temporary ceiling was set on pork prices in response to a perception by the government that a meat processing cartel was manipulating the market to raise pork prices. The government anticipates eliminating the price ceiling after seasonal demand falls after Christmas. This is the only instance of the government imposing new price controls since price liberalization started in 1991.

As of December 1992, a few state enterprises still exist which have government-granted monopoly rights, including certain commodities such as tobacco. Some monopolies still exist under federal law which control prices. It is unclear how such rights will be affected by privatization and Czechoslovakia's breakup.

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4. Debt Management Policies

Czechoslovakia has one of the lowest foreign debts in Central and Eastern Europe. As of July 1992, the gross foreign debt was approximately $9.78 billion, up from $9.27 billion in September 1991. This slight rise in indebtedness is well within the limits specified by Czechoslovakia's agreement with the IMF. In its latest review in November 1992, the UMF concluded that Czechoslovakia had met all the targets under its standby arrangement with the IMF. The Czech and Slovak Governments are expected to reach agreement between themselves on the division of the federation's foreign debt.

Due mainly to the lending policies of the former Communist regime, the current government holds approximately seven billion dollars in claims on various governments around the world. The largest debtor by far is Russia, which owes about five billion dollars, the bulk of which was borrowed for pipeline construction and gas treatment facilities that Czechoslovakia built for the former Soviet Union in the late 1970s. The Russians have been paying off this debt with deliveries of natural gas. Repayment by other international debtors is questionable. A number of debtors may attempt to take advantage of the Czech-Slovak split to escape payment of their debts to a country going out of existence.

The government has also taken steps to clear part of the estimated thirteen billion dollars in "bad debts" which the banking system was forced to lend state enterprises during the Communist era. These are primarly revolving debts with very low interest rates and no maturity dates. The government forced the banking system to extend such loans during the Communist era as a hidden subsidy to ailing state enterprises. In 1992 the government formed the National Consolidation Bank as a repository and clearing house for almost four billion dollars in bad loans from the banking system. The debtor enterprises are now repaying these loans, which have been renegotiated at eight percent interest on fifteen year terms. The repayment rate is estimated to be about 95 percent. In late 1991, an additional two billion dollars in bad debts held by banks and certain large state enterprises were exchanged for government-backed bonds which were to be repaid by proceeds received by the Czech and Slovak National Property Funds for the sale of state enterprises. The National Property Funds have been repaying the bonds ahead of schedule and should redeem all bonds by the end of 1992.

There is still estimated to be about seven billion dollars of bad debts in the financial system. Czech officials have announced the government cannot afford further government-backed debt reduction. The Slovak government has not yet definitely addressed the issue of clearing the remaining bad debt.

Another aspect of debt management policy of particular relevance to U.S. commercial interests concerns government loan guarantees. Until mid-1992, government loan guarantees were used, in part, to fund extra-budgetary expenditures on a delayed basis. For example, the government would issue loan guarantees to enterprises it knew would be unable to pay the loans when due. The government would then cover the loan through extra-budgetary resources.

As of mid-1992, the Czech republic started reducing its level of loan guarantees, and the level is expected to drop to under 300 million dollars (or about 3 percent of the budget) by the end of 1992. The Czech Republic government is extremely reluctant to issue new government loan guarantees as of December 1992, creating a financing challenge for major projects under consideration.

The Slovak Republic is also reducing government loan guarantees, but has not reduced them as aggressively. As of December 1992, Slovak government loan guarantees are estimated to be about one billion dollars, or about 23 percent of Slovakia's 1992 planned budget.

Neither the Czech nor Slovak 1992 budget has set aside provisions to cover payment of loan guarantees. Both republics are expected to set aside provisions in 1993, but the amount both republics reserve is likely to be insufficient.

5. Significant Barriers to U.S. Exports

The Czechoslovak Government has made the elimination of artificial trade barriers an important element of its overall economic policy. However, the Czechoslovak tariff schedule, which was restructured in January 1992, may permanently disadvantage exports from the United States due to preferential tariff rates offered to EC trading partners as one of the conditions of Czechoslovakia's association agreement with the EC. Tariff rates for EC products will gradually be eliminated over the next decade while tariff rates on non-EC imports will remain at their current levels. Senior Czechoslovak trade policy officials have given assurances that their government will participate fully in GATT to lower tariff rates over the next ten years as economic conditions permit. However, given the confused situation regarding the split, it is unclear to what extent these officials represent the republic governments.

In 1991, Czechoslovakia added a customs surcharge for certain imported goods, mainly consumer goods and foodstuffs. The surcharge is currently 10 percent and is scheduled to disappear in January 1993. A 15 percent surcharge will continue to apply to individuals and sole proprietors. These measures were implemented to conserve scarce foreign exchange reserves, and have proved unnecessary, as reserves have risen over the past two years of internal crown convertibility. There is also a turnover tax, to be replaced by a value added tax, on imports.

Although Czechoslovakia now has partial convertibility of the crown and plans to move to unrestricted convertibility within the next several years, access to hard currency for import payments remains problematic. Under current foreign exchange laws which are implemented by the State Bank, payments for over $200,000 may take up to three months. Similar payments for amounts of $200,000 - 500,000 may require one year, $500,000 - 1,000,000 two years, and amounts over

$1,000,000 may take up to four years. Current interest rates are 13 to 15 percent.

An uncertain factor is the extent to which currency convertibility will be affected by the country's split. The two republics have negotiated an agreement to carry out an orderly three stage currency split which has no formal time frame, but is generally expected to last until about mid-1993. However, the currency split could move much more quickly if monetary and budgetary elements appear headed out of control in either republic.

Czechoslovakia and the United States resumed GATT relations in late 1992, reversing a suspension of GATT obligations that had been in place since 1951.

6. Export Subsidies Policies

There are currently no direct subsidies for Czechoslovak exports. Czech government officials have stated strong opposition to any form of subsidies, although a few subsidies exist which could have an indirect effect on exports such as subsidized housing, residential utilities, and transportation. There are limited subsidies to agriculture to help restructure the sector and support the production of key commodities such as meat, grain, and dairy products.

A number of Slovak ministers have promised various direct subsidies following Slovakia's independence. It is unclear that these subsidies will become reality, however, since Slovak Premier Meciar and his finance minister have said they oppose subsidies. One exception may be a tax holiday for Slovak agricultural enterprises, which the Slovak finance minister supports.

7. Protection of U.S. Intellectual Property

The federal government of Czechoslovakia is a signatory to the Berne, Paris, and Universal Copyright Conventions and is working to ensure that its laws for the protection of intellectual property match those of western Europe. The U.S. Embassy is aware of one alleged trademark violation and two alleged patent infringements by Czechoslovak firms against U.S. interests. All are longstanding disputes which date from the Communist era or earlier.

The issue of intellectual property protection is of concern to potential investors, particularly those in the pharmaceutical and recording industries. Although the government is strengthening its regulations and passing new laws, the lack of strict enforcement will probably be a cause of continuing concern.

8. Worker Rights

a. Right of Association

Workers in Czechoslovakia are provided the right by law to form and join unions of their own choosing without prior authorization. Currently, two-thirds of the workers are members of some labor organization, although the overall number of union members has fallen somewhat over 1991. Under the law, all workers are guaranteed the right to strike after mediation efforts have been exhausted. Exceptions are workers in sensitive positions who are forbidden to strike (i.e., nuclear power plant operators, military, police).

b. Right to Organize and Bargain Collectively

Workers have the right to organize and bargain collectively, although the abolishment of some federal institutions which were involved in the process has resulted in an increasing number of ad hoc bargaining arrangements. Wages are set by free negotiation.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor was expressly prohibited by the federal government's 1991 Declaration on Basic Rights and Freedoms. There is no evidence or indication that violations have since occurred.

d. Minimum Age for Employment of Children

The basic minimum age for employed children is 16. Exceptions are made for 15 year-olds who have already finished elementary school and for 14 year-olds who have completed courses at special schools for the disabled.

e Acceptable Conditions of Work

The Federal Ministry of Labor and Social Affairs has set minimum wage standards to guarantee an adequate standard of living for workers and, with special allowances, for their families as well. A standard workweek of 42.5 hours was mandated by law, but collective bargaining has brought closer to 40 the actual number of hours worked. Additionally, caps exist for overtime and workers are assured at least 30 minutes of paid rest per work day, and annual leave of three to four weeks per year.

f. Rights in Sectors with U.S. Investment

Workers' rights in firms with U.S. ownership appear to be the same as in other companies in Czechoslovakia.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on an Historical Cost Basis - 1991
(Millions of U.S. dollars)

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

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

* - Less than $500,00

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, November 1992

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Key Economic Indicators

(Millions of Danish Kroner (DKK) unless otherwise noted.)

	1990	1991	1992 1/
Income, Production and Employment			
Real GDP (1985 prices) 2/	575,864	581,577	592,600
Real GDP Growth (pct.)	1.6	1.0	1.9
~~GDP at current prices 2/~~			
by Sector			
Agriculture	31,448	29,483	30,000
Energy, Water, Heat	12,693	13,485	14,500
Manufacturing	132,288	135,875	145,000
Building/Construction	42,788	41,424	41,000
Raw Materials/Mining	7,444	8,615	10,000
Rents	66,287	70,392	74,000
Financial Services	21,341	22,869	23,000
Other Services	237,622	255,860	270,000
Government Services	157,963	162,463	164,000
Overlap Corrections	-23,076	-23,527	-23,000
Real Per Capita GDP (DKK, 1985 prices)	129,091	130,336	132,392
Labor Force (000s)	2,845	2,846	2,847
Unemployment Rate (percent)	9.6	10.4	11.1
Money and Prices (Annual percentage growth)			
Money Supply (M2) 3/	6.3	4.3	2.0
Base Interest Rate (pct)	14.1	11.4	12.5
Personal Saving Rate	3.9	3.0	2.4
Retail Inflation			
Consumer Price Index	2.6	2.4	2.2
Wholesale Inflation	1.0	1.0	-0.3
Exchange Rate (USD/DKK)	0.1616	0.1563	0.1675
Balance of Payments and Trade			
Total Exports FOB 4/	216,444	229,765	240,000
Exports to U.S. 5/	11,482	10,894	9,600
Total Imports CIF 4/	195,781	206,798	207,500
Imports from U.S. 5/	12,148	13,045	12,000
Aid from U.S.	0	0	0
External Debt	282,000	264,000	239,000
Debt Service Payments	41,600	52,100	55,300
Gold and Forex Reserves	63,319	44,563	40,000
Trade Balance 4/	20,663	22,967	32,500
Balance with U.S. 5/	-666	-2,151	-2,400

1/ 1992 figures are all estimates, generally based on eight-month data available in October 1992.
2/ GDP at factor cost.
3/ M2 money supply figures are not available. Figures exclude exclude non-bank sector's holding of Treasury
4/ Merchandise trade, excluding EC Agricultural Export Subsidies.
5/ 1992 figures include Puerto Rico

DENMARK

1. General Policy Framework

Denmark is a small but highly industrialized "value-added" country with a long tradition of foreign trade, free capital movements, political stability, an efficient and well-educated labor force, and a modern infrastructure, which effectively links Denmark to the rest of Europe. Denmark's natural resources are concentrated in its oil and gas fields in the North Sea, which in 1991 supplied more than 60 percent of Denmark's energy consumption - a ratio which continues to increase. As Denmark remains dependent on imported raw materials and semimanufactures and fuels, mostly coal, ensuring adequate supplies has always been a major goal of Danish trade and industry policies. Denmark therefore actively pursues a liberal trade policy in the EC, OECD, and GATT which is often supportive of U.S. interests. The United States is Denmark's largest non European trading partner, and in 1991 supplied almost two-thirds of Denmark's aircraft purchases and more than one-third of its coal imports.

Denmark's currently strong economy is well positioned to benefit from the EC Single Market which begins January 1, 1993. Although Danish voters rejected the far-reaching "European Union" (The Maastricht Treaty) in a nationwide referendum June 2, 1992, Denmark's commitment to continued EC cooperation and integration stands.

The turnaround of the Danish economy since the late 1980s is the result of various factors: the minority center-right coalition government's tight fiscal policies, minimum increases in public expenditures, a monetary policy, including exchange rate policy, similar to Germany's, and a boost in exports because of German reunification are the major contributing factors. Nevertheless, a few important imbalances remain, most notably high unemployment, which, however, is no higher than in most other EC countries.

Danish fiscal policy meets the conditions of the pending EC Economic and Monetary Union (EMU), although the governemnt is seeking to opt out of the EMU. For example, Denmark complies with the prohibition against monetization of its central government deficits. The deficits are financed through the sale of government bonds and treasury bills on market terms. Despite the government's success in limiting the public sector's size and administrative costs, reduced tax revenues, sharply increased unemployment benefit costs, and the introduction of recession response measures have led a to a deterioration in government budgets. The central government budget deficit for 1992, initially estimated at DKK 28.5 billion, has now been revised upwards to almost DKK 40 billion, or close to five percent of Gross Domestic Product. The budget deficit for 1993 is likely to exceed the 1992 deficit. Nevertheless, in order to combat unemployment, the government now appears prepared to ease its fiscal policy through advancing public investments and the introduction of new job creation measures. A small income tax reduction favoring the lowest paid also appears likely. Recently introduced investment incentives include establishment of preferential "business zones" in high unemployment areas and lenient income taxation of high-paid foreigners working in

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Denmark.

The Danish fixed exchange rate policy (see Section 2), pursued since the early 1980s, has led to a monetary policy which gives high priority to price stability. This policy together with fully liberalized capital movement has meant that the room for pursuing independent interest rate and liquidity policies ~~has been, and still is~~, limited. This is clearly reflected in interest rates which are linked closely to those of Germany. Monetary policy authority rests with the Central Bank. As the result of the need for tighter management of money-market rates (without adjusting official interest rates), in April 1992 the Central Bank introduced a new system of liquidity management via weekly issuances of two-week deposit certificates and by providing necessary liquidity to commercial banks via repurchases of both treasury bills and deposit certificates. The present low inflation rate together with the monetary and the fixed exchange rate policies have resulted in high real interest rates. This, in turn, has helped maintain a strong krone and bolstered foreign exchange reserves via large sales of krone denominated bonds abroad. On the other hand, the high real interest rate has become an obstacle to investment.

2. Exchange Rate Policy

Denmark is a member of the European Monetary System (EMS) and its Exchange Rate Mechanism (ERM). It supports the objectives of the EMU, but has the right to not participate in the third phase (establishment of a single EC currency and relinquishment of national sovereignty over fiscal and monetary policies). Since 1982, the government has successfully opposed attempts to solve Denmark's economic problems through exchange rate adjustments. In September 1992, the trade-weighted value of the krone was 4.4 percent higher than in September 1991, due mostly to the volatile developments in the ERM in September 1992, when sterling and the lira withdrew from the system. Intervention by the Danish Central Bank (and German Bundesbank) protected the krone's position in the ERM, but resulted in the loss of about DKK 12 billion in reserves. As foreign exchange markets became more stable in October, the flow-back of foreign currencies allowed the authorities to rebuild reserves.

The value of the krone against the U.S. dollar in September 1992 was 17 percent higher than in September 1991. Although the value of the dollar has since increased by about four percent, the net improved U.S. price competitiveness should assist U.S. exporters in their sales to Denmark.

3. Structural Policies

Danish pricing policies are based on free market principles. Entities which have the ability to fix prices because of their dominance in the market are regulated by a Competition Council.

Danes generally concede that the tax system must be overhauled to improve incentives to work and to invest, and to reduce the "underground" economy, which today is probably equivalent to nearly 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 other EC countries. In addition, the structure of the Danish income tax system is significantly different from that of other EC countries. Unlike other EC countries, in Denmark employers pay virtually no nonwage compensation. The costs of sick leave and unemployment insurance are included in wages. Another major concern is the level of the 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 those of Germany, will gradually approach the Danish rate. However, the government has reduced excise taxes on popular Danish/German border trade items which has led to a drastic reduction of that trade.

Despite the government's success in resolving most of Denmark's former structural imbalances, a number of problems remain, most notably high unemployment. However, labor mobility, geographically and sectorally, remains low in Denmark. This is in part due to lenient requirements to qualify for unemployment benefits and to structural rigidity which prevents crossing craft lines. At present, about two-thirds of the costs of unemployment benefits are paid from general revenues. The government is proposing extensive labor market reform, including transferring a major part of the financing of the unemployment insurance system to employers and employees. At this time, however, there is no parliamentary majority in favor of any given plan. Instead, efforts concentrate on new job creation measures, including advancing public investment projects, some of which may be open to foreign, including U.S., competition. The establishment of preferential business zones also aims at increased foreign direct investment.

4. Debt Management Policies

Since 1963, recurring and large balance of payments (BOP) deficits produced a foreign debt which in 1988 peaked at DKK 293 billion, or 40 percent of GDP. However, since 1990, the BOP has moved into surplus and is projected to reach DKK 25 billion in 1992. Consequently, foreign debt is being reduced and by the end of 1992 is expected to be at about 28 percent of GDP. Despite the increasing BOP surpluses, net interest payments on the debt continue to be a burden, accounting for close to 10 percent of total export earnings. Standard and Poor's and Moody's Investors Service rate Denmark AA+ and AA1, respectively, reflecting the strong economy and the large BOP surplus. Denmark's public and private sectors are both net external debtors. At the end of 1991, the public sector's net debt, including foreign exchange reserves, was the equivalent of DKK 235 billion, of which krone-denominated bonds accounted for one-half. The private sector's net foreign debt, including banks', was the equivalent of DKK 29 billion.

The volatility of the dollar during the 1980s triggered a

Danish Government decision in early 1988 to gradually reduce the dollar's share of the central government's foreign debt. In 1984, more than 50 percent of this debt was denominated in dollars; in 1991 the ratio had dropped to less than 20 percent. The dollar debt was mostly shifted into debt denominated in German Marks, Swiss Francs, and European Currency Units (ECU).

Danish development assistance (aid) is large by international standards accounting for close to one percent of Gross National Product (GNP). The aid is concentrated in about 20 countries with a per capita GNP of less than $1,645 (1991). In addition, Denmark supports the new democracies in East and Central Europe and in 1992 is spending about DKK 2.1 billion for assistance (0.25 percent of GNP). Denmark actively participates in the IMF, the EBRD, the World Bank, and the Paris Club.

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 and on investment. Denmark adheres to all GATT codes and, as a member of the EC, also to all EC legislation which impacts on trade and investment. There are no special Danish import restrictions or licenses which pose problems for U.S. exporters of industrial products. Agricultural goods must compete with domestic production, protected under the umbrella of the EC's Common Agricultural Policy. Denmark has stringent phytosanitary requirements.

With the implementation of the EC Single Market on January 1, 1993, most industrial standards, testing, labeling, and other requirements will have been harmonized within the EC. While some of those requirements may mean a more restrictive import regime than at present, at the same time they place all 12 EC countries under the same standards.

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. However, other credit card companies decided to continue their operation under the new requirements.

Denmark, like most other countries, requires an exam or experience in local law in order to practice law. In addition, investment in stockbroker companies requires that the managing director has at least three years of experience in securities trade. Experience in a U.S. stock exchange will probably not alone meet this requirement.

Denmark provides national, and in most instances nondiscriminatory, treatment to all foreign investment. Ownership restrictions are only applied in a few sectors: hydrocarbon exploration (which in general requires limited government participation on a carried interest basis), arms production (a maximum of 40 percent of equity and 20 percent of voting rights may be held by foreigners), aircraft (foreign citizens or airlines may not directly own or exercise control over aircraft registered in Denmark), and ships registered in the Danish International Ships Register (a Danish legal entity or physical person must own a significant share and exercise a significant control (20-25 percent) over such ships). Denmark, as a general rule, applies a reciprocity test to foreign direct investment in the financial sector, which, however, has not been an obstacle to U.S. investment. When established, an entity receives national treatment. The Danish telecommunications network remains a government controlled monopoly, but is open to minority portfolio investment. A second private cellular network has recently been licensed in competition with the existing government controlled network.

Danish Government procurement practices meet the requirements of the GATT public procurement code and of the EC Utilities Directive, whcih liberalizes public procurement in the areas of telecom, water, energy, and transportation. As of December 1992, Denmark was the only EC country to implement the Directive, including its provisions which allow for discrimination against non-EC suppliers. Countertrade, or rather offset trade, is used by the Danish Government only in connection with military purchases which are not covered by the GATT code. Denmark has no "Buy Danish" laws.

There is no record of U.S. companies complaining about burdensome customs procedures. Denmark has an effective and modern customs administration which has reduced processing time to a minimum.

6. Export Subsidies Policies

EC agricultural export restitutions (subsidies) in 1991 were about 12 percent of the value of Danish agricultural exports. Government support for agricultural export promotion programs is insignificant. Denmark has no direct subsidies for its nonagricultural exports. There are no special programs to subsidize exports by small companies. 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. A restructuring of Danish development assistance in 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 from Danish companies has been maintained. All these programs, however, apply equally to foreign companies producing in and exporting from Denmark. Denmark has the lowest rate of state aids to industry (about 1.5 percent of GDP) among the EC countries. This figure excludes shipbuilding support, where Danish subsidization is within the ceiling set in the EC Shipbuilding Directive (nine percent of the contract value). Denmark is an ally of the United States in the efforts to phase out shipbuilding subsidies internationally and the Danish Government has stated that it will pursue that goal when it takes over the EC presidency on January 1, 1993.

DENMARK

In January 1992, the VAT was increased by three percent, to 25 percent. The increase was instituted to offset revenue lost when Denmark was forced to rescind a 2.5 percent turnover tax on on goods subject to VAT. Since the revenue from the three percent VAT remains earmarked for financing of employers', including exporters', per-employee nonwage costs, the new VAT continues to constitute a de facto indirect export subsidy.

7. Protection of U.S. Intellectual Property

Denmark is a party to, and effectively enforces, a large number of international conventions and treaties concerning protection of intellectual property rights, and therefore Denmark offers adequate protection of those rights.

Patents: Denmark is a member of the World Intellectual Property Organization (WIPO) and thus follows the provisions of the Paris Convention, the Patent Cooperation Treaty (PCT), the Strasbourg convention, and the Budapest convention. Denmark has ratified the European Patent Convention, but ratification of the EC Patent Convention is pending.

Trademarks: Denmark is a party to the 1957 Nice Arrangement and to this arrangement's 1967 revision. A new Danish trademark act entered into force January 1, 1992 which also implements the EC trademark directive harmonizing EC member countries' trademark legislation. Denmark strongly supports efforts to establish an EC-wide trademark system.

Copyrights: Denmark is a party to the 1886 Berne Convention and its subsequent revisions, the 1952 Universal Copyright Conventions and its 1971 revision, the 1961 International Convention for the Protection of Performers, etc., and the 1971 Convention for the Producers of Phonograms, etc. There is little piracy in Denmark of records or videocassettes. However, software piracy in Denmark is estimated at about DKK 700 million annually. It is now on the decline due to sharply reduced prices, improved protection of programs, and efforts to combat such piracy by the international software company-owned Business Software Alliance. Piracy of other items, including books, appears very limited. There are no indications that pirated products are being imported to or exported from Denmark. One possible copyright problem involves the imposition on January 1, 1993 of a Danish levy on blank audio and video tapes for home use. A large share of revenues from the levy will be passed on to Danish artists and artists from countries having a comparable levy. Since the United States does not impose a comparable levy, U.S. artists, who probably account for two-thirds of works being copied by Danish homes, would not benefit from the levy.

The U.S. Embassy has no record of other complaints by U.S. organizations, exporters or subsidiaries in Denmark regarding infringement of intellectual property rights and/or unfair Danish practices in this field.

Denmark is not named on the Special 301 Watch List or Priority Watch List, nor is it identified as a Priority Foreign Country.

DENMARK

8. Worker Rights

a. Right of Association:

Workers in Denmark have the right to associate freely, and all (except those in essential services and civil servants) have the right to strike. Approximately 80 percent of Danish wage earners belong to unions. Trade unions operate free of government interference. They are an essential factor in political life and represent their members effectively. In 1991, 100,979 workdays were lost due to labor conflicts. Greenland and the Faroe Islands have the same respect for worker rights, including full freedom of association, as Denmark.

b. Right to Organize and Bargain Collectively

Workers and employers acknowledge each other's right to organize. Collective bargaining is widespread. Salaries, benefits, and working conditions are agreed in biennial negotiations between employers and unions. If negotiations fail, a national conciliation board is tasked with mediating. Its proposal is voted on by both management and labor. If the proposal is turned down, the Government may impose a legislated solution (usually based upon the mediator's proposal). In case of a disagreement during the life of a contract, the issue may be referred to the Labor Court. The decisions of the court are binding. The labor contracts which result from collective bargaining, as a general rule, are also used by the nonunion sector.

Labor relations in non EC parts of the Danish Realm, Greenland (a beneficiary of the U.S. Generalized System of Preferences) and the Faroe Islands, are generally conducted in the same manner as in Denmark proper.

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 full-time employment is 15 years. The law prescribes limitations on the employment of those between 15 and 18 years of age, and it is enforced by the Labor Inspection Service, an autonomous arm of the Ministry of Labor.

e. Acceptable Conditions of Work

There is no legally mandated workweek nor national minimum wage. However, the workweek set by labor contracts is 37 hours. The lowest hourly wage is roughly DKK 80 for some unskilled women workers outside the Copenhagen area. Danish law provides for five weeks of paid vacation. The law also prescribes the general duties of employers, supervisors, and employees; the performance of work, rest periods and rest days; medical examinations; and maternity leave. The Labor

Inspection Service ensures compliance with work place legislation.

Similar conditions of work are found in Greenland and the Faroe Islands, except that their workweek is 40 hours.

f. Rights in Sectors with U.S. Investment

Worker rights in those goods-producing sectors in which U.S. capital is invested do not differ from the conditions in those other sectors where no U.S. investment is found.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		(D)
Total Manufacturing		313
Food & Kindred Products	214	
Chemicals and Allied Products	(D)	
Metals, Primary & Fabricated	35	
Machinery, except Electrical	*	
Electric & Electronic Equipment	-3	
Transportation Equipment	(D)	
Other Manufacturing	31	
Wholesale Trade		616
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

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

* - Less than $500,000

Source: U.S. Department of Commerce, Survey of Current Business, November 1992, Vol. 72, No. 8, Table 11.3

ESTONIA

Key Economic Indicators

(Millions of Rubles Unless Otherwise noted)

	1990	1991	1992
Income, Production and Employment			
Real GDP growth (pct.)	-8.1	-10	-35 (est.)
GDP (at current prices)	7976.9	13682.6	2917.3 1/ (to 6/1)
By sector (Percent):			
Agriculture	15.6	15.4	N/A
Manufacturing	39.6	51.9	N/A
Construction	7.1	5.0	N/A
Unemployment Rate (Percent)	N/A	.14	1.1
Money and Prices			
Money Supply (M2)	5577.8	15475.8	874.2 1/ (to 11/1)
Personal Savings Rate	N/A	N/A	2 - 28
Retail Inflation	18.5	211.8	N/A
Wholesale Inflation	18.6	87.6	N/A
Consumer Price Index (1980 Base)	160.1	499.3	4218.9 1/ (to 10/1)
Exchange Rate			
USD/Rubles	1.74	1.74	11.27 1/ (to 11/15)
Kroon/dollar	N/A	N/A	12
Balance of Payments and Trade			
Total Exports	3067.0	4784.0	1597.6 1/ (to 6/1)
Exports to U.S.	5.2	.57 1/	30.5 1/ (to 6/1)
Total Imports	3283.0	3617.0	1439.5 1/ (to 6/1)
Imports from U.S.	30.2	15.7 1/ (to 6/1)	17.5 1/
AID from U.S.	N/A	N/A	3.8 1/
AID from Other Countries	N/A	4.12 2/	26.18 2/
External Public Debt	none	none	90 2/
Debt Service Payments (Paid)	none	none	none
Gold and Foreign Exchange Reserves	N/A	N/A (to 10/1)	1700 1/
Trade Balance	-216	1167 (to 6/1)	158.1 1/
Balance with U.S.	-25	-15.13 1/ (to 6/1)	13.3 1/

1/ Indicates Millions of EEKs (Estonian Kroons)
2/ Indicates Millions of Dollars

ESTONIA

1. General Policy Framework

Estonia has made significant progress in moving from a centrally planned to a market economy since the restoration of its independence in August of 1991. In June 1992, Estonia introduced its own currency -- the first attempt by a former Soviet Republic to leave the ruble zone. The currency has so far been remarkably stable, and could spur economic transformation. Privatization, a crucial partner to currency reform, has been less successful, but the adoption of large scale privatization legislation in August 1992 was an important step. The most difficult economic challenges result from the collapse of trade with the East which has meant scrambling for fuel, food, and export new markets. Unemployment has been on the increase, although current levels are manageable.

With the introduction of Estonia's new currency, the kroon, in June 1992, the economy is subject to strict monetary controls. The kroon was introduced with the full backing of gold and foreign exchange reserves. Subsequent emission would only be against foreign exchange receipts. This was chosen as the preferred system in a setting where the skills to run a detailed monetary policy are not available.

Estonia has moved very rapidly away from trade dependence on the former Soviet Union. In 1991, approximately 90 percent of Estonian trade was with the former Soviet Union. Figures for the second quarter of 1992, indicate that it was less than 50 percent. Many Estonian industries are now having to scramble to find new markets. Estonia registered trade surpluses in 1991 and 1992.

Some progress has been made on small scale privatization (approximately 30 percent of small scale enterprises have been privatized), but large-scale privatization has been lagging. On August 13, 1992 legislation was passed to initiate the privatization of thirty large-scale enterprises. The list includes several major textile, furniture, and electronics companies. Privatization will be conducted by the newly established Estonian Privatization Agency which is commonly referred to as the Estonian Treuhand because it is based on the German Treuhandanstalt. Some state enterprises will remain in state hands. These include utility companies, transportation facilities, airlines, railroads.

On the fiscal side, Estonia has been able to maintain a balanced budget, although there are increasing pressures on the budget primarily due inadequate collection of taxes. New tax rates, introduced with the Estonian currency, have been criticized by corporations and private individuals as being too high. It is expected that the new government will revisit this issue.

Estonia became an observer to the GATT in June 1992. It has negotiated free trade arrangements with Finland, Norway, and Sweden.

ESTONIA

2. Exchange Rate Policies

Estonia introduced its own currency in June 1992. The monetary reform sought to increase sovereignty, achieve a stable and convertible currency, alleviate the cash shortage, and spur economic transformation. The psychological effect of the kroon cannot be underestimated; it not only symbolizes economic independence, but has been surprisingly stable. Since the introduction of the kroon, there has been a net increase of $50 million in Estonia's hard currency reserves.

To enhance stability and currency convertibility, and to promote reorientation towards European markets, the kroon was pegged to the German mark (within a 3 percent band) at a level which initially made many Estonian goods competitive in Western markets. At the same time a "Currency Board" was created and the kroon was given the full backing of gold and foreign exchange reserves. To enhance monetary stability and to maintain good relations with ruble zone countries, nearly all ruble cash and deposits were converted or exchanged to kroons. To limit trade disruption with the ruble zone, payments agreements were negotiated with other former Soviet republics that sought to maintain a role for the ruble in financing international trade, without committing the authorities to fix a ruble/kroon exchange rate.

3. Structural Policies

Pricing Policies: In January 1992, the prices of 90 percent of goods became free. The remaining 10 percent still subject to price controls included electricity, precious stones and metals, land, oil-shale, and energy. Some goods (milk and milk products; meat products; bread; telecommunications and postal services; cement; sugar; wooden boards; medicines and medical services; and passenger transportation) are subject to price regulation.

The reduction in subsidies associated with the price reform cut subsidies in the government budget from 13 percent of GDP in the late 1980s to 2.2 percent in GDP in 1991. The dramatic decrease was primarily due to the reduction of price subsidies to milk, meat, and bread. The price reform had a positive effect on Estonia's enterprises, budget, and terms of trade. However, it led to large price increases.

Tax Policies: Although there is still scope for improvements in the design and coverage of some individual taxes, most elements of a modern tax system (personal and corporate income tax and VAT) are now in place. The main difference from the tax structures of West European countries is the absence of a property tax, which reflects the fact that the government still owns land and most other fixed assets.

When the kroon was introduced in June 1992, tax rates were increased across-the-board. VAT increased from 10 to 18 percent. The top personal income tax rate increased from 33 to 50 percent; the top rate on enterprises went 30 to 36 percent. As of November 1, 1992 VAT is levied as imports enter Estonia; the importing entity gets reimbursed for the amount of VAT on goods sold in Estonia. The new government continues to review the tax system, particularly with respect to strengthening enforcement.

Regulatory Policy: Estonia has significantly liberalized its import regime. Import duties are levied only on tobacco products, alcohol, and luxury products (including automobiles); all other products enter duty free. Estonia has significantly dismantled its export licensing regime. Export licenses are required only for oil shale, quartz sand, gravel, and refractory clay. Some fields of economic activity are subject to licensing, such as the trade in metals and precious metals, and the export/import of alcoholic beverages. Any legal entity registered in Estonia can apply for an operating license.

4. Debt Management Policies

Estonia has taken the position that it is not responsible for Soviet debt as Estonia was illegally incorporated into the Soviet Union and its annexation never recognized by the international community. It appears at the present time that Estonia and the former Soviet Union will cancel any debts to each other. The IMF and World Bank approved loans for Estonia which total $69 million. Estonia also has outstanding a $10 million PL 480 loan with the United States and a 50 million Finnmark loan with Finland.

Estonia is in the process of receiving approval for a loan of 39.4 million ECU from the EBRD for the energy sector, $60 million from the EC for balance of payments support, and other loans from Japan and Sweden.

5. Significant Barriers to U.S. Exports

Estonia is very receptive to U.S. exports. However, infrastructure problems such as the absence of an adequate telecommunications and banking system, uncertainty over tax reforms, lack of Western accounting firms and standards, and shortages of business and office space create disincentives for the exporter.

Import licenses: With the elimination of import quotas, licenses and duties on all products except cigarettes, alcohol, and luxury items, Estonia is open to U.S. exports.

Standards, testing, labelling, and certification: Estonia is essentially free of non-tariff barriers to imports. Certification is required for a limited number of products including vegetable products, plants, animal products, food products, and pharmaceuticals. The certificates are issued by a governmental institution or a licensing private enterprise. Regulations for labelling, standardization of imported/exported goods is currently under development.

Investment Barriers: Estonia passed a law on foreign investment in September 1991 which significantly liberalized the foreign investment climate. Foreign investment is permitted in all fields of activity. A limited number of sectors have been set aside for licensing; all other sectors are open to foreign investors on the basis of registration.

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 after-tax profits or the proceeds of liquidation of the enterprise. An enterprise with at least 30 percent foreign investment has the unrestricted right to export and is not subject to export quotas.

6. Export Subsidies Policies

The government provides targeted export subsidies to fish products, forest products, and alcoholic beverages. These subsidies are provided through two mechanisms. First, the income tax collected on that portion of earnings obtained through exports is waived. Second, loans to encourage exports are provided to these industries.

7. Protection of U.S. Intellectual Property

The development of a functioning system to protect intellectual property is Estonia's primary aim before joining any multilateral intellectual property conventions or organizations. Currently, Estonia is not a member of any multilateral intellectual property rights convention. Estonia plans to join the Paris Industrial Property Convention and the Berne Copyright Convention once patent and trademark laws are implemented. The trademark law become effective on October 1, 1992; the patent law is still in draft. It is expected that a Copyright Law will be implemented by the end of 1992.

Patents: The draft patent law envisions exclusive patents; certificates of authorship will not be issued. The number of objects exempt from protection has not been determined.

Trademarks: A trademark law became effective on October 1, 1992. Counterfeiting is not a significant problem at this time. The Trademark Law stipulates what is protected by law and sets out a judicial proceeding. There have been over 800 applications for trademark registration, mostly from foreign companies, including several U.S. companies. A U.S. company can apply for registration only through one of the 12 authorized patent attorneys.

Copyright: The draft Copyright Law provides protection of software, cable television, publications, records, videos, broadcast satellite signals, etc. Estonia is currently not a member of any multilateral convention on copyrights.

There are no estimates of losses to U.S. interests because of inadequate protection of intellectual property rights in Estonia. The country has not been a subject of interest under the special 301 provisions of the Trade Act.

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ESTONIA

8. Worker Rights

a. Right of Association

The Estonian Constitution guarantees the right to freely join a union or employee association. The central organization of Estonian Trade Union (EAKL) came into being as a wholly voluntary and Estonian organization in April 1990, to replace the Estonian branch of the Soviet labor confederation. EAKL claims to represent about 500,000 member organized in 30 unions. In January 1992, Estonia rejoined the International Labor Organization. A smaller rival Confederation of Free Trade Unions has also been formed recently. In late Spring, a political warning strike was organized at the electric generator plants in Narva without Government interference.

b. Right to Organize and Bargain Collectively

Although Estonian workers now have the right to bargain collectively, in fact collective bargaining is still in its infancy. The government remains by far the biggest employer, with 80 percent of the work force. According to EAKL leaders, the distinction between management and worker is not widely understood and few collective agreements have been concluded between the management and workers of a specified enterprise. The EAKL has, however, concluded framework agreements with producer associations which it hopes will provide the basis for specific labor agreements. The EAKL was also involved with developing Estonia's new labor code covering employment contracts, vacation, occupational safety, and the minimum wage.

c. Prohibition of Forced or Compulsory Labor

Compulsory labor is prohibited by the COnstitution except military or alternative service or work required by law of a convicted criminal. Compulsory labor was common in Soviet-administered Estonian prisons prior to August 1991. Conditions in these prisons were often harsh and degrading. Estonian has moved to improve these conditions since restoring its independence in August 1991.

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 Estonia 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.

The minimum wage rate was recently increased from 200 to 300 kroons per month (approximately $25). According to EAKL sources, legal occupational health and safety standards are satisfactory. However, they were widely ignored during the

Soviet period and are now extremely difficult to achieve in practice. The overriding concern of workers, during the period of transition to a market economy, is holding on to their jobs and receiving their full pay in an unstable situation where purchasing power is said to have declined by 70 percent since 1989.

f. Rights in Sectors with U.S. Investment

Not applicable.

FINLAND

Key Economic Indicators

(Billions of Finnmarks (FIM) Unless Otherwise Noted)

	1990	1991	1992 1/
Income, Production and Employment			
Real GDP (1985 prices)	396.5	370.7	363.3
Real GDP growth (pct)	0.4	-6.5	-2
GDP (at current prices)	525.9	503.2	506.5
By sector:			
Agriculture	14.69	12.29	11.9
Energy and Water	10.81	11.65	11.8
Manufacturing	101.04	85.04	91.2
Construction	44.58	38.00	34.5
Rents 2/	28.70	32.73	30.5
Financial services	19.70	17.10	17.3
Other services	151.12	147.13	148.2
Government, health and education	81.89	90.42	92.0
Net exports of goods and services	-7.77	-3.20	6.5
Real per capita GDP ('85 prices)	79,515	73,955	72,500
Labor force (000s)	2,556	2,533	2,500
Unemployment rate (pct)	3.4	7.6	13
Money and Prices			
Money supply (M2) (annual percentage growth)	5.0	2.0	-0.5
Base interest rate	8.5	8.5	9.5 3/
Personal saving rate	3.7	8.2	8
Retail inflation (1990=100)	0.0	-4.0	-7
Wholesale inflation (1990=100)	0.0	-16.0	-14
Consumer Price Index (1985=100)	127.3	132.6	136.2
Exchange rate (FIM/$1.00)	3.82	4.05	4.7
Balance of Payments and Trade			
Total exports FOB	101.33	92.84	104.5
Exports to U.S.	5.90	5.65	6.5
Total imports CIF	103.03	87.74	90.0
Imports from U.S.	6.97	6.03	6.0
Aid from U.S.	0	0	0
External public debt (central government)	24.75	52.75	89
Foreign debt service payments	14.2	18.3	20.5
of which by central government	2.0	2.4	4.5
Gold and foreign exchange reserves (by Bank of Finland year end)	37.31	33.66	35
Trade balance	-1.70	5.10	14.5
Balance with U.S.	-1.08	0.38	0.5

1/ The estimates for 1992 are based mainly on Ministry of Finance forecasts as well as on actual data available by October 1992.
2/ Letting and operating of dwellings, use of owner-occupied dwellings.
3/ Since May 1st.

FINLAND

1. General Policy Framework

Finland is currently in the midst of its most severe peacetime recession since independence 75 years ago. Economic output dropped by 6.5 percent in 1991 and is expected to fall by two percent in 1992. An economic recovery, led by export-oriented industries, is slowly getting underway. Economic growth is expected to be weak in 1993 but pick up strength the following year. Finland is also engaged in economic restructuring spurred in part by the European Economic Area (EEA) agreement between the European Community (EC) and the European Free Trade Association (EFTA) and Finland's application to join the EC. The recession and the associated budgetary crunch have accelerated this process. Among measures taken or planned are adoption of EC competition legislation, liberalization of foreign investment laws, and reform of capital and consumption taxation. The government has also embarked on a program of significant cost-cutting, especially in the area of social welfare.

In response to declining revenues and countercyclical spending, Finland's government deficit has mushroomed. From a balanced budget in 1990, Finland in 1992 is financing about a third of government expenditures through borrowing. Of this total, about 60 percent is financed on foreign capital markets through issuance of bonds. They are denominated in foreign currencies roughly reflecting Finland's trading patterns. The government has also tried to close the budget gap through increased taxation: in 1992, a temporary two percent income surtax has been in effect; and starting in 1993, income tax rates will increase for middle and high income earners. The measure is designed to be temporary. Finland is also planning to reform capital gains taxation, lowering the basic rate to a standard 25 percent but broadening the tax base. Another reform planned for 1994 is the replacement of the current turnover tax with a value added tax.

The government and the Bank of Finland have made low inflation a key policy goal. In spite of the finnmark's value dropping by about 25 percent as a result of the November 1991 devaluation and the September 1992 finnmark float, inflation remains below the EC average. Because of rising unemployment and declining real incomes, consumer demand has dropped, and retailers have generally chosen to reduce margins rather than raise prices. However, in the medium and long term, inflation is likely to accelerate as the economy picks up and retailers pass on higher import costs and wage earners try to reverse the pattern of declining real incomes. In spite of rising debt service payments, Finland's current account deficit has declined because of a strong increase in export sales. Concommittant with negative economic growth and low inflation, the overall money supply has declined slightly in 1992.

Much of Finnish economic policy is based on the expectation of further integration with Western Europe. In January 1993, the European Economic Area agreement is scheduled to go into effect, and Finland hopes to become a member of the European Community as early as 1995. Formal EC accession negotiations should get underway in mid to late 1993, and informal talks are possible earlier in the year. In addition to increasing economic competitiveness in advance of EC membership, the government aims to meet the deficit, debt, interest rate, and inflation convergence criteria for entry into the European Economic and Monetary Union in the latter part of the decade.

2. Exchange Rate Policy

Since June 1991, Finland has sought to maintain a fixed linkage between the finnmark and the European Currency Unit (ECU). The linkage was broken in November 1991 but then quickly re-established following a 12.3 percent devaluation. It was broken again in September 1992 following repeated speculation against the finnmark and a continued currency outflow. A new finnmark/ECU parity has yet to be re-established, and the finnmark continues to float on international markets. The currency has declined in value by about 12 percent since the September 1992 decision to float, resulting in a cumulative finnmark depreciation of about 25 percent in a year's time. This has further weakened Finnish demand for imports, which in any event is down because of the country's poor economic situation. Exports have conversely benefitted substantially from the depreciation, and the gain in competitiveness has been compounded by wage restraint and other cost cutting measures in Finland.

The government has stated that it intends to re-establish a linkage with the ECU, but will not do so until monetary conditions have stablized. Legislation passed in 1992 enables the government to float the finnmark on a long-term basis if necessary. Linkage to the ECU is unlikely to occur before final passage of the calendar year 1993 budget in late 1992 or early 1993. It may be further delayed until economic indicators show that a recovery is more firmly established. In the longer term, Finland intends as a future EC member state to participate in European Economic and Monetary Union, which includes a common currency.

3. Structural Policies

Finland plans to replace its turnover tax with a value added tax in 1994. While the change is expected to have little effect on overall revenues, several areas not now taxed or taxed at a lower rate, including many corporate and consumer services and construction, will be subject to the new VAT in conformity with EC practice. The government has yet to decide whether the VAT will be uniform for all goods and services and whether the level will be the same as the current turnover tax, which is 22 percent. Another significant change in taxation, likely to take effect at the beginning of 1993, is the standardization of the tax on all forms of capital income, including interest, dividends, capital gains, rental income, insurance savings, forestry income, and corporate profits. The tax will be set at a uniform rate of 25 percent. The change in capital taxation is expected to encourage Finnish companies to shift from their almost exclusive reliance on debt financing to more extensive use of equity financing. Among tax increases planned for budgetary reasons are temporary hikes in income taxation, increases in unemployment taxation and energy taxation, and the introduction of relatively minor fees on formerly free social services, including education and health.

Finland has amended its competition legislation to bring it more into line with EC policy. Legislation passed in September 1992 makes it more difficult for companies to collude on prices and market share. Seldom-applied criminal sanctions have been replaced with civil penalties as high as four million finnmarks ($800,000) or as much as ten percent of a company's turnover. The principal remaining difference with EC legislation is that Finland does not screen proposed large mergers and acquisitions before the fact, but Finnish authorities will act to break up such arrangements if it is determined that the new entity is restricting competition.

Privatization of state-owned or dominated companies remains a nominal government priority. Progress has been slow, however, ostensibly because Finland's deep recession and the companies' poor performance make them unattractive investment objectives. Four of Finland's 10 largest companies are majority state-owned, and the government is heavily involved in several key industrial sectors, including energy, forestry products, mining and chemicals. The Ministry of Trade and Industry has commissioned privatization plans for four large-state owned companies, and such a plan already exists for Neste, the Finnish national oil firm, which is the largest company in the country.

4. Debt Management Policies

Finnish government debt, while still relatively low by world standards, has risen rapidly in the past two years. Official debt as a proportion of GDP, which had been in the 20 percent range during the 1980's and through 1990, increased to almost 40 percent by the end of 1992. It is expected to level off at about 50-60 percent in the mid-1990's before starting to decline. The reason for the rapid accumulation of debt is the budgetary squeeze caused by falling revenues and rising expenditures. Tight budgets over the next few years are expected to close the budget gap, but a considerable period of sustained growth will be necessary before a reduction in overall debt levels can occur. Despite declines in the government's credit rating, its ability to finance debt on international capital markets remains strong. A November 1992 issue which was marketed simultaneously in the United States, Europe, and Japan was quickly oversubscribed.

Foreign debt is an increasing problem for many Finnish companies, particularly those which sell primarily in the local market. The weak Finnish economy and the large finnmark depreciation of the past year have made foreign debt servicing difficult. Finnish companies are conducting little new borrowing on foreign capital markets. The government, however, has more than made up the difference with its greatly increased level of foreign borrowing.

Finland generally takes a generous attitude toward third-world debt. It is an active participant in the Paris Club, the Group of 24 countries providing assistance to East and Central Europe, and in efforts to assist the former Soviet

Union. In response to budgetary problems, Finland is reducing its overall levels of foreign assistance.

5. Significant Barriers to U.S. Exports

Finland relies heavily on import licenses and to a lesser extent on duties that vary according to the difference between international and domestic prices to protect its agricultural sector, among the most heavily subsidized in the world. The licensing system, which also includes animal feed and cooking oil, supports high domestic prices and ensures that supplies are used up before imports can occur. Surpluses are usually disposed of on world markets through government and producer-financed subsidies. The government intends to phase out all export subsidies by 1996, but these would be replaced by an agricultural marketing fund, to which the government would make a substantial contribution. Further changes would be necessary if Finland joins the EC; Finnish producer prices are roughly twice those in the EC. Finland will likely seek a transition period for full adaption to the EC price regime as well as a redefinition of EC regional policy to account for arctic and sub-arctic conditions in its accession negotiations with the EC. In addition to agricultural products, Finland controls the import of steel plate originating outside of the EC and EFTA, and scrap metal exports to Russia are regulated as well. Former import restrictions on textiles, coal, oil, and gasoline have been dropped.

The Finnish service sector is undergoing considerable liberalization in connection with the EEA agreement and Finland's bid for EC membership. Market reservations restricting certain types of coverage to Finnish companies will be eased in legislation currently before the Finnish parliament. Restrictions on obtaining medical malpractice and motor vehicle insurance from foreign companies will be removed, although a company will need to maintain an office in Finland in order to market such insurance locally. For insurance involving labor pension or personal injury, a license from the government for all insurers will still be required. The government intends to open long-distance and local telephone service to international competition in 1994 and may liberalize international long-distance service subsequently. The Finnish Broadcasting Company requires that a "sufficient" amount of broadcasting time be devoted to domestic production. Under the EEA agreement, Finland will adopt the EC broadcast directive, which has a 50 percent European programming target for non-news and sports programming.

Finland is a GATT Standards Code signatory and is completing the process of harmonizing its technical standards to EC norms.

A new law before parliament in fall 1992 and expected to go into effect at the beginning of 1993 will remove most existing legal restrictions on foreign investment and foreign ownership. The new law will remove various restrictions placed on companies with foreign ownership and remove distinctions between foreign and domestic shareholders. The law provides for a screening mechanism for proposed foreign acquisitions involving a third or more of the stock of approximately 100 large companies. The provision will be in effect for a three-year transitional period. The government has pledged, however, that only in extreme circumstances would a foreign takeover be prevented. New investments are not affected by the monitoring procedure. After three years, only proposed investments involving the manufacturing of defense equipment will be monitored. Also remaining will be some restrictions on the purchase of vacation homes in Finland. Investment restrictions in various fields of economic activity such as tourism and medical and legal services are also being removed. However, foreigners may not engage in business in fields related to national security and defense, as well as in private security services and road construction (seen as related to national defense). Other closed sectors are the broadcast media, the print media, cable TV, and real estate brokerage.

Finland is a signatory to the GATT Procurement Code. In the excluded sectors, particularly defense, countertrade is actively practiced. Finland recently contracted to purchase fighter aircraft valued at $2.5 billion from a U.S. firm. One hundred percent offsets were required as condition of sale. In connection with the EEA agreement, Finland is implementing all EC procurement-related directives.

Finland has a streamlined customs procedure, reflecting the importance of foreign trade to its economy.

6. Export Subsidies Policy

The only significant Finnish direct export subsidies are for agricultural products, including grain, meat, butter, cheese, and eggs. At the end of the 1980s, a limited program of interest rate subsidies was initiated to aid the sale of Finnish ships facing subsidized EC competition. This led to an agreement between the EC and Finland for consultations to prevent predatory subsidization. A system of guarantees to protect heavy industrial exports, principally shipbuilding products, against inflation is no longer used but still exists on paper. Finland participates constructively in the efforts of the OECD's Working Party 6 to eliminate shipbuilding subsidies.

Finland is a member of 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 in other international discussions.

Finland is currently changing copyright legislation to conform to EC practice, as required by the European Economic Area agreement. Piracy of audio and video recordings is currently a small problem in Finland; Finnish authorities estimate that less than one percent of audio recordings and less than five percent of video recordings sold are pirated.

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Piracy of computer programs and data bases is an increasing area of concern, but no data is available as to its extent. Finland will start granting product patent protection for pharmaceuticals at the beginning of 1995; currently process patent protection is applied.

Finnish intellectual property practices have had a minimal negative effect on U.S. exports.

8. Worker Rights

a. Right of Association

The Finnish constitution contains specific guarantees for the right of workers to form trade unions and assemble peacefully. The right to strike is guaranteed by law. These rights are honored in practice; trade unions are among the most powerful political forces in Finland. About 85-90 percent of the work force is unionized. Unions are free, independent, democratic, and associate in two federations as well as internationally.

b. 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 among employers, the three 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 by government inspectors and actively monitored by the unions.

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f. Rights in Sectors with U.S. Investment

There is no difference in the application of worker rights between sectors with U.S. investment and those without.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		(D)
Total Manufacturing		53
Food & Kindred Products	0	
Chemicals and Allied Products	2	
Metals, Primary & Fabricated	1	
Machinery, except Electrical	4	
Electric & Electronic Equipment	-2	
Transportation Equipment	0	
Other Manufacturing	47	
Wholesale Trade		281
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, November 1992, Vol. 72, No. 8, Table 11.3

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Key Economic Indicators

(Billions of French Francs (FF) unless otherwise stated)

INCOME, PRODUCTION, AND EMPLOYMENT	1990	1991	1992
Real GDP (FF1980)	3,531.1	3,572.2	3,647.2 1/
Real GDP growth (pct)	2.2	1.2	2.1 1/
GDP (at current prices)	6,492.0	6,750.4	7,114.9 1/
of which			
Consumption	3,882.6	4,065.1	N/A
Investment	1,379.0	1,391.0	N/A
(of which corporate)	756.3	747.6	N/A
Government	1,179.0	1,253.0	N/A
Exports	1,468.5	1,529.7	N/A
Imports	1,470.3	1,509.2	N/A
Stocks	53.3	20.8	N/A
GDP (at current prices) By Sector			
Agriculture	220.4	207.2	N/A
Industry	1,559.8	1,587.4	N/A
(of which manufacturing)	1,136.6	1,131.6	N/A
Construction	325.7	355.6	N/A
Rents	527.5	576.1	N/A
Financial Services	281.5	286.9	N/A
Retail trade and services (excl. financial services)	2,304.9	2,412.9	N/A
Gvt and non-profit services	1,017.8	1,078.8	N/A
Real per capita GDP (FF1980)	62,412	62,784	N/A
Labor Force (000s)	24.6	24.8	24.8 2/
Unemployment rate (pct)	8.9	9.8	10.2 2/
MONEY AND PRICES (annual percentage growth)			
Money Supply (M2)	-0.4	-2.0	-1.7 2/
Base Bank Lending Rate	10.25	10.35	9.9 2/
Household Savings Rate	12.2	12.6	13.1 2/
CPI (year-end)	3.4	3.1	2.8
Exchange Rate (FF/US)	5.5	5.7	5.3 2/
BALANCE OF PAYMENTS AND TRADE			
Total Exports (FOB) 4/	1,177.7	1,221.5	839.0 5/
Total Exports to US (FOB)	69.6	76.6	54.0 5/
Total Imports (FOB) 4/	1,273.6	1,302.9	820.0 5/
Total Imports from US (CIF)	103.3	124.5	71.9 5/
Gold and foreign exchange reserves (FF Millions)	351.3	326.6	314.9 2/
Trade balance (cif/fob)	-95.9	-81.4	-14.5 5/
Balance with US (cif/fob)	-33.7	-48.1	-17.9 5/

(1) 1992 figures are government forecasts unless otherwise noted
(2) Latest available 1992 data
(3) France does not report comparable statistics
(4) Merchandise trade
(5) Cumulative data for the first eight months 1992

FRANCE

1. General Policy Framework

France is the fourth largest industrial economy, with a GDP of about $1.2 trillion in 1991, about one-fifth the size of the U.S. economy. Industry accounted for 36.5 percent of output in 1991 while services and agriculture provided 59.0 percent and 4.5 percent respectively.

As a member of the European Community (EC), imports into France are subject to the EC's common external tariff and to the restrictions of the Community's Common Agricultural Policy. In addition, as the EC puts in place its "Single Market" program to remove all barriers to the free internal circulation of goods, services, and capital by the end of 1992, jurisdiction for a growing number of economic areas, including certain aspects of fiscal policy and investment policy, will transfer to the EC.

France has a centuries-old tradition of highly centralized administrative and governmental control of its essentially market economy, including: five-year plans, extensive government ownership of industrial firms, and reliance on industrial subsidies and credit control. Government influence over the economy was further extended in 1981-1982 with additional nationalizations, particularly in the banking sector. Since then, however, the government (both Socialist and Center-Right) has drastically changed its policies, adopting the view that reducing government involvement is the best way to spur economic growth and reduce the high unemployment rate. To this end, the government implemented a comprehensive program of market-oriented reform and deregulation: eliminating the majority of price and exchange controls; reducing subsidies; modernizing 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 led to the privatization of 31 industrial and financial companies. The Socialist government, which returned to power in 1988, ended the privatization program, though they indicated that they would allow private investors to own minority positions in government-controlled enterprises. Several of the largest French banks, most of the major insurance companies, the utilities, and many of the largest industrial concerns all remain state-owned.

Cutting the deficit, reducing overall expenditures, while lowering tax rates and increasing funding for socialist priorities (such as education, justice, public housing, guaranteed minimum income, employment programs, and foreign aid) have been the government's principal budgetary goals since 1988.

The top income tax bracket of 65 percent was lowered to 56.8 percent in 1987, while the corporate tax rate dropped to 42 percent in 1988 from 45 percent. The tax rate on reinvested corporate profits has been reduced to 34 percent in 1989 and a rate of 33 percent is slated for 1993. In preparation for the single European market, the government has begun to bring its high valued added tax (VAT) rates more in line with European

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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 January 1, 1990 the government significantly cut the tax rates on interest from bonds and other financial placements. However, while lowering some taxes, the Socialist government reintroduced a wealth tax in the 1989 budget and has steadily raised the corporate capital gains tax from 16 percent in 1989 to 34 percent in 1991. Representing 43 percent of GDP, the overall French tax burden remains one of the highest among the member countries of the Organization for Economic Cooperation and Development.

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 or even restrictive monetary policy, as an integral part of its efforts to bring 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. This has been primarily due to the government's "strong franc policy" which has required maintaining higher nominal interest rates to maintain the franc's value in the European Monetary System (EMS). (France, along with most members of the EMS, is committed to limit fluctuations of the value of its currency to within plus or minus 2.25 percent of agreed parities with the other participating currencies.)

2. Exchange Rate Policies

Within the established limits of the ERM, the value of the French franc is set by market forces, although it is influenced by macroeconomic policy actions or central bank interventions. These actions are usually coordinated 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 -- a ban on citizens' holding foreign currency accounts.

While the GOF's "strong Franc" policy has caused the franc to appreciate in relation to the dollar in 1991 and the first half of 1992, low French inflation has resulted in a slightly lower real appreciation.

3. Structural Policies

While putting off comprehensive tax reform, the government has begun fine-tuning its tax code to achieve its priorities: investment, job creation, and competitive French companies in the context of the European single market. Recent budgets have incorporated a number of tax incentives to help achieve these objectives including: a lower rate on reinvested profits; tax exemption 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 the tax on the transfer of corporate assets.

As part of the EC single market program, member governments are negotiating the harmonization of VAT rates. The French government has begun to reduce and consolidate VAT rates, which currently range from a low of 5.5 percent to 18.6 (which is the standard EC rate).

4. Debt Management Policies

The central budget deficit as a percentage of GDP fell from 3.2 percent (FF151 billion) to 1.2 percent in 1989 before rising to 2.1 percent in 1991 as slower economic growth reduced revenues. Because of continued slow growth, the GOF expects the budget deficit as a percentage of GDP to rise to 2.7 percent in 1992. The government's budget deficit is financed by issuing government bonds at weekly and monthly auctions.

As a member of the G-10 group of leading financial nations, France participates actively in the IMF, the World Bank and the Paris Club. France is a leading donor nation and is actively involved in development issues, particularly with its former colonies in North and West Africa.

5. Significant Barriers to U.S. Exports

U.S. companies sometimes complain of France's complex technical standards and of unduly long testing procedures. Standards and testing requirements (which must usually be done in France) sometimes appear to exceed reasonable requirement levels needed to assure proper performance and safety.

French government agencies and state-owned corporations not covered by the 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 noncompetitive, single tendering exceptions. The EC Utilities Directive, which entered into force January 1, 1993 established EC-wide regulations concerning government procurement in the sectors still excluded from the Government Procurement Code (energy, water, telecommunications, transport). In implementing the directive, France requested a derogation from Article 29, which establishes preferenfe for EC suppliers. Title VII of the 1988 Trade Act would required the United States to retaliate if these discriminatory preferences are appled. French regulations implementing the EC Broadcast Directive 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.

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The process of implementing (or harmonizing) EC directives in France could have a distorting effect on trade if French regulations are inconsistent with implementing regulations in other EC Member States. U.S. manufacturers have encountered some differences in interpretation of the provisions of EC directives among individual countries.

According to legislation enacted in 1990, non-EC foreign lawyers are required to qualify as "avocats", the category of the French legal profession empowered to provide all types of legal advice, including advice on French law and practice in French courts. However, most foreign lawyers in France, including those from the U.S., seek only to practice their own country's law and international law, and view the new legislation as a barrier to entry.

While investments establishing new greenfield investments and acquisitions of smaller companies no longer require prior approval and the approval process for major acquisitions has become more transparent, U.S. investors still are not treated the same as French or EC investors. Acquisitions by non-EC investors (publicly traded firms in which non-EC nationals own more than 20 percent of the equity or non-publicly traded firms in which non-EC nationals own more than 33.3 percent of the equity) are required to give prior notification to the Ministry of Finance and can be disapproved if the acquisition is found not to be in the French "national interest". EC firms are only required to make an after-the-fact notification, or, at worst are subject to a maximum 15-day delay while their EC status is verified. No proposed U.S. investment has been denied authorization since 1990.

6. Export subsidy policies

France is a party to the OECD guidelines on the arrangement for export credits, which includes provisions regarding concessional foreign aid. The French government maintains a foreign commercial service to promote French exports and to provide assistance to French businessmen abroad. The government has begun examining ways to concentrate the benefits of its export promotion efforts more on small and medium-sized businesses.

France's agricultural exports are heavily subsidized (as are those of other EC Member States) as provided by the EC's Common Agricultural Policy (CAP).

France is a signatory of the GATT Subsidies Code.

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 French Constitution guarantees the right of workers to form unions. Although union membership has declined to ten percent of the workforce, the institutional role of organized labor 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.

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.

c. Prohibition on Forced or Compulsory Labor

French law prohibits antiunion discrimination and forced or compulsory labor.

d. Minimum Age for Employment of Children

With a few minor 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 a minimum wage slightly under $6.00 an hour. 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. France has 3 small export processing zones, where regular French labor legislation and wage scales apply.

f. Labor Conditions in Sectors with U.S. Investment

Labor law and practice are uniform throughout all industries of the private sector.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		(D)
Total Manufacturing		11,952
Food & Kindred Products	913	
Chemicals and Allied Products	3,189	
Metals, Primary & Fabricated	346	
Machinery, except Electrical	3,474	
Electric & Electronic Equipment	521	
Transportation Equipment	696	
Other Manufacturing	2,813	
Wholesale Trade		3,769
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, November 1992, Vol. 72, No. 8, Table 11.3

GEORGIA

Key Economic Indicators*

(Millions of rubles unless otherwise noted)

	1990	1991	1992
Income, Production and Employment			
Nominal GDP (bil dols)	12.5	9.7	6.5
Real GDP (1985 prices)	n/a	n/a	n/a
Real GDP Growth (%)	(12)	(25)	(35) proj.
Real per capita GDP (rubles)	n/a	4,347	n/a
Money and Prices (annual percentage growth)			
Retail inflation (%)	5	81	1,000(est)
Exchange Rate (USD/Ruble)			
Official 1/	0.59	0.58	1/
Commercial	0.59	1.7	
Parallel	18.8	59.0	
Balance of Payments and Trade			
Total exports	5,983	6,112	n/a
Total imports	6,839	7,266	n/a
Trade balance	-856	-1,154	n/a
Aid from the U.S. (mil $)	n/a	n/a	14.209 3/
External public debt (bn $)	n/a	n/a	1.05 2/

* Figures are from official Georgian sources. They should be considered as indicators of order of magnitude only.
1/ Georgia maintains multiple exchange rates.
2/ See Section 4
3/ Other U.S. assistance was available through regional programs for which a country-by-country-breakdown is not available.

1. General Policy Framework

The Republic of Georgia declared its indepedence in April 1991 and held its first elections in May 1991. Following the establishment of military control of the government in January 1992, Eduard Shevardnadze agreed to return to Georgia in March as Chairman of the ruling State Council. The electorate confirmed Shevardnadze's position by electing him as Chairman of the Parliament in the parliamentary elections held in October 1992.

A series of political and internal security crises have absorbed the energies of Georgia's new government and worsened the economic problems associated with the breakup of the USSR. Georgia has not yet embarked on a comprehensive economic reform program.

It is estimated that gross domestic product (GDP) in 1992 could fall by some 35 percent from 1991 levels (which, according to Georgian government statistics, were about 25 percent lower than 1990.) Perhaps the biggest blow has been the decline in Georgia's external trade. One legacy of the former centrally-planned system of the USSR is the Georgian economy's dependence on trade with the other former Soviet republics. In 1990, exports and imports respectively accounted for 41 and 46 percent of Georgia's gross domestic product. Blockade of the North Ossetian gas pipeline, disruption of rail links through Abkhazia, and general transport problems have led to sharp increases in energy and raw materials prices and caused a decline in Georgia's light industrial production. Only about five percent of Georgia's energy consumption comes from local sources. Likewise, export of agricultural produce (Georgia is the principal supplier of tea, citrus fruit, and tobacco to the former Soviet republics) has been adversely affected by the disintegration of interrepublican trade links. The political situation has also devastated Georgia's tourism industry, another important source of revenue.

Privatization in Georgia's agricultural sector is proceeding apace, with over 40 percent of arable land already in private hands and most of the rest scheduled to be privatized in 1993. Many other needed economic reforms, however, are either in the drafting stage or have yet to be implemented. Georgian leaders recognize the need to create an open investment and trade regime in order to attract the foreign capital and know-how necessary to develop agriculture, light industry, and tourism. It is expected that the newly elected Parliament will draft legislation designed to encourage foreign trade and investment. However, another critical ingredient for foreign involvement - internal political stability - is currently preoccupying the country.

Georgia joined the IMF, World Bank and European Bank for Reconstruction and Development in 1992. The World Bank anticipates lending about $115 million to Georgia in the next year or two to assist with essential imports, institution building and telecommunications reform.

2. Exchange Rate Policy

Under the banking law enacted in August 1991, the National Bank of Georgia is responsible for exchange rate policy and the formulation of exchange system regulations and their application. Georgia remains in the ruble zone and is supplied rubles from the Central Bank of the Russian Federation; ruble exchange rates in Georgia fluctuate with the rates determined in Russia. In contrast to Russia, however, Georgia maintains multiple exchange rates.

3. Structural Policies

Monetary policy: As long as Georgia remains in the ruble zone, its ability to control monetary and credit policies is constrained. The Georgian Government established the National Bank of Georgia in August 1991 with the intention of pursuing an independent policy. Nevertheless, the Central Bank of Russia has sole authority to issue rubles, and the primary role of Georgia's bank at present is to order ruble banknotes from Russia. A shortage of ruble banknotes has compounded the difficulties associated with economic liberalization. At the same time the Georgian Government's removal of some price supports has contributed to high inflation, estimated to be at about 1,000 percent annually. Adoption of a national currency, however, will await development of the institutional capabilities of the central bank, growth of convertible currency reserves, and budgetary discipline.

Fiscal policy: The government's budget is under severe pressure, as domestic payment arrears on wages and other expenditures accumulate. Revenue shortfalls have led to consideration of new excise taxes. Government investigations indicate that, during 1992, some 80 percent of production enterprises understated profits and underpaid taxes.

The government currently levies personal income, excise, profit, and value-added taxes, along with a two-percent import, 12-percent export, and 8-percent customs taxes.

Tax exemptions for foreign investors exist in several areas. Property contributed by foreign investors in accordance with a firm's articles of incorporation, as well as foreign investors' personal use property, are exempt from duty and import taxes. Additionally, equipment or materials imported for industrial maintenance are exempt from duty and import taxes. Tax benefits are also available for specific areas of activity designated by the government.

Regulatory policies: The government maintains subsidies on many basic commodities. Following price liberalization in Russia, which made prices in Georgia relatively low and caused an outflow of basic commodities, the Georgian Government has responded with export controls and with some price liberalization. Many goods in Georgia are bought unofficially at market prices, diminishing the impact of government price controls and probably indicating a much higher inflation rate than officially reported.

The government's committee on privatization is just beginning to implement plans to sell off state properties through auction sales, competitive bidding, and share offerings in joint stock companies. Foreign investors' purchase of shares in state enterprises is regulated by the state.

4. Debt Management Policies

Georgia is a party to the interrepublic memorandum of understanding through which it accepted joint and several liability for the debt of the former Soviet Union. In December 1991, Georgia signed an interrepublic treaty on the division of the external assets and liabilities of the FSU; its share is 1.6 percent. However, the Georgian government has not agreed to make debt service payments until an agreement has been reached on disposition of the assets of the former Soviet Union. Further discussions have not proceeded because of the civil war.

Georgia has signed an agreement with the European Community for 70 million ecus ($90 million) in credit, about $5 million of which will be used for food and medicine. Other countries have also promised credits, including an offer of $50 million in credits from Turkey. No credits have been obtained from foreign commercial banks.

5. Significant Barriers to U.S. Exports

Georgia's limited availability of convertible currency is a significant barrier to trade with the United States. This problem is exacerbated by the government's surrender requirement on hard currency earnings of export industries. Under this requirement, Georgian export industries must surrender a portion of their hard currency earnings to the government for rubles at a unfavorable rate. This requirement constitutes a disincentive to export, decreasing the flow of hard currency into the country.

Import licenses and export quotas are another barrier to trade with the United States. Although in March 1992 the government lifted the requirement of a general license to import or export, import licenses are required for certain commodities, including medical supplies and pharmaceuticals. The export of many food and consumer products are either prohibited or restricted, depending on domestic supplies.

Political instability in western and northern Georgia continue to disrupt the country's main rail and road links with Russia. Other barriers are the lack of sufficient infrastructure to support trade: telecommunications, banking, office space, and experience with Western accounting practices are all in short supply.

The government is drafting legislation aimed at liberalizing the foreign investment regime. The government recently abolished the registration fee on foreign partners in joint ventures, and the 15 percent tax on re-exports.

To normalize its trade and investment relations with Georgia, the United States has proposed a new network of bilateral economic agreements. The Georgian government is considering a draft U.S.-Georgia trade agreement, which would provide reciprocal Most Favored Nation status.

A draft U.S.-Georgia bilateral investment treaty, which would establish a bilateral legal framework to stimulate investment, proposed by the United States is also under consideration by the Georgian Government. The United States has also provided to Georgia a draft bilateral tax treaty, which would provide U.S. businesses relief from double taxation of income. An Overseas Private Investment Corporation (OPIC) incentive agreement, which allows OPIC to offer political risk insurance and other programs to U.S. investors in Georgia was also concluded in 1992 and is in force.

6. Export Subsidies Policies

One of the legacies of a centrally-planned economy is government subsidies to state-owned enterprises, but these subsidies are aimed at maintaining production and employment rather than being specifically targetted at supporting exports.

7. Protection of U.S. Intellectual Property

Georgia has not yet adhered to the various international conventions that protect intellectual property. Parliament has not adopted intellectual property rights legislation, and previous Soviet-era laws remain in force. The draft U.S.-Georgia bilateral trade agreement proposed by the U.S. contains commitments on protection of intellectual property.

8. Worker Rights

a. Right of Association

A mix of legislation survives from the Soviet era. The labor code provides that Georgian workers are permitted to form or join unions freely. Employees have the right to form associations, which may operate on the basis of their own charters. Unions and associations are not required to register with government bodies.

The old centralized Soviet trade unions have been essentially disbanded and a confederation of independent trade unions has emerged in their places. There are also some independent branch trade unions. Georgians for now appear largely uninterested in unionization.

Unions are not required to form a single central trade union, and unions may join federations and affiliate with international bodies if they choose. The few unions that are currently being formed are independent of government control and receive no government funding. At present there are no restrictions on the conduct of political activities by unions.

b. Right to Organize and Bargain Collectively

The labor code provides that trade union representatives in all enterprises sign an annual contract stipulating, among other things, management obligations toward the workers and worker rights. Wages are still established primarily by the state. In the small, but growing, private sector, employees negotiate directly with employers to set their wages. There is no legislation on anti-union discrimination.

There is no legislation either permitting or preventing strikes. There were several strikes in 1992, but these were largely driven by political and not labor issues, and were not organized by the unions.

There are no export processing zones in Georgia.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is prohibited by laws dating back to the Soviet era and is not practiced.

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d. Minimum Age for Employment of Children

Based on legislation from the Soviet era, the minimum age for children in the work force is 14 years, which is enforced.

e. Acceptable Conditions of Work

The government adjusts the current minimum wage upward every month in an attempt to keep up with skyrocketing inflation. The standard legal workweek is 41 hours. The government has not yet addressed the issue of occupational safety and health standards. Provisions on health and safety remain from Soviet days.

f. Rights in Sectors with U.S. Investment

There is little or no significant U.S. investment in Georgia.

GERMANY

Key Economic Indicators

(Billions of DM Unless Otherwise Noted)

	1990 Western Germany	1991 All Germany	1992 All Germany 4/
Income, Production and Employment			
Real GDP/1 (1985 prices)	2,130.5	2,209.6	2,242.7
Real GDP Growth Rate/1	5.1	3.7	1.5
GDP by Sector(1985 prices)			
Agric./Forestry/Fishing	38.0	34.8	N/A
Manufact./Mining/Constr.	814.5	834.4	N/A
Trade/Transportation	318.7	336.5	N/A
Services	635.1	678.1	N/A
General Govt/Households	270.1	275.4	N/A
Real GNP Per Capita /1	33,987	34,774	34,678
Civilian Labor Force (mil)/1	30.4	30.7	31.0
Unemployment Rate/1/2 (Annual Average)	6.4	5.7	5.8
Money and Prices			
Money Supply (M1)/3	584.4	604.0	588.3
Commercial Interest rate	10.28	11.31	12.1
Savings Rate/5	14.7	14.5	14.0
Investment Rate(pct nom GNP)/1	20.8	21.5	21.5
CPI (1985 = 100)/1	107.0	110.7	115.1
WPI (1985 = 100)/1	95.2	96.7	96.7
Exchange Rate (ann avg/dol)	1.6161	1.6612	1.5623
Balance of Payments and Trade/3			
Total Exports (FOB)	662.0	665.8	676.5
Total Exports to U.S.	44.6	39.0	27.5
Total Imports (CIF)	556.7	643.9	641.7
Total Imports from U.S.	34.8	39.9	29.1
Net U.S. Direct Investment	41.9	N/A	N/A
Gold and Forex Reserves	78.2	69.1	74.1
Balance of Payments			
Current Account	76.1	-32.9	-37.5
Capital Account	-90.1	14.4	n/a-

1/ Western Germany only
2/ Percent of civilian labor force
3/ Since July 1990 inclusion of Eastern Germany
4/ Latest available data
5/ Bundesbank definition

1. General Policy Framework

German fiscal policy is currently driven by the financial demands of reunification. More than two years after the fact, GERMANY

the cost and duration of the reconstruction process have become clearer. According to various estimates, between six and nine percent of western German GNP is being transferred annually to the east, and the process of eastern German reconstruction is expected to last into the next century, requiring continued high levels of transfers. Western German contributions to eastern Germany have been financed primarily through public borrowing, with the public sector borrowing requirement swelling to over six percent of GNP in 1992. The government is now attempting to rein in its borrowing with an ambitious program of expenditure restraint. Nonetheless, it is increasingly likely that income taxes also will need to be raised, probably in 1995.

The ballooning of public borrowing provided a fiscal stimulus that contributed to strong economic growth in 1990 and 1991, and also led to a surge of imports that distributed the stimulus abroad as well. Now, however, fiscal policy is regarded by many as less stimulative. Public sector borrowing has begun to level off and is expected to plateau over the next several years. Expected tax increases will help to restrain borrowing. Broadly-based tax increases will likely not occur until 1995, with the delay attributable in part to electoral considerations and to a desire to avoid burdening the currently weak economy.

Reunification also fueled inflation in Germany, as money growth jumped with the conversion of former East German money balances into Deutsche marks and as eastern demand for western goods, financed by transfers, strained the productive capacities of western Germany. High wage increases in western Germany in 1991 and 1992 further added to inflationary pressures. The German central bank (the Bundesbank) responded to these pressures by hiking short-term interest rates, which peaked in July 1992 at post-war highs. Partly in response to external pressures and strains in the European Exchange Rate Mechanism (ERM), the Bundesbank cautiously started to ease rates in September 1992. However, the Bundesbank places overriding importance on price stability, and recent relatively high rates of monetary growth (M3) and inflation, as well as continued concern with the level of fiscal deficits and wage developments, have led it to take a cautious and gradualist approach to interest rate reduction. Markets expect further easing in 1993, but the extent and speed of interest rate reductions are uncertain. It is believed that progress towards fiscal consolidation and wage moderation are two important preconditions for substantial easing by the Bundesbank.

The government's public sector deficits are financed primarily through sales of government bonds, the maximum maturity of which is ten years. Bundesbank monetary policy tools include official interest rates, the discount rate (currently at 8.25 percent) and the Lombard rate (currently at 9.5 percent). (The Lombard rate is the rate offered by the Bundesbank on loans provided to banks to meet peak borrowing requirements; the Lombard facility is comparable to the Reserve Banks' Fed window.) It also steers short-term interest rates through providing liquidity to credit markets, primarily via repurchase operations.

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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 (ERM) of the European Monetary System (EMS).

3. Structural Policies

The ramifications of German unity continue to dominate the country's structural policies. The economy in the eastern region is expected to grow strongly in 1993, but it is starting from a very low level. Attention is focussed on the privatization of formerly state-owned firms. As of September 1992, 10,000 (of approximately 13,000) firms had been privatized, although the 3,000 remaining firms include as much as two-thirds of the employment in heavy industry. 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 eastern German 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 Treuhandanstalt (the Federal Privatization Agency for eastern Germany).

Property claims remain a problem. While German property law now shields purchasers from the claims of previous owners (under certain circumstances), 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 the east, especially transportation and communication services. As a result, the construction sector was one of the first to show signs of recovery.

Output and employment in eastern Germany dropped sharply following unification, but economic activity has now passed its low point. GNP growth in 1993 is expected to be in the neighborhood of seven percent. Total investment in 1992 is expected to be slightly greater than DM 100 billion. While this is near 45 percent of GNP, much more investment will be needed to complete industrial restructuring - some estimate as much as DM 2-3 trillion. Some investors, such as Daimler-Benz, have postponed investment in the region due to the weak state of the German economy as a whole.

4. Debt Management Policies

Due to large current account surpluses from the 1970's to 1990, Germany is a net foreign creditor.

Unification's effect on Germany's status as a net creditor has been limited, despite the substantial negative net worth of the former German Democratic Republic as determined by the German economic and monetary union of 1990. Germany's net foreign assets were equal to DM 458 Billion in 1989, rose to DM 534 billion in 1990, and slipped slightly to DM 510 billion by June 1992. The broad outlines of the current and future financial obligations associated with eastern Germany are relatively well known and suggest that they will be manageable given Germany's large stock of domestic savings.

Unification will, however, significantly and rapidly change Germany's public sector indebtedness. The likely assumption in 1994-95 by the public sector of well over DM 400 billion of debt being generated by the Treuhandanstalt and other special eastern funds, together with ongoing public sector deficits, will increase the public sector's stock of debt from roughly 40 percent of GNP in 1990 to a prospective 60 percent in 1995. It is expected that these debts will continue to be serviced smoothly in domestic and international capital markets.

5. Significant Barriers to U.S. Exports

Germany is one of the world's strongest economies, and one which poses virtually no formal barriers to U.S. trade or investment interests. It is possible to identify some pitfalls, especially for the newcomer to the German market, but on the whole the Federal Republic of Germany is an excellent place for U.S. companies to do business.

Import licenses: Germany makes virtually no demands for import licenses, having abolished almost all national import quotas. Germany is subject, however, to the import-license requirements imposed on some products by the European Community.

Services Barriers: Conditions of access vary considerably but the U.S. Embassy has heard very few complaints. Progress appears to have been made in participation of foreign companies in banking and other financial services, although the insurance market is still a tough one to crack. Telecommunications services are being increasingly deregulated. This is not always the case in transport services.

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Standards, Testing, Labeling, and Certification: Germany's regulations and bureaucratic procedures can prove a baffling maze, blunting the enthusiasm of U.S. exporters. While not "protectionist" in the classic sense, government regulation does offer a degree of protection to German suppliers. Safety standards, not normally discriminatory but sometimes zealously applied, and exemplified by the testing and licensing procedures of the Technischer Ueberwachungsverein e.V. (TUV, or Technical Inspection Association), complicate access to the market for many U.S. products.

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. There are also market access barriers to foreign competition in the nascent electric power market of eastern Germany. These include actions by western German utilities to block access to the eastern market and a legal obstacle for foreign participation created by the pre-unification Power Agreement.

Government Procurement Practices: On February 21, 1992 in a report to the Congress under Title VII of the Trade Act of 1988 (section 308 of the Trade Agreements Act of 1979, as amended), the Administration identified Germany along with Italy, France, and the EC as having discriminatory procurement practices which result in identifiable harm to U.S. businesses. Negotiations, principally between the United States and the EC, to eliminate these practices are ongoing.

Customs Procedures: Customs procedures at German ports-of-entry are relatively straight forward.

6. Export Subsidy Policy

Germany does not directly subsidize exports outside the EC framework of export subsidies for agricultural goods. Government or quasi-government entities do provide export finance, but Germany subscribes to the OECD guidelines that restrict the terms and conditions of export finance. An earlier policy that provided exchange rate guarantees to the German Airbus partner has been terminated, largely as a result of U.S. pressure and a GATT panel finding against this program.

Germany is a signatory of the GATT Subsidies Code.

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.

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 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 has developed draft legislation to transpose the EC Software Copyright Directive into national law, which will effectively lower the current German standard for originality. The Federal Cabinet approved the draft in September 1992, and it was sent to the Bundesrat for consideration. Passage was originally planned by the end of 1992, but Ministry of Justice officials now anticipate passage of the legislation during the first half of 1993. U.S. Government and industry experts have reviewed the draft and expect the new legislation to address U.S. concerns about IPR protection for computer software.

Some pharmaceutical firms are concerned that health-care reforms designed to restrain pharmaceutical prices may detract from the value of patents. The new system, which is in early stages of being implemented, involves setting "reference prices" for categories of drugs which have similar therapeutic effects.

8. Worker Rights

a. Right of Association

The constitution guarantees full freedom of association (Article 9). The workers' rights to strike and the lock-out are also legally protected activities. These rights have been developed further by jurisdiction.

b. Right to Organize and Bargain Collectively

The German industrial relations system consists of a series of statutory mechanisms for sharing power over certain activities within the firms, coupled and overlapping with an autonomous private collective bargaining system developed between the unions and employers organizations. The system of codetermination and worker participation (Mitbestimmung) is regulated at different levels by various laws enacted between 1951 and 1989. They cover two basic spheres: day-to-day social, personnel, and economic matters, which are handled by elected works councils; and basic business decisions at the enterprise level, made by supervisory or management boards, which include members elected by the workers. Wages, salaries and working conditions are determined either by collective bargaining agreements or individual contracts. Collective bargaining agreements are legally binding and can be enforced through the courts. Under certain circumstances, a collective bargaining agreement can be declared as "generally binding" which means that all employers in the industry covered by the agreement must abide by its provisions, regardless of whether or not they are members of the association that signed the agreement.

c. Prohibition of Forced or Compulsory Labor

The German constitution guarantees every German the right to choose his own occupation and prohibits forced labor.

d. Minimum Age for Employment of Children

German legislation in general bars child labor under age 15. There are limited exemptions for children employed in family farms, delivering newspapers or magazines, or involved in theater or sporting events.

e. Acceptable Conditions of Work

German labor and social legislation is comprehensive and, in general, imposes strict occupational safety and health standards. The legislation and regulations can be supplemented by collective agreements which cover entire industries or regions. The resulting standards are widely considered to be among the very highest in the European Community. 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.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		3,621
Total Manufacturing		20,086
Food & Kindred Products	1,607	
Chemicals and Allied Products	2,226	
Metals, Primary & Fabricated	1,295	
Machinery, except Electrical	4,990	
Electric & Electronic Equipment	839	
Transportation Equipment	5,597	
Other Manufacturing	3,532	
Wholesale Trade		2,008
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		25,715

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

Source: U.S. Department of Commerce, Survey of Current Business, November 1992, Vol. 72, No. 8, Table 11.3

GREECE

Key Economic Indicators

(Billions of Drachmas unless otherwise noted)

	1990	1991	1992 1/
Income, Production and Employment			
Real GDP (1970 prices) 2/	489.8	498.4	503.4
Real GDP growth rate (pct)	-0.4	1.8	1.0
GDP (at current prices) 2/ millions of dollars	58,370.0	60,949.0	68,348.0
By Sector:			
Agriculture	8,975.0	9,923.0	N/A
Energy and Water	1,585.0	1,593.0	N/A
Manufacturing	9,534.0	10,241.0	N/A
Construction	4,045.0	3,432.0	N/A
Rents 3/	3,683.0	4,241.0	N/A
Financial Services	1,523.0	1,623.0	N/A
Other Services	17,653.0	18,491.0	N/A
Government, Health and Education	11,372.0	11,405.0	N/A
Net Exports of Goods and Services	-7,357.0	-7,390.0	-6,950.0
Real per capita income (constant 1990 thousand drachma prices)	1,020.0	1,030.0	1,036.0
Labor force (millions)	4.0	4.0	4.1
Unemployment rate (pct)	7.2	8.6	9.6
Money and Prices (Annual Percentage Growth)			
Money supply (M2) (end period)	1,583.5	1,739.5	N/A
Base Interest Rate 4/	N/A	N/A	N/A
Commercial interest rates (pct)	26-32	26-26.5	24-29
Investment rate (pct)	25-27	25-27	25-27
Personal Saving rate (pct)	16-18	18.0	18-19
Wholesale price index (yr-end) (1980 = 100)	512.6	576.7	640.0
Consumer price index (yr-end) (1988 = 100)	151.2	178.4	205.2
Exchange rate: drachmas/US$1			
Official (annual average)	158.5	182.3	190.0
Official (End period)	157.6	175.3	210.0
Balance of Payments and Trade (millions of dollars)			
Total Exports(FOB) (Bank of Gr.)	6,364.8	6,797.1	6.800.0
Exports to U.S. (Greek Customs)	445.3	495.0	246.0 5/
Total Imports(CIF) (Bank of Gr.)	18,692.5	19,104.6	19,800.0
Imports from U.S. (Greek Customs)	729.0	923.0	504.0 5/
Aid from U.S.	N/A	N/A	N/A
Aid from other countries	N/A	N/A	N/A
External public debt	22,029.7	23,670.0	23,500.0
Debt Service Payments (paid)	4,147.5	5,786.1	6,000.0
Gold and foreign exchange Reserves	4,294.0	6,046.0	5,665.0 5/
Trade Balance (Bank of Greece)	-12,327.7	-12,307.5	-13,000.0
Balance with U.S. (Greek Customs)	-283.7	-428.0	-258.0 5/

GREECE

1/ 1992 figures are all estimates based on available monthly data in October 1992.
2/ GDP at factor cost
3/ Includes imputed rents. Home ownership in Greece exceeds 70 percent.
5/ January-July

Sources: Bank of Greece, National Statistical Service of Greece, Ministry of National Economy, and U.S. Embassy estimates.

1. General Policy Framework

Greece has been a member of the European Economic Community (EC) since 1981 and enjoys a relatively open, free-market economy. It has a population of 10.3 million and a work force of nearly four million. In 1991, the official per capita Gross Domestic Product was $6,687. Estimates put the unrecorded, or parallel, economy at 30 to 40 percent as much again. Services are responsible for 58 percent of economic output. Agriculture, manufacturing, and mining account for the remainder. The moderate level of development of Greece's basic infrastructure -- road, rail, telecommunications -- reflects its middle-income status. Greece exports primarily light manufactures and agricultural products, and imports more sophisticated manufactured goods. Tourism receipts, emigrant remittances, shipping, and, increasingly, transfers from the EC form the core of invisibles earnings. Net EC inflows are running at three to four billion dollars a year, over five percent of GDP.

Current government economic policies are dominated by Greece's attempts to reform its economy in order to comply with the terms of the Maastricht Treaty for EC Economic and Monetary Union (EMU) and the provisions of the 1992 Single Market. The government's program aims to lower inflation to single digits by 1993 and reduce the government deficit, which equalled over 20 percent of GDP when the government took office in the spring of 1990. It also intends to roll back the public sector and replace it with new investment from private sources, eliminate extensive market distortions caused by government intervention, and fully integrate Greece into the EC. An ambitious privatization program is also underway.

Greece's huge government deficit stems from a bloated public sector which has many more civil servants than an economy the size of Greece's can support. Greece's social security program has also been a major drain on public spending. Finally, the state owns a number of loss-generating companies. The government passed in September 1992 a new bill on social security intended to equalize expenditures with receipts. An ambitious privatization program is also underway. Deficits are financed primarily through treasury bills, in which banks must put 15 percent of their deposits.

New tax laws were passed on June 18, 1992 which introduced substantial fiscal reforms to enable Greece to implement EC taxation directives. Changes include lower tax rates for middle and higher income brackets, a uniform and generally lower tax rate for businesses, and legislation to broaden the tax base and fight tax evasion. Indirect tax measures in August 1992 significantly increased tax revenue and put government finances on a much stronger footing. In July 1990 the government introduced a new investment incentives law which redefines the types of "productive investment" that qualify for incentives. The law puts greater emphasis on tax breaks and reduces the extent of grants and subsidies of loan interest.

Monetary policy is implemented by the Bank of Greece. The bank uses the discount and other interest rates in its transactions with commercial banks as tools to control the money supply. It also determines the level of the savings rate of interest. Reserve requirements are being gradually reduced. The Bank's policy includes a more active intervention in the secondary money market and a phasing out of the direct financing of the State. Treasury bills are issued by the Ministry of Finance, but are expected to fall within the monetary program prepared by the Bank of Greece.

2. Exchange Rate Policies

Greece has continued to follow a "strong drachma" policy during 1992 as a means of holding down inflation. Although the Bank of Greece manages a gradual depreciation of the drachma, the rate of depreciation has not been as great as the differential between Greek inflation rates and those of Greece's principal trading partners. The Greek drachma does not yet belong to the EC's Exchange Rate Mechanism; Greece plans to join during the last half of 1993.

Foreign exchange controls have been progressively relaxed since 1985. Direct investments, investments in real estate, and operations in securities by Greek residents in other EC member states are now freely allowed. Outward direct investment in non EC countries remains restricted. There are limits on the transfer of the liquidation proceeds from the sale of real estate owned by non EC residents. Bank of Greece approval is needed by Greek residents to transfer domestic currency accounts abroad.

3. Structural Policies

Greece's structural policies are largely dictated by the need to comply with the provisions of the EC 1992 single market and the Maastricht Treaty on Economic and Monetary Union. Nevertheless, the present government has gone beyond the single market program in its efforts to liberalize the economy with measures ranging from freeing shop hours to privatizing the vast state company sector. Other structural programs:

Pricing Policies. In May 1992 the government lifted all remaining price controls on goods and services, except those on pharmaceuticals, baby food, white bread, and some fruits and vegetables. 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 barriers to U.S. exports.

Tax policies. New tax legislation passed in June 1992:

-- lowered the corporate tax rate to 35 percent, from a range of 35 to 46 percent. Corporate income taxes are to be levied on profits before the distribution of dividends. Under the new tax law, the dividend tax has been abolished.

-- lowered the top personal income tax rate to 40 percent from 50 percent.

-- set two principal value added tax (VAT) rates. The lower rate of 8 percent is applicable to basic commodities (mainly food products) and certain services; the higher rate of 18 percent is applicable to items not included in the lower rate. A former 36 percent rate for luxury goods was abolished to conform to EC requirements. (A four percent VAT applies to periodicals and books.)

Tax laws do not discriminate against foreign or U.S. products.

4. External Debt Management Policies

Greece's foreign debt equalled about $30 billion at the end of 1991. Debt reduction is an important element of the government's economic reform program. In spite of this large foreign exposure, however, Greece's credit rating is, and is expected to remain, sound. Foreign debt does not affect Greece's ability to import U.S. products.

Servicing of external debt in 1991 was equal to 85 percent of exports and 8.4 percent of GDP. With no new net borrowing, Greece's external debt service will probably exceed $5.5 billion per year in 1992 through 1994. About two-thirds of the external debt is denominated in currencies other than the dollar. Net official borrowing was $911 million in 1991.

Greece 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.

5. Significant Barriers to U.S. Exports

Most barriers to U.S. exports are due to EC rules. Many trade barriers to U.S. products have disappeared over the past two years, but several Greek-specific barriers exist in services in such areas as in law, accounting, aviation, tourism, and motion pictures:

-- Foreigners are barred from practicing law in Greece.

-- Traditionally, certain audits (banks, insurance companies, government organizations, and large companies) could only be performed by members of the government-controlled Body of Greek Sworn Accountants (SOL), which international accounting firms may not join. In June 1992, the Government amended these rules to allow, inter alia, citizens of EC countries the right to perform auditing. Although the law continues to discriminate against U.S. firms, as non EC companies, in practice many accounting firms are getting around the rule by employing EC country nationals for this purpose. In addition, Greek accounting practices do not conform to international norms. Multinational companies must keep two sets of books, one to SOL standards, the other which meets international accounting standards. This rule may change soon.

-- Although foreign air carriers may not sell ground services to other airlines, this will change on January 1, 1993 for EC airlines. Under the provisions of the U.S.-Greece Air Transport Agreement, those rights should then be extended to U.S. carriers.

-- Greek residents are limited on the amount of foreign exchange they may spend on personal travel to 2,000 ECUs per trip ($2,600).

-- Greek film production is subsidized by a 12 percent admissions tax on all motion pictures. The government sets a maximum price (currently $20,000) for the purchase of a film.

Investment barriers are also being reduced. The government has authorized the sale of 49 percent of three parastatals -- Olympic Airlines, the Greek Telecommunications Organization, and the Public Power Company -- thus allowing foreign investment in sectors where it had been previously excluded. The mineral sector is open to foreign capital from EC members, but restrictions still apply to non EC investors. All non Greek investors are limited when investing in the exploitation of "strategically important" minerals; i.e., uranium, gold, petroleum, and other energy sources. Foreigners may not hold majority ownership in shipping companies and state banks.

The government encourages "productive investment" which aids economic development through export expansion, import substitution, technology transfer, or job creation. There are no performance requirements imposed as conditions for establishing, maintaining, or expanding an investment, unless an investor wants to take advantage of tax and investment incentives. Then, as U.S. investors report, 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. There are prohibitions on land ownership in border areas for national security reasons.

Greek laws and regulations concerning government procurement nominally guarantee nondiscriminatory treatment for foreign suppliers. Officially, Greece also adheres to the EC procurement policy. Greece has also recently joined the GATT procurement code. Greek willingness to join the GATT government procurement code is a positive step and reflects the improvement in the procurement situation. As a result of the new Greek attitude, U.S. companies are finding it easier to participate in tenders and a number of them are winning sizeable contracts.

Some problems, however, still exist. Included are occasional sole sourcing, explained as extensions of previous contracts, loosely written specifications which are subject to varying interpretations, and allegiance of tender evaluators to technologies offered by longtime, traditional suppliers. Frequently, offsets and transfers of technology are required, particularly in military purchases or projects involving high technology. 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. Local content may also apply in some tenders calling for civil engineering works. Countertrade is occasionally used, usually in the purchase of some crude oil, but the volume is minimal.

6. Export Subsidies Policies

The Greek Government does not use any form of subsidies to support exports. Some agricultural products receive subsidies from the EC. Greece, as an EC member, is also a member of the GATT Subsidies Code.

7. Protection of U.S. Intellectual Property

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 intends to harmonize fully its laws with EC standards. Current Greek laws extend equal protection for patents and trademarks to foreign and Greek nationals.

While intellectual property appears to be adequately protected in the field of patents and trademarks, the same is not true for copyrights. Greece continues to be cited for intellectual property rights violations and is on the U.S. Special 301 Watch List. U.S. companies estimate that software piracy in Greece costs them tens of millions of dollars a year. The Motion Picture Export Association of America estimates that its members lose about $60 million a year due to video cassette and film piracy in Greece.

In response to U.S. concerns, Greece has drafted and introduced into parliament a new copyright law. The copyright law, which is expected to be implemented in 1993, will establish legal remedies, including credible penalties, for the widespread piracy in Greece. U.S. and Greek officials have met twice over the past two years to discuss means of solving this difficult problem, including close cooperation in implementing the new copyright law.

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. Greek labor law prohibits laying off of more than two percent of total personnel employed by a firm per month without Ministerial approval. This rigidity restricts the flexibility of firms and the mobility of Greek labor.

b. Right to Organize and Bargain Collectively

The rignt to organize and bargain collectively was embodied in legislation passed in 1955 and amended in February 1990 to provide for mediation and reconciliation services as steps prior to compulsory arbitration. Antiunion discrimination is prohibited, and complaints of discrimination against union members or organizers may be referred to the labor inspectorate or to the courts. However, litigation is lengthy and expensive, and penalties to employees are seldom severe. There are no restrictions on collective bargaining for private workers, though social security benefits are legislated by parliament and are not won through bargaining. Civil servants, however, negotiate their demands with the Ministry to the Prime Minister and have no formal system of collective bargaining.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is strictly prohibited by the Greek constitution and is not practiced.

d. Minimum Age of Employment of Children

The minimum age for work in industry is 15, although legislation and regulations provide for higher minimum ages for work in specified areas or specific jobs.

e. Acceptable Conditions of Work

Minimum standards of occupational health and safety are provided for by legislation. Although the Greek General Confederation of Labor (GSEE) has characterized health and safety legislation as satisfactory, it has also charged that enforcement of the legislation is inadequate, citing statistics indicating a relatively high number of job-related accidents in Greece. Inadequate inspection, outdated industrial plants and equipment, and poor safety training of employees contribute to the accident rate.

f. Rights in Sectors with U.S. Investment

Although labor management relations and overall working conditions within foreign business enterprises may be among the more progressive in Greece, worker rights do not vary according to the nationality of the company or the sector of the economy.

GREECE

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		26
Total Manufacturing		101
Food & Kindred Products	(D)	
Chemicals and Allied Products	68	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	4	
Transportation Equipment	0	
Other Manufacturing	(D)	
Wholesale Trade		34
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		161

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

Source: U.S. Department of Commerce, Survey of Current Business, November 1992, Vol. 72, No. 8, Table 11.3

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Key Economic Indicators

	1990	1991	1992(E)
Income, Production, Employment			
Gross Domestic Product (bil$)	27.72	30.64	31.25
GDP Growth Rate (pct)	(4.3)	(10.2)	(2-5)
Industrial Production (pct)	(8.8)	(20)	(10)
GDP per capita ($)	2678	2974	3022
Labor Force (mil)	4.8	4.7	4.6
Unemployment, yearend (pct)	1.60	8.5	11.5
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	29.0	34.0	25.0
Ave. exch. rate ($1/Ft) 1/	63.2	78.8	79.5
Government Spending (pct GDP)	42.8	39.8	39.1
Balance of Payments and Trade			
Hard currency account (bil$)			
Exports	7.27	9.97	11.0
Imports	6.31	11.0	11.0
Trade balance	957	(1.1)	0
Current account balance	127	267	800
Total Imports from U.S. (mil$)	156.5	256.4	310.0
Aid from U.S. (mil$)2/	0.75	67.9	55.0
Total Direct Foreign investment (bil$)	1.2	2.0	4.3
Gross Debt (bil$)	21.3	22.7	22.6
Debt Service Ratio	43.2	32.0	N/A
Foreign Exch. Reserves, Excl. Gold (bil$)	1.5	4.0	6.0

1/ The forint is pegged to a half-ECU, half-US$ basket.
2/ Hungary received $100 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.

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 almost 60 percent of all foreign investment in Eastern Europe, led by the United States with $1.8 billion by mid-1992 (of some $4 billion total). Hungary is also incorporating Western practices and business safeguards into its legal code.

Early estimates predicting a swift economic recovery for 1992 failed to materialize. Most economists now expect

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Hungary's economy will start turning upward only in mid-1993 at the earliest. In the face of a growing deficit and soaring unemployment, the Government is pressing forward with its reform program.

The immediate result of this reform has been a sharp recession. Unemployment is expected to hit 700,000 (11.5 percent) by the end of 1992. Inflation for 1992 will be around 22 percent, fueled by a rise in consumer prices, subsidy cuts, freer prices, and higher state prices. GDP for 1992 will drop 2-5 percent over 1991 and industrial output 10 percent. Eastern export markets in the former Council for Mutual Economic Assistance (CMEA or Comecon), which collapsed following the change to hard currency payments and world market prices in 1991, have turned the corner and are increasing. By 1992, 93 percent of exports were liberalized, and four-fifths of industry operated under liberalized import competition conditions. In April 1992 the United States removed Hungary from Title IV of the Trade Act of 1974 (Jackson-Vanik Amendment). In May 1992 Hungary was removed from COCOM's list of proscribed destinations. An association agreement with the EC was signed in December 1991; although ratification has been delayed until after January 1993, the trade related provisions have been in effect since March 1992. A a free trade agreement with the European Free Trade Association (EFTA) should go into effect in early 1993, as well as an agreement with Poland and Czechoslovakia.

Despite the short-term hardships, the commitment to free market reform is already yielding positive results. Inflation has cooled. The small private sector is booming, raising GDP and generating new jobs. There were more than 60,000 new private firms created by late 1992 and the number of private entrepreneurs is more than 600,000. Over the past three years 80 percent of the government's revenue from privatization was contributed by foreigners. Hungary's firm commitment to repaying its heavy foreign debt ($22.8 billion) has preserved its access to Western capital markets and buoyed foreign investors' confidence. By mid-1992 there were some 13,000 joint ventures in Hungary, up from 7,000 in 1991.

Monetary policy remains tight, and financial discipline is becoming a real constraint on banks and enterprises. The budget deficit has grown rapidly from Ft 78 billion in 1991 to an estimated Ft 178 billion in 1992. The state finances the deficit by National Bank (MNB) bond purchasing, the issuance of additional state bonds to be sold to the public, and the selling of treasury bills. The increased budget deficit is due to a shortfall in revenues as a result of the economic decline. 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 50,000 firms and individuals engaged in foreign trade in mid-1992. 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, due partly to Government reluctance to close major industrial employers. The repeatedly postponed privatization of Hungary's commercial banks could start in early 1993.

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2. Exchange Rate Policies

The forint (Ft) is virtually convertible for businesses. A new law ensuring the convertibility of the forint in the entrepreneurial sphere is due to be enacted sometime in 1993. Full convertibility of the forint is expected to follow, perhaps by 1994. Hungarian officials have increased the limit on hard currency Hungarian tourists may obtain for forints from $50 to $350 annually. Foreign reserves have doubled to $5.3 billion in late 1992 from only $2.7 billion in October 1991. Inflation stabilized at 22 percent in 1992, down from 34 percent in 1991.

Internal convertibility has already been introduced: Hungarian firms may not maintain hard currency accounts, but have ready access to hard currency through the central bank approval process. Firms can also convert forint profits (but not take out loans) to buy hard currency imports. Foreigners can open forint bank accounts in Hungary and use forints to buy Hungarian goods and services, though the balance in such accounts cannot be exchanged for foreign currency. Foreign 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 about 93 percent of imports. Commercial banks may now trade among themselves in hard currency instead of through the central bank.

In December 1991, the central bank pegged the forint's exchange rate to a basket consisting half each of the European currency unit (ECU) and the U.S. dollar. 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 18.5 percent in 1992. The central bank sets exchange rates daily. The differential between the official and black market rates has virtually been eliminated. NGKM and many Hungarian manufacturers have argued for a devaluation to further spur hard currency exports, but policymakers have decided against it for now in light of this year's stellar trade performance and the inflationary effect of a devaluation. However, in the event of falling trade competitiveness, devaluation becomes likely. 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. The current three-tiered VAT will be replaced by a two tiered system on January 1, 1993. The governemnt has proposed cutting the seven personal income tax brackets to four. Joint ventures with capital above Ft 50 million ($625,000), over 30 percent foreign participation, and at least half of revenues from manufacturing or hotel construction and management are eligible for tax breaks of 60 and 40 percent in their first and second five years of operation. The standard corporate tax rate is 40 percent.

The tax reductions are 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. The 1992 tax law contains provisions for eliminating all tax incentives, including those for joint ventures, on January 1, 1994 (existing benefits will be grandfathered). The government is also considering a proposal to end joint ventures' exemption from import duties on production equipment. The United States has a bilateral tax treaty with Hungary, and is currently negotiating a bilateral investment treaty.

Pricing policies: Over 90 percent of producer and virtually all consumer prices are set by the market. Consumer price controls remain only on public transportation. The Ministry of Agriculture can set minimum prices for animal feed-wheat and feed-corn, consumer wheat, cow's milk and cream, and cattle and pigs for slaughter. The Government can prohibit price increases by companies with a dominant market position.

4. Debt Management Policies

Hungary has the highest per capita debt in Europe. Hungary's mid-1992 gross foreign debt of $22.9 billion equals twice 1991's merchandise exports and two-thirds of GDP. The debt service ratio is improving: three years ago, the ratio of debt repayment to hard currency revenues was over 75 percent; in 1992, it is only 26-27 percent. Annual debt service payments are $3.5 billion. German and Japanese banks hold most of Hungary's debt; U.S. banks hold under $250 million. Hungary reappeared on the U.S. capital market in 1992 with a successful $200 million bond issue. It was the first issue of Hungarian bonds in the United States in almost 70 years. In 1991 and the first nine months of 1992 Hungary issued $1.8 billion worth of bonds in the international money markets. Savings by Hungarians have increased rapidly. The net savings of households in the proportion to their incomes grew from 6-8 percent in 1990 to 14.3 percent in 1991. The governemnt has tapped this saving to increase funding of the general deficit out of the capital markets.

Four-fifths of Hungary's external debt is in medium- and long-term loans; less than 10 percent is short-term. Hungary's prompt repayment record and its firm refusal to request debt rescheduling or debt relief have allayed fears of international investors. The current account by mid-year had a surplus of $550 million, almost double the final 1991 figure of $300 million.

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In February 1991, Hungary signed a three-year standby credit agreement with the IMF, which requires that Hungary's 1992 domestic deficit not exceed Ft 70 billion (2.5 percent of GDP), but by mid-year it was already Ft 122 billion and growing. The 1993 budget -- approved by Parliament in December -- assumes a budget deficit of less than 6 percent of GDP, and is acceptable to the IMF.

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. 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. NGKM has set a $750 million global quota on consumer goods, and may set quota ceilings for other individual product groups, importers, and countries. In 1991 and 1992 the quotas were filled and the possibility exists for some companies to be restricted access to the Hungarian market. An import license may be denied on grounds of national security, compliance with international obligations, or to ensure the supply of basic necessities. 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.

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 and the Trade Quality Control Institute (KERMI). They are binding and supersede 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 the backward banking system are the main barriers to U.S. investment. Significant tax incentives are available to foreign investors. In 1992, the government announced a campaign to encourage more greenfield operations, in part by strengthening its Investment Promotion Fund (IPF). The IPF helps joint ventures develop infrastructure around their investments. 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 1950s, 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 relatively freely in Hungary, although banks and insurance companies continue to need special licenses, and banks cannot be licensed for all banking activities.

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. Firms with foreign ownership may buy property, and a 1992 government decree allows foreign individuals to do so as well (with permission of the Ministry of Finance). Acquired property can be mortgaged, leased, sold, or developed in accordance with relevant zoning and building codes. Long-term usage rights to state property may be obtained if actual ownership is denied. 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.

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. 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. In 1992, the Parliament passed a law mandating government ownership levels in certain "strategic" industries. The law codified Hungarian percentage ownership interest in a variety of firms and was enacted in response to criticism that an inordinate amount of Hungarian companies were being sold to foreign controlled investors. Hungary has signed, and incorporated into its legal system, the GATT Antidumping Code.

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. 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 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.

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 major intellectual property conventions, such as 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.

However, Hungary's patent protection is far from adequate. The existing patent law only protects the process by which commodities are produced, not the product itself. Based on this, the Hungarian pharmaceutical sector has developed into a major industry partly 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, which have one percent of world trade, and manufacturers in other countries, including the United States. Pharmaceuticals are a key export for Hungary. 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, although the Hungary-EC Association Agreement requires Hungary to adopt EC IPR standards within five years of its entry into force. The United States and Hungary are negotiating a business and economic treaty in which the provision of adequate and effective protection of intellectual property rights is a key issue.

8. Worker Rights

a. Right of Association

Legislation passed in 1992 recognizes the right to organize, establishing the possibility of trade union pluralism. Excluding judicial and military personnel and 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 trade union formations have emerged. The 1992 legislation guaranteed workers the right to call strikes to defend their economic and social interests, but strike action has been limited.

b. Right to Organize and Bargain Collectively

The right to bargain collectively exists in law, although minimum wage levels are centrally negotiated in a tripartite macroeconomic policy body to control the rate of inflation. The right to bargain collectively was established in a 1967 law, which was amended in 1989 to allow collective bargaining at the enterprise and industry level. The new 1992 labor code further guaranteed this right. Trade union views are expressed at the Interest Reconciliation Council (IRC). 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.

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 IRC and subsequently implemented by Ministry of Labor decree. Real incomes continued to drop by around 4 percent in 1991, and consumption declined by an estimated 12 percent. Many Hungarian supplement their primary employment with second jobs. The average official workweek is 40 hours. Under existing law, workers receive overtime, annual leave, subsidized 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.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		0
Total Manufacturing		(D)
Food & Kindred Products	1	
Chemicals and Allied Products	*	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	*	
Electric & Electronic Equipment	(D)	
Transportation Equipment	8	
Other Manufacturing	(D)	
Wholesale Trade		(D)
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

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

* - Less than $500,000

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, November 1992

IRELAND

Key Economic Indicators

(millions of Irish pounds)

	1990	1991	1992(Est)
INCOME, PRODUCTION, EMPLOYMENT			
REAL GDP 1/	23,348	24,249	25,098
REAL GDP GROWTH RATE (PCT)	5.0	2.0	3.5
GDP AT CURRENT PRICES 1/			
BY SECTOR:			
AGRICULTURE, FORESTRY AND FISHING	2,342	2,170	N/A
INDUSTRY	8,676	9,060	N/A
DISTRIBUTION, TRANSPORT AND COMMUNICATION	4,482	4,554	N/A
PUBLIC ADMINISTRATION AND DEFENSE	1,309	1,444	N/A
OTHER DOMESTIC	7,584	8,119	N/A
ADJUSTMENT FOR FINANCIAL SERVICES	-1,046	-1,098	N/A
GROSS DOMESTIC PRODUCT AT FACTOR COST	23,348	24,249	N/A
PLUS TAXES ON EXPENDITURE	4,447	4,523	N/A
LESS SUBSIDIES	-1,792	-1,787	N/A
GROSS DOMESTIC PRODUCT AT MARKET PRICES	26,003	26,984	29,005
EXPORTS OF GOODS AND SERVICES	15,939	16,657	18,580
REAL PER CAPITA GDP	6,671	6,928	6,836
LABOR FORCE (000'S)	1,312	1,340	1,370 2/
UNEMPLOYMENT RATE (AVERAGE PCT FOR YEAR) (SEASONALLY ADJUSTED)	13.4	15.1	17.6 (SEPT)
MONEY AND PRICES			
MONEY SUPPLY (M1) YEAR-END	3,174	3,195 (AUG)	3,231
ASSOCIATED BANKS' PRIME LENDING RATE	10.25-10.75	11.00-11.50 (JUL)	10.88-11.25
COMMERCIAL INTEREST RATES (OVER 1 YEAR-UP TO 3 YEARS)	10.75-11.00	10.50-11.75 (JUL)	12.25-12.50
SAVINGS INTEREST RATE (INVESTMENT SHARE ACCOUNTS)	6.00-8.25	5.00-7.25	4.50-7.50 (JUL)
INVESTMENT RATE:			
1-YEAR TO MATURITY	10.29	10.36 (JUL)	9.94
8-YEAR TO MATURITY	10.39	9.12 (JUL)	9.29
CONSUMER PRICE INDEX (BASE MID-NOV '89 AS 100)	101.7	105.0	108.7 (MID-AUG)
RETAIL SALES INDEX (BASE 1980 AS 100)	193.5	197.0	210.3 (AUG)
WHOLESALE PRICE INDEX (BASE 1985 AS 100)	105.1	106.4	108.2 (2ND QTR)

IRELAND

EXCHANGE RATE (IP/$)	1.66	1.60	1.66
EXCHANGE RATE ($/IP)	0.60	0.63	0.66

BALANCE OF PAYMENTS AND TRADE

TOTAL EXPORTS (FOB) 3/	14,336	15,031	16,408
TOTAL EXPORTS TO U.S.	1,175	1,309	1,400
TOTAL IMPORTS (CIF) 3/	12,472	12,479	13,521
TOTAL IMPORTS FROM U.S.	1,815	1,925	2,000
INTERNATIONAL FUND FOR IRELAND (IFI):			
AID FROM U.S ($20 MILLION) ('000)	11,101	13,534	N/A
AID FROM OTHER COUNTRIES:			
CANADA ('000)	470	321	N/A
EUROPEAN COMMUNITY ('000)	11,702	11,408	N/A
FEOGRA (AGRICULTURE)			
INTERVENTION/EXPORT REFUNDS	1,287	1,334	N/A
GRANTS TO FARMERS, HEADAGE SCHEMES, DRAINAGE, ETC.	94	141	N/A
EUROPEAN SOCIAL FUND	129	371	N/A
EUROPEAN REGION. DEVEL. FUND	225	342	289
GROSS PUBLIC SECTOR FOREIGN DEBT (EXTERNAL GOV. DEBT)	8,848	9,128	8,721 (JUN)
DEBT SERVICE COST	2,302	2,349	N/A
GOLD AND FOREIGN EXCHANGE RESERVES (OFFICIAL EXTERNAL RESERVES)	2,892	3,256	3,029 (JULY)
TRADE BALANCE	+1,864	+2,167	+2,274
BALANCE WITH U.S.	-640	-616	-600

1/ GDP AT FACTOR COST
2/ ANNUAL AVERAGES
3/ MERCHANDISE TRADE

Sources: Central Bank of Ireland (CBI); Central Statistics Office (CSO); Economic and Social Research Institute (ESRI); Irish Trade Board (ITB), Department of Labor (DOL)

1. General Policy Framework

Ireland has a small, open economy which is very dependent on trade. Exports of goods and services in 1991 were equivalent to 62 percent of GNP, while imports were equivalent to 53 percent of GNP. Government policies are generally formulated to facilitate trade and direct foreign 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 viable. Government policy is heavily influenced by sustained high unemployment, 17.6 percent seasonally-adjusted in September 1992. A young and growing work force will continue to put pressure on the labor market in Ireland through the end of the century and will assure significant emigration.

Fiscal Policy: In 1991, Ireland's government debt was approximately IP 27 billion, of which about IP 9 billion was 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 increased interest rates and large government deficits. However, the government has made considerable progress during the past five 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 major element of the government's success in fostering economic growth is the continuation of the national economic program, which succceeds the previous three-year program. The three-year national economic pact, known as the Program for Economic and Social Progress (PESP), was agreed in early 1991. It contains similar provisions to the previous program for moderate wage increases and improvements in government finances. Government budget deficits fell dramatically while exports, investment and consumer spending showed strong growth. Projections for 1992 indicate that government borrowing will be about 2.4 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. Over the last few years, in conjunction with the massive reduction in public borrowing which was achieved, the Government has reduced the standard and higher rates of income tax by six points each. In the 1992 budget the government introduced two rates of income tax, a standard rate of 27 percent and a higher rate of 48 percent. Sixty two 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 1992 budget, the government made no change to the standard rate of VAT which is 21 percent. 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.

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2. Exchange Rate Policies

Until 1979, the Irish Pound 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 UK. 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. The Irish Exchange Controls Act of 1954 will expire on December 31, 1992 ending all remaining exchange controls on capital investments between EC member states. Since 1988, exchange controls have been gradually liberalized in several stages as part of the program for the Single European Market. A number of restrictions were abolished in January 1992, notably the lifting of remaining restrictions on non-residents operating Irish pound deposit accounts in Ireland, the removal of restrictions on residents investing in short-term foreign securities and foreign property, and the dropping of the term restriction on foreign currency accounts held in Ireland by residents. The final phase, which takes place at the end of 1992, will remove all remaining controls on the freedom of Irish residents to open current and deposit accounts abroad.

Ireland is a signatory to Article VIII of the International Monetary Fund Agreement, regarding freedom of current payments (including payments for goods and services imported) between residents and non-residents. In addition, Ireland subscribes to the Code of Liberalization of Capital Movements and the Code of Liberalization of Current Invisible Operations of the OECD.

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 sectors. The 10 percent corporate tax rate has been extended by the government to the year 2010. Personal income tax rates are relatively high. The standard rate, 27 percent, is assessed on single workers earning more than IP 3,500 ($6,195) and on married workers earning more than IP 7,000 ($12,239). The top rate for personal income tax is 48 percent and applies to single workers earning more than IP 7,475 ($13,231) and married workers earning more than IP 14,950 ($26,462). 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.

4. Debt Management Policies

Ireland's total exchequer debt amounted to about IP 27 billion, or about 108 percent of estimated 1991 GNP. While the debt has continued to grow in nominal terms, it has fallen significantly as a percentage of GNP since 1987, when it was 117 percent of GNP. The foreign portion of the debt is IP 9.1 billion. As of June 1992, 11.5 percent of foreign debt was dollar denominated, 37.8 percent was in Deutsch Marks, 31.2 percent was in Swiss Francs, 7.9 percent in Japanese Yen, 6.6 percent in European Currency Units (ECU), and lesser amounts in Dutch Guilders, Sterling, Belgian Francs, and Austrian Schillings. Debt service costs in 1991 were IP 2.3 billion ($3.8 billion), about 14 percent of estimated Irish exports of goods and services and about 9.6 percent of GNP. In 1991 the government created an independent agency to manage the debt, the National Treasury Management Agency (NTMA). An analysis of the NTMA's performance in 1991 by J.P. Morgan, the U.S. investment bank, showed that it achieved savings of IP 68 million due to its management of the national debt.

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.

The Irish banking and insurance sectors are slowly being deregulated. Full deregulation in insurance will not occur until 1998. An immediate opportunity for U.S. companies exists in the Dublin International Financial Services Center (IFSC). This Center offers interested U.S. companies the opportunity to establish an EC financial base. The IFSC is attracting international financial services such as asset financing, captive insurance, fund and investment management, and corporate treasury measurement. There are 196 approved and the United States has the second largest representation with 31 projects.

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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. Irish Customs challenged the right of a non-grain feed ingredient, malt sprout pellets, to enter a duty-free tariff schedule, claiming the product was incorrectly classified. Ireland followed The Netherlands in challenging the duty-free status of another feed ingredient, corn gluten feed. Both classification issues were resolved, allowing trade to continue, by the United States-EC Blair House Agreement of November 20th. The EC is in the process of implementing that agreement.

The EC directive on Broadcasting Activities was adopted on October 3, 1989. The primary purpose of the Directive is to promote the free flow of broadcasting services across national boundaries. One provision calls for the majority if TV programming to be of European origin and would aaffect U.S. exports of television works. Many of the provisions of the Directive have been transposed into Irish law under the Broadcasting Act of 1990. The Wireless Telegraphy (Television Program Retransmission and Relay) Regulations 1991 amend the regulations under which cable and multichannel microwave distribution system (MMDS) licenses are issued. In short, cable and MMDS operators will no longer require approval in advance of relaying a service. The language of the legislation mandates compliance by member states "where practicable."

6. Export Subsidies Policies

Export Sales Relief (ESR) was discontinued in April 1990 in line with Ireland's EC obligations. The ESR exempted from taxation corporate income on exported goods manufactured domestically. The Finance Act of 1980 introduced a new relief for manufacturing companies to replace ESR. Companies manufacturing goods in Ireland benefit from a reduced rate of corporation tax of 10 percent on their profits. Stockholders of companies eligible for this program pay income tax of only 10 percent on dividends received from the company, rather than the normal tax rate (27-48 percent). This program will be discontinued after the year 2010. There are no tax or duty exemptions on imported inputs except for those companies located in the Shannon duty-free processing zone and Ringaskiddy. Ringaskiddy is Ireland's major deep water port and is located in the Port of Cork harbor complex. The Shannon duty-free processing 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. As of January 1, 1992 the Government provides export credit insurance for political risk and medium-term commercial risk in accordance with OECD guidelines. Export credit insurance for short-term commercial risk is available from the private insurance sector. 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.

Patents: Following the enactment in February, 1992 of the Patents Act, Ireland ratified the European Patent Convention and the Patent Cooperation Treaty. The Convention and the Treaty entered into force, as did the Patents Act, on August 1, 1992. The Act updates national law in a number of important respects in line with that of other European countries who have harmonized their laws on the basis of the European Patent Convention. The new legislation will also facilitate speedier processing of patent application; it provides for a patent term of 20 years and contains provision for the grant of short-term patents (half the duration of the normal patent) in the interest of small/medium innovators. The certificate extending the term of protection of products covered by medicinal patents comes into operation from the beginning of 1993. The amendment of the Constitution approved by the referendum held in June 1992 has cleared the way for Ireland's ratification of the Agreement relating to Community patents.

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 will be undertaken as a result, inter alia, of developments at the EC. In that context, the government may consider strengthened penalties for copyright infringement.

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8. Worker Rights

a. Right of Association

Irish 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 provides members and officials of unions immunities for industrial actions taken with regard to terms or conditions of employment. The act contains some limitations on picketing.

About 60 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.

The Irish Congress of Trade Unions (ICTU), which represents unions in both the Republic and Northern Ireland, has 73 member unions with 700,000 members. Mergers have steadily reduced the number of unions affiliated to the ICTU in recent years, but the drop in total union membership is generally attributed to the increase in unemployment. Both the ICTU and the unaffiliated unions are independent of the government and of the political parties. The ICTU is affiliated with the European Trade Union Confederation.

b. 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 Irish unions, employers, farmers and the government. The PESP included an agreement between the Irish Congress of Trade Unions and the Federation of Irish Employers (FIE) establishing standard pay increases for the three year period of the PESP. In addition, the PESP provides for a one-time wage increase of up to three percent 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. The Commission may refer unresolved disputes to the Labor Court. The Labor Court, consisting of an employer representative, a trade union representative, and an independent chairman, may investigate trade union disputes, recommend the terms of settlement, engage in conciliation and arbitration, and set up joint committees to regulate conditions of employment and minimum rates of pay for workers in a given trade or industry. There are no export processing zones in Ireland.

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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 Minister for 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 in which wages tend to be below the average. The 1991 the average weekly wage was $368 (in 1991 IP 1 was equivalent to $1.60) for production and transport workers. 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 1991, the standard work week is being gradually reduced to 39 hours. The Labor Department enforces 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 an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		159
Total Manufacturing		5,258
Food & Kindred Products	618	
Chemicals and Allied Products	1,937	
Metals, Primary & Fabricated	156	
Machinery, except Electrical	586	
Electric & Electronic Equipment	446	
Transportation Equipment	52	
Other Manufacturing	1,463	
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, November 1992, Vol. 72, No. 8, Table 11.3

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Key Economic Indicators

(Billions of Italian lire unless otherwise noted)

	1990	1991	1992 1/
Income, Production and Employment			
Real GDP (1985 prices)	942,271	955,817	982,677
Real GDP growth rate (pct.)	2.2	1.4	1.2
GDP (at current prices) (trillion lire)	1,312	1,427	1,526
by sector (billion lire):			
Agriculture	45,986	52,426	N/A
Manufacturing	289,210	296,524	N/A
Energy	30,781	32,903	N/A
Construction	76,395	83,958	N/A
Services	637,407	705,993	N/A
Other Services	11,568	13,269	N/A
Government	168,868	183,481	N/A
Net Exports of Goods and Services	-14,385	-18,876	-21,573
Real GDP per capita (000s) (1985 prices)	16,341	16,538	16,963
Labor force (000s)	21,396	21,592	21,547
Unemployment rate (pct)	11.4	10.9	11.0
Money and Prices			
Money supply (M2)	752,696	820,873	813,236(Aug)
Growth rate	8.2	9.1	6.5(Aug)
Average interest rates	14.1	13.9	14.8(Aug)
Personal savings rate	19.6	13.9	14.8(Aug)
Retail Inflation (COL)	6.1	6.4	5.5(Sep)
Wholesale Inflation (PPI)	4.1	3.3	1.7(Jul)
Exchange rate (lire per dollar-average)	1,198	1,241	1,190(Sep)2/
Balance of payments and trade			
Total exports fob	203,518	209,747	108,018(Jun)
Total to U.S.	15,528	14,445	7,154(Jun)
Total imports cif	217,719	225,770	121,418(Jun)
Total from U.S.	11,103	12,618	6,872(Jun)
Trade balance	-14,201	-16,023	-13,400(Jun)
Balance with the US	4,428	1,827	282(Jun)
External public debt (trillions of lire) (year end)	48.8	54.7	52.0(Aug)
Debt Service Payments	4.8	5.4	6.4(Aug)
Gold and Foreign Exchange reserves (end period) (billions of lire)	88,157	70,517	41,128(Aug)

1/ 1992 data are estimates by the Italian Government or U.S. Embassy except where data are followed by a month indicating actual data through that period.

2/ Due to turmoil on foreign exchange markets beginning in

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September 1992, the lira's value dropped sharply. The rate on December 4th was L1,400=$1.00.

1. General Policy Framework

The Italian economy is the industrialized world's fifth largest, having undergone a dramatic transformation into an industrial power in the post-war period. A member of the Group of Seven (G-7), the OECD, the GATT, the IMF, and the European Community (EC), Italy maintains a relatively open economy.

The state plays a large and active role in the economy, not only in the formulation of macroeconomic policy and regulations, but also through control of industrial parastatals and major financial institutions. The state sector accounts for about 30 percent of GNP. Nonetheless, the Italian private sector is large and dynamic, and should grow as the government implements a privatization program. A few large conglomerates have extensive overseas operations. There are a huge number of small and medium-size firms that compete effectively in foreign markets. Italy has a number of major population centers, including Rome, Milan, and Naples. The northern half of the country is more developed and enjoys higher per capita income than the southern half. The divergence of 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 sector deficit and public sector debt constitute its most pressing economic problems. The stock of this debt exceeds the annual value of the gross domestic product (GDP). It is currently estimated to be approximately 106 percent of GDP. The budget deficit was 10.7 percent of GDP in 1991 and is expected to remain above 10 percent in 1992. In 1991-92, a lower than expected level of revenues due to a slowdown of economic activity, increases in spending in such areas as pension, health care, public sector salaries, and rising interest payments on the debt combined to frustrate plans to reduce the deficit and slow the rate of increase of the public debt.

The government's slowness in responding to the growing fiscal crisis, and the resulting erosion of Italy's ability to comply with the criteria for economic and monetary union contained in the Maastricht Treaty, led to a foreign exchange crisis in September 1992. The Government finally responded by proposing a serious deficit reduction package which is designed to alter the underlying trend deficit. The government intends to cut the projected 1993 budget deficit by 93.5 trillion lire (roughly $72 billion) through a combination of increased tax receipts, spending controls and sales of government assets. The goal of the 1993 budget package is to hold the state sector cash deficit to 150 trillion lire (about $125 billion -- or 9.8 percent of GDP).

Monetary policy is subordinated to fiscal policy in that the primary objective of the former is to finance the budget deficit in the least inflationary manner. The overall monetary policy objective is to hold the increasa in both M2 (currency plus all bank deposits) and credit to the non-state sector to

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the expected level of increase of nominal GDP growth. This forecast assumes lower-than-actual rate of inflation.

Within this policy framework, the Bank of Italy has moved away from 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 commercial 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

In January 1990, Italy moved the lira into the narrow band of the ERM (European Rate Mechanism). Thus, the lira could 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. Since May 1990, Italian residents have been completely free to engage in all types of foreign financial transactions, so that the Italian economy is now in a position to participate fully in the international integration underway in financial markets.

Due to unprecedented pressures in foreign exchange markets, the Italian Government devalued the lira by seven percent against the other ERM currencies on September 13, 1992. Due to persistent pressures, Italy withdrew from the ERM of the European Monetary System (EMS) on September 17, 1992. Italy was forced to take this step when it no longer had sufficient foreign exchange reserves or the credibility in the market to maintain the parity of the lira with respect to other EC currencies within the ERM. The government says it plans to request that the lira reenter the ERM following parliamentary approval of the 1993 budget package by the end of 1992.

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. Poor and inefficient infrastructure and public services also hinder growth and add to the cost of doing business in Italy. The state railway, communications, and postal systems are particularly notorious in this regard. A third major area of structural rigidity is financial markets, particularly the banking sector, which traditionally have been heavily regulated and slow to respond to market needs. The Italian stock market has been characterized by low prices and a meager volume of transactions. This has discouraged many businesses from raising new capital. Italy's stock market is in a state of transition. The approval of the Security Intermediation law in 1991 signalled an effort to make the Italian stock market more modern, efficient, and transparent. The law established a new type of stockbrokerage company, the Security Intermediation Company, known by its Italian acronym, SIM. As of January 1992, SIMs had replaced individual stockbrokers as the primary stock market intermediaries. Representatives of the U.S. and other countries have objected to a provision of the law which requires that all securities firms wishing to do business in Italy or with Italian clients establish a SIM in Italy. Due to the high cost of establishing a SIM, the law has adversely affected the operations of U.S. financial institutions in Italian capital markets. The SIMs law violates the basic tenets of the OECD Code of Liberalization and has been challenged by the EC Commission because it also violates the Treaty of Rome.

Government financial support of economic activity, often through state ownership, also limits flexibility in the economy. The above, and other structural problems, have prevented stronger Italian economic growth and limited Italian demand for U.S. exports from reaching its potential. 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. Modifying banking legislation to conform with the EC Second Banking Directive 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. Moreover, procurement procedures are not fully transparent.

Except those on agricultural products, taxes and customs duties do not present serious obstacles to U.S. exports. The 1990 antitrust law gives the government the authority to block mergers over a certain size involving foreign companies under certain conditions. Thus far, however, the antitrust authority has not acted against foreign investment, concentrating instead on promoting increased competition in Italian markets.

Italian industrial and trade policies are increasingly being made within the framework of the unification of the European Common 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. Despite its severe financial problems, Italy is committed to participating in economic and monetary union. Because Italy is a founding member of the EC, many officials want to move forward with the first group of countries in economic and monetary union. Nonetheless, as the reaction to the 1993 budget package has shown, there is strong political opposition to the economic policies necessary for Italy to achieve economic convergence with other members of the EC.

4. Debt Management Policy

Although 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

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principally through domestic capital markets, with various securities ranging in maturity from three months to ten years. Italy also has a large external debt, though very little of this represents obligations of the Republic of Italy. Italy had a net negative external position of $130.1 billion at the end of 1991. Italy's banking system is considerably less exposed to the debtor countries than those in other G-7 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 Central Government modernization plan. It appears, according to U.S. business sources, that on large automation contracts awards by government entities, there have been tenders in which awards have been made to vendors which have been both high in price and not the most technically qualified. Implementation of the EC Utilities Directive may change Italian procurement practices in the telecommunications, transport, water, and energy sectors, but may not improve treatment of U.S. suppliers. The government's privatization program outlined below may also ease governemnt procuremnet issues.

Recent scandals involving public works projects in major cities have drawn attention to the corruption and kickbacks that have occurred between contractors/vendors, public officials and politicians. While there has been a media and general public outcry for a more transparent bid and tender process, as a result, it is not yet clear whether there will be an improvement in government procurement, enabling foreign contractors to hope for greater opportunity in this area.

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. Agricultural imports face numerous health and phytosanitary barriers 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. Theoretically, implementation of the EC Single Market on January 1, 1993 should ease some of these restrictions; however, actual implementation of several regulations harmonizing EC import policies have been delayed.

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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 1992, 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. This provision has not yet been put into effect. Another bill which is expected to be reintroduced in the Parliament soon would increase requirements for movie theaters to exhibit Italian or EC-origin films a minimum number of days per quarter. Quotas currently in effect are widely ignored.

In the areas of standards and standards setting, Italy has been slow in accepting test data from foreign sources, but will be expected to adopt EC standards in this area. However, it is generally accepted that the implementation process may be slower than with some other leading EC members. It appears that in sectors such as pollution control, the uniformity in application of standards may vary according to region, thus creating a complicated system of certification requirements for U.S. exporters.

Some professional categories (e.g. engineers, 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.

Rulings by some individual local customs authorities can be often arbitrary or incorrect and 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 do 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, 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).

Until recently, meaningful privatization of Italian government parastatals was thought to be unlikely. However, on August 7, 1992 legislation was enacted which began the process of converting major groups such as IRI (the industrial state holding company) and ENI (the state energy company) into joint-stock companies. It is not yet clear how the process will work or which individual entities may actually end up in the private sector. Italian interests may well have the inside track in acquiring the more attractive subsidiaries. A detailed government program is to be announced in late 1992.

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. Italy provides a number of investment incentives consisting of tax breaks and other measures 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 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. Many 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, the Patent Cooperation Treaty, and the Madrid Agreement on International Registration of Trademarks. Due to continued software and video piracy problems, however, Italy has been retained on the Special 301 Watch List for 1992.

Software piracy remains a major intellectual property rights problem in Italy. Firms and other institutions purchase business software and then copy it internally on a widespread basis. There is also a large amount of counterfeit software created and sold in Italy. U.S. industry trade organizations

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estimate that software producers suffer over $230 million in trade losses each year due to software piracy in Italy. A bill to implement the EC Software Directive in Italian law was passed by the Chamber of Deputies in January 1992, but parliament was dissolved before the Senate could take action. A new bill was introduced on June 25, 1992 but has not yet been acted on. Italian officials are predicting rapid passage and implementation.

Italy also has a high rate of video piracy. One cause is the lack of an adequate deterrent; sanctions under existing Italian law are limited and offenders are rarely punished. In addition, the litigation period is very long, during which pirate producers and distributors normally continue to operate. These problems are compounded by weak enforcement; law enforcement authorities are not well informed regarding the protection of intellectual property rights. U.S. motion picture distributors estimate that as much as 40 percent of the video cassette market consists of pirated material, with consequent losses to U.S. industry totaling around $200 million. The Italian anti-piracy organization FAPAV estimates that piracy accounts for about 25 percent (about $100 million) of the video market in Italy. A recent court decision recognizing the rights of a U.S. producer is a positive development. Italian officials seem to be showing some increased sensitivity to video piracy in recent months, although little real progress has been made in this area.

Italy is a net importer of intellectual property, including 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 1991 permitting them to obtain a special certificate that extends patent protection beyond the usual 20 years.

8. Worker Rights

a. 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 and 1992 than in previous years.

b. 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. National collective bargaining agreements in practice apply to all workers, regardless of union membership. 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, the 1986 agreement on indexing wages (scala mobile) to the cost of living every six months, was was nullified in December 1991 when the major labor confederations accepted its termination as part of a new system of adjustments to be worked out in 1992. No new system was worked out and, on July 31, 1992 another tripartite agreement was negotiated, permanently abolishing the old system.

The law prohibits antiunion discrimination by employers against union members and organizers. A 1990 law encourages workers in small enterprises (i.e., less that 16 employees) to join unions and requires "just cause" for dismissals from employment. Protection of worker rights in the case of transfer of company ownership is provided in a new law which brings Italy into compliance with an EC directive on the subject. The law requires that the unions of both the former and the new owners' companies be consulted in advance of the the sale and that no worker benefits be lost as a result of the transfer.

c. Prohibition of Forced or Compulsory 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.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		569
Total Manufacturing		8,730
Food & Kindred Products	565	
Chemicals and Allied Products	2,723	
Metals, Primary & Fabricated	191	
Machinery, except Electrical	3,737	
Electric & Electronic Equipment	281	
Transportation Equipment	169	
Other Manufacturing	1,065	
Wholesale Trade		2,173
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		11,472

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

Source: U.S. Department of Commerce, Survey of Current Business, November 1992, Vol. 72, No. 8, Table 11.3

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Key Economic Indicators*

(millions of rubles unless otherwise noted)

	1991	1992 1/
Income, Production and Employment		
GDP (at current prices) 2/	94,000	1,789,000
GDP (current mils dollars) 2/	61,600	54,900
Real GDP Growth (pct.) 2/	-10.0	-14.0
GDP deflator 2/ (Average per cent change)	113.0	2,039.0
GNP current prices	80,983	958,397
GNP 1985 prices	32,669	23,097
GNP per capita (rbls 1985 prices)	1,922	n/a
Money and Prices (annual percentage growth)		
Money Supply (m2) rubles bn /2	54.0	433.0
Base interest rate (bank, per cent)	n/a	68.0
Retail inflation /2	91.0	1,600.0
Wholesale inflation /2	193.0	6,157.0
Consumer price index (Pct increase in basic basket, compared to previous year)	117.8	149.8
Exchange Rate (usd) (average) /2	1.75	164.0
(at end of period) /2	1.75	500.0
Balance of payments and trade (millions of U.S. Dollars) /2 unless noted		
Total Exports fob (foreign)	1,908	1,608
Not incl: ruble area	12,322	8,837
U.S. Exports /1	195.7	72.3
Total Imports (foreign) cif	774	1,546
Not incl: ruble area	8,281	6,453
U.S. Imports /1,/4	205.3	.1.7
Aid from U.S.	n/a	10 5/
External public debt /3	n/a	2,500
Debt service payments (paid)	n/a	0
Gold and foreign exchange reserves	2	149
Trade balance /1, /4	5,175.0	2,446.0
Balance with u.s./1,/4	-9.6	70.6

* Figures should be considered indicators of order of magnitude only.

1/ Source: Kazakhstan State Committee for Statistics (GOSKOMSTAT). 1991 Figures are actual. Comparable official 1990 figures not currently available. 1992 Figures are for 9 months, actual where available, otherwise GOSKOMSTAT estimates.

2/ IMF.

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3/ See Section 4

4/ GOSKOMSTAT trade data based on incomplete data on 1992 imports.

5/ Other U.S. assistance was available through regional programs for which a country-by-country breakdown is not available.

1. General Policy Framework

Kazakhstan, a nation of seventeen million people, vast territory, and enormous natural resources in the center of Asia, is struggling to transform an economic structure inherited from the former Soviet Union (FSU). The process is necessarily a difficult one, particularly in the short term. However, Kazakhstan has already made significant progress in building the legislative framework for a market economy and its abundant natural resources make medium and long term prospects quite good if the government continues to build on the positive start it has made. Government leaders repeatedly stress their commitment to economic liberalization and reform, but many of them emphasize gradual rather than radical reform.

Since the Soviet Union dissolved, the Government of Kazakhstan has been working to develop a coherent economic policymaking system. As efforts are made to undo the legacy of centralization, economic activity and authority will be increasingly dispersed. The economic policymaking structure is centered in the Higher Economic Council, headed by President Nazarbayev. Other principal policy formulation bodies are the economic committees attached to the council of ministers, which are directly responsible to Nazarbayev. The vice president and the Supreme Soviet also have key economic responsibilities. In addition, regional (oblast) governments exercise limited but growing economic authority. In practice, economic power has increasingly dispersed as popular confidence in higher levels of government to solve the economic crisis has eroded. In December 1992, the government proposed an "anticrisis" economic recovery and reform plan to the Supreme Soviet for approval.

The economy is still characterized by state ownership in all productive sectors. Private market activity in some sectors, particularly small trade, is growing fast, although privatization has lagged. Private ownership of housing, traditionally widespread in Kazakhstan even during the Soviet era, is growing rapidly. Some state enterprises are beginning to act increasingly like market-oriented entities.

Kazakhstan is committed to the policy of encouraging long-term growth through the exploitation of the country's extensive natural resources. A lower and longer-term priority is to encourage some processing of natural resources. In these areas, as in other economic spheres, Kazakhstan seeks foreign investment, the prospects for which are improving. U.S. companies are preparing to play a key role in Kazakhstan's economic development efforts. While few contracts have yet been signed, the largest project under discussion involves a U.S. firm. U.S. exporters may be able to benefit both from direct sales to Kazakhstani buyers, and from sales of intermediate goods and services to U.S. and other foreign investors in Kazakhstan.

Recent statistics illustrate the challenges still ahead. Over the first ten months of 1992, personal real income dropped 30 to 50 per cent, according to government sources. National income fell 16 to 17 per cent. Real GDP declined by 10 percent in 1991 and is expected to decline a further 14 percent in 1992. The most recent figures (September 1992) indicate an inflation rate of about 1,600 percent. The average retail price increase for 1992 is expected to be 749 percent (1,319 percent on end of the year basis). Wholesale price increases are expected to be even higher, due to the continued influence of monopolies and subsidies to the retail sector.

Fiscal Policy: Fiscal control is hindered by the very high rate of inflation, much of which is imported from Russia and other republics in the ruble zone. For some goods, such as food, price rises have been slower in Kazakhstan than in some other areas of the FSU.

At the beginning of 1992, the budget deficit was running about eight percent of GNP. By the end of the year, under urging from international financial institutions, Kazakhstan claimed to have reduced its deficit to five-to-seven percent. According to the IMF, the budget deficit is expected to equal about 9 percent of GDP. In the past, the deficit was financed by transfers from the center. At present, the deficit is financed by the emission of bank credits, manipulation of foreign trade balances, and by ruble emissions from Russia.

The budget deficit will face upward pressure from increased military spending next year. In 1992, military spending was limited because Russia financed many military activities in Kazakhstan. In addition, the purchase of this year's grain supply at low, controlled prices has limited the budgetary impact of food subsidies.

Monetary Policy: Kazakhstan is in the ruble zone and thus has limited control over its own monetary affairs; all currency is currently issued in Russia. The Central Bank of Kazakhstan does issue credits to a growing number of banks, which in turn issue credits to enterprises, keeping some otherwise insolvent operations afloat. The money supply in November 1992 was 472 billion rubles, perhaps 120 times what it was in 1991. The money supply increased by 18 billion rubles in October 1992.

Kazakhstan joined the IMF, the World Bank and the European Bank for Reconstruction and Development (EBRD) in 1992. Steady progress is being made toward negotiation of a standby arrangement with the IMF. The World Bank will be coordinating assistance efforts for Kazakhstan and hosted a consultative group meeting in December to discuss Kazakhstan's technical assistance needs and priorities. The World Bank also anticipates lending about $450 million to Kazakhstan over the next one to two years. Loans would include assistance in purchasing essential imports, agricultural reform, and energy sector development.

Kazakhstan became a GATT observer in October, 1992.

2. Exchange Rate Policy

The National State Bank of Kazakhstan adopted a unified exchange rate in July 1992, pegging the level to that of the Russian Central Bank. Accordingly, the ruble/dollar rate has closely tracked the rate in Russia.

Kazakhstan remains committed to the ruble zone. Kazakhstan has called for the coordination of exchange and monetary policy through a joint commission composed of the principal monetary authorities in each of the ruble zone states. Government officials have indicated that if a suitable and equitable coordination mechanism is not found Kazakhstan might be forced to consider issuing its own currency.

In practice, Kazakhstan, within the confines of the ruble zone, has a *de facto* free and open currency market. Restrictions on private currency trading are still in the law, and individuals are limited in their authorized access to foreign currency. Any company, however, may freely participate in the currency auctions as buyer or seller. Both dollars and rubles appear to be available from local banks, if not immediately on demand. There may be limits to the amount of dollars available at any particular time. Kazakhstan companies are currently required to exchange for rubles at the national bank at least 40 per cent of their foreign currency earnings.

3. Structural Policies

Pricing Policies: Kazakhstan's highest priority has been to mitigate the impact on its population of very high inflation. Barter trade is persistent, although much of it is now conducted by firms rather than governmental bodies. Many items are still requisitioned under the state orders system (GOSZAKAZ), but this is declining. Subsidies continue (e.g., 56 percent of retail price of bread remains subsidized), but have been restrained by efforts to control the budget deficit.

Purchasing decisions by both government and the nascent private sector are often influenced by non-price considerations, such as supplier relationships. Credit availability is an important purchasing criterion.

Tax Policies: Several taxes affect businesses in Kazakhstan. The enterprise tax structure is complicated, often *ad hoc*, and imposes high effective tax rates on some operations while allowing low net taxes on others. The nominal rate, which ranged to 40 percent, was reduced in June 1992 to as low as 25 percent. Joint ventures may be eligible for a five-year tax holiday, with an additional five years at half rate, but the exemption must be negotiated and confirmed in each case.

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The government hopes to reduce the value added tax from 28 percent to approximately 20 percent. It also plans to reduce the export tax from 40 percent to 20 percent. In addition, there are excise taxes on a variety of items. Personal income taxes are graduated, averaging about 13 percent.

Regulatory Policies: Government regulation may have more limited practical effect, as many restrictions can be negotiated. Input prices are to a large degree still tied to the state orders system, and often diverge greatly from world market prices. Some prices have moved toward world levels.

4. Debt Management Policies.

Following the breakup of the Soviet Union, Kazakhstan accepted joint and several liability for all the debt of the former Soviet Union (FSU). Under an Interstate Debt Treaty, Kazakhstan's share of FSU debt and assets was 3.86 percent, approximately $2.5 billion of debt. Kazakhstan reiterated its commitment to pay its share of the debt, but made no payments on its 1992 obligations.

The governments of the states of the FSU have discussed arrangements whereby Russia would take full responsibility for the debt and full title to overseas assets of the FSU, leaving the other countries with no debt. Kazakhstan signed a November 13 protocol with Russia, which authorizes Russia to manage Kazakhstan's share of the external debt and assets of the FSU. By the end of 1992, the Paris Club was attempting to resolve the issue of FSU debt.

Credit: In 1992, Kazakhstan began to receive its first international credit, mostly supplier credits, as well as credit lines from Turkey ($100 million), Austria, and Germany. Resolution of the debt situation could result in some increase of international credit in 1993. Credits may be linked to export proceeds from Kazakhstan's ample raw materials. Extensive local currency credits, originating in the central bank, were issued in the latter half of 1992.

5. Significant Barriers to U.S. Exports

The most serious impediment to U.S. exports to Kazakhstan is the country's legacy of decades of communism and the continuing problems of transition to a market economy, which include a weak legal framework. Specific restraints include the relative inexperience of the private sector and the shortage of domestic investment capital. Although the government supports import substitution, lack of capital has constrained this effort. The government insists there are no barriers to imports in general, or specifically to U.S. imports, other than restrictions on prohibited items like arms and narcotics.

By the end of 1992, Kazakhstan was a market for U.S. goods, including a wide range of consumer products, and is expected to become a growing market for U.S. capital goods for the development of its extractive industries and the

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modernization and conversion of existing industrial establishments, particularly in the defense industry. Such imports are likely to be dependent on the availability of finance or external investment. Countertrade has also been used to arrange payment for major purchases.

No import licenses are required in Kazakhstan. Services are affected by a variety of formal and informal barriers. The government appears willing to allow foreign providers of services to operate without impediment. For example, a U.S. accounting firm is already operating in Alma Ata. Standards and labelling requirements are in practice nonexistent and at present do not constitute a constraint.

Kazakhstan professes to be eager for foreign investment in virtually all sectors. The Cabinet of Ministers is charged with approving investments worth over one billion rubles. Under its jurisdiction, a National Agency for Foreign Investment was formed in late 1992. The role of the agency within the government remains unclear. The agency may encourage investment in raw materials, telecommunications, and consumer goods.

Formally, there is no equity or participation limit on foreign investment, although in practice virtually all foreign investment is through joint ventures. It is unclear whether foreigners will be exempt from the general prohibition on the outright ownership of land. The government plans instead to permit long-term leases for ninety-nine years or more.

There are no export performance requirements, local content requirements, restrictions on foreign personnel, or restrictions on repatriation of capital. Capital movements can in practice be constrained by foreign exchange shortages. Foreign firms are permitted in downstream operations and were allowed to operate as intermediaries by presidential decree in January 1992.

Government procurement practices are not limited by formal "buy Kazakhstan" regulations, although there is a clear preference to buy local if possible. In most cases, local products are not comparable to imports, so the policy has little restraining effect.

Kazakhstan still uses the customs procedures of the former Soviet Union. Most goods transit other New Independent States, unless they arrive by air, or from China. Customs administrative procedures can be burdensome and special documents required, but customs issues do not appear to have constrained trade. Foreign firms can import items for their own use duty free.

To normalize its trade and investment relations with Kazakhstan, the United States has proposed a new network of bilateral economic agreements. The U.S.-Kazakhstan trade agreement, which will provide reciprocal Most Favored Nation status, was concluded and was ratified by the Kazakhstan Supreme Soviet in December 1992. An exchange of diplomatic notes is required to put the agreement into force.

A U.S.-Kazakhstan bilateral investment treaty, which would establish a bilateral legal framework to stimulate investment, was signed in May 1992, but discrepancies between the English and Kazakh language texts need to be resolved before the treaty can be submitted to the U.S. Senate for approval. A bilateral tax treaty, which would provide businesses relief from double taxation of income, is under negotiation and should be signed in 1993. An Overseas Private Investment Corporation (OPIC) incentive agreement, which allows OPIC to offer political risk insurance and other programs to U.S. investors in Kazakhstan, was also concluded in 1992 and is in force. The U.S. Export-Import Bank is open for short term cover (maturities up to 360 days) in Kazakhstan.

6. Export subsidies policies

Kazakhstan shares the Soviet legacy of subsidization of state enterprises, but the subsidies are not targetted specifically at exports but at maintaining production and employment. Rather than target subsidies at exports, Kazakhstan does the reverse and taxes them. Export tax rates have ranged up to 40 percent, combined with a variously imposed requirement for the surrender of foreign exchange earnings. Kazakhstan has recently liberalized this regime and reduced its export tax to 20 percent.

In 1992, the U.S. Department of Commerce determined that Kazakhstan was dumping uranium in the United States. Kazakhstan signed an antidumping suspension agreement in the autumn. USDOC is currently conducting a ferrosilicon antidumping investigation against Kazakhstan, with final determination due on March 3, 1993.

In 1992, the U.S. Department of Commerce preliminarily found that uranium from Kazakhstan was being dumped in the United States. In October, Commerce signed an agreement with Kazakhstan to suspend the dumping investigation and restrict Kazakhstan's uranium exports to the United States.

Commerce is currently investigating the dumping of ferrosilicon from Kazakhstan.

7. Protection of U.S. Intellectual property

The civil code of Kazakhstan protects, in principle, intellectual property. However, the absence of criminal sanctions and generally lax enforcement by the government have meant in practice that intellectual property rights violation is not deterred. The U.S.-Kazakhstan trade agreement, which is not yet in force, includes commitments on protection of intellectual property. Kazakhstan is not party to international agreements on protection of intellectual property.

Patent legislation guarantees the right of inventors to the "name" of their product. Financial rights of patent holders do not appear to be so protected, however. A new patent department opened in July 1992 to register new technologies.

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Sales of pirated and counterfeit goods in Kazakhstan result in some loss to U.S. industry, but the impact is not great. Such goods are not usually produced in Kazakhstan, and the domestic market is limited.

There is special concern about the rights of authors and of producers of video and sound recordings. Audio cassettes and videotapes are not protected, and poorly dubbed versions of pirated current U.S. films are regularly shown on local television. A local satellite broadcaster is, however, licensed. Theatrical showings of motion pictures are also licensed.

Registration of trademarks began only in July 1992. Trademark violation is a crime, and courts are empowered to arbitrate trademark infringement cases, but no cases had been filed by the end of 1992. Consumer goods with pirated trademarks, particularly clothes, were sold in Kazakhstan, but were usually made elsewhere. Local consumers prefer U.S. styles, and there are many goods, mainly of Chinese and Turkish manufacture, which bear apparently false U.S. trademarks.

There is apparently little manufacture or sale of pirated computer software. New technologies are generally imported by or in coordination with the owner/producer of the technology, in part because of limited local capability to produce advanced products.

8. Worker Rights

a. Right of Association

Workers are entitled to join a union of their own choosing. Many workers, however, have little choice but to remain in the state-sponsored trade unions, a system inherited from the FSU. Workers can form independent trade unions and apply to have the mandatory dues deduction transferred. There have been numerous cases of state-sponsored unions or local and other government authorities interfering with the right to form free trade unions. All independent unions are members of a national independent trade union center, but have not as yet obtained international affiliation.

b. Right to Organize and Bargain Collectively

Independent unions have been organized in some industries, but the process is difficult, and often arbitrary. Both independent and state sponsored unions have negotiated contracts. If a union's demands are not acceptable to management, they may be presented to an arbitration commission comprised of management, the union, and independent technical experts.

c. Prohibition of Forced or Compulsory Labor

Forced labor is prohibited under normal circumstances. Nonetheless, students and others have been forced to help with the harvest, with little or no compensation.

d. Minimum Age of Employment of Children

The minimum employemnt age is 16. Exceptions are only rarely granted, and then require the approval of the local authorities and the union at the place of work. Abuse of child labor is not an issue.

e. Acceptable Conditions of Work

Safety conditions in many industries, for example coal mining, would not be considered acceptable by U.S. Standards. There is only limited use of protective clothing. Hours of work are not excessive, with a legal maximum of 48 hours, but most enterprises work only 40 hours.

f. Worker Rights in Sectors with U.S. Investment

The limited degree of initial U.S. investments in Kazakhstan in 1992 prevent detailed comment. In general, workers employed by U.S. companies tend to be better paid and enjoy better working conditions than workers in comparable positions elsewhere, regardless of sector. There are no sectoral statistics.

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Key Economic Indicators 1/

(Millions of Rubles unless otherwise noted) 2/

	1990	1991	1992
Income, Production and Employment			
Real GDP (1985 prices)	N/A	N/A	N/A
Real GDP growth (pct)	4.0	-5.2	-25.0
GDP at Current Prices 3/	8,320	15,170	N/A
By Sector:			
Agriculture	3,578	5,461	N/A
Energy, Water and Manufacturing	2,662	6,826	N/A
Construction	998	1,214	N/A
Services and Others	1,082	1,669	N/A
Net Exports of Goods and Services	2,600	2,499	1,673
Labor Force (mill)	1.438	1.441	1.700
Unemployment Rate (pct)	0	1.5	N/A
Money and Prices			
Money Supply (M1)	N/A	N/A	7,200
Base Interest Rate 4/	N/A	N/A	6
Personal Saving Rate	18.4	18.3	13.7
Retail Inflation (pct)	100	181	1,391
Wholesale Inflation (pct)	100	288	3,300
Consumer Price Index	100	190.1	1079.2
Exchange Rate (US$/Ruble)			
Official (92 rate is Dec)	1/0.6	1/1.75	1/400
Parallel (92 rate is Dec)	1/25	1/145	1/400
Balance of Payments and Trade			
Total Exports, FOB 5/	2,600	6,546	1,673
Exports to U.S.	N/A	9.1	N/A
Total Imports, CIF 5/	4,296	6,884	N/A
Imports from U.S.	0	0	0
Aid from U.S.(mil US$)	N/A	N/A	18.8 8/
Aid from other countries	N/A	N/A	22.0
External Public Debt	N/A	N/A	0 7/
Debt Service Payments (paid)	0	0	0
Gold and Foreign Exchange Reserves	N/A	N/A	N/A
Trade Balance (pct) 6/	N/A	-2.5	-16.0

1/ All figures used are from Kyrgyzstan Government sources or from the IMF, and should be regarded as orders of magnitude only.
2/ Nine-months data
3/ GDP at factor cost
4/ Figures are actual, average annual interest rates, not changes in them.
5/ Merchandise trade
6/ Percent of the export/import volume
7/ See section 4.
8/ Other U.S. assistance was available through regional

programs for which a country-by-country breakdown is not available

1. General Policy Framework

Following the collapse of the Soviet Union, the Government of Kyrgyzstan declared its intention to develop a market economy open to the rest of the world. Kyrgyzstan faces a particularly difficult task in establishing a sustainable market economy. It was among the poorest of the former Soviet republics, heavily dependent on transfers from the Union. Furthermore, it lacks the readily marketable natural resources of many of the NIS. Attempting to overcome these weaknesses, the government has aggressively pursued economic reform. The Parliament adopted favorable laws on privatization, joint ventures, foreign trade and investment, free economic zones, and concessions to foreign investors.

Recent statistics illustrate the difficulty of the transition. Kyrgyzstan's economy is in deep recession. Production has dropped about 23 percent since January 1992. The budget, nearly in balance in the first quarter, has fallen into serious deficit -- perhaps as much as 22 percent of GDP in the fourth quarter. The deficit arises mainly from social entitlement programs (projected at 12 billion rubles for October-December 1992), meeting humanitarian needs stemming from natural disasters (major earthquakes in May and August), defense costs (its armed forces are now under the jurisdiction of, and are being paid by, Kyrgyzstan). Adding to the budget difficulties, several key branches of industry received government subsidies of 1.5 billion rubles in October.

Kyrgyzstan remains in the "ruble zone" with Russia and several other New Independent States (NIS), and therefore is dependent on Russian monetary policy. Kyrgyzstan plans to leave the ruble zone.

Kyrgyzstan joined the IMF, World Bank and European Bank for Reconstruction and Development in 1992. The government is making progress toward agreement with the IMF on an IMF standby arrangement. The World Bank will be coordinating international assistance efforts to Kyrgyzstan and in December hosted a consultative group meeting to discuss its technical assistance needs and priorities. The Bank also anticipates lending about $200 million to Kyrgyzstan over the next one to two years. Loans would assist with such things as purchase of essential imports, privatization, and structural adjustment.

2. Exchange Rate Policy

The rates established by Kyrgyzstan's National Bank and other banks are somewhat lower than in Russia, the general trend is the same. They tend to lag behind Moscow's rate because of market imperfections.

Hard currency operations are no longer illegal, and any person or legal entity may buy or sell hard currency at practically free market prices. "Street market" rates are only slightly higher than the official rate.

3. Structural Policy

Kyrgyzstan has adopted a program of privatization of enterprises, housing, and agriculture. The industrial sector will need extensive restructuring before it will be economically viable in a market economy. By October, five percent of state assets had been privatized. Earlier in 1992, it was announced that by the end of 1993, 35-40 percent of industry and agriculture would leave the state sector, and some 200 unprofitable government enterprises would be closed. However, the Ministry of Economics and Finance has requested postponement of the program.

Pricing policies: In January 1992 about 90 percent of all prices were liberalized in tandem with Russia. Retail food prices increased fivefold in 1992; but, relative to September 1991, prices were 14 times higher. Prices for energy, housing, transportation, and communications were fixed for almost half the year. Price increases then ranged from 600 percent for running water to 6,000 percent for natural gas. The government expects prices for all services to increase by 14 times by the end of the year in comparison with December 1991. Further liberalization of services and utilities prices is expected during 1993.

Tax policies: Kyrgyzstan's major tax sources are a value added tax (VAT - 28 percent) and Enterprise Profit Taxes (35 percent). Tax deferrals are granted to foreign investments worth more than $300,000 and/or directed to consumer goods production and new technologies. Foreign trade transactions are exempt from VAT and imports are not taxed. Personal income taxes are progressive, and are revised with every wage increase. Foreign investors are granted a five year tax holiday.

Foreign investment: In February 1992, Kyrgyzstan passed a law on foreign investment which: (a) permits issuance of shares in joint ventures, (b) allows creation of foreign enterprises, (c) promotes investment in research and development, and (d) sanctions other forms of economic and technological activity not prohibited by Kyrgyzstan laws. According to the law, there are no explicit limitations on foreign investment. Moreover, tax exempt status for foreign investors has been granted in the following priority areas: electronics, machine tool production, tourism, communications, consumer goods, agriculture, and new technologies. As yet there are no laws regulating foreign ownership of private property.

4. Debt Management Policies

In a July 1992 bilateral agreement, the Russian Federation undertook responsibility for Kyrgyzstan's share of the external debt of the former Soviet Union in return for Kyrgyzstan's share of the external assets of the FSU.

5. Significant Barriers to U.S. Exports

Kyrgyzstan lacks hard currency and, despite liberalized foreign exchange laws, repatriation of earnings is difficult. Kyrgyzstan's ability to import goods and technologies which require payment in hard currency is therefore severely limited. In addition, inadequate telecommunications and banking facilities, as well as extremely high transportation costs are further practical barriers to trade.

To normalize its trade and investment relations with Kyrgyzstan, the United States has proposed a new network of bilateral economic agreements. The U.S.-Krygyzstan trade agreement, which provides reciprocal Most Favored Nation status, was concluded and entered into force in August 1992.

Substantive agreement has been reached on a U.S.-Kyrgyzstan bilateral investment treaty, which will establish a bilateral legal framework to stimulate investment. It should be signed in early 1993. A draft bilateral tax treaty, which would provide businesses relief from double taxation of income, proposed by the U.S. is under consideration by Kyrgyzstan. An Overseas Private Investment Corporation (OPIC) incentive agreement, which allows OPIC to offer political risk insurance and other programs to U.S. investors in Kyrgyzstan, was also concluded in 1992 and is in force.

6. Export Subsidies Policies

Kyrgyzstan inherited the Soviet legacy of subsidization of state enterprises but these subsidies are aimed at maintaining employment and production, not specifically at making exports more competitive.

In 1992, the U.S. Department of Commerce preliminarily found that uranium from Kyrgyzstan was being dumped in the United States. In October, Commerce signed an agreement with Kyrgyzstan to suspend the dumping investigation.

7. Protection of U.S. Intellectual Property

Kyrgyzstan's authorities have indicated informally their intention to abide by the international obligations in the area of intellectual property rights to which the former Soviet Union had subscribed. The U.S.-Kyrgyzstan trade agreement includes commitments on protection of intellectual property.

8. Worker Rights

a. Right of Association

In February 1992 the Government adopted a comprehensive law which included provisions guaranteeing rights of all workers to form and belong to trade unions. Although overall union structure and practice remain consistent with the Soviet experience, there is growing evidence of active union participation in state-owned and newly-privatized enterprises. The new law sets a threshold of five workers to form a union.

b. Right to Organize and Bargain Collectively

The law recognizes the right of unions to negotiate for better wages and conditions. In most sectors of the economy, wage levels continue to be set by government decree. Union members are protected by the law from antiunion discrimination.

c. Prohibition of Forced and Compulsory Labor

Forced labor is forbidden. The Soviet practice of drafting children and students to work during harvest continues, but there were no actions taken against those individuals who refused.

d. Minimum Age for Employment of Children

The minimum age of employment is 18. Students are allowed to work up to six hours per day in summer or in part time jobs from the age of 16.

e. Acceptable Conditions of Work

The standard work week is 41 hours, usually within a five day week. A law enacted in April 1992 establishes standards and enforcement for acceptable working conditions, including health and safety.

f. Rights in Sectors with U.S. Investment

Not applicable.

LATVIA

Key Economic Indicators

(millions of rubles unless otherwise noted)

	1990	1991	1992 1/
Income, Production and Employment			
Real GDP (1990 Prices)	12,488	11,455	3,767
Real GDP Growth (pct.)	N/A	-8.3	-31.6
GDP (at current prices)	12,488	28,665	62,464
By Sector:			
Agriculture, Forestry	N/A	N/A	10,429
Manufacturing	N/A	N/A	29,714
Construction	N/A	N/A	5,264
Mining and Quarrying	N/A	N/A	216
Fishing	N/A	N/A	523
Paid Services	N/A	N/A	12,149
Services Free of Charge	N/A	N/A	1,808
Net Exports of Goods and Services	N/A	N/A	4,294 2/
Real Per Capita GDP	4,625	4,243	1,395
Labor Force (000s)	1,407	1,409	1,375
Unemployment Rate (percent)	N/A	N/A	2.5-3 3/
Money and Prices (Annual Percentage Growth)			
Money Supply (M2)	7.3	98.0	330.5
Retail Inflation	N/A	N/A	413.0 4/
Consumer Price Index	N/A	N/A	413.0 4/
Exchange Rate (Ruble/USD)			
Official	0.6	N/A	N/A
Market	N/A	103.5	178
Balance of Payments and Trade			
Total Exports	N/A	N/A	9,560 2/
Exports to U.S.	N/A	N/A	81 2/
Total Imports	N/A	N/A	6,266 2/
Imports from U.S.	N/A	N/A	387 2/
Aid from U.S.	N/A	N/A	24.2 5/
Aid from Other Countries	N/A	N/A	37.9 5/
External Public Debt	N/A	N/A	65.0 5/
Debt Service Payments (Due)	N/A	N/A	14.2 5/
Gold and Foreign Exchange Reserves	N/A	N/A	10,783 3/
Trade Balance	N/A	N/A	3,294 2/
Balance with U.S.	N/A	N/A	-306

1/ January-June, 1992; Growth rates are over January-June 1991.
2/ Data unreliable due to use of multiple exchange rates in conversion to rubles.
3/ October 1992.
4/ Index of retail prices and charges for paid services, June 1992 over December 1991.
5/ Millions of dollars. Aid data for November 1991 though November 20, 1992 as calculated by Latvian authorities. (Note: Total U.S. assistance obligations, including technical assistance AND PL-480 credits but not counting 410 tons of

excess Department of Defense food, to Latvia amounted to $29.7 million as of September 30, 1992.)

1. General Policy Framework

Since independence in August 1991, Latvia has made considerable progress toward dismantling the centrally planned, socialist system imposed during the Soviet occupation, and completing work begun in 1990 to restore independent economic and legal institutions. In May 1992, the two year old Bank of Latvia introduced the Latvian ruble to supplement Soviet rubles then in circulation. In July, the Latvian ruble became the sole legal currency in a move intended to isolate Latvia from inflationary pressures in the former Soviet Union and to establish a basis for an independent monetary policy. Monetary and fiscal policies are limiting the growth of the money supply, setting the stage for a substantial reduction in inflationary pressures in early 1993.

Structural reform has continued apace. Collective farms have been abolished and private farmers are cultivating the majority of farm land. Both farm land and urban property are being returned to their legal owners. Soviet bans on private economic activity have been lifted and private enterprise is rapidly expanding, particularly in the retail sector. The Supreme Council (parliament) has passed legislation establishing a framework for privatization of industrial enterprises owned by the state.

Latvia's economic transition has not been smooth. Trade with Russia and other countries in the ruble zone is collapsing, due in part to the appreciation of the Latvian ruble against the Russian ruble, while exports to the West have not absorbed the decline in external demand. The impact of foreign investment on economic demand is still modest. As a result, the industrial economy has entered a deep depression that is expected to lead to massive unemployment in 1993. Salaries have not kept pace with the rising cost of living; the material standard of living has declined for most of Latvia's population since 1991.

2. Exchange Rate Policy

The exchange rate of the Latvian ruble is determined by market forces with limited intervention by the Bank of Latvia. Beginning August 17, 1992 the Bank of Latvia established recommended rates of exchange for transactions involving ruble credits with countries in the ruble zone. The exchange rate of the Latvian ruble with respect to Western currencies stabilized in September 1992. The Bank of Latvia is exercising a policy of monetary restraint consistent with IMF guidelines.

The Latvian ruble is presently undervalued against the main convertible currencies on a purchasing power parity basis. Freed of Moscow's control over its foreign trade, Latvia's market for goods from Western countries has expanded substantially. Latvia's ability to finance consumer and investment goods imported from hard currency areas without foreign financing is limited.

3. Structural Policies

The overriding goal of the Latvian Government is to assure the country's smooth transition to a market economy. The government recognizes that the legal and economic framework that existed at the time of Latvia's occupation in 1940 will need to be updated, Thus, the development of laws regulating business and financial activity is being pursued simultaneously with privatization and removal of Soviet state controls over the economy. The absence of a government regulatory framework in areas such as banking and finance has been detrimental to the development of business and to public confidence in Latvian financial institutions.

Latvia is making steady progress on privatization. In March 1992, the Supreme Council approved a law establishing a framework for privatization of industry and, in October, approved legislation for the distribution of privatization vouchers. The return of confiscated farms to their legal owners will be completed in 1992. Claims have been filed and property is being restored for land in both the Soviet collective and state farm systems. Legitimate owners are also reclaiming urban property confiscated by Soviet authorities. The use of vouchers to privatize large industrial enterprises has been delayed by the debate over how to naturalize persons who immigrated to Latvia during Soviet occupation, by a shortage of foreign and domestic investment capital, and by Latvian management's inexperience in developing business on market principles outside the former USSR.

Price controls have been eliminated on over ninety percent of goods and services produced in Latvia. Prices of food products were decontrolled in December 1991 while the price of fuel has been allowed to rise to reflect world market prices for energy. On November 1, 1992 home heating charges were raised to reflect the higher cost of energy.

Latvia introduced a value-added turnover tax on January 1, 1992 which has become the leading source of government revenue. A profits tax, customs duties, income tax, and excise duties are the other main sources of Latvian tax revenue. The 1991 Investment Law provides foreign investors tax relief on business profits for up to eight years. On June 1, 1992 export licenses and quotas were replaced with a system of export tariffs.

4. Debt Management Policies

Latvia and Russia have not agreed on the settlement of obligations arising from the period of Latvia's occupation by the Soviet Union. The Latvian Government disclaims responsibility for any debt arising from the occupation, including international obligations incurred by the Soviet Union. The Latvian Government expects to recover or be compensated for gold held by Latvia with foreign central banks at the time of the Soviet occupation. These holdings amounted to $118 million at the end of 1991. The Bank of Latvia's foreign currency reserves were $3 million at the end of 1991; foreign convertible assets of commercial banks amounted to about $30 million.

Through October 1992, the IMF has provided credits to Latvia amounting to 15.25 million SDR. A World Bank credit of $45 million and an EBRD credit are pending, but will not be distributed before 1993. The United States extended a PL-480 credit of $10 million in 1992 to finance the import of wheat. Latvia is eligible for an allocation from a 5 million ECU credit made available to the Baltic States by the Nordic Development Bank. Since independence, the EC, Germany, and Finland have made credits available to Latvia for the purchase of fuel and agricultural equipment.

5. Significant Barriers to U.S. Exports

The absence of a developed business and legal infrastructure, including banking and commercial banking mechanisms, appears to be the main barrier to U.S. exports to Latvia. A simplified system of import tariffs was implemented for products from countries with convertible currencies on November 1, 1992; tariff rates for most products are at 7.5 or 15 percent. Import tariffs are not applied to goods in transit or imported for reexport or for humanitarian assistance.

Under the Investment Law of November 1991, the laws of the Republic of Latvia apply equally to domestic and foreign investors. The Investment Law applies some limits to foreign investment. Funds invested must be in a convertible currency. Acquisition of controlling shares in a Latvian enterprise with assets exceeding $1 million must be approved by the Council of Ministers. Foreign investors may engage in, but not obtain control over, enterprises engaged in activities related to national defense; the manufacture and sale of narcotics, weapons and explosives, securities, banknotes, coins and stamps; the mass media; national education; acquisition of renewable and nonrenewable national resources; internal fisheries; hunting; and port management.

Latvia became an observer to the GATT in September 1992.

6. Export Subsidies Policies

The Latvian Government does not subsidize exports.

7. Protection of U.S. Intellectual Property

The Government of Latvia is committed to attaining a level of protection for intellectual property rights in Latvia comparable to that provided under international conventions. The Latvian Supreme Council is currently considering three draft laws to protect copyrights, trademarks, and patents. Latvia joined the World Intellectual Property Organization (WIPO) in November 1992 and intends to join the Berne

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Convention and possibly the Geneva Phonograms Convention once the Supreme Council has adopted a copyright law.

The collapse of the Soviet system created a klondike environment in Latvia where private sector activity has temporarily outpaced the government's ability to draft and enforce laws. Unauthorized reproductions of copyrighted video recordings imported from Russia are widely distributed in Latvia. To halt the use of pirated films imported from Russia on Latvian television, the Latvian Radio and Television Board on October 27, 1992 adopted a ruling under which the license of any TV company would be revoked if it is unable to show that it has legally acquired the rights to broadcast films.

Latvia's intellectual property practices have had an adverse impact on U.S. trade in films and videos, but not outside the small Latvian market. Latvia is not a subject of attention under special 301 legislation.

8. Worker Rights

a. Right of Association

Workers have the legal right to form or to join unions of their own choosing. In April 1992, an estimated 88 percent of the work force belonged to unions. Union membership is falling as workers leave "unions" organized in the Soviet era or are laid off as state-owned enterprises collapse. Unions are currently nonpolitical; there has been discussion of linking unions with political parties. Unions enjoy the right to strike with some limits and regularly exercise this right. Unions may affiliate internationally and are developing contacts with European trade unions.

b. Right to Organize and Bargain Collectively

Trade unions have the right to bargain collectively and are negotiating largely free of government interference. Latvian workers may freely associate; Latvian law prohibits discrimination against union members or organizers. In practice, some emerging private sector businesses threaten to fire union members. Such businesses typically provide better salaries and benefits than are available elsewhere.

No export processing zones exist in Latvia.

c. Prohibition of Forced or Compulsory Labor

Prior to the August 1991 coup, compulsory labor was a feature of Soviet prison camps; since Latvia regained independence, compulsory prison labor has been banned.

d. Minimum Age for Employment of Children

The statutory minimum age for employment of children is sixteen. Minimum age and compulsory education laws are, by all accounts, enforced by state authorities through inspections, although children are sometimes seen on the street hawking goods.

e. Acceptable Conditions of Work

The labor code provides for a mandatory 40-hour maximum workweek, four weeks of annual vacation and a program of assistance to working mothers with small children. The minimum wage is now set at 1,500 rubles per month, considered to be below the poverty line due to recent inflation. Latvian laws inherited from the occupation period establish minimum occupational health and safety standards in the workplace. As in the former Soviet Union, these standards appear to be frequently ignored.

f. Rights in Sectors with U.S. Investment

There is no known U.S investment.

LITHUANIA

Key Economic Indicators

(millions of rubles) 1/

	1990	1991	1992 2/
Income, Production and Employment			
Real GDP (1990 prices) 3/	12897	11315	6789
Real GDP growth (pct.)	-5	-12	-40
GDP (at current prices) 3/	12897	32814	70876
By sector:			
Agriculture	4295	7646	N/A
Manufacturing	4398	14373	N/A
Construction	1728	2428	N/A
Other Services	2476	8368	N/A
Government, Health and Education	5831	13252	N/A
Net Exports of Goods and Services	-556	-647	N/A
Real per capita GDP (1990 pounds sterling)	3464	3017	1805
Labor Force (000s)	1804	1835	N/A
Unemployment Rate (percent)	.001	.006	N/A
Money and Prices (Annual Percentage Growth)			
Money Supply 4/	N/A	162	13
Base Interest Rate 5/	1.5	9.5	85
Retail Inflation	8	224	280
Exchange Rate (RB/USD)			
Official	16	36	116
Parallel	16	36	116
Balance of Payments and Trade			
Total Exports FOB	6989	8495	38110
Exports TO U.S.	105	77	128
Total Imports CIF	8125	5372	27887
Imports from U.S.	309	49	315
Reserves (USD Million)	N/A	N/A	76
Trade Balance 6/	-1136	3123	10223
Balance with U.S.	-294	28	-187

1/ On October 1, 1992, the ruble was converted to the temporary currency, talonas, prior to introducing the new national currency.
2/ 1992 figures are estimates
3/ GDP at factor cost
4/ In "broad money" as defined by the IMF
5/ Figures are actual, average interest rates

1. General Policy Framework

Since declaring independence in 1990 the Lithuanians have been largely preoccupied with the political climate in their emerging nation. It is only since the autumn of 1991 that attention has been focused on economic issues facing the

LITHUANIA

country.

Lithuania is developing a market economy and eliminating vestiges of the centrally planned Soviet system as quickly as possible. The government is eager to encourage foreign investments and open new trade ties, particularly with the west. The United States granted Lithuania Most Favored Nation (MFN) status and General System of Preferences (GSP) status in February 1992. In September, Lithuania was accepted as a GATT observer. During the year, Lithuania signed trade agreements with Sweden, Norway, and Finland. Trade ties with the former Soviet Union has plummeted, although both sides continue negotiations on new trade arrangements.

Lithuania has embarked on a series of price liberalizations and has abolished most price controls. The government has established a central bank responsible for monetary policy and regulatory control. Lithuania has abandoned the Soviet ruble in favor of its own currency, although the currency in use is only temporary. Many businesses have been privatized and private citizens are now allowed to own land. Lithuania is seeking to further liberalize its foreign investment laws.

The Lithuanian Government is following a cautious, but optimistic program of economic reform in banking, tax laws, land ownership laws, adn other necessary areas. The October elections produced a Social Democrat government which has proposed a more gradualist reform path.

2. Exchange Rate Policies

On October 1, 1992 Lithuania abandoned the Russian ruble in favor of a transitional currency, the talonas. The introduction of the permanent national currency, the litas, is expected in the near future. The litas is to be convertible at floating market rates of exchange.

3. Structural Policies

Patterns of industrial ownership: Lithuania is implementing a privatization program which includes large and small scale enterprises, agricultural land and housing units. The program is based on distributing investment vouchers to all citizens. Private ownership of land is permitted only for Lithuanian citizens. Most 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 dismantled most of the centralized price controls formerly imposed by Moscow. Prices on most foodstuffs and manufactured goods have been liberalized. As a result, prices rose more tha 1,000 percent in 1992.

Tax policies: Lithuania has begun to reform its entire tax system. There is a new value added tax of 18 percent. 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 percent 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 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 certain 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 permits 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 99 years, but bars foreigners from owning land. The Lithuanian Government is working to liberalize the laws affecting foreign investment and has sought guidance from international donors including those from the United States.

4. Debt Management Policies

Lithuania has acknowledged only that portion of the Soviet debt incurred by Lithuanian entities for uses in Lithuania. Negotiations on this matter are in progress. Lithuania has begun independently negotiating new loans.

5. Significant Barriers to U.S. Exports

The objective of Lithuanian trade policy is to move toward European and world markets but without sacrificing access to markets in the former Soviet republics. The current task is to reorient some exports to the West by raising the quality and competitiveness of Lithuanian goods and services. There are few direct barriers to western imports.

Lithuania has high overall levels of trade. However, the centralized planning process led to extreme specialization and overdependence on Russia for both inputs and outputs. 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 initially will remain in the countries of the Commonwealth of Independent States (CIS).

U.S. exports will be limited because of Lithuania's recession which has resulted in lower effective demand for commercial imports. Noncommercial imports funded by aid donors are expected to increase. 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

Upon regaining its independence, Lithuania declined to assume formally any binding international legal obligations undertaken for Lithuania by the former Soviet Union. In the area of intellectual property protection, Lithuanian policy has been to observe international standards and to consider subscribing to international conventions beyond those accepted by the independent Lithuanian governments before World War Two. Lithuania joined the World Intellectual Property Organization (WIPO) in 1990. It has not joined any WIPO conventions, such as those on copyright and industrial property protection, but has indicated an interest in so doing. Lithuania is not a subject of attention under special 301 legislation. A trade and investment framework agreement signed between the United States and Lithuania in July 1992 contains commitments on the protection of intellectual property.

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. 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 failed coup, Lithuania has adopted legislation reconfirming the rights of workers to form independent unions and, with certain restrictions, to strike. Lithuania has been readmitted to the International Labor Organization.

b. Right to Organize and Bargain Collectively

Lithuanian legislation, passed since its independence, confirms the right to organize and bargain collectively. The Lithuanian branch of the USSR's All Union Central Council of Trade Unions has renamed itself the Confederation of Free Trade Unions and it continues to function unhindered. A genuinely free trade union called the Lithuanian Workers Union (LDS) emerged in 1990 and by 1992 it claims a dues paying membership of 50,000. A seperate white collar association of professional workers has been established. During 1992 there were scattered strikes by hairdressers, photo studio operators, and teamsters. But as production declines, the fear of losing jobs limits the inclination for wage demands or other agitation.

c. Prohibition of Forced or Compulsory Labor

A regime of paid labor is a standard feature of some Lithuanian prisons. Maximum security prisons generally do not have compulsory labor.

d. Minimum Age for Employment of Children

The minimum age for employment of children is 16. Twelve years of schooling is compulsory. These requirements are enforced through a system of inspections.

e. Acceptable Conditions of Work

By law, white collar workers have a 40 hour work week. Blue collar staff have a 48 hour work week with premium pay for overtime. There are minimum legal health and safety standards for the workplace. However, worker complaints indicate that these standards frequently appear to be ignored.

f. Rights in Sectors with U.S. Investments

There is only a minimal level of U.S. investment in any one sector. Worker rights are applied uniformly throughout the economy and there are no known differences in conditions among individual sectors.

MOLDOVA

Key Economic Indicators*

(millions of rubles unless otherwise noted)

	1990	1991	1992
Income Production and Employment			
Real GDP growth (pct.)	-6	-12	N/A
GDP (at current prices)	12,750	22,252	89,008
By sector:			
Agriculture	3,934	N/A	N/A
Energy and water	128	N/A	N/A
Manufacturing	3,017	N/A	N/A
Construction and education (pct)	N/A	14.7	25.8 P
Net exports of goods and services	N/A	N/A	$300 m
Real per capita GDP	N/A	5,100	N/A
Labor force (thousands)	2,439	2,429	N/A
Unemployment rate (pct)	N/A	N/A	10
Money and Prices			
Retail inflation (pct) 1/	4.2	162	800
Exchange rate (US$/r)			
Official	--	1/1.8	Market
parallel	--	--	N/A
Balance of Payments and Trade			
Total exports FOB 2/	6,176.7	74.78	363.8
Exports to U.S. 2/	N/A	.14	.081
Total imports CIF 2/	6,461.4	150.44	291.9
Imports from U.S. 2/	N/A	3.197	14.23
Balance with U.S. 2/	N/A	-3.154	-14.15
Aid from U.S. (mil$)	N/A	N/A	10.0 4/
External public debt (mil $)	N/A	N/A	N/A 3/
Debt svce payments	--	--	0
Gold and foreign exchange reserves	N/A	N/A	$1 m
Trade balance 2/	-284.7	-75.66	71.91

1/ Figures are actual, average annual inflation rates, not changes in them.
2/ Hard currency rubles. 1992 Figures are first three quarters. For 1990, U.S. dollar 1 = rubles 8.
3/ See Section 4
4/ Other U.S. assistance was available through regional programs for which a country-by-country breakdown is not available.

*Figures should be considered indicators of order of magnitude only.

1. General Policy Framework

Moldova faces a formidable task in building a market economy out of the ruins of the old Soviet system. With the breakup of the former Soviet Union and the movement toward market prices for trade among the former republics, Moldova's terms of trade worsened substantially. Moldova does not have any domestic sources of fossil fuels and must import oil, natural gas, and coal, mainly from Ukraine and Russia. Political instability has also consumed much of the government's attention.

After a somewhat slow start, Moldova has begun to make significant progress in building the framework for a market economy. Moldova has passed many of the basic laws needed for economic reform and, at the urging of the international financial institutions, the current government is moving quickly to get implementing legislation through Parliament. Privatization has not yet started, but some cooperatives, "commercial" stores, and joint stock companies have been formed. There is majority popular support for new legislation that will privatize some industry and retail trade.

Economic indicators illustrate some of the challenges facing Moldova. It is estimated that overall economic activity declined by nearly 12 percent in 1991 and even mmore in 1992. Agricultural production, which accounts for about 40 percent of net material product, declined by 15 percent.

From 1980 to 1990 the state budget of Moldova ran a surplus. In 1991, despite weaker-than-expected economic performance, increased expenditures for social benefits, and the loss of revenues from the Trans-Dniester region which has resisted government authority, official figures show that the budget still ran a surplus. Projections are that 1992 will see a budget deficit of more than 13 percent of GDP. According to official statistics, the deficit will be 22 percent of government spending, or 16 billion rubles. Government consumer subsidies, social transfers including education and child benefits, and the government's involvement in production place a considerable strain on the budget.

The National Bank of Moldova was created on June 11, 1991. By statute it is subordinate to Parliament and has an extensive set of monetary policy instruments. However, continued membership in the ruble zone and a lack of experience in the formulation and implementation of monetary policy hamper its capacity to exercise effective monetary control. Monetary conditions in Moldova appear to have been tight in 1991, with real domestic credit declining. Moldova has made a decision in principle to introduce a national currency, but this decision has not yet been implemented. However, Moldovan coupons are in circulation and some goods may be purchased internally only with coupons.

Moldova joined the IMF, World Bank and European Bank for Reconstruction and Development in 1992. The IMF may provide financing for critical grain imports in January 1993. The World Bank anticipates lending about $140 million in the next year or two to Moldova. These loans will assist with such things as essential imports, institution building and agriculture policy reform.

Moldova was granted GATT observer status in June, 1992.

MOLDOVA

2. Exchange Rate Policy

Moldova is part of the ruble zone and as such is largely dependent upon Russian monetary and exchange rate policies. Following unification of the exchange rate in Russia, Moldova unified the exchange rate (at a market rate) for the ruble in September 1992. However, in November, prompted by fears that the assets of Moldova could be bought too cheaply and easily by holders of hard currency, the government announced that it would institute a special, less favorable, investor conversion rate. Because of a shortage of foreign exchange, rubles cannot be converted back into dollars in Moldova and businesses are required to sell 35 percent of hard currency earnings back to the central bank.

There are no hard currency auctions in Moldova. Firms can in theory transfer rubles to Moscow to be converted to dollars there at the hard currency auctions. However, there are no automatic bank clearing facilities in place, and transferring rubles to Moscow can take two months. During that time, the rubles transferred can lose much of their value due to inflation.

3. Structural Policies

Prices on most goods were liberalized in January 1992. Government price controls remain in place on a small basket of essential food items when sold in state stores. These items include bread, eggs, sausage, sugar, and milk. Some other goods produced by state factories also continue to be sold at government-set prices. Prices for competing goods are freely set by the market, however. Moldovans have found imports from the United States to be very competitive because they are a better value than similar European products. Moldovans also prefer to import non-U.S. made goods from the United States; such goods are more easily obtainable in the United States where the variety and supply is unmatched.

Tax policies are burdensome and create production disincentives. Effective profit tax rates can exceed 100 percent under some circumstances.

4. Debt Management Policies

Moldova accepted joint and several liability for the debt of the Soviet Union and has agreed to let Russia manage the external debt and assets of the FSU on its behalf. As provided in an interrepublic agreement, Moldova's share of the FSU external debt and assets is 1.29 percent. It may decide to take up Russia's offer to assume this debt liability in exchange for Moldova renouncing any claim to the assets of the former Soviet Union. Moldova has not obtained many new loans, with the exception of a 27 million ECU credit from the EC.

Estimated foreign exchange reserves are one million U.S. dollars.

MOLDOVA

5. Significant Barriers to U.S. Exports

The most significant barrier to U.S. exports is a shortage of hard currency for which to pay for them. Moldova has few products that can be competitive on Western markets, and in the near term much of its trade will remain oriented toward the other former Soviet republics. Moldova has not yet implemented a privatization program, and land cannot yet be privately owned.

Investment barriers exist in the territory on the left bank of the Dniester River, which is not under the effective control of the Moldovan Government. Separatist leaders in that area restrict access to existing enterprises, and require the enterprises to clear contacts with Westerners through the separatist leaders. The U.S. Embassy is not able to offer normal business facilitation services in this area of Moldova.

Customs procedures are not necessarily restrictive, but land routes into Moldova are clogged because border station personnel spend so much time using inefficient and irrelevant processing methods. Trucks can be forced to wait at border entry points for up to three days. The legal status of services barriers is unclear, but Moldova apparently prohibits branches of foreign banks in Moldova. Moldova is unable to transfer dollar receipts for any travel or ticketing services out of the country so no local vendors are authorized to sell tickets on behalf of western firms.

To normalize its trade and investment relations with Moldova, the United States has proposed a new network of bilateral economic agreements. The U.S.-Moldova trade agreement, which provides reciprocal Most Favored Nation status, was signed and entered into force in July 1992.

A draft U.S.-Moldova bilateral investment treaty, which would establish a bilateral legal framework to stimulate investment, is under active consideration by the Moldovan government. A U.S.-proposed draft bilateral tax treaty, which would provide U.S. businesses relief from double taxation of income is also being considered by Moldova. An Overseas Private Investment Corporation (OPIC) incentive agreement, which allows OPIC to offer political risk insurance and other programs to U.S. investors in Moldova, was also concluded in 1992.

6. Export Subsidies Policies

One of the legacies of a centrally-planned economy is government subsidies to state-owned industries, but subsidies are aimed at maintaining production and employment rather than specifically targetted at supporting exports. Energy in Moldova is sold to all consumers at below world market prices, but that is largely a reflection of the fact that Moldova has traditionally received its energy from the former Soviet Union at below world market prices.

7. Protection of U.S. Intellectual Property

Laws on intellectual property rights are those of the former Soviet Union, which commit Moldova to some protection of intellectual property. Enforcement is poor because Moldova never had its own enforcement capability.

Moldova is not party to any international agreements dealing with protection of intellectual property. The U.S.-Moldova trade agreement includes commitments on protection of intellectual property.

8. Worker Rights

a. Right of Association

The 1990 Soviet law on trade unions, which was endorsed by Moldova's then Supreme Soviet and is still in effect, provides for independent trade unions. Moldovan parliamentary decisions in 1989 and 1991, which give citizens the right to form all kinds of social organizations, also provide a legal basis for the formation of independent unions. However, there have been no known attempts to form alternative trade union structures independent of the successor to the previously existing official organizations which were part of the Soviet trade union system.

The old trade union federation continues to play a role in managing the state insurance system and retains its property which gives it an inherent advantage over any newcomers who might wish to form a union outside its structure. However, its industrial, or branch, unions enjoy considerably more independence than they did in the past.

The union federation has sought to influence government policy in labor issues and has been critical of a number of government decisions, especially economic policies connected to the steep increase in prices. Union representatives now sit on a joint commission with government representatives to examine wage issues.

Unions may affiliate and maintain contacts with international organizations. Some unionists have participated in conferences and other activities with Romanian unions, but have not established formal affiliations. Moldova was admitted to the International Labor Organization in June.

b. The Right to Organize and Bargain Collectively

Moldovan labor law, which is still based on former Soviet legislation, provides for collective bargaining rights, but collective bargaining is just beginning in practice. There were no reports of actions taken against union members for their union activities. The 1990 Soviet law on trade unions provides that union leaders may not be fired from their jobs while in leadership positions or for a specific period of years after they leave those positions. Government workers do not have the right to strike, nor do those in essential services such as health care and energy. Other unions may strike if two-thirds of their members vote for a strike in a secret ballot.

There are no export processing zones.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is not specifically prohibited, but there were no such cases reported.

d. Minimum Age for Employment of Children

The minimum age for employment under unrestricted conditions is 18. Employment of those aged 16 to 18 is permitted under special conditions, including shorter workdays, no night shifts, and longer vacations. The Ministry of Labor and Social Protection is primarily responsible for enforcing these restrictions, and the Ministry of Health also has a role. While enforcement capacity is questionable, child labor is not considered a problem in the cities. In the countryside, parents use children to work, e.g., tending livestock and helping with farming.

e. Acceptable Conditions of Work

The minimum wage, supposedly linked to the inflation rate, did not keep pace with inflation in 1992. The Labor Code sets a standard workweek of 41 hours, including at least 1 day off weekly.

The State is required to set and check safety standards in the workplace. The unions also have inspection personnel who have a right to stop work in the factory or fine the enterprise if safety standards are not met. In practice, however, the declining economic situation has led enterprises to economize on safety equipment and generally to show less concern for worker safety issues.

f. Rights in Sectors with U.S. Investment

There is currently no significant U.S. direct investment in Moldova.

THE NETHERLANDS

Key Economic Indicators

(Millions of Guilders Unless Otherwise Noted)

INCOME, PRODUCTION, AND EMPLOYMENT	1990	1991	1992 1/
Real GDP (1980 prices) 2/	402,470	410,450	415,375
Real GDP growth rate (Pct)	3.8	2.0	1.2
GDP (current prices) 2/	508,320	535,150	555,350
By sector 3/:			
Agriculture	19,989	20,740	21,570
Energy and Water	8,537	9,050	9,412
Manufacturing	109,183	114,989	119,589
Construction	27,963	28,881	30,036
Rents	45,065	48,038	49,960
Financial Services	23,072	24,651	25,637
Other Services	241,082	255,956	266,941
Government, Health And Education	54,590	56,560	58,822
Net Exports of Goods And Services	25,780	31,650	32,950
Real Per Capita GDP	27,011	27,363	27,692
Size of Labor Force (000's)	6,992	7,133	7,208
Unemployment rate (Pct.)	4.9	4.5	4.2
MONEY AND PRICES (Annual percentage growth)			
Money Supply (M2)	8.1	4.6	6.6
Base Interest Rate 4/	9.0	8.8	8.5
Personal Savings Rate	37.7	38.3	39.4
Retail Inflation	7.3	2.0	2.4
Wholesale Inflation	-0.6	0.5	-0.3
Consumer Price Index	103.7	107.7	111.7
Exchange Rate(guilders/USD) Official	1.82	1.87	1.75
BALANCE OF PAYMENTS AND TRADE			
Total Exports (FOB) 5/	238,841	249,049	253,100
Exports to U.S.	9,563	9,569	11,324
Imports (CIF) 5/	228,631	234,968	235,550
Imports from U.S.	18,046	18,350	21,896
Aid from U.S.	0	0	0
Aid from other countries	0	0	0
External Public Debt	0	0	0
Debt Service Payments (Paid)	20,913	26,485	26,254
Gold and Foreign Exchange Reserves	54,934	55,554	55,971
Trade Balance 5/	10,210	14,081	17,550
Balance With U.S.	-8,483	-8,781	-10,572

1/ estimates for 1992 are based on six-month data
2/ GDP at market prices
3/ GDP at factor costs
4/ actual average annual interest rate
5/ merchandise trade

THE NETHERLANDS

1. General Policy Framework

The Netherlands enjoys one of the most prosperous economies in Europe. The foreign trade oriented Dutch economy derives its strength from: demand for Dutch exports, especially from its major trading partner Germany; its natural gas deposits, which make the Netherlands a net energy exporter; a highly skilled workforce; Dutch specialization in recession-resistant sectors such as food, flowers, and services; and a large external income account surplus from its major overseas investments. Also, an excellent transport infrastructure coupled with The Netherlands' geographic location has made it a major European transportation hub with the world's largest port, Rotterdam, and a prime production site and distribution center for foreign firms seeking access to the European market.

Maintaining employment and the competitiveness of its economy is a prime tenet of Dutch economic policy. Heavy government investment in infrastructure and education has been a constant, as are subsidies for research and development of cutting edge technologies. Aggressive and innovative export credit financing is fostered and adequately funded. EC programs supplement Dutch development policy. The government has succeeded in keeping Dutch labor costs relatively low through an elaborate process of consultation between the "social partners" consisting of government, labor and employers.

The government maintains a restrictive incomes and forced savings policy which depresses domestic spending and maintains a high level of investment. The OECD regularly criticizes The Netherlands in its annual reports for its restrictive incomes policy which leads to an excessive current account surplus. Harmony in labor relations is aided by means of generous unemployment, disability, and sickness benefits for labor. Management utilizes the same programs to get rid of unwanted workers at minimal cost to the enterprise.

As one would expect from one of the world's premier overseas investor and trading nations with a small domestic market of its own, The Netherlands' trade and investment policy is among the most open in the world. Nevertheless, the state dominates the energy sector; and there is a a significant state role in transport, chemicals, aviation, telecommunications, and steel. While the government has reduced its role in the economy since the early eighties, there is some discussion at present about a renewed need for an industrial policy.

Dutch fiscal policy remains restrictive in order to reduce an excessive budget deficit, brought on by runaway spending on social welfare programs begun in the gas boom of the seventies and early eighties. Budget deficit reduction constitutes the main plank of the present economic program of the present ruling coalition government, which is sworn to reduce the deficit to three and a quarter percent of net national income by 1994. However, there are some signs that the current economic slowdown may cause the government to relax its target for 1993. The deficit is largely funded by government bonds.

The government has been successful so far in meeting its interim budget reduction targets by imposing structural reductions in government programs and agencies, with stiff taxes (which remain among the highest in Europe, despite a one percent VAT decrease in 1992), and the sale of state holdings in industry through privatization. The current focus of deficit reduction concern is an expensive worker disability program covering about 900,000 ostensibly sick or disabled workers. This amounts to 86 sick, disabled, or unemployed workers for every 100 currently working.

Dutch monetary policy has been kept closely in line with the German Bundesbank since The Netherlands joined the European Exchange Rate Mechanism in 1979. The Dutch Central Bank takes whatever steps necessary to keep the value of the guilder very firmly pegged to the German mark (within a one percent band), usually through strictly following adjustments in short term interest rates and varying the terms of the commercial bank access to central bank financing. The money supply is also manipulated through cash reserve requirements for commercial banks and open market operations.

2. Exchange Rate Policies

Since the introduction of the European Monetary System (EMS) in 1979, The Netherlands Central Bank (NB) has geared its monetary policy towards maintaining the stability of the exchange rate of the guilder vis-a-vis the German mark and the use of interest rate policy to maintain this link. This has made the guilder one of the strongest currencies in Europe. The NB exerts control over money market rates by adjusting short-term interest rates and by varying the terms of the banking community's access to NB financing. The NB's open market policy provides the bank with a tool to give the market signals indicating in which way it wants the market to develop. For this purpose the NB uses a three billion guilder portfolio of treasury issues from which it can sell or buy.

Given the importance of maintaining the competitiveness of Dutch exports to Germany, the NB's peg to the German mark is expected to remain unchanged. The strong position of the guilder vis-a-vis other currencies in the EMS and the dollar is expected to have a positive impact on Dutch imports from the U.S. There are no multiple exchange rate mechanisms.

While residents of The Netherlands must obtain an exchange license for certain large international financial transactions, in practice these licenses are granted routinely and there is thus no exchange control.

3. Structural Policies

Almost all purchasing decisions are made on the basis of nondiscriminatory commercial criteria. Most government procurement is generally open and transparent and in compliance with the EC Procurement Directive and the GATT Government Procurement Code. The Netherlands Government

Purchasing Office has recently been privatized. This change has not produced any evidence of adverse effects on the procurement success level for U.S. firms without operations inside the EC.

The Netherlands has no discriminatory export or import policies with the exception of those resulting from its membership in the European Community. In this regard, the EC Utilities Directive is one example which could be of concern because of its provisions mandating preferences for bids with a high EC content in the telecommunications and energy sectors, including the large market for goods and services to the Dutch oil and gas sector.

Investment incentives have been a well publicized tool of Dutch economic policy and are used to facilitate economic restructuring and to promote energy conservation, regional development, environmental protection, and other national socioeconomic goals. Subsidies and incentives are available to foreign and domestic firms alike and are spelled out in detailed regulations. Subsidies are in the form of tax credits which are usually disbursed through corporate tax rebates, or direct cash payments in the event of no tax liability.

The Investment Premium Regulation (IPR), the only major investment incentive still available to investors, seeks to encourage investments in parts of the country with a high unemployment rate by giving an investment subsidy for new investments (industrial buildings and fixed assets). The IPR subsidy applies to investments, of which at least 25 percent is investment of the investors' own capital.

4. Debt Management Policies

With a strong external balance (a current account surplus of more than four percent in 1992) and no external debt (all public debt is raised on the local capital market), The Netherlands is a major creditor nation. However, since the early eighties, the overall public debt (EMU definition) has risen sharply to exceed 63 percent of GDP in 1991. Debt servicing and debt rollover have risen in step to exceed nine percent of GDP. All of the government's financing needs (budget deficit and debt servicing) are covered on the Dutch domestic capital market. The Dutch encounter no difficulties in tapping the domestic capital market for loans. Government bond issues are usually oversubscribed, and public financing requirements have recently been met long before the end of a fiscal year. Since the late eighties, the Dutch have come a long way in improving their fiscal balance. 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

Dutch merchandise and services exports have grown to represent more than 60 percent of GNP. This places the Dutch economy among the most internationally oriented in the world. The Netherlands is the eighth largest U.S. export market, as

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well as the one with which the United States has its largest bilateral trade surplus, close to nine billion dollars in 1991, with a four percent gain over 1990 in total U.S. exports to The Netherlands. 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 1991 remained unchanged from 1990, at close to 64 billion dollars, while U.S. direct investment in The Netherlands grew to about 25 billion dollars, an increase of nine percent over 1990.

Most trade barriers that do exist result from common EC policies. Some areas of concern for U.S. exporters to The Netherlands are:

Offsets for defense sector contracts: The Ministry of Defense has established a policy that requires all foreign contractors to provide full offset/compensation as a condition for sale for defense procurements exceeding five million Dutch guilders. Under this offset requirement, the seller must arrange for the purchase of Dutch goods or permit The Netherlands to produce in country certain components or subsystems of a weapon system it is buying from a U.S. (or other foreign) supplier.

Broadcasting and Media Legislation: Amendments to the Dutch Media Act took effect July 8, 1992 which liberalized the law by admitting for the first time local and foreign commercial broadcasting stations into the Dutch cable network. The EC Broadcasting Directive became effective in The Netherlands in October 1991. Article six of the EC directive requires that 50 percent of program content be of EC origin. Programming of U.S. origin has proven to be highly popular in The Netherlands.

In 1991 the EC criticized the cartel situation existing in The Netherlands and has recently fined 28 Dutch building associations and their federation for operating a price fixing cartel. The cartel covers contracts awarded since 1980. Cartel practices include price fixing both by product area and from distributer to retailer, as well as restrictions against new market entrants, restrictions on sales territories and sales quotas. Cartel agreements are often legal agreements registered with the government that are enforceable in court. The Dutch Government has taken measures to reduce cartel activities and announced its intention to eventually ban all cartels. Cartels are not necessarily limited to Dutch companies. Nevertheless, cartels pose a potential threat to foreign commercial entities seeking to do business in The Netherlands. However, the U.S. Embassy is not aware of any complaints by U.S. businesses of having been negatively affected by the cartel situation in The Netherlands.

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 companies with major activities in research from investing in The Netherlands.

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6. Export Subsidies Policies

The Netherlands practices almost no preferential or discriminatory export or import policies with the exception of those which result from its membership in the European Community. The EC is a signatory to the GATT Subsidies Code. Hence, The Netherlands is subject to the provisions of this code.

Under the export matching facility, the Dutch Government provides interest subsidies for Dutch export contracts competing with government subsidized export transactions in third countries. Subsidies under the "Matching Fund" seek to bridge the interest cost gap between a Dutch and foreign export contract which has benefited from foreign interest subsidies. Under the Dutch scheme, the government provides up to 10 million guilders of interest subsidies per export contract up to a maximum of 35 percent per export transaction. To qualify, the export transaction must have a Dutch content of at least 60 percent. For defense, aircraft, and construction transactions, the minimum Dutch content is one third of the export portion of a contract.

The Dutch have a local content requirement of 70 percent for exporters seeking to insure their export transactions through The Netherlands Export Insurance Company (NCM).

In the aerospace industry, the Dutch government has supported Fokker, the Dutch aircraft manufacturer, with loans and loan guarantees as well as with direct support for developmental programs. The recently concluded Deutsche Aerospace (DASA) purchase of a majority interest in Fokker, should allow the Dutch Government (which had owned 31.8 percent of the company) to reduce its support of Fokker.

7. Protection of U.S. Intellectual Property

The Netherlands has a generally good record on IPR protection, with the exception noted below. It 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 through a Dutch patent lawyer within one year of the original filing date. Patents are valid for 20 years. Legal procedures exist for compulsory licensing if the patent is determined to be inadequately used after a period of three years, but these procedures have rarely been invoked. Since The Netherlands and the United States are both parties to the Patent Cooperation Treaty (PCT) of 1970, patent rights in The Netherlands may be obtained if PCT application is used.

The Netherlands is a signatory of the European Patent Convention, which provides for a centralized patent protection system. This convention has simplified the process for obtaining patent protection in the member states. Infringement proceedings remain within the jurisdiction of the national courts.

The enforcement of antipiracy 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. The Netherlands is a member if the Brene and Universal Copyright Conventions, and, as a member of the EC, is obliged to conform to EC law and practice in protecting intellectual property rights. Legislation is slated for enactment by the end of 1992 which will explicitly include computer software as intellectual property under Dutch copyright statutes.

8. Worker Rights

a. Right of Association

The right of Dutch workers to associate freely is well established. One quarter 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. They maintain relations with recognized international bodies and form domestic federations. All union members, except most civil servants, have the legal right to strike. Even Dutch military personnel are free to join unions. Measures are pending which would grant the right to strike to civil servants not involved in activities essential to life; meanwhile, disputes involving this sector are subject to arbitration.

b. Right to Organize and Bargain Collectively

The right to organize and bargain collectively is recognized and well established. There are no union shop requirements. Discrimination against union membership does not exist. Dutch society has developed a social partnership among government, private employers, and trade unions. This tripartite system involves all three participants in negotiating guidelines for collective bargaining agreements which cover about 75 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

Child labor laws exist and are enforced. The minimum age for employment of young people is 16. Even at that age, youths may work full time only if they have completed the mandatory 10 years of schooling and only after obtaining a work permit (except for newspaper delivery). Those still in school at age 16 may not work more than eight hours per week. Laws prohibit youths under the age of 18 from working at night, overtime, or in areas which could be dangerous to their physical or mental development. In order to promote the employment of young people, The Netherlands has a reduced minimum wage for employees between ages 16 and 23.

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e. Acceptable Conditions of Work

Dutch law and practice adequately protect the safety and health of workers. There is no legally mandated workweek; it is set by collective bargaining. The average workweek for adults is 38 hours. The legally mandated minimum wage is subject to semiannual 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.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		1,822
Total Manufacturing		7,715
Food & Kindred Products	530	
Chemicals and Allied Products	2,273	
Metals, Primary & Fabricated	(D)	
Machinery, except Electrical	986	
Electric & Electronic Equipment	(D)	
Transportation Equipment	(D)	
Other Manufacturing	1,963	
Wholesale Trade		1,560
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		11,097

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

Source: U.S. Department of Commerce, Survey of Current Business, November 1992, Vol. 72, No. 8, Table 11.3

NORWAY

Key Economic Indicators

(Millions of Norwegian krone (NOK) unless otherwise noted)

Income, Production, and Employment	1990	1991	1992e
Real GDP (1990 Prices)	661,663	673,978	690,153
Real GDP Growth (Pct)	1.8	1.9	2.4
Current GDP	661,663	686,730	697,600
- By Sector (1990 Prices):			
- Agriculture & Fish.	19,306	18,699	19,000
- Oil, Gas, & Shipping	113,568	133,428	134,362
- Manufacturing	90,588	89,718	89,800
- Construction	27,568	26,652	25,952
- Other Sectors	410,635	405,478	421,039
-			
Real GDP Per Capita -(1990 Prices)	156,053	158,210	161,660
Labor Force (Millions)	2.14	2.13	2.13
Avg. Unemployment Rate	5.2	5.5	6.2
Money & Prices			
Money Supply (M2; EOP)	460,897	509,813	520,009
Loan Int. Rate (EOP)1/	11.36	10.77	12.50
Savings Rate 2/	11.3	11.2	12.0
Investment Rate 3/	18.8	18.4	17.9
CPI (1979=100)	231.2	239.1	245.1
WPI (1981=100)	157.8	161.7	162.3
Avg. Exch. Rate (NOK/USD)	6.26	6.48	6.00
Balance of Payments & Trade			
Merch. Exports (FOB)	215,464	223,236	217,200
Exports to U.S. 4/	13,474	10,275	11,000
Merch. Imports (CIF)	171,732	170,153	168,800
Imports from U.S. 4/	14,952	12,857	13,300
Current Account Balance	23,269	32,403	15,900
International Res. (EOP)	92,326	80,412	85,000
Aid from U.S.	0	0	0
Aid from other Countries	0	0	0
Net External Debt 5/	91,600	64,000	35,000
Central Govt. Debt/6	16,863	19,242	45,000
Debt Servicing 7/	72,594	72,422	54,000

E/ Estimate
1/ 1-Month NIBOR.
2/ National Saving/National Disposable Income.
3/ Gross Fixed Investment/GDP.
4/ Norwegian Foreign Trade Statistics.
5/ End-Year Foreign Liabilities Minus Foreign Assets.
6/ Foreign Liabilities
7/ Total Interest & Principal Paid On Long-Term Foreign Liabilities of Private and Public Sector.

NORWAY

1. General Policy Framework

Oil, gas, and hydroelectric energy dominate Norway's resource base, with no major changes expected in the next two decades. On the Norwegian continental shelf, 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.

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 and protection from internal competition. 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 have negotiated an economic cooperation agreement with the EC under the framework of the European Economic Area (EEA). The Norwegian Government submitted an application for EC membership on November 25, 1992. Meanwhile, opinion polls continue to suggest that Norwegians are deeply divided over the issue.

Norway has opted for an egalitarian welfare state which redistributes national income through taxes and subsidies. State intervention in the economy is significant. The two dominant industrial groups--Statoil and Norsk Hydro--are state controlled. Moreover, restrictions remain on foreign ownership of Norwegian industry, including financial institutions. Looking ahead, the EEA accord requires that Norway grant national treatment to EEA member states. Policies vis-a-vis countries outside the EEA will likely continue to be governed by reciprocity, and by bilateral or multilateral agreement.

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, and the subsequent recession prompted stimulatory fiscal policy. Despite the rebound in world oil prices, the budget deficit increased significantly between 1986 and 1992.

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

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industry. The government 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 strives to maintain a stable exchange rate. Norway is not a member of the European Monetary System but in 1990 the Norwegian Krone (NOK) was pegged to the European Currency Unit (ECU). 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. 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.

On December 10th, the Norwegian Central Bank let the krone float. Most experts expect the krone to lose 5-15 percent of its pre-float value.

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 revised legal framework for the functioning of the financial system was adopted in 1988, strengthening competitive forces in the market and bringing capital adequacy ratios more in line with those abroad. 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. Modest progress has been made in reducing subsidies to Norwegian industry but there remains much room for further reductions of market distortions in the farm sector and elsewhere.

Norwegian agriculture remains heavily protected by

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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 GON 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. Progress will be slow for political reasons.

4. Debt Management Policies

Norway has embraced a cautious foreign debt policy to limit the state's exposure in foreign markets. In mid-1992, the external debt of the government stood at less than NOK 45 billion ($7.5 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 an 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.

The U.S. won a GATT panel determination showing that Norway had acted in a manner inconsistent with its GATT obligations in discriminating against a U.S. company in the procurement of an electronic toll ring system around the West Coast town of Trondheim. The U.S. won a similar GATT case in 1990 involving a toll ring around Oslo.

The U.S. would like Norway to liberalize its procedures for regulating telecommunications terminal equipment. The Norwegian Telecommunications Regulatory Authority (an independent regulatory body 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, and is actually further along the liberalization road than many EC member states.

NORWAY

Foreign financial institutions face a number of significant barriers. There is a limit of 25 percent foreign ownership in securities firms and collective investment management companies. Foreign banks may not establish branches. Establishment of foreign bank subsidiaries is subject to non-prudential authorization requirements that may impose reciprocity. Stated policy is to not allow foreign acquisition of one of the major banks. Purchases of foreign securities must be through Norwegian banks.

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, although some heavily subsidized products may be exported. Dairy 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.

Product patents for pharmaceuticals became available in Norway in January 1992. Previously, only process patent protection was provided to pharmaceuticals.

8. Worker Rights

a. 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. Right to Organize and Bargain Collectively

All workers, including government employees and the military, have the right to organize and to bargain collectively. Labor legislation and practice is uniform throughout Norway.

c. Prohibition of Forced or Compulsory Labor

Forced labor is prohibited by law and does not exist.

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d. Minimum Age for Employment of Children

Children are not permitted to work full time before age 15. Minimum age rules are observed in practice.

e. Acceptable Conditions of Work

Ordinary working hours do not exceed 37.5 hours per week, and 25 working days of paid leave are granted per year (31 for those over 60). There is no minimum wage in Norway, but wages normally fall within a national wage scale negotiated by labor, employers, and the government. The Workers' Protection and Working Environment Act of 1977 assures all workers safe and physically acceptable working conditions.

f. Rights in Sectors with U.S. Investment

Norway has a tradition of protecting worker rights in all industries, and sectors where there is heavy U.S. investment are no exception.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		3,638
Total Manufacturing		104
Food & Kindred Products	2	
Chemicals and Allied Products	(D)	
Metals, Primary & Fabricated	2	
Machinery, except Electrical	38	
Electric & Electronic Equipment	(D)	
Transportation Equipment	0	
Other Manufacturing	30	
Wholesale Trade		339
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		4,081

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

Source: U.S. Department of Commerce, Survey of Current Business, November 1992, Vol. 72, No. 8, Table 11.3

POLAND

Key Economic Indicators

(billions of zlotys unless otherwise noted)

	1990	1991	1992 estimate
Income, Production and Employment			
Gross Domestic Product (GDP) (current zlotys)	606,700	824,329	1,183,324
Real GDP growth rate (pct)	(11.6)	(7)	(1)
GDP by sector (pct)			
Industry	36.2	40.2	n/a
Agriculture	13.8	6.2	n/a
Construction	9.3	10.2	n/a
Transportation/ Communications	4.2	5.6	n/a
Trade	16.5	13.1	n/a
GDP per capita (000s zlotys)	15,920	21,554	30,844
Labor force (millions)	17.9	18.3	18.4
Unemployment rate (percent)	6.1	11.8	14.7
Money and Prices			
Money supply (M2) (trillion zlotys, at year's end)	189.1	272.7	400
Central bank discount rate (pct)	1/	1/	39
Investment rate (pct of GDP)	19.6	14.9	n/a
Savings rate 2/	6.8	10.4	n/a
Consumer Price Index (previous year equals 100)	685	170	156
Wholesale Price Index (previous year equals 100)	722	148	137
Official exchange rate (zlotys per dollar, average for year)	9,500	10,559	13,011
Official exchange rate (end of year)	9,500	11,072	14,950
Parallel exchange rate (end of year)	9,570	10,731	14,875
Balance of Payments and Trade (millions USD)			
Total exports FOB	15,503	14,936	16,000
Exports to US 6/	371	351	n/a
Total imports CIF	9,230	15,556	15,900
Imports from US 6/	133	441	n/a
External public debt (NLO) 3/	49,000	46,500	n/a

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Annual debt service ratio (percent of exports)			
Interest and principal due	56	42	n/a
Payments made	6	3	n/a
Foreign exchange reserves (year end) (billion USD) 4/	4.9	3.8	4.4 5/
Current account, hard currency area (billion USD)	.7	(1.4)	.24 5/

1/ 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. Because of the success of Poland's anti-inflationary policies, the discount rate has been more stable in 1992.

2/ 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 6.3 billion dollars at the end of 1990, 5.7 billion dollars at the end of 1991, and 6.1 billion dollars at the end of September 1992.

3/ The lower external debt in 1991 resulted from changes of dollar exchange rate and the reduction of Poland's debt following agreements with the United States, the Netherlands, and Finland.

4/ 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 USD.

5/ End-September 1992.
6/ Polish statistics do not match U.S. statistics

1. General Policy Framework

Nineteen ninety two was a year of some progress and signs of hope for the Polish economy. After two years of steep decline, the economy nearly leveled off in 1992. Absent the worst drought, GDP would probably have been flat. The strongest sector, leading the recovery, has been industrial production, which was actually up slightly over 1991. Since early in the year, evidence of a substantial trade surplus argued for a weak, recession-plagued local market, with exports leading manufacturing out of the slump. New figures

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showing a substantial trade deficit in the first quarter, however, indicate the reverse: surprising strength in the domestic market in spite of the recession, demanding both imported and domestic goods.

The Polish Government continues to push ahead with its reform program. The program aims at restoring equilibrium by bringing the budget into long term balance, controlling inflation, privatizing state industries, and building the institutions of a free market economy.

Over the last year, the initial emphasis on stabilization has been increasingly challenged as the continuing recession has driven up unemployment to levels unimaginable under the Communists and driven down Polish living standards. A succession of weak coalition governments have been able to move only slowly on privatization and many other reforms, but have by and large stuck to their guns on monetary policy and inflation fighting. Inflation has fallen every year.

The fiscal deficit appears to be a long term problem for the Polish Government. After persuading the IMF to accept 1992 deficit targets of ZL 65 trillion (5 percent of GDP), it appears Poland will actually run a deficit in 1992 of ZL 80-90 trillion (7-8 percent of GDP). With increasing pressure for the government to assist the unemployed and others hardest hit by the recession, and a weak tax collection system unable to fully enforce taxes, it appears the deficit will be a chronic problem. The deficit target for FY93, however, is again on the order of five percent of GDP.

Monetary and credit restraint aimed at controlling inflation and making the market allocate credit efficiently has made positive real interest rates the rule for the last three years. Credit policy has become increasingly contentious as businesses argue that interest rates are too high, thereby building in inflationary expectations and stifling business growth. Banks, on the other hand, argue that present interest rates are justified by the high commercial default risk and large government borrowing to finance the budget deficit.

The government is in the process of negotiating with labor unions a pact on state enterprises designed to accelerate privatization of state enterprises while protecting the interests of their workers.

Growth of wages in the state enterprises continues to be modulated to a rate below that of consumer price inflation by means of a tax on excessive increases. As part of its proposed pact on state enterprises, the government has proposed replacing the tax with socially responsible collective bargaining.

Polish trade policy has undergone a number of rapid changes since 1990. In 1990, Poland established a trade regime which could be described as "the most open in Europe". After the establishment of internal convertibility of the zloty in January 1990 imports grew rapidly, stimulating the growth of a dynamic private trading sector. In mid-1990 the government suspended (completely or partially) tariffs on the majority of Polish imports as both an anti-inflationary and anti-monopoly policy tool.

While suspended tariffs helped lower inflation and provided competition for domestic monopolies, they also fueled even more rapid growth of imports. With state enterprises already battered by the recession and the loss of the Soviet market, this led to rising pressures for protection. After a series of stopgap measures in the first half of 1991, on August 1, 1991 the Polish Government adopted on three days' notice a new tariff schedule with an average duty of 14 percent, although suspensions on some goods continued. Tariffs were increased further in January, 1992 when tariffs were raised on consumer luxuries (tobacco products, electronics, computers, and automobiles).

The most important development in Polish trade policy in early 1992 was the implementation of the Interim Agreement of Poland's Association Agreement with the EC. This is the first step toward eventual membership in the EC. Although the Association Agreement has not been ratified, its trade provisions were brought into effect by the Interim Agreement on March 1, 1992. This agreement gives both Poland and the EC preferential access to each other's markets.

The agreement with the EC has done nothing to reduce protectionist pressures inside Poland. In fact, it probably helped galvanize sectoral representatives who felt sold out by the concessions given to the EC into organizing more effective lobbying of the government. There is increasing interest in protecting agriculture and infant industries. To this end the government has proposed both a variable levy on a range of agricultural goods and is considering applying sharply higher duties on telecommunications equipment under the "infant industry" argument, even applying the latter to the EC.

2. Exchange Rate Policy

The zloty has been internally convertible for all current transactions (merchandise and services) since January 1, 1990. Since October 1991 the National Bank of Poland (the central bank) has managed the exchange rate through a crawling peg mechanism. This is intended to devalue the zloty by small, daily increments (currently 9 zloties a day) to offset domestic inflation and keep Polish exports competitive. The exchange rate is set against a basket of reserve currencies, currently the dollar (45 percent), the D-mark (35 percent), sterling (10 percent), the French franc (5 percent), and the Swiss franc (5 percent). Zloty rates against individual currencies in the basket fluctuate in accordance with changes in cross rates.

Capital transactions remain controlled. A license from the National Bank is required to grant or receive foreign credits.

3. Structural Policies

Prices: Almost all subsidies and controls on the prices

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of consumer goods have been eliminated. Subsidies remain on a few items, including pesticides and fertilizers. Prices of fuel, public transportation, and rents for government and state enterprise owned housing (the bulk of the rental housing stock) are set administratively. Housing rents are set well below the cost of maintaining the buildings. The government has an anti-monopoly policy to prevent domestic producers from taking unfair advantage of their monopoly positions in the Polish market.

Taxes: The largest source of government revenue is a corporate income tax which taxes all corporate enterprises at 40 percent. A progressive personal income tax was introduced in January, 1992. Also important is the turnover tax, a tax on the gross receipts of enterprises. This is supposed to be replaced with a value added tax (VAT) in mid 1993. The VAT will be imposed on imports but not on exports.

Regulatory policies: Poland has eliminated the former state monopoly on foreign trade. The foreign trade organizations which conducted all trade under the Communists now compete with private traders. Any person or firm registered as a business may engage in foreign trade. This has put severe pressure on Poland's outmoded customs service.

No restrictions are imposed on foreign trade, except on items in strategic areas. All quantitative restrictions on imports purchased with convertible currency were eliminated on January 1, 1990. Import licenses are required only for radioactive materials and military goods, fuel, hard liquor, and cigarettes. Imports of some high proof spirits and cars over 10 years old are banned.

Export licenses are required for products in the following areas:

- petroleum products: petroleum fuels for engines (other than aircraft); fuel for self ignition engines; fuel oil;
- metals: non-ferrous scrap; lead; and aluminum;
- soil products: nitrogenous fertilizers; peat and peat products; phosphatic fertilizers; and potassic fertilizers;
- plastics: polyethelene; polypropelene; and copolymer ethelene propelene;
- polyvinyl chloride;
- synthetic rubber and synthetic fiber;
- chipboards; wood cellulose; and waste paper; and
- preserved and half-tanned hides;

In addition, the Polish Government has banned the export of feed ingredients until March 31, 1993 because of shortages caused by the 1992 drought. It is also necessary to obtain government authorization for the export of grain, rapeseed, meat meal, and sugarbeet pulp.

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The law does not distinguish between foreign and domestic investors for purposes of foreign trade.

4. Debt Management Policies

Poland is a heavily indebted country. Its hard currency debt was about $43 billion at the end of March, 1992: $31.5 billion in official debt and $11.3 billion owed to commercial banks. The official debt service is to be reduced by a minimum of 50 percent (calculated according to present value) through a two-stage process worked out by Poland's Paris Club creditors in March, 1991. Debt relief of 30 percent is provided during 1991-1994; and an additional 20 percent is ~~available after 1994, contingent upon Poland's remaining in~~ compliance with an IMF agreement. Creditor countries do this by cutting the principal, reducing interest payments; or through a mixture of lower interest payments and new credits. The United States made a further 10 percent reduction and agreed to Poland's using another 10 percent for an environmental fund. This reduced Poland's debt service to the United States by 70 percent, from $3.8 billion to $1.14 billion. Talks with Poland's London Club commercial bank creditors are slated to resume once Poland reaches a new agreement with the IMF. Negotiations are ongoing about settling mutual indebtedness between Poland and the former Soviet Union.

5. Significant Barriers to U.S. Exports

U.S. exports to Poland are disadvantaged by Poland's Association Agreement with the EC. Although the Association Agreement has not yet been ratified, its trade provisions were brought into effect through a transitional agreement on March 1, 1992. This reduced or eliminated tariffs on about one quarter of Poland's imports from the EC. These tariff preferences give EC exporters a competitive advantage over their rivals from the United States and other countries. Remedies are being sought through the GATT and bilateral talks.

Standards for testing, labelling, and certification in most cases have not presented significant barriers to U.S. exports, although in some cases they are more specific and rigid than equivalent regulations found in Western countries. Existing regulations are being revised to reflect Poland's new open trade regime and to conform to EC standards. Standards enforcement remains 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. Since 1990, SANEPID has been overwhelmed by increases in food imports, resulting in delayed certifications and much food entering the Polish market without inspection. New legislation on sanitary standards is being drafted by SANEPID. U.S. firms have not encountered difficulties getting approval to sell pharmaceuticals in Poland, providing the products have been approved for sale in developed countries.

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Service barriers: Foreign banks are permitted to establish themselves in Poland, either as joint ventures with Poles or as wholly foreign owned ventures. A permit from the National Bank (with the advice of the Ministry of Finance) is required. Minimum capital requirements are $6 million for foreign banks and $2 million for domestic banks. Foreign banks may also open representative offices. Five banks with foreign ownership are operating. Since July, 1990 foreign insurance firms have been able to enter the Polish market. Foreign companies are playing a growing role in the tourist industry, but entry is still regulated by the Ministry of Industry and Trade.

Investment barriers: The law on foreign investment, effective from July 4, 1991 represents a significant change from previous Polish law insofar as it substitutes the removal of restrictions for the granting of incentives. Most of the incentives included in the old law have been repealed.

Under the new law, the old Foreign Investment Agency, which had important regulatory functions controlling the inflow of foreign investment, has been transformed into an investment promotion agency, now called the State Foreign Investment Agency. (SFIA). The SFIA reports to the Minister of Privatization. Most of the regulatory functions of the old agency have been dropped.

One hundred percent foreign ownership is permitted. No registration of foreign investment with the government or approval by the government is required, nor is any screening applied, except for the following cases:

- o Real Estate: foreign acquisition of real estate, either by purchase or long term lease, or foreign acquisition of 49 percent or more of a Polish enterprise which owns real estate, must be approved by the Interior Ministry. Reports to the parliament show that these approvals number in the hundreds annually, mostly to persons of Polish origin.

- o Strategic industries: a permit from the Minister of Privatization is required for foreign investment in:

  --operation of seaports or airports;

  --real estate agency transactions;

  --defense industries;

  --wholesale trade in consumer goods; and

  --performance of legal services;

A permit can only be denied if a proposed investment would threaten the economic interests of the state or state security.

- o A permit from the Minister of Privatization is required for acquisition of a state owned enterprise or contribution by a state entity of the whole or part of a separate enterprise to a company with foreign participation.

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Foreigners are no longer subject to requirements for a minimum investment amount or minimum share of ownership, other than those imposed on all companies by the commercial code. These are initial capitalization of ZL 1 billion for joint stock companies, and ZL 40 million for limited liability companies.

Most investment incentives contained in the previous Polish law were repealed by the 1991 law. A foreign investor may apply to the Ministry of Finance for a tax holiday from corporate income tax if the foreign investor's equity exceeds ECU 2 million and one of the following conditions is met:

- o The company will operate in regions of high structural unemployment;
- o The company will ensure the introduction of new technologies;
- o The company will export at least 20 percent of output.

The value of the tax holiday may not exceed the value of the foreign investor's equity.

Companies that were established under the previous foreign investment law continue to enjoy the exemptions from income taxes and customs duties specified in their permits until those exemptions expire.

Poland is eligible for Overseas Private Insurance Corporation (OPIC) credit guarantees and political risk insurance for U.S. investors, and for EXIM Bank loan guarantees and direct lending to finance U.S. exports.

The Business and Economic Treaty signed between the United States and Poland has never come into force because of a lack of adequate intellectual property rights protection.

Government procurement practices: As Poland moves toward a western oriented market economy, improving procedures for government procurement has been a declared governmental priority. The current procedure is to submit procurement projects for tender. Questions still arise about how a particular bidder was selected, but there has been improvement in procedures since 1991. The Polish government has received OECD and World Bank assistance in this area. Poland is not a signatory of the GATT procurement code because of inconsistencies with its legislation. Poland may sign the Code in the future, after adoption of new legislation.

Customs procedures: Since August, 1991, Poland's MFN duties have averaged 14 percent. Imports are also subject to turnover tax (also applied to domestic goods) which averages 20 percent (higher on some luxury goods). Customs requirements do not seem to burden most U.S. exporters, but some have complained about the service provided by over-worked customs officials. Businessmen also note difficulties resulting from slow communications between Warsaw and customs posts on the border. Poland accepted the GATT customs valuation code in 1989. It is still pending ratification, but the substance has already been incorporated into Polish customs law. Since 1991, the Customs Office has used minimum import values for some products, because of the difficulty of imposing transparent valuation practices on thousands of new traders entering the market.

6. Export Subsidies Policies

Poland is a signatory of the GATT export subsidies code, but has not ratified it. Present plans call for postponing ratification until completion of a new Code in the Uruguay Round, to avoid duplication of effort on enactment of implementing legislation. The government has eliminated most of its past practices of tax incentives for exporters, but still provides limited tax holidays for foreign investors who establish export oriented firms. As Poland moves its energy prices to world levels, past implicit subsidies are vanishing.

7. Protection of U.S. Intellectual Property

Intellectual property is an area of concern, particularly in copyright matters. Eight rounds of bilateral talks have failed to resolve the situation. The Polish Government in theory subscribes to most international standards for protection of intellectual property, but enforcement is weak. Poland is a member of the World Intellectual Property Organization (WIPO), and a party to the 1888 Berne Convention on Protection of Literary and Artistic Works, and the 1971 Paris Convention on Copyrights. Despite this, some legal holdovers from the Communist period create problems for western businessmen and disincentives to trade and investment. A 1987 law specifically extends protection to video cassettes, but sound recordings are not protected.

In the March 1990 Business and Economic Treaty with the U.S., Poland undertook to adopt adequate legislation in all areas of intellectual property rights, but the Polish government is still in the process of enacting this legislation. The Business and Economic Treaty has not been brought into effect because the IPR issue has not been resolved. In the meantime, violations of U.S. copyrights, notably of sound recordings, video cassettes, and computer software, have become increasingly troublesome to U.S. copyright holders. There recently have been reports of piracy of U.S. movies. There are also concerns with patent protection. These concerns involve "pipeline" protection and compulsory licensing. Finally, Poland is considering legislation to improve its enforcement procedures for protection of intellectual property.

8. Worker Rights

a. Right Of Association

The Polish Government has ratified ILO Convention Number 87. Key laws concerning employment, trade unions, and collective bargaining that were revised in early 1991 have once again been slated for revision by the government and legislature in 1992. Currently, all workers, including the police and frontier guards, have the right to establish and to join trade unions of their choice, have the right to join labor federations and confederations, and have the right to affiliate with international labor organizations. Inter-branch national unions and national inter-branch federations must register with the provincial court in Warsaw.

Regarding the right to strike, the Trade Union Law passed in 1991 is less restrictive than the 1982 version passed soon after the imposition of Martial Law, but still prescribes a lengthy process before a strike may be launched. If strictly adhered to, the law provides several opportunities to challenge a strike -- including the threat of legal action. An employer (no distinction between state and private firms) must start negotiations the moment a dispute begins.

Negotiations end with either an agreement or a protocol elaborating divergences between the parties involved. If negotiations fail, a mandatory mediation process takes effect; the mediator is appointed jointly by the disputing parties or, lacking agreement from them, by the Minister of Labor and Social Policy. If mediation fails, the trade union may launch a warning strike for a period of two hours or seek arbitration of the dispute. Starting after negotiations fail, the so-called mediation efforts more closely resemble arbitration in practice. Most importantly, both employers and employees have frequently questioned the impartiality and credibility of the mediators. A full fledged strike may not be launched until 14 days after the dispute is announced (strikes are prohibited entirely in the Office of State Protection, police, fire brigades, military, prison services, and frontier guards). A strike may be proclaimed by the trade union after approval by the majority of voting workers and should be announced at least five days before its commencement. If the strike is organized in accordance with the provisions of the Act, the worker retains his right to social insurance benefits but not pay. If a strike is "organized contrary to the provisions of the law", the workers may lose social insurance benefits; organizers are liable for damages and may face civil charges and fines.

b. Right To Organize And Bargain Collectively

Poland has ratified ILO Convention Number 98, the Right to Organize and Bargain Collectively. The May, 1991 Law on Trade Unions and Collective Bargaining provides for legal sanctions for anti-union discrimination and generally creates a favorable environment to conduct trade union activity through provisions for time off with pay, as well as facilities and technical equipment in the enterprise. A notable weakness in the law, given Poland's ongoing economic transition, 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 ad hoc negotiations at the enterprise level between unions, management, and workers councils. Polish law does not require that wage agreements be registered with the government. Formal collective agreements have been reached in the hard coal, soft coal, and transportation sectors. In the coal mining sectors, agreements have since been ignored and overtaken by enterprise level disputes which rippled through those industries in July and August, 1992.

Throughout 1991-92, the government has continued to impose a ceiling on wages in state enterprises through a penalty tax, the so-called Popiwek, in an effort to link wages to increases in productivity and reduce inflationary pressures in the state sector. The penalty tax is charged on any state company that increases its average wage in excess of a government set "inflation coefficient." Legislation lifting the Popiwek Tax on firms exporting 40 percent of their production was introduced in the September, 1992 session of parliament. 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 with the exception of one zone in Poznan have not thus far attracted much attention. Thus traditional export processing zones which relax legal guarantees do not, at this time, constitute a threat to workers rights to organize or bargain collectively.

c. Prohibition Of Forced Or Compulsory Labor

Poland has ratified ILO Conventions Numbers 29 and 105 on forced labor. Compulsory labor does not exist in Poland, except for prisoners convicted of criminal offenses. Forced labor is prohibited by Polish law.

d. Minimum Age For Employment Of Children

Poland has ratified ILO Convention Number 138 on child labor. The Polish 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 specific job poses a health risk. The government makes good faith efforts to enforce legal protection of minors in state enterprises, but its inability to fully monitor the growing private sector leaves officials less certain that the problem does not exist.

e. Acceptable Conditions Of Work

Minimum wages, negotiated every three months by the Ministry of Labor and the trade unions, are ZL 1,200,000 per month (or roughly USD 86 at the exchange rate of Zl 14,000/Dollar) as of October 1, 1992. The average monthly wage is roughly Zl 2,944,000 (USD 210).

The Polish legal code defines minimum conditions for the protection of workers' health and safety; a new draft of that code has been approved by the parliament. Enforcement is a growing problem because an increasing portion of Polish economic activity is in private hands and outside the purview of the State Labor Inspectorate, which is only prepared to monitor state firms. In addition, it is unclear which government or legislative body has the responsibility for enforcing the law. Working conditions in Poland are poor; standards for chemicals, dust, and noise are routinely exceeded. There were about 116,000 work related accidents in 1991, resulting in 781 deaths and 4,925 cases of dismemberment.

f. Workers Rights in Sectors of U.S. Investment

As with the rest of the Polish private sector, it is impossible to comment authoritatively on workers rights because of inadequate government monitoring.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		0
Total Manufacturing		(D)
Food & Kindred Products	3	
Chemicals and Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	(D)	
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, November 1992

PORTUGAL

Key Economic Indicators

(Millions of dollars unless otherwise noted)

	1990	1991	1992E
Income, Production and Employment			
Real GDP (1985 Prices) 2/	22,904	23,912	24,342
Real GDP growth (Pct.)	4.1	2.5	2.3
GDP (at current prices) 2/	59,816	68,788	77,250
By Sector:			
Agriculture	3,589	4,058	4,403
Energy and Water	2,213	2,682	3,090
Manufacturing	16,868	19,260	21,155
Construction	3,828	4,540	5,407
Services	33,257	38,521	44,032
Net Exports of Goods and Services	-181	-769	-1,000
Real Per Capita GDP ('82BPS)	2,339	2,440	2,483
Labor Force (000s)	4,716	4,787	4,821
Unemployment rate (percent)	4.7	4.1	5.0
Money and Prices (annual percentage growth)			
Money Supply (M2)	13.4	20.1	16.0
Base Interest Rate 3/	16.8	17.1	15.0
Personal Savings Rate	17.1	16.2	15.0
Retail Inflation	9.0	8.1	5.5
Consumer Price Index	13.4	11.4	9.0
Exchange Rate (USD/PE)			
Official	142.6	144.5	130.1
Balance of Payments and Trade			
Total exports FOB 4/	16,301	16,242	16,300
Exports to U.S.	761	617	598
Total Imports CIF 4/	23,129	24,001	25,950
Imports from U.S.	974	884	880
Aid from other countries	1,244	2,134	2,100
External Public Debt	18,666	17,260	16,890
Debt Service Payments (Paid)	2,831	3,575	3,400
Gold and Foreign Exchange Reserves	20,500	26,100	28,200
Trade balance 4/	-6,828	-7,759	-9,650
Balance with U.S.	-113	-267	-279

1/ 1992 figures are all estimates based on available monthly data in October 1992
2/ GDP at factor cost
3/ Figures are actual, average annual interest rates, not changes in them.
4/ Merchandise trade

1. General Policy Framework

Portugal's primary economic objective is to develop its markets, industry, infrastructure and workforce in order to compete with its more-advanced European Community partners. With 1991 per capita income equaling only 56 percent of the EC average, Portugal's catching up is a long-term process.

Dominating the country's economic strategy is a commitment to be in the first tier of EC countries eligible to join Economic and Monetary Union (EMU) as early as 1997. Portugal's inflation rate, 6.5 points above the EC average at the end of 1991, is the key impediment to attaining this goal. As a result, economic policy is devoted to reducing inflation by lowering the fiscal deficit, maintaining a tight monetary policy and encouraging increased domestic competition.

Policy makers appear willing to accept lower growth rates and higher unemployment rates than during the fastpaced 1986-1990 period in order to rein in inflation. The official 1992 inflation target is eight percent, but most private observers expect actual results in the 9 to 9.5 percent range due to fiscal and labor market rigidities, and difficulties in controlling the money supply.

The austerity budget for 1993 foresees a reduction of the public sector deficit to 4 percent of GDP from 1992's figure of 5.2 percent. Social security makes up 22 percent of public sector administrative costs. Portugal's balance of payments position is strong due to large capital inflows which more than off-set a growing trade deficit. International reserves, already equal to 35 percent of GDP, will swell several billion dollars in 1992.

Prime Minister Cavaco Silva and the the Social Democratic Party (PSD) won a renewed absolute Parliamentary majority in October 1991. Government leaders have indicated they will continue restructuring the economy through a reduction of the public sector, privatizations, encouragement of private-sector modernization, and opening the domestic economy to increased external competition.

2. Exchange Rate Policies

The Portuguese escudo officially entered the wide band of the European Monetary System's Exchange Rate Mechanism in April, 1992. As the Bank of Portugal has conducted monetary policy for the past three years as if the escudo were already in the wide band, the impact is mainly psychological. The escudo generally avoided the exchange rate turmoil that plagued other European currencies in September-October 1992. The Government has maintained a strong escudo policy as a means to reduce the inflation rate. In August 1992, the Bank of Portugal announced that all controls on capital movement will be eliminated by the end of 1992. However, due to the recent turmoil on European foreign exchange markets, the government has raised the possibility that controls may have to be extended for six more months. Portuguese borrowers are able to borrow money abroad without the former constraints of punitive reserve requirements.

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3. Structural Policies

The Portuguese Government continues to liberalize economic structures to stimulate growth and bring the country more in line with European Community standards. EC assistance programs aimed at reducing structural imbalances in Portuguese agriculture, industry, commerce and regional development will approach 2.5 percent of GDP in 1993. As these programs require significant Portuguese government counterpart funding, the government's budget cutting options are limited.

The privatization program continues, with several large industrial companies and banks on the block in 1993. However, government controls limit the amount of foreign participation in most privatizations. No major changes in tax or VAT are anticipated for 1993. Personal tax rates range from 15 percent to 40 percent for those earning more than $38,000. Portugal still lacks a bilateral tax treaty with the United States, although negotiations have been held intermittently over the past few years.

4. Debt Management Policies

Portugal's public debt continues to fall as a percentage of GDP as the government aggressively pursues debt reduction in preparation for EMU. Public debt as a percentage of GDP fell to an estimated 64.5 percent in 1992 compared to 77 percent as recently as 1988. External debt represents 21 percent of GDP or roughly one-third of total public debt. The government is prepaying external debt as possible and transferring it to the domestic monetary market. Most debt is medium and long term debt owed by the government and public companies.

5. Significant Barriers to U.S. exports

Portugal's seven-year transition period for its accession to the European Community ended in December 1992 after which all barriers to trade, capital flows, and labor mobility with its EC partners have been eliminated. Most barriers to U.S. exports, therefore, are shared with all member states.

Private and foreign participation is restricted or excluded in certain sectors, including, telecommunications, sewage, postal, transportation and water. Most of the privatizations organized by the Portuguese government limit foreign participation.

Portugal follows European Community directives for standards, testing, labeling and certification. The Portuguese Quality Institute establishes national standards and implements EC directives. The Portuguese Telecommunications Institute sets standards for telecommunication products, and the National Laboratory Civil Engineering sets Construction Standards.

Low voltage electrical and electronic equipment must meet the requirements of EC directive 73/23/EEC. Imported textiles, apparel and leather goods must carry a label indicating country of origin and composition by percentage of the fabric.

Government procurement legislation makes no distinction as to country of origin. However, the submission of Portuguese entities covered by the Government Procurement Code has yet to be accepted by the GATT.

Quantitative restrictions remain for the following products: automobiles, fabrics and nets, fuses, parts of footwear, iron and steel tubes and pipes, and weaving machines.

6. Export Subsidies Program

Portugal has no programs designed to subsidize its exports. European Community grants to modernize Portuguese industry and agriculture may indirectly subsidize Portuguese exports. Also, government support to public firms, primarily designed to make them more attractive for eventual privatizations, also may be considered an indirect subsidy.

7. Protection of U.S. Intellectual Property

Portuguese laws for the protection of intellectual property are generally adequate. The government is improving enforcement, but small-scale copying of software, and audio and video tapes remains fairly common. Portugal is a member of the World Intellectual Property Organization and is party to the Berne and Universal Copyright Conventions and the Paris Industrial Property Convention.

Trademarks are granted for ten years and are renewable. Duration of copyright is life of the author plus 50 years. Computer programs are not explicitly protected under copyright. Enforcement action against unauthorized copying of software and audio and video cassettes is common.

Patents are granted for 15 years and are not renewable. Enforcement is sometimes weak, but enforcement agencies are being strengthened. In 1991, Portugal enacted patent protection for chemical products, pharmaceuticals, and food products. Portugal's patent law also contains compulsory license provisions for insufficient use.

8. Worker Rights

a. Right of Association

Workers in both the private and public sectors have the right to associate freely and to establish committees in the workplace to defend their interests. Unions may be established by profession or industries. Strikes are permitted for any reason, including political causes. They are common and are generally resolved through direct negotiations between management and the unions involved. There are two principal labor confederations. The General Confederation of Portuguese Workers Intersyndical (CGTP-IN) is linked to the Communist party, but is expected to make its entry into the European Trade Union Confederation (ETUC) in 1993. The General Union of Workers (UGT) is a pluralist, democratic federation affiliated with the International Confederation of Free Trade Unions and the ETUC.

b. 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, the government is empowered to order the workers back to work for a specific period.

c. Prohibition of Forced or Compulsory Labor

Forced labor does not exist. This prohibition is enforced by the General Labor Inspectorate.

d. Minimum Age for Employment of Children

The minimum employment age is 15 years. It will be raised to 16 when the period for compulsory schooling is raised to nine years in 1997. The UGT and CGTP-IN have charged that a number of "clandestine" companies in the textile, shoe and construction industries in northern Portugal exploit child labor. The General Labor Inspectorate is responsible for enforcement of child labor laws but suffers from a lack of money and an inadequate number of inspectors.

e. Acceptable Conditions of Work

The national monthly minimum wage is generally enforced but legally does not apply to workers below the age of 18. Current legislation limits regular hours of work to 8 hours per day and 44 per week, but the workweek will be reduced to 40 hours by 1995. Overtime is limited to two hours per day, up to 200 hours annually. Workers are guaranteed 15 days of paid annual leave. Employers are legally responsible for accidents at work and are required to carry accident insurance. Accidents average between 70,000 and 75,00 per quarter. These figures have focused government attention on improving worker safety in the construction sector. There is also considerable concern about the poor environmental controls in the textile industry.

f. Application of Worker Rights in Various Sectors

Legally worker rights apply equally to all sectors of the economy. As noted above, child labor and worker safety are problems in the textile and construction sectors.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		39
Total Manufacturing		437
Food & Kindred Products	(D)	
Chemicals and Allied Products	87	
Metals, Primary & Fabricated	(D)	
Machinery, except Electrical	(D)	
Electric & Electronic Equipment	95	
Transportation Equipment	(D)	
Other Manufacturing	42	
Wholesale Trade		132
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		608

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

Source: U.S. Department of Commerce, Survey of Current Business, November 1992, Vol. 72, No. 8, Table 11.3

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Key Economic Indicators

(millions of Romanian lei unless otherwise noted)

	1990	1991	1992 1/
Income, Production and Employment			
Real GDP (1985 prices) 2/	732,342	632,011	530,889
Real GDP Growth (pct.)	(7.4)	(13.7)	(16.0)
GDP (at current prices) 2/	844,015	2,109,700	3,544,296
By Sector:			
Agriculture	151,985	385,100	646,968
Energy and Water	N/A	N/A	N/A
Manufacturing	407,001	919,500	1,544,760
Construction	47,932	104,600	175,728
Rents	N/A	N/A	N/A
Financial Services	13,371	49,300	82,824
Other Services:			
Transport and Telecommunications	56,476	95,600	160,608
Research and Data Processing	27,559	65,900	110,712
Social and Cultural Services	44,367	123,000	206,640
Communal Services	13,107	71,000	119,280
Administration & Defense	22,940	78,900	132,552
Net Exports of Goods and Services (mill. US$)	(3,254)	(1,184)	(1,307)
Real Per Capita GDP (current US$)	1,620	1,340	1,113
Labor Force (000S)	10,840	10,919	10,045
Unemployment Rate (percent)	1.3	3.4	9.6
Money and Prices (annual percentage growth)			
Money Supply (M2)	513,535	1,024,700	2,049,400
Base Interest Rate 3/	3.0	12.4	71.6
Personal Saving Rate	5.0	10.0	50.0
Retail Inflation	5.1	222.8	218.0
Wholesale Inflation	23.2	170.0	205.0
Consumer Price Index	105.1	265.5	253.0
Exchange Rate (USD/lei)			
Official (avg.)	23	60	325
Inter-Bank Auction (avg.)	N/A	198	325
Private Exchang House (avg.)	N/A	270	360
Balance of Payments and Trade			
Total Exports FOB 4/			
(mill. Rbl.)	4,437	829	100
(mill. US$)	5,223	3,520	4,000
Exports to U.S.	338	121	89
Total Imports CIF 4/			
(mill. Rbl.)	6,175	575	150
(mill. US$)	6,944	5,146	5,300
Imports from U.S.	412	184	213

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Trade Balance 4/			
(mill. Rbl.)	(1,738)	254	(50)
(mill. US$)	(1,721)	(1,626)	(1,300)
Balance with U.S.			
(mill. US$)	(74)	(63)	(123)
Aid from U.S. (mill. US$)	45	45	45
Aid from Other Countries			
(mill. US$)	35	14	10
External Public Debt			
(mill. US$)	204	940	2,124
Debt Service Payments (paid)			
(mill. US$)	0	30	186
Gold and Foreign Exchange Reserves (mill. US$)	1,153	1,089	1,333

1/ 1992 figures are all estimates based on available monthly data in October 1992.
2/ GDP at factor cost.
3/ Figures are average annual nominal interest rates offered by financial institutions.
4/ Merchandise trade.

1. General Policy Framework

While a substantial portion of rank and file Romanians remain skeptical about market economics, and the pace of reform is the subject of spirited debate, virtually all mainstream political leaders profess support for the creation of a market economy. Since the fall of the Ceausescu regime in 1989, steady progress has been made toward that end, including the promulgation of a variety of laws which constitute the legal basis for economic reform. Both foreign and domestic trade policies, as well as the foreign exchange regime, have been liberalized; however, the demand for U.S. exports is constrained by Romania's lack of hard currency. A new Bilateral Trade Agreement including, inter alia, Most Favored Nation (MFN) status, was signed in April 1992 and subsequently submitted to the U.S. Congress for ratification. The agreement failed to win approval on first submission but is expected to be resubmitted early in 1993.

Economic reform has not come without cost. Together with exogenous factors such as the collapse of the Council for Mutual Economic Assistance (COMECON) trading system, economic slowdown in the industrialized West, dramatic increases in imported energy costs, and the direct and indirect costs of supporting UN sanctions against Iraq and Serbia and Montenegro, economic restructuring has contributed to a 50 percent drop in industrial output since 1989 and three consecutive years of decline in GDP. Unemployment was estimated at nearly 10 percent at the end of 1992, and those workers still employed have seen real income decline by a third since late 1990.

Modest improvement in export performance, a slowing in the inflation growth rate, measured success in introducing limited internal convertibility, and growth in the emerging private sector (notably in small and medium sized services and retail trade) at the end of 1992 gave some encouragement to

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those who foresee a bottoming out of economic decline by the end of 1993. Financial and technical assistance have begun to flow in from abroad, facilitating Romania's reintegration into the world economy after a long period of political and economic isolation. The International Monetary Fund (IMF), World Bank, and European Bank for Reconstruction and Development (EBRD) all have active programs and resident representatives in Romania. Some observers foresee an increase in direct foreign investment in 1993 as a result of the creation of a more stable, transparent political environment following the ratification of a new constitution in December 1991, and the completion of local (February 1992) and national (September/October 1992) elections.

The government succeeded in holding its budget deficit to less than 2 percent of GDP in 1992, a central element in its 1992 Standby Arrangement with the IMF. However, some observers believe the government will be hard pressed to remain under the 2 percent ceiling in 1993 due to growing demands for government-provided social services. Subsidies for energy imports presently constitute the major share of the central government deficit. Taxes on salaries and retail turnover presently provide three-fourths of revenues, but the latter is slated to be replaced by a Value Added Tax in 1993. Beginning in 1993, the budget deficit will be covered in part by a public bond issue. The first bonds were offered for sale in December 1992.

The Romanian economy operates mainly on a cash basis with commercial banking still in the early stages of development. 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. Direct subsidies on consumer goods have been reduced drastically, and only a handful of basic commodities remain subject to price controls. A commodities exchange began operation in December 1992, and a stock market is expected to open sometime in 1993.

2. Exchange Rate Policies

The National Bank of Romania (central bank) has sought since November 1991 to institute a system of limited internal convertibility. Under the present regime, there is a unified rate, which is determined via a daily interbank auction. The value of the leu (the national currency) has floated since July 1992. The central bank may intervene in the daily auction, although it dies not set the rate.

Juridical persons are required to carry out all exchange transactions through the commercial banking system. The law allows for capital transfers. However, in practice the supply of hard currency is scarcely adequate to cover essential current account transactions. During some periods in 1991 and 1992 exporters were required to exchange all or a portion of their hard currency earnings in return for local currency. However, this practice was abandoned in May 1992 in connection with the most recent reform of the exchange rate system. Physical persons may conduct exchange transactions through private exchange houses, legalized in 1991. However, restrictions exist on the size and intended purpose of such transactions.

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, environment, tax, and social security. Laws reforming most sectors have been drafted and promulgated. Romania requested renegotiation of a protocol of accession to the General Agreement on Tariffs and Trade (GATT) in 1992 and hopes to complete the process in 1993. Where relevant, the government has sought to accommodate the obligations of GATT membership in drafting new trade and tax laws. Several gaps remain in the legal framework for reform. Chief among these are a modern bankruptcy code, legislation on ownership of properties nationalized during the Communist era, and a new copyright law. Parliament is expected to address these issues in 1993.

Pricing and tax policies generally are favorable to trade. Although most prices must be registered (producer-determined ceilings are adjusted quarterly), only prices of subsidized goods are actually controlled. All price subsidies are scheduled to be eliminated in 1993. Romania's foreign investment law (April 1991) provides incentives for foreign investment, and a Bilateral Investment Treaty with the United States, signed in May 1992, has not yet entered into force. The U.S. Overseas Private Investment Corporation (OPIC) began operations in Romania in December 1992. The Export-Import Bank (EXIM) resumed limited operations in May 1992.

As noted above, the major sources of central government revenue are a turnover tax, a tax on salaries (not income), and a profit tax. As a result of several unique exemptions and incentives, firms may be better off splitting into smaller subsidiary units to minimize the burden of the progressive, multi-bracketed profit tax. Individuals may fare better by earning more nonsalary income to reduce their liability under the progressive personal income tax. Customs duties were simplified in 1992. Rates range from 2 percent to 100 percent; the weighted average is 30 percent. A 30 percent surcharge is applied to luxury imports (e.g., tobacco, alcohol, cosmetics, consumer electronics, etc.). Further adjustments to the structure of the harmonized tariff schedule are expected in 1993 as a result of Romania's imminent association with the European Community (EC). Differential tariffs will favor imports from the EC. However, Romanian officials contend that tariffs are low to nonexistent in areas in which U.S. suppliers already enjoy a competitive advantage, such as high-tech products and agricultural raw materials.

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 1992 loan commitments totaled approximately $6.2 billion. Disbursements amounted to $2.1 billion.

Romania committed to a Standby Arrangement with the IMF in May 1991 which provided for $500 million in balance of payments (BOP) financing plus up to an additional $450 million in contingency and compensatory assistance. This program was terminated in February 1992 by mutual agreement when, as a result of growing inter-enterprise arrears, it became evident that Romania would be unable to comply with the target on monetary growth. Another Standby Arrangement was negotiated in May 1992 providing for a total of $440 million in balance of payments financing over ten months. As of the end of September 1992, all performance criteria were being met. A final review was scheduled for February 1993. Since July 1991, the World Bank has approved loans totaling $830 million, including a $400 million Structural Adjustment Loan (SAL). Since December 1989, the Group of 24 (G-24) countries have pledged $4.6 billion in loans (79 percent) and grants for development assistance. After a prolonged delay in 1991, disbursements finally began in 1992.

Seventy-two percent of the official (i.e., noncommercial) loans to Romania were contracted directly by the state. The remaining 28 percent are guaranteed by the state. Commercial lending to Romania has been small, and no instances of bank credit rescheduling are known. Roughly a third of Romania's export earnings in 1992 were used to finance current energy imports. Debt service amounted to 5 percent of exports and 2.25 percent of GDP.

5. Significant Barriers to U.S. Exports

Traditionally defined trade and investment barriers are not a significant problem in Romania. There are no known laws that directly prejudice foreign trade or business operations. However, the transitional nature of the reform process has created (or carried over 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 continued need to rely on ad hoc procedures and personal influence has frustrated U.S. exporters and investors in trying to conclude contracts. U.S. companies have commented frequently that Romanians require extensive documentation for the creation of a joint venture.

Limited purchasing ability: Romania's hard currency reserves are near 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 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 unexpectedly 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 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 hardware and software) are still difficult 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.

Traditionally defined 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 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 prohibits foreign ownership of land. However, the government has indicated it will seek an amendment allowing foreign investors to own land purchased for investment projects. Some observers have argued that since joint ventures are, by law, registered as "Romanian" companies, and since no property ownership restrictions apply to "Romanian" firms, the prohibition on foreign ownership may be moot so far as joint ventures are concerned. This interpretation has not been tested in a court of law. In any event, foreigners are entitled to lease property, and the Romanian partner of a joint venture may own land in the name of the venture.

Since 1990, Romania has registered 18,756 commercial companies with foreign capital participation, but the total value of the foreign investment is comparatively small -- $1.3 billion. 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. As of October 1992, U.S. investments topped the list in value terms (about $65 million), and in number of joint ventures, the United States ranked sixth. The largest U.S. investors are Coca Cola, Amoco, Colgate-Palmolive, Pepsi, and MBH Furniture Industries.

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6. Export Subsidies Policies

The Romanian system does not provide outright export subsidies, but it does attempt to make exporting attractive to Romanian companies. 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.

In December 1991, the government passed a decree, effective January 1, 1992, 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, property rights were reserved 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 and the Copyright Law are in draft and expected to be enacted in 1993. 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 1993.

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. Pirated copies of audio and video cassette recordings are openly marketed. Many are apparently locally produced, while some appear to be imported. The U.S. Government is not aware of pirated goods being produced in Romania for export.

8. Worker Rights

a. Right of Association

Current labor legislation guarantees the right of workers to organize and join labor unions and to engage in collective bargaining. The right to strike is specifically guaranteed, and several major strikes or demonstrations occurred in 1992. The primary exceptions are employees in certain critical industries involving the public interest, such as defense, health care, transportation, and telecommunications, where there are restrictions on the right to strike.

Some unions continue to complain that legislative requirements calling for submission of grievances to government-sponsored conciliation efforts prior to a strike interfere with their freedom of action. An International Labor Organization (ILO) Committee of Experts also registered concern in a 1992 report that current laws fall short of ILO Convention standards in several areas, including the free election of union representatives, binding arbitration, and financial liability of strike organizers.

Current legislation stipulates that 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. In practice, the government does not seem to exert any influence over labor union activities.

The overwhelming majority of Romania's approximately 10.8 million working people are members of about 10 nationwide trade union confederations and smaller independent trade unions. The largest is the National Confederation of Free Trade Unions (CNSLR). Virtually all unions concentrate on economic issues to protect their members' standard of living, which is declining amid steep increases in consumer prices and continued uncertainty caused by the transition to a market economy. In 1992 several smaller confederations merged into larger organizations, increasing their clout and economic vitality.

The government does not impede the right of labor unions to affiliate internationally, and representatives of foreign and international organizations freely visit and advise Romanian trade unionists. Two major confederations, ALFA

Cartel and Fratia, are affiliated with the World Confederation of Labor (WCL) and the International Confederation of Free Trade Unions (ICFTU), respectively. Another confederation, the National Union Bloc, sought affiliation with ICFTU in 1992.

At its 79th session in Geneva in June, the ILO received a report from its Committee of Experts (COE) concerning Romanian Compliance with ILO conventions. Although the COE generally was satisfied with Romanian compliance, it underscored the need to increase measures to ensure a discrimination-free workplace for the country's ethnic minorities, particularly for gypsies. The COE stressed, especially, the need to develop a climate of mutual tolerance.

b. Right to Organize and Bargain Collectively

Current legislation permits workers to organize into unions and to bargain collectively. However, the absence of effective employer groups, because of continued state control over most industrial resources, complicates collective bargaining efforts.

c. Prohibition of Forced or Compulsory Labor

There is no statutory law prohibiting forced or compulsory labor. The constitution prohibits such labor, but excludes members of the military, convicts, and those working during declared national emergencies from the definition of forced labor. There were no reports of individuals engaged in forced or compulsory labor in 1992.

d. Minimum Age for Employment of Children

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. The Ministry of Labor and Social Protection (MOLSP) has the authority to impose fines and close sections of factories to enforce compliance with the law. No violations of this policy were documented by the media or the MOLSP in 1992, and child labor did not appear to be a problem.

e. Acceptable Conditions of Work

Most wage scales are established through collective bargaining. Minimum wage rates are generally observed and enforced.

The labor code provides for a work week of 40 hours or five days, with overtime to be paid for weekend or holiday work or work in excess of 40 hours. Paid holidays range from 15 to 24 days annually depending mainly on the employee's length of service. Employers are required by law to pay additional benefits and allowances to workers engaged in particularly dangerous or difficult occupations.

Draft legislation regarding occupational health and safety is pending in parliament. The MOLSP has established safety standards for most industries and is responsible for enforcing them. Some labor organizations have pressed for healthier, safer working conditions on behalf of their members. Enforcement is not good, however. The MOLSP lacks sufficient, trained personnel for inspection and enforcement, and employers generally ignore their recommendations. In general, workers are not committed to occupational safety and health and appear to value increased pay over a safe and healthful work environment. Neither the government nor industry, which remains mostly state-owned, has the resources necessary to improve health and safety conditions in the workplace.

f. Rights in Sectors with U.S. Investment

The U.S. Government has no information to suggest that conditions differ in goods-producing sectors in which U.S. capital is invested with respect to application of the five worker rights discussed in sections a through e above.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad on an Historical Cost Basis - 1991 (Millions of U.S. dollars)

Category		Amount
Petroleum		0
Total Manufacturing		4
Food & Kindred Products	4	
Chemicals and Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	*	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		4

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

* - Less than $500,000

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, November 1992

RUSSIA

Key Economic Indicators 1/

(Billions of Rubles Unless Otherwise Noted)

	1990	1991	1992 (est)
Income Production and Employment			
Real GDP (1985 prices)	371.7	330.8	271.3
Real GDP growth (pct)	-4.0	-11.0	-20.0
NIP (current prices	444.6	810.4	N/A
By sector:			
Agriculture	88.5	123.4	N/A
Manufacturing (including energy)	187.7	415.8	N/A
Net Exports	-0.3	11.8	0.5
Real per capita GDP (1985 Rubles)	2511	2228	1823
Labor Force	74.4	73.6	73.4
Unemployment Rate (pct)	0-1	0-1	3
Money and Prices (annual percentage growth)			
Money Supply	17.6	77.2	NA
Base Interest Rate	10	17	80
Personal Savings Rate	7.8	N/A	N/A
Retail Inflation	5.6	90.4	2400 2/
Wholesale Inflation	3.9	138.1	4000 2/
Consumer Price Index	6.8	161	n/a
Exchange Rate (USD/Ruble)		40	200
Official	0.59	0.58	398 3/
Commercial	0.59	1.7	N/A
Parallel	18.8	59.0	398 3/
Balance of Payments and Trade (billion USD)			
Total Exports	82.6	56.5	15.4
Exports to U.S.	N/A	0.3	0.3
Total Imports	82.9	44.7	14.9
Imports from U.S.	N/A	1.7	1.4
Aid from U.S.	0	.005	.284 4/
Aid from other countries	0		
External Debt	61.1	67.0	N/A 5/
Debt Service Payments	22.9	17.0	N/A 5/
Trade Balance	-0.3	11.8	0.5
Balance with U.S.	N/A	-1.4	-1.1

1/ Figures from official Russian statistics and World Bank data. They should be considered indicators of order of magnitude only.
2/ IMF estimates. Wholesale figure is for Jan - Oct only.
3/ December 1991.
4/ Based on published U.S. Government announcements. In FY93 Russia will receve a total of $250 million in food aid.

5/ 1990 and 1991 are total of former USSR. For 1992, see section 4.

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1. General Policy Framework

The Russian Federation (Russia) is the largest of the republics of the former Soviet Union and also the wealthiest, with oil, timber, gold, natural gas, and fertile soil. After the break-up of the Union in late 1991, however, Russia was left with serious economic problems stemming from decades of a planned economy. GNP fell by about 10 percent in 1991, prices almost doubled, foreign trade fell dramatically, and foreign debt climbed. The former Soviet Union ran growing budget deficits during the latter half of the 1980s that were financed almost completely by borrowing from the USSR Central Bank. In 1991, Russia and the other former USSR republics engaged in a fight for control of government finances and this competition helped cause a record overall deficit of about 20 percent of GNP. Again, the deficit was financed by Central Bank loans, which were in turn financed by both cash and non-cash money creation. In 1991, the command economy had begun to break up, but relatively few effective market structures had begun to emerge.

In 1992, Russian President Boris Yeltsin and Acting Prime Minister Yegor Gaydar began a far-reaching program of economic reform. While Yeltsin has held to the outlines of the government reform program, progress has been hampered by the differences between the government and parliament and reform slowed in the second half of 1992. The differences between Yeltsin and legislators came to a head at the December meeting of the Congress of People's Deputies when Yeltsin was forced to replace acting Prime Minister Gaydar with former energy minister Viktor Chernomyrdin. Both Yeltsin and Chernomyrdin have stated that economic reform will continue. However, both reformers and opposition groups are withholding their assessment of what Chernomyrdin's appointment will mean for economic policy.

The core of the Yeltsin reform program was macroeconomic stabilization and price liberalization. Russia freed prices on 80-90 percent of wholesale and retail goods, retaining controls on energy, housing, transportation, and some other products. To cut the budget deficit, the government slashed expenditures on defense procurement, investment, and industrial and consumer subsidies, while introducing a 28 percent value-added tax to boost revenues.

The Russian Government also implemented structural reform policies to transform the old Soviet economy into a market system. President Yeltsin enacted decrees to free domestic trade from its state monopoly and to loosen foreign trade regulations. A privatization program for medium and large enterprises was announced in August 1992, and distribution of privatization vouchers to the general population began in October. Privatization of small enterprises proceeded unevenly as local governments were given responsibility for the process.

In July 1992 the various multi-level ruble/hard currency exchange rates were unified, allowing ruble convertibility for some current account transactions. In late 1992, the Russian

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Government was actively seeking foreign investment and had made reforms in the legal and economic spheres to encourage such investment; foreign companies were beginning to enter the Russian market and Russian Government statistics showed that U.S. companies were first in both numbers of firms present and capital invested in Russia.

Despite these reforms, the Russian banking system remained underdeveloped at the end of 1992. Early in the year, Russia imposed strict limits on the absolute volume of credit and monetary emission, but this policy was loosened in the face of a massive increase in inter-enterprise debts. The Central Bank, which answers to Parliament, not the government, expanded credit to state owned enterprises, which fuelled inflation. Despite increases in the interest rates (and reserve requirements), they remain negative in real terms and thus ineffective in controlling inflation. In addition, commercial banks are often owned by the state enterprises that are their customers, and do not operate according to commercial principles or government regulations. The government cannot use open market operations because government securities are almost nonexistent. The government and Central Bank still grant credits targeted at specific industries which helps boost the money supply and complicates estimates of fiscal deficits and monetary creation.

In 1992, amidst reform efforts, GNP was down by perhaps 20 percent according to official statistics. Retail prices rose by about 15 times through September and wholesale inflation was still higher. Because of rapid inflation the ruble plummeted at the twice-weekly currency auctions. Income and wealth differentials grew and many Russians, especially pensioners, slipped below the poverty level. Surprisingly, however, unemployment remained low as many enterprises granted employees leave or continued to pay salaries rather than close down; low unemployment helped keep social tensions relatively low. Defense and investment spending were cut to reduce the deficit; revenues were also down because of difficulties in collecting new value-added and export taxes.

In 1992 Russia became a member of the International Monetary Fund (IMF), the World Bank and the European Bank for Reconstruction and Development. Russia and the IMF discussed measures to reform the Russian economy and in August the IMF approved a first credit tranche arrangement of $1 billion for Russia. Russia has not fully lived up to commitments made to the IMF under this program. Further borrowing of up to $3 billion will depend on Russia and the Fund reaching agreement on a new program. Russia and the Fund are currently negotiating a full-scale standby agreement but progress has been slow.

In 1992 the World Bank granted Russia a credit of $600 million as a "rehabilitation loan" to finance critical imports in the consumer sector and a $70 million loan to help improve social services. Additional lending of over $4 billion is anticipated over the next few years. These loans will provide assistance in a variety of sectors including energy, public transportation, management and health. The World Bank will also be leading efforts at coordinating technical assistance efforts for Russia. The Bank hosted a preparatory meeting of a Technical Assistance Coordinating Group in December.

The European Bank for Reconstruction and Development opened an office in Moscow and began various technical assistance projects focussed on the area of privatization. The United States, the European Community, and other bilateral donors began a wide-ranging program of technical and humanitarian assistance.

Russia has observer status in the GATT and has indicated a desire to become a full member.

2. Exchange Rate Policy

As of July 1, 1992 the Russian Central Bank unified all ruble/dollar exchange rates and the unified rate was allowed to float in line with the rate posted at the twice-weekly Moscow Interbank Currency Exchange Auction.

Without permission it is illegal for a Russian legal entity or citizen to maintain a bank account outside of Russia for more than operating expenses; licenses are required for offshore accounts and can be difficult to obtain. Despite this, capital flight has become a serious problem.

Russia has foreign exchange controls on profit repatriation by foreign companies and on hard currency earnings of exporters. While raising hurdles to trade and investment, these requirements did not have a direct impact on the price competitiveness of U.S. exports. Russian exporters are obliged to sell 50 percent of their hard currency earnings for rubles and to keep the remainder in Russian banks. In late 1992, the government discussed raising this surrender requirement to 100 percent in early 1993.

3. Structural Policies

The Russian legal system is in a state of flux, with the various parts of government struggling to create new laws on a broad array of topics. This has produced conflicting, overlapping, and rapidly changing laws, decrees, and regulations affecting domestic and international economic matters. In this environment negotiations and contracts for export sales or investments can be complex and protracted. In the absence of commonly accepted and enforceable commercial codes, each contract must embody the basic provisions of such codes. Contracts must likewise protect the foreign partner against contingencies that might arise in such a situation. Lack of transparency compounds the problems created by fluidity of laws. Keeping up with legislative changes and presidential decrees is a daunting task as there is no single publication comparable to the U.S. Federal Register. Uneven implementation of laws creates further complications. Various officials, branches of government, and jurisdictions interpret and apply regulations with little consistency and the decisions of one may be overruled or contested by another.

Russian tax laws governing foreign investment and trade have changed repeatedly. The value-added tax, 28 percent in

1992, will drop to 20 percent in 1993. The VAT is imposed on Russian and foreign legal entities which carry out commercial activities in Russia. A 60 percent top marginal individual income tax rate, imposed in early 1992, dropped to 40 percent later in the year, but will still apply to an individual's worldwide income. Taxes on profits are set at 32 percent.

4. Debt Management Policies

Along with the other former republics of the USSR, Russia agreed in October 1991 to become "jointly and severally" liable for the Soviet foreign debt. Russia's share of the debt was set at 61 percent. Over the second half of 1992, Russia reached agreement with most former Soviet republics to manage or be liable for additional shares of the Soviet debt in exchange for claims on Soviet assets. Russia, however, has not yet resolved with Ukraine the issue of division of the external assets and debt of the former Soviet Union.

Russia needs temporary relief from its debt burden during its transition to a market economy and its official creditors are working to achieve a formal debt rescheduling in the Paris Club. The total external debt of the former Soviet Union is now about $75.5 billion, of which $62.8 billion is medium- and long-term obligations. Payments on principal (for medium- and long-term debts existing before January 1, 1991) were deferred every three months during 1992 by creditors. Russian 1992 exports (excluding those to the other former Soviet republics) are estimated at about $34 billion, making the 1992 debt service ratio either 45 percent if Russia is held responsible for 100 percent of the old USSR debt, or 28 percent if Russia is held responsible for only 61 percent of that debt. A rough estimate of Russian GDP is about $1 trillion, making the total debt to GNP ratio either 7.5 or 4.6 percent.

5. Significant Barriers to U.S. Exports

The general decline of the Russian economy has cut the overall level of Russian imports this year, although imports from the U.S. were up through June. The IMF, World Bank, and Russian Government project an increase in trade next year.

There are no significant legal barriers to U.S. exports to Russia. Barriers to both trade and investment are rather in the establishment and operation of business. Problems include changing tax and tariff rates, currency controls, commercial debt arrears, corruption, a rapidly changing legal system, plus underdeveloped banking and business infrastructures.

The United States and Russia have made significant progress toward normalizing bilateral trade and investment relations. Negotiations have largely been concluded on a series of economic framework agreements. The U.S.-Russia trade agreement, which provides for reciprocal Most Favored Nation status, was signed and entered into force in June 1992. The U.S.-Russia bilateral investment treaty, which establishes a bilateral legal framework to stimulate investments, was approved by Congress in August 1992. It awaits ratification by the Russian Supreme Soviet. The bilateral tax treaty, which provides U.S. businesses relief from double taxation of income, was ratified by the Supreme Soviet in September 1992. Congress is expected to consider the tax treaty this spring.

Through the conclusion of an OPIC incentive agreement and congressional lifting of restraints on Eximbank operation, standard U.S. programs are now available to U.S. businesses considering investing in Russia. OPIC approved political risk insurance coverage for five investment projects worth a total of $128 million in 1992. Eximbank signed "full faith and credit guarantee" framework agreements with Russian Bank for Foreign Trade and with Russian Bank for Economic Affairs in 1992. Projects worth over $200 million have been approved. Eximbank is now working to conclude an oil and gas framework agreement with Russia, which would remove barriers to U.S. investment in the energy sector and provide up to $2 billion for Russian imports of oil and gas equipment.

6. Export Subsidies Policies

Russia inherited a legacy from the USSR of subsidizing state enterprises. For example, exporters benefit from subsidies that cover imports of raw materials. However, these subsidies are aimed at maintaining production and employment, not support for exports. To the contrary, the Russian Government imposes export duties. In 1992 the export of many categories of goods -- notably goods considered by the government to be strategic -- were also subject to quotas and licensing requirements. While the government reduced the number of goods subject to export quotas, it retained them for oil, oil products, gas, timber, and some metals and chemicals. Export duties range between 20 and 35 percent of world prices.

In 1992, the U.S. Department of Commerce preliminarily found that uranium from Russia was being dumped in the United States. In October, Commerce signed an agreement with Russia to suspend the dumping investigation and restrict Russia's uranium exports to the United States.

Commerce is currently investigating the dumping of ferrosilicon from Russia.

7. Protection of U.S. Intellectual Property

During 1992 the Russian Federation signaled its intent to protect intellectual property rights (IPR) in a number of ways. With the approval of the United States-Russia trade agreement, the government committed itself to introduce copyright legislation consistent with the Berne Convention by the end of 1992. The government also established the Russian Intellectual Property Agency with a mandate to promote the enactment of strong IPR legislation and to develop regulations and enforcement mechanisms to curb IPR violations. Russia is not a member of the major multilateral intellectual property conventions, though government officials stated they hoped to join the Berne and other conventions in the near future.

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In 1992, the Russian Parliament passed a number of laws that strengthened the protection of intellectual property. These include a new patent law, which accords with the norms of the World Intellectual Property Organization; the Law on Trademarks and Appellations of Origin (which provides for appellation of origins protection in Russia for the first time); the Law on Semiconductor Chip Layout Designs and the Law on Computer Programs and Databases. Efforts were also underway in the legislature to complete the drafting of a new copyright law.

Russia's new Patent Law is consistent with the norms of the World Intellectual Property Organization. It includes a grace period, procedures for deferred examination, protection for chemical and pharmaceutical products, and national treatment for foreign patent holders. The period before a prospective licensee can apply for a compulsory license is four years.

The new Law on Trademarks and Appellations of Origins introduces protection for Appellations of Origin in Russia. The decree putting the law into effect provides automatic recognition for former Soviet Union trademarks except where the certificate of registration had not been received. The primary problem confronting trademark protection in Russia is weak enforcement. Sharp currency devaluations have made the ruble penalties for trademark violations almost meaningless. Authorities recognize the problem and are discussing indexing penalties to wage levels.

There is significant piracy of films, videos, records, clothes, toys, and published works in Russia. Existing legal copyright provisions are inadequate, but in late 1992, the Russian Parliament was working on a new copyright law. The Russian Parliament did pass a strong new law on software protection. Among other provisions, it includes retroactive protection for computer programs in existence before August 1992. Effective IPR enforcement will require extensive public education, increasing of enforcement personnel, and realistic penalties.

8. Worker Rights

a. Right of Association

On paper, the right of workers to form and join trade unions of their own choosing improved in 1992 as the government issued a number of decrees designed to level the playing field between the old communist Federation of Independent Russian Trade Unions (FNPR), and the new, alternative unions. However, these decrees had little practical effect in diminishing the role and status of the FNPR and its hold on worker membership. The FNPR retained its inherent advantages arising from close traditional links with enterprise directors and near monopoly control over key social security benefits such as workers' vacations and sick and pregnancy pay. Democratic labor leaders consider the FNPR's control over these social security funds to be the greatest obstacle to the growth of independent, democratic trade unions in Russia.

b. Right to Organize and Bargain Collectively

Almost all Russian workers are automatically members of an FNPR affiliate. Outside the mining industry and some segments of the air transport sector, the vast majority of Russian workers must still rely upon the FNPR and Enterprise Work Councils to express their interests. Management generally deals only with those non-FNPR unions which are strong enough to strike and ignores those which are not.

c. Prohibition of Forced or Compulsory Labor

The Russian labor code was amended in September 1992 to prohibit compulsory labor, which brings domestic law closer into line with Russian foreign obligations (the USSR had signed one ILO convention on forced labor). Convicted criminals, including those confined for economic reasons no longer considered "crimes" under Russian law, have commonly been required to work, often under very difficult conditions and for minimal wages in the production of primary and manufactured goods. Inmates at some correctional labor colonies have struck over low pay and harsh working conditions.

d. Minimum Age for Employment of Children

The amended labor code also regulates the working conditions of minors aged 14-16. However, with the loosening of central government economic controls, children beneath that age have begun to enter the unofficial work force in noticeable numbers.

e. Acceptable Conditions of Work

Russian law establishes minimum conditions of workplace safety and worker health. However, these standards are generally ignored and no effective enforcement mechanism exists.

f. Rights in Sectors with U.S. Investment

Direct U.S. investment in Russia has not yet reached significant proportions. In those sectors with U.S. investment, the five generally accepted workers rights are respected to a greater extent than in Russian enterprises.

There are no sectoral statistics on U.S. investment in Russia.

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Key Economic Indicators

(Billions of Pesetas Unless Otherwise Stated)

	1990	1991	1992 1/
Income, Production and Employment			
Real GDP (1986 prices) 2/	39.0	39.9	40.5
Real GDP growth (Pct.)	3.6	2.4	1.5
GDP (at current prices) 2/ by sector:	50.1	54.8	57.5
Agriculture	2.3	2.2	2.2
Industry	12.7	13.4	13.8
Construction	4.6	5.1	5.3
Services	27.4	30.7	32.5
Real per capita GDP 5/	119.4	122.1	123.5
Labor Force (000s)	15,044	15,125	15,200
Unemployment rate (Percent)	16.1	17.0	17.0
Money and Prices (annual percentage growth)			
Money Supply (M2)	17.5	12.0	3.0
Base interest rate 3/	14.6	14.0	13.3
Personal Saving Rate 6/	22.3	21.9	21.7
Retail Inflation	6.7	5.9	6.3
Wholesale inflation	2.2	1.5	1.3
Consumer Price Index	164.1	173.9	182.5
Exchange rate Ptas/USdol Official	102.0	104.1	102.0
Balance of Payments and Trade 7/			
Total Exports FOB 4/	51.0	55.2	62.0
Exports to U.S.	3.2	2.9	3.0
Total Imports CIF 4/	80.5	87.0	100.0
Imports from U.S.	7.3	7.4	8.0
External public debt	45.0	58.0	67.5
Debt service payments (paid)	6.6	8.4	10.5
Gold and Foreign Exchange Reserves	53.1	66.3	70.0
Trade Balance 4/	-29.5	-31.8	-38.0
Balance with U.S.	-4.1	-4.5	-5.5

1/ 1992 figures are all estimates based on available monthly data.
2/ GDP at factor cost.
3/ Figures are actual, average annual interest rates, not changes in them.
4/ Merchandise Trade
5/ Real per capita GDP Index (Base 1986=100)
6/ Percentage of GDP
7/ Billions of U.S. Dollars

SPAIN

1. General Policy Framework

Following an economic boom from 1986-1990, the Spanish economy has slowed along with the major OECD economies. Real GDP growth in 1992 should be one to one-and-one-half percent, while 1993 growth should be no more than one percent. In 1993, the economy will likely slip into recession in the first half, and could remain there if the EC economies fail to recover. Another factor in the economic slowdown is the high interest rate policy implemented since mid-1989 to curb inflationary pressures. The goal of Spanish policy is to 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 invested over $60 billion in Spain since its EC accession.

The principal challenge for Spain in the 1990's will be to improve its competitiveness, which has declined in recent years owing to an overvalued currency, wage increases above productivity gains, and rigid labor laws.

The main source of inflationary pressure is the fiscal deficit, which will be about five percent of GDP in 1992. 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, the rate of growth of public works spending was sharply curtailed because of the need to cut the deficit, and in face of growing social program coverage and expenditures. Since mid-1989, the Bank of Spain has 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 which lead to the appreciation of the peseta and a rapid expansion of foreign exchange reserves. Following the European Monetary System (EMS) crisis in September 1992 in which Spain repeatedly intervened to support the peseta, only later to devalue 5% and temporarily reimpose capital controls, foreign exchange reserves fell by almost $12.5 billion to $59 billion.

2. Exchange Rate Policy

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. In September 1992, the peseta was devalued five percent in the EMS. Against the Deutsch Mark, the effective devaluation was nine percent, as the peseta also fell from the top to the bottom of the EMS band. 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. With the peseta linked to other EC currencies via the European Monetary System (EMS), Spanish competitiveness is sensitive to developments in the system.

The Government of Spain removed remaining capital controls on February 1, 1992. The controls were temporarily reimposed in the wake of the September 1992 EMS crisis, but rescinded shortly thereafter.

3. Structural Policies

Joining the EC in January 1986 required Spain to open its economy. By January 1, 1993 Spanish tariffs were eliminated must be phased out on imports from other EC countries, and lowered to the EC's common external tariff level for imports from non-EC countries. Many non-tariff barriers were also 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. 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 also liberalizes conditions for obtaining a stock brokerage license. A new foreign investment law passed in June 1992 removes many of the administrative requirements for foreign investments. Investments from EC resident companies are free from almost all restrictions, while non EC resident investors must obtain authorization from the authorities to invest in broadcasting, gaming, air transport, or defense.

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, additional one-year extensions were negotiated for 1991 and 1992. The U.S. and the EC have agreed upon a 1993 extension to be in effect until the Uruguay Round is concluded. 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 $200 million annually, are an important part of the 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 October 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 $64.1 billion in April 1992. International reserves peaked at $72.3 billion in July 1992, but fell to $59.6 billion by the end of September, as the Bank of Spain used extensive reserves in attempts to support the peseta. Moody's rates debt of the Kingdom of Spain as AA-2, although it announced in September 1992 that it was considering revising the rating downward. Given Spain's membership in the EC and the relatively high level of reserves, Spain should have no difficulty in meeting its obligations.

Spain is also a significant creditor (over $10 billion) to high debt developing countries. Spain has worked within the Paris Club to reschedule debt.

5. Significant Barriers to U.S. Exports

Import Restrictions: Strict Spanish phytosanitary regulations continue to prohibit imports of most U.S. produce, including cherries, avocados, and all citrus fruit. Beginning in January, 1992 Spain agreed to open its market to imports of U.S. apples and pears originating from Oregon and Washington. However, imports of these products from other states continue to be banned. Substantial changes to these regulations are not expected until harmonized EC regulations are in place sometime after 1992. As in other EC member states, Spain bans imports of hormone-treated U.S. beef. Other proposed EC regulations, if enacted, may place severe restrictions on imports of U.S. softwood lumber and in-shell hazelnuts.

Processed Food Standards: The Spanish Government continues to impose strict requirements governing product labeling, composition, and food additives. Spain prohibits imports of processed food products which do not meet a variety of unusually strict product standards. Food producers must conform to these standards, and importers of these products must register with government health authorities prior to importation. Shipments that do not meet these regulations must be detained at port for eventual re-export or disposal.

Telecommunications: Spain's telecommunications services policy is set out in the 1987 Telecommunications Law and subsequent amendments which brings them in line with EC requirements for liberalization, and a 30-year contract between the telephone company and the Spanish Ministry of Public Works and Transport (signed in 1991). In essence, Spain has given the national telephone company Telefonica a 30-year monopoly over basic voice service, but is allowing gradual liberalization of data transmission (the Spanish postal service will be allowed to compete), mobile telephony (a second licensee), and value-added services. The proposed

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amendments to the law restricts foreign ownership of Spanish telecommunications firms offering final or carrier services to 25 percent of equity capital without cabinet approval.

With regard to telecommunications equipment, the Spanish market is generally open. Purchases of customer premise equipment have been liberalized, while the Spanish Telephone monopoly is a major buyer of transmission and switching equipment from U.S. companies. However, product-certification requirements can still be a problem for some types of equipment.

Banking Services: U.S. banks with branches in Spain are concerned that implementation of the EC Second Banking Directive, on 1 January 1993, will place them at a competitive disadvantage. The Directive would exempt EC bank branches (but not foreign ones) from the requirement to capitalize branch operations as if they were stand-alone operations. U.S. bankers would like this exemption to be extended to U.S. banks under the principle of "Home State Regulation."

Government Procurement: The Spanish Government is implementing new regulations to fulfill its GATT Government Procurement Code obligations. Included is a major new law on government procurement which was introduced in the Spanish legislature in October, 1992. American suppliers for contracts with Spanish Government entities covered by the GATT Code now enjoy the protection afforded Code signatories with regard to non-discrimination, transparency, and appeal procedures. This protection comes directly from the relevant EC Directives.

Offset and local content requirements remain normal features in Spanish defense competitions. Offset commitments have ranged from 30 to 100 percent in recent defense awards.

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 US 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 US 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.

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Harmonization of Standards: Prior to Spain's 1986 entry into the European Community, certification requirements ("homologation") 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. products in three areas. First, in product areas such as telecommunications and some computer equipment, homologation requirements remain. The second problem area is lack of transparency and consistency in the application of the regulations. Uniform norms are missing to define the documentary evidence needed to show that an item has met the certification requirements of another EC government or that an item is in free circulation in another EC market. The third concern relates to local interpretation and application of some new EC-wide regulations. Recent cases involving Spanish enforcement of rules for fish and pleasure craft imports brought serious trade disruption until the requirements could be clarified for U.S. imports.

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 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 Berne and Universal Copyright Conventions, and the Madrid Accord on Trademarks. Government officials have said that their laws reflect genuine concern to protect intellectual property.

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 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 again. The law provides a clear legal framework for copyright protection. The new copyright law 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.

Nevertheless, U.S. software producers complain of losses from business-software piracy and are taking legal action under the new intellectual property law to correct this. The Spanish Government has responded to concerns over software piracy by sending instructions to prosecutors calling for rigorous enforcement of the law and urging private industry to pursue pirates aggressively through the courts. The U.S. software industry would like the Spanish version of the EC software directive to include provisions that allow for unannounced searches in civil lawsuits. This would help stop software copying.

In 1991, continuing government 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 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.

8. Worker Rights

a. Right of Association

All workers except military personnel, judges, magistrates and prosecutors are entitled to form or join unions of their own choosing without previous authorization. Self-employed, unemployed and retired persons may join but may not form unions of their own. The only requisites for forming a union are a group of more than two persons and registration with the Ministry of Labor and Social Security. There are no limitations on the right of association for workers in special economic zones. Under the constitution, trade unions are free to choose their own representatives, determine their own policies, represent their members' interests, and strike. They are not restricted or harassed by the government and maintain ties with recognized international organizations.

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About 11 percent of the Spanish work force belongs to a trade union. While no official data are available on the percentage of union affiliation in Spain's free trade zones, a trade union official has stated that union membership in these zones is higher than average throughout the economy.

b. Right to Organize and bargain Collectively

The right to organize and bargain collectively was established by the Workers Statute of 1980. Trade union and collective bargaining rights were extended to all workers in the public sector, except the military services, in 1986. Public sector collective bargaining in 1989 was broadened to include salaries and employment levels. Collective bargaining is widespread in both the private and public sectors. Sixty percent of the working population is covered by collective bargaining agreements 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. There are no restrictions on the right to organize or on collective bargaining in such areas.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is outlawed and is not practiced. Legislation is effectively enforced.

d. Minimum Age for Employment of Children

The legal minimum age for employment as established by the Workers Statute is 16. The Ministry of Labor and Social Security is primarily responsible for enforcement. The minimum age is effectively enforced in major industries and in the service sector. It is more difficult to control on small farms and in family-owned businesses. Legislation prohibiting child labor is effectively enforced in the special economic zones. The Workers Statute also prohibits the employment of persons under 18 years of age at night, for overtime work, or in sectors considered hazardous by the Ministry of Labor and Social Security and the unions.

e. Acceptable Conditions of Work

Workers in general have substantial, well-defined rights. A forty-hour work week is established by law. Spanish workers enjoy 12 paid holidays a year and a month's paid vacation. The employee receives his annual salary in 14 payments--one paycheck each month and an "extra" check in June and in December. Based on a 1992 average exchange rate of 100 pesetas to the dollar and full days and years of work, the legal minimum wage for workers over 18 is $18.76 per day, $562.80 per month or $7879.20 per year. For those 16 to 18 it is $12.39 per day, $371.70 per month, or $5203.80 per year. 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, automotive, 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 an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		40
Total Manufacturing		5,436
Food & Kindred Products	734	
Chemicals and Allied Products	812	
Metals, Primary & Fabricated	301	
Machinery, except Electrical	(D)	
Electric & Electronic Equipment	(D)	
Transportation Equipment	1,746	
Other Manufacturing	782	
Wholesale Trade		831
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		6,307

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

Source: U.S. Department of Commerce, Survey of Current Business, November 1992, Vol. 72, 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, Employment			
Real GDP (1985 purchasers' prices)	956.3	943.4	936.7
Real GDP growth (pct)	0.4	-1.4	-1.1
GDP (current prices at factor cost)	1,171.8	1,251.0	1,276.0
GDP by Sector (value added 1985 prices)			
Agriculture & Fishing	16.1	14.3	13.0
Forestry	14.9	14.2	14.5
Energy & Water	24.8	25.1	25.2
Mining & Manufacturing	201.9	191.2	186.3
Construction	58.6	57.3	55.0
Financial Services	39.5	42.1	42.1
Other Services	323.3	319.7	322.6
Net Exports, Goods & Services	0	21.1	29.1
Real Per Capita GDP (SEK)	111,722	109,443	108,039
Labor Force (000s)	4,643	4,637	4,566
Unemployment Rate (pct)	1.5	2.7	5.0
Money and Prices			
Money Supply (M3)	790.7	905.6	871.8
Base Interest Rate (3-month STIBOR) 1/	15.29	13.69	22.46
Personal Saving Rate (pct)	-1.2	1.9	5.8
Producer Prices (pct chg)	3.9	1.9	-1.3
Consumer Prices (pct chg)	10.4	9.4	2.1
Exchange Rate (SEK/$1.00)	5.90	6.05	5.69
Balance of Payments and Trade			
Total Exports FOB	339.9	332.8	332.4
Exports to U.S.	29.2	26.8	N/A
Total Imports CIF	323.9	301.0	290.2
Imports from U.S.	28.0	25.6	N/A
Aid from U.S.	0	0	0
Aid from other countries	0	0	0
External Public Debt	77.5	58.9	113.6
Debt Service Payments 2/	22.0	19.0	14.0
Gold & Forex Reserves 1/	103.8	99.7	112.0
Trade Balance	14.8	30.6	40.8
Balance with U.S.	-1.1	-1.1	N/A

1/ Year end and 09/30/92.
2/ Interest and amortizations on central government external funded debt. For 1992, a forecast.

Sources: Finance Ministry, Economic Research Institute, Central Bank, National Debt Office, and Statistics Sweden.

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1. General Policy Framework

Sweden is an advanced, industrialized country with a high standard of living, extensive social services, a modern distribution system, excellent internal and external communications, plus a skilled and educated workforce. The traditional resource base of the economy lies in timber and hydroelectric power, but the economy is now based increasingly on high-technology goods and services. Between one-quarter and one-third of GDP is exported; consequently Sweden is a strong supporter of liberal trading practices. Sweden applied for membership in the European Community (EC) in 1991; its interim arrangement with that organization -- the European Economic Area (EEA) -- will apply until the country is accepted as an EC member, which the government hopes can occur by 1995. By year-end 1992, most Swedish regulations had been modified to harmonize with EC practices.

Instruments used to achieve economic policy goals are the traditional monetary and fiscal ones, including an active labor market retraining policy. The Swedish Central Bank exercises considerable autonomy in the realm of monetary policy, chiefly by adjusting the overnight lending rate it charges commercial banks in order to influence levels of liquidity in the economy. On the fiscal policy side, a determination to lower tax rates, combined with the maintenance of expensive government social programs, has led to a swelling of the government budget deficit. Some of this is financed by foreign loans, but the bulk is covered by government bonds, treasury notes, a national savings scheme, and so forth.

At the end of 1992, the Swedish economy was in the midst of the worst recession experienced since the 1930s. GDP, which had declined in 1991 and 1992, was officially forecast to continue declining in 1993 before improvement would be seen. Open unemployment stood at five percent of the work force, an unprecedentedly high level for Sweden. ("Hidden" unemployment adds another three to four percent to that figure.) Interest rates remained very high in the wake of general unrest in European financial markets, hastening bankruptcies and hampering investment. Although Sweden defended the krona's fixed exchange rate through several waves of speculation in late 1992, on November 19th the government allowed the krona to float freely against European currencies. At year end, the krona's value had dropped by 12-15 percent.

Although the immediate future for the economy is bleak, the ground has been prepared for improving the general business climate and attracting foreign investment. This process was begun by the former Social Democratic government, which deregulated the credit market; removed foreign exchange controls; introduced a broad tax reform; won consensus on nuclear power policy; abolished foreign investment barriers; applied for EC membership; and pegged the krona to the European Currency Unit. The right-center coalition government which came to power after the 1991 elections is moving rapidly down the path of European integration staked out by the Social Democrats. The new government has also achieved some tax reduction, begun the privatization of government-owned corporations, stepped up investment in infrastructure, and increased investment in education and research.

Budgetary constraints at year-end 1992 are governing the speed with and extent to which some of the government's programs can be implemented. Until the economy again begins to pick up momentum, the watchwords are fiscal restraint and continued public sector austerity. In the fall of 1992, the government and opposition Social Democrats reached two broad compromise packages which postponed tax reductions and reduced social benefits. That move seems to ensure agreement for at least the next two years on the broad lines of economic policy

2. Exchange Rate Policies

Between 1977 and 1991, the Swedish krona was pegged to a trade-weighted "basket" of foreign currencies in which the U.S. dollar was accorded double weight. During that period there were nonetheless two devaluations of the krona in the early 1980s, of 10 and 16 percent. As a step on the road to eventual membership in the EC, as well as to preclude speculation of any further Swedish devaluation, the Central Bank, with the government's blessing, pegged the krona unilaterally to the European Currency Unit (ECU) in mid-1991 at a benchmark of SEK 7.4 to the ECU, plus or minus 1.5 percent. Now that the previous krona/dollar trade-weighted exchange rate relationship has been severed, Swedish trade patterns with the United States will be more sensitive to fluctuations in the exchange rate relationships between the dollar and major European currencies.

After defending the krona during turbulence on European foreign exchange markets in late 1992, which at times sent interest rates rocketing into three digits, the government was forced to float the krona against European currencies on November 19th. Between then and the end of the year, the currency lost 12-15 percent of its value.

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. As of 1993, the only remaining restriction of this legacy will be routine Central Bank screening for statistical purposes of both incoming and outgoing direct investment.

3. Structural Policies

The Swedish tax burden is the heaviest in the OECD, with central government expenditure equivalent to around 70 percent of GDP, versus an average for OECD Europe of 48 percent. The stated policy of the government is to lower tax rates to bring them in closer harmony with levels in the EC, but economic constraints are hampering such a move. A broad tax reform in 1990-91 reduced the marginal income tax rate on individuals to a maximum of around 50 percent. On the corporate side, effective taxes are comparatively low and depreciation allowances on plant and equipment are generous, though social

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security contributions for the work force add a further one-third or so to employers' wage bills. Swedish value-added tax is two-tiered, with a general rate standing in late 1992 at an effective 25 percent of retail price and a lower rate (as of January 1, 1993) at 21 percent for food, domestic transportation, and tourist-related services.

Trade in industrial products between Sweden, the EC and EFTA partners is 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 five percent ad valorem on finished goods and around three percent on semi-manufactures. Most raw materials are imported duty free. There is very little regulation of exports apart from control of arms exports and a law governing the export and reexport of certain high technology products.

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 most farm gate price guarantees. Instead, prices are now determined by both domestic and export demand, though they continue to be supported by import levies. Most other prices in Sweden are determined solely by market forces.

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. Current debt policy, dating back to the mid-1980s, had been to incur no further debt of this kind, but a heavy drain on foreign exchange reserves in conjunction with the turbulence in European financial markets in the fall of 1992 brought some modification to that policy. The Central Bank and National Debt Office borrowed heavily in foreign currencies, doubling the country's external debt to around eight percent of GDP virtually overnight. Management of the increased debt level is posing no problems to the country, however.

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 items such as munitions, hazardous substances, certain agricultural commodities, fiberboard, ferroalloys, some semi-manufactures of iron and steel, 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.

As of January 1, 1993, when Sweden's membership in the EEA Agreement came into force, the country is open to virtually all foreign investment and allows 100-percent foreign ownership except in the areas of air transportation, maritime transportation, and the manufacture of war materiel. In recent years the Swedish Government has done away with laws governing foreign acquisitions of firms and has made changes in the law controlling foreign purchases of real estate. A parliamentary commission has proposed revoking the part of the Companies Act which in the past has enabled firms to protect themselves from foreign takeover with a foreign ownership restriction clause. The Companies Act has been changed so that it is no longer necessary for board members or other corporate officials to be Swedish citizens.

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.

Government procurement is usually open to foreign suppliers, and the Swedish Government has no official policy of imposing countertrade requirements. Sweden participates in all relevant GATT codes concerned with government procurement, standards, etc.

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 Swedish Government and Swedish industry also jointly finance the Swedish Export Credit Corporation, 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, the Export Credit Corporation also provides LDCs with concessionary trade financing.

At year-end 1992, Swedish farmers were still receiving government support for exports of surplus grain and meat production, although these subsidies are being phased out. The 1991 Swedish Agriculture Reform prohibits farmers from using their organizations' reserves to subsidize agricultural exports other than grain. If and when Sweden becomes a member of the EC, its agricultural support policies will have to be adjusted to comply with the EC's Common Agricultural Policy.

In Sweden there are no tax or duty exemptions on imported inputs; no resource discounts to producers; no preferential exchange rate schemes. Sweden is a signatory to the GATT Subsidies Code.

7. Protection of U.S. Intellectual Property

Sweden strongly protects intellectual property rights having to do with patents, trademarks, copyrights, and new technologies. The laws are adequate and clear, enforcement is good, and the courts are efficient and honest. Sweden supports efforts to strengthen international protection of intellectual property rights, often sharing U.S. positions on these questions. Sweden is a member of the World Intellectual Property Organization and is a party to the Berne Copyright and Universal Copyright Conventions and to the Paris

Convention for the Protection of Industrial Property, as well as to the Patent Cooperation Treaty. As a signatory to the EEA Agreement, Sweden has undertaken to adhere to a series of other multilateral conventions dealing with intellectual property rights by January 1, 1993. Swedish intellectual property practices have no adverse impact on U.S. trade.

8. Worker Rights

a. Right of Association

Swedish workers have the right to associate freely and to strike. 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. Swedish trade unions are free to affiliate internationally and are active in a broad range of international trade union organizations.

b. 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. Many unions signed agreements in 1991 for a comparatively low compensation, but they reserved the right to reopen negotiations should certain criteria not be met or inflation exceed certain limits. The agreement expires in March 1993.

Swedish law fully protects workers from antiunion discrimination and provides sophisticated and effective mechanisms for resolving disputes and complaints.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor, which does not exist, is prohibited by laws that are enforced by the police and public prosecutors.

d. Minimum Age of Employment of Children

Compulsory nine-year education ends at age 16, and full-time employment is normally permitted at that age under supervision of local municipal or community authorities. Those under age 18 may work only during daytime and under a foreman's supervision. Violations are few, and enforcement -- by police and public prosecutors, with the assistance of the unions -- is considered good.

e. Acceptable Conditions of Work

There is no national minimum wage law. Wages are set by collective bargaining contracts, which typically have been observed even at nonunion establishments. There is substantial assistance available from social welfare entitlements to supplement wages.

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The standard legal work week is 40 hours, or less. The amount of permissible overtime is also regulated, as are rest periods. Since 1991, Sweden's vacation law guarantees all employees a minimum of 5 weeks and 2 days of paid annual leave, and many labor contracts provide more.

Occupational health and safety rules, set by the government-appointed National Board of Occupational Health and Safety in consultation with employer and union representatives, are closely observed. Trained trade union stewards and/or safety ombudsmen monitor observance of regulations governing working conditions. Safety ombudsmen have the authority to stop life-threatening activity immediately and to call for a labor inspector. The courts have upheld this authority.

f. Rights in Sectors with U.S. Investment

The five worker-right conditions addressed above obtain in all firms, Swedish or foreign, throughout all sectors of the Swedish economy.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		(D)
Total Manufacturing		1,213
Food & Kindred Products	60	
Chemicals and Allied Products	60	
Metals, Primary & Fabricated	(D)	
Machinery, except Electrical	905	
Electric & Electronic Equipment	15	
Transportation Equipment	(D)	
Other Manufacturing	109	
Wholesale Trade		342
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, November 1992, Vol. 72, No. 8, Table 11.3

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Key Economic Indicators

(million of Swiss francs unless otherwise noted)

	1990	1991	1992
Income, Production and Employment			
Real GDP (1980 Prices)	209,395	209,170	206,010(1)
Real GDP Growth (PCT)	2.3	-0.1	-0.3(1)
Real Per Capita GDP (000's)	31.018	30.632	30.46
GDP (at current prices)	313,990	332,685	330,830(1)
Labor Force (000's)	3,563.2	3,560.3	3,531.1(1)
- of which foreigners	903.7	929.7	942.3(1)
Unemployment rate	0.6	1.3	3.3(2)
Money and Prices			
Central Bank Money (PCT)	-3.7	3.5	-1.4(3)
Money Supply M1 (PCT)	-4.2	1.7	-2.9(3)
Base Interest Rate	6.0	7.0	7.0(3)
Savings Rate	4.55	5.05	5.09(2)
Consumer Price Index (PCT CHG)	5.4	5.9	3.5(2)
Wholesale Price Index (PCT CHG)	1.5	0.4	-0.2(2)
Exchange Rate (USD/Sfr)	0.720	0.687	0.769(3)
Balance of Payments and Trade			
Total Exports	88,257	87,947	85,944(4)
Exports to U.S.	6,977	6,406	7,143(4)
Total Imports	96,611	95,032	87,185(4)
Imports from U.S.	5,921	6,096	5,673(4)
Trade balance	-9,531	-8,009	-1,240(4)
Gold & For Exchange Reserves	36,565	34,439	37,634(5)

(1) Annualized using data through end of June
(2) Rate as of end of September
(3) Rate as of end of August
(4) Annualized using data through end of September
(5) Through end of August

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. After eight consecutive years of economic expansion, Switzerland has been experiencing since 1991 a mild recession. The current slowdown of the economy reflects the weak international and European economies, and the impact of high interest rates on interest rate sensitive domestic sectors such as construction and industrial investment. These sectors were most affected by the restrictive monetary policy introduced by the Swiss National Bank to reduce inflation. Unemployment rose in the last two years from traditionally low rates. This is the result of structural adjustments in the economy, improved unemployment insurance packages which encourage registration and better integration of foreign workers in Switzerland.

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Fiscal policy is not actively employed as a countercyclical device. In the Swiss federal system, the cantons and communities are more important in fiscal weight and function independently from the federal government. The budgeted federal share of both total public expenditures and revenues is approximately 35 percent. Recently budget deficits at all levels of government have led to a deterioration of the public sector budget situation that sharply contrasts with the surplus of the late 1980's. The federal government budget deficit amounted to Sfr 2 billion in 1991. It is expected to reach similar heights in 1992 and could even approach Sfr 5 billion in 1993. The combined government deficit is expected to reach Sfr 10 billion in 1993. The deficits are partially the result of declining tax revenues based on the weakening economy and on the rapid increase in spending for unemployment insurance and for debt payments. To counteract the budget situation, Parliament recently adopted a package of saving measures and is considering a second one in March 1993.

On September 27, 1992, Swiss voters accepted a partial revision of the stamp tax on the transaction and emission of stocks and bonds. Consequently, beginning in April 1993 when the revision becomes effective, federal revenues will decline by a further Sfr 400 million a year. In October 1992 parliament approved a new gasoline tax which will compensate for this reduction in revenues. However, opponents of the new tax have called for a referendum on the subject in June 1993.

Swiss monetary policy is determined fairly independently by the Swiss National Bank (SNB). The SNB's main objective is to maintain price stability. To achieve this goal, the SNB until recently followed with success a monetarist approach fixing the annual growth rate for the Monetary Base. However, essentially because of technical changes, the SNB had to deviate from its traditional policy to turn to a more exchange rate oriented approach. As a result of the uncertainties in the European Monetary System last September, which once more transformed the Swiss franc into a safe-haven currency, the SNB acquired some room to maneuver in relaxing its restrictive monetary policy. Consequently, Swiss interest rates have declined recently. This is expected to have a positive effect on the economic activity as a whole.

Switzerland is a member of the European Free Trade Association (EFTA). In a December 1992 referendum, Swiss voters decisively voted against Switzerland acceding to the European Economic Area (EEA) agreement being negotiated between EFTA and the European Community. As a result, Switzerland will remain outside the EEA.

2. Exchange Rate Policies

There are no multiple exchange rates, nor any significant capital controls today. The SNB's past concerns about the internationalization of the Swiss 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.

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Good overall macroeconomic performance, including low inflation rates and a balanced government budget, and political stability long gave the Swiss franc a unique status as a safe haven currency. However, the economic performance of the major European countries during the 1980's reduced the relative attractiveness of the Swiss franc. The SNB has always kept an eye on the exchange rate and had modified its basically monetarist approach in the event of dramatic shifts in the value of the Swiss franc. The relationship between the swiss franc and German mark is particularly important since Germany accounts for almost a third of Swiss trade.

3. Structural Policies

The Swiss use market mechanisms to establish prices for most manufactured products. 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 agreements which are not prohibited under current Swiss laws. Under the 1986 Cartel Act, a Government Cartel Commission determines whether a cartel is actually in the public interest. The Commission's work has led to significant changes in many sectors including banking and insurance. However, a lack of personnel resources has limited the scope of activity.

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.

Farmers receive guaranteed prices for bread, grains, sugar beets, milk, and other basic products. Oversight is often delegated to private sectors or mixed cartel-like organizations. Prices of agricultural imports are raised to domestic levels by variable import duties 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 federal government must introduce a tax package before its present authority to levy taxes expires in 1994, major revisions of the current system are unlikely. 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. The country participates in the Paris Club for Debt Rescheduling and is an active member of the OECD. Switzerland joined the International Monetary Fund and the World Bank in 1992 and holds a seat on the

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Executive Board.

5 Significant Barriers to U.S. Exports

Switzerland has generally low tariff barriers. It imposes no countervailing duties and has concluded no restrictive bilateral agreements. The main trade-impeding, non-tariff barriers which affect U.S. manufactured exports exist in the areas of technical standards and testing requirements, in particular for telecommunication equipment. However, these liberal trade policies do not apply to agriculture, a sector with extensive barriers. Trade restrictions in agriculture are described in subsequent sections.

Import licenses: Except for agricultural products, 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 is used primarily for statistical purposes.

Services barriers: Under a film law in force since 1962, Switzerland imposes annual quotas on the number of foreign films allowed to enter 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. New legislation, in preparation since 1989 and expected to be in place by 1993, will abolish the quota system and deregulate the Swiss feature film business.

Foreign banks wishing to set up 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. The Swiss stock exchange has 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 the country. Therefore, it is necessary for foreign insurers wishing to write business in Switzerland to establish a subsidiary or a branch there. 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 in their articles of incorporation impose restrictions on the transfer of registered shares. This can, and often does, include restrictions on foreign ownership. However, this provision, introduced to limit hostile takeovers, has been restricted by the introduction in July 1992 of new legislation. Now to prevent or hinder a takeover by an outsider, public corporations must cite significant reasons relevant to their survival or the conduct and purpose of their business.

As a further measure, public corporations may limit the number of registered shares that can be held by any one shareholder to a certain percentage of the issued registered stocks. As practice has shown, most corporations limit the number of shares to between two and five percent of the relevant stock.

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 residing in Switzerland and having Swiss nationality.

Attorneys and Lawyers, like all other members of professional classes (physicians, gets, pharmacists, therapists, engineers, and architects) must pass a federal, or in some cases a cantonal, examination and obtain appropriate certification before they may set up a business of their own.

Standards, testing, labeling, and certification: A large number of standards and technical regulations in force in Switzerland are based on international norms. Most technical equipment approved, for example, in Germany is automatically accepted in Switzerland. However, household electrical 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. Labeling requirements in multiple language (German, French, and Italian) also pose difficulties. These handicaps do not represent formidable barriers and can be taken care by local distributors.

Investment barriers: The Swiss generally welcome foreign investment and accord it national treatment. Federal and local governments attitude is in principle one of detached non-interference. Legislation affecting foreign investments is confined to the following areas: prohibition of the purchase of real estates 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.

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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.

Strict regulations govern the admission of foreigners seeking to enter Switzerland to perform skilled or unskilled work. Nevertheless, the ratio of foreign labor was close to 30 percent of the workforce in 1992. It is difficult to speculate at this juncture whether the Swiss authorities under present circumstances will be able to show a certain flexibility, or even slightly liberalize their policy, in admitting managerial staff for subsidiaries of U.S. companies. While the number of foreigners in the country is a sensitive issue, the Swiss also have an economic interest in keeping U.S. companies in Switzerland.

Government procurement practices: Swiss authorities comply with the GATT rules regarding procurement by government entities. In bidding for government contracts, foreign suppliers are generally 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 to liberalize the Swiss telecommunications market.

Customs procedures: Although Switzerland may still 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, ranging for most imported items between two and ten percent.

Switzerland has a highly subsidized agricultural sector that is protected by a variety of import restrictions (licensing, quotas, supplementary import charges, variable levies, conditional import rules, import calendars, etc.) According to the OECD, 75 percent of Swiss farmer income 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

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 risk guarantee program, jointly funded by government and private sources. Approximately 15 percent of total Swiss exports receive such coverage. Risks covered include foreign exchange difficulties, payment moratoriums, insolvency and political risk including revolution, civil strife, and nationalization.

In agriculture, the federal government subsidizes the export of dairy products (primarily cheese) by covering the losses of the quasi-governmental export organization. Exports of processed food products (chocolate products, grain-based bakery products, etc.) are subsidized by compensating exporters for the difference between world prices and higher Swiss prices for inputs (i.e for grain, milk, butter, sugar, etc.). 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, 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 specifications and, if necessary, technical drawings. The maximum duration of a patent is 20 years. Renewal fees are payable annually on an ascending scale.

According to the Swiss Patent Law of 1954, as amended, the following items cannot be covered by patent protection: surgical, therapy and diagnostic processes for application on humans and animals; inventions liable to disturb law and order and offend "good morals". Nor are patents granted for species of plants and animals and biological processes for their breeding. The issue of providing patent protection in the field of genetechnology is currently being discussed by Parliament, but is far from resolved. 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, regardless of whether their trademarks are entitled to protection in their own country. Applications for trademark registration should be made to the Federal Office for the Protection of Intellectual Property in Berne. Trademarks are protected for periods of 20 years and may be renewed.

Copyrights: Protection of copyrights is adequate. The pertinent legislation is enforced efficiently and promptly. Piracy occasionally occurs in the copying of video films, software and musical tapes. Two agencies collect royalties for cable and other types of retransmission of foreign sound or film programs and remit these to the rightful owners abroad. One is SUISA in Zurich for audio, the other SWISS-IMAGE in Berne for visual material. These organizations report infringements of copyrights which come to their attention to the appropriate Swiss authorities which will then initiate proceedings against offenders. This procedure accords national treatment to foreign copyright owners and is covered by the provisions of the Berne Convention (Stockholm version) of 1967 and the Universal Copyright Convention of 1952.

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 works and achievements of others in the field of new and marketable technologies may not be exploited commercially by third parties. Infringements are considered a criminal offense. Specific legislation on computer software and semiconductor chip layout designs was recently passed and is due to come into force in 1993. Until then, protection is still provided by the Unfair Trading Act.

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. Right of Association

All workers, including foreign workers in Switzerland, have freedom to associate freely, to join unions of their choice, and to select their own representatives. Unions can publicize their views and determine their own policies to represent members' interests without government interference. Unions may join federations or affiliate with international bodies. There are no limits on the right to strike. An agreement between unions and employers in the 1930's has meant fewer than 20 strikes on average per year since 1975. There were no significant strikes in 1992.

b. 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 and Compulsory Labor

There is no forced or compulsory labor, although there is no specific statute or constitutional ban on it.

d. Minimum Age for Employment of Children

The minimum age for employment of children is 15 years.

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Children over 13 may be employed in light duties (e.g. helping in retail stores) for no 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 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' association. 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 to 43 hours. Female workers may not be employed in dangerous work or, in industry, at night or on Sundays, even if these two limitations might be changed by the current revision of the Labor Law dating from 1948. Women are also legally forbidden to work two months after giving birth, although their employers' obligation to pay them sick leave during this time will depend on their length of employment. The employer must rehire women when their pregnancy leave ends. Swiss federal law also sets minimum requirements in several areas, such as annual leave, length of notice for termination of employment by either worker or employer, sick leave, and other fringe benefits. It also covers occupational health and safety regulations, as well as special regulations for protection in workplaces involving hazardous activities or substances, e.g. chemicals.

f. Rights in Sectors with U.S. Investments

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 workers rights does not distinguish among workers by sector, by nationality, by employer, or in any other manner which would result in different treatment of workers employed by U.S. firms from those employed by Swiss or other foreign firms.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		836
Total Manufacturing		1,249
Food & Kindred Products	(D)	
Chemicals and Allied Products	222	
Metals, Primary & Fabricated	79	
Machinery, except Electrical	216	
Electric & Electronic Equipment	178	
Transportation Equipment	0	
Other Manufacturing	(D)	
Wholesale Trade		6,929
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		9,014

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

Source: U.S. Department of Commerce, Survey of Current Business, November 1992, Vol. 72, No. 8, Table 11.3

TURKEY

Key Economic Indicators

(Billions of Turkish Lira (TL) Unless Otherwise Noted)

	1990	1991	1992 1/
Income, Production, and Employment			
Real GDP (1987 prices) 2/	85,036.9	85,827.1	90,500.0
Real GDP growth (pct)	9.6	0.9	5.5
GDP (at current prices) 2/	395,722.4	626,471.1	900,000.0
By sector:			
Agriculture	71,174.2	105,099.8	N/A
Energy and Water	8,331.7	14,888.7	N/A
Manufacturing	87,168.5	140,139.3	N/A
Mining & Quarrying	7,639.3	11,895.3	N/A
Construction	23,957.6	39,908.1	N/A
Dwelling Ownership	13,218.4	23,227.6	N/A
Financial Services	12,868.5	25,393.9	N/A
Other Services	124,314.6	184,833.7	N/A
Government, Health and Education	33,652.8	58,878.9	N/A
Net Factor Income from Abroad	4,117.4	4,314.2	N/A
Real per capita GNP ('87 TL 000s)	1,533.9	1,506.3	1,545.0
Labor Force (000s)	19,844.0	20,145.0	20,839.0
Unemployment Rate (pct)	8.2	7.4	8.(
Money and Prices (Annual Percentage Growth)			
Money Supply (M2, mid year)	68.6	45.4	69.7
Base Interest Rate	N/A	N/A	N/A
Personal Saving Rate	20.7	21.9	21.3
Wholesale Inflation	48.6	59.2	60.1
Consumer Price Index	60.4	71.1	67.7
Exchange Rate (TL/US$)	2,607.6	4,169.9	6,700.0
Balance of Payments and Trade ($US)			
Total exports FOB 3/	12,959.3	13,593.4	15,800.0
Exports to U.S.	968.0	913.0	N/A
Total Imports CIF 3/	22,302.1	21,046.9	23,300
Imports from U.S.	2,282.5	2,241.0	N/A
Aid from U.S.	515.0	755.0	125.0
Aid from Other Countries	741.0	1,635.0	467
External Debt	49,035.0	48,661.0	50,961.0
Debt Service Payments (Paid)	7,250.0	7,525.0	7,100
Gold and Foreign Exchange Reserves	11,764.0	13,126.0	15,940.0
Trade Balance 3/	-9,343.0	-7,440.0	-7,960.0
Balance with U.S.	-1,314.0	-1,328.0	N/A

1/ 1992 figures are all estimates based on available monthly

data in October 1992.
2/ GDP at producer's value.
3/ Merchandise trade.

1. General Policy Framework

From the establishment of the Republic until 1980, Turkey was an insulated, near autarkic, state-directed economy. In 1980, however, the country began to rewrite its economic policies; the new philosophy was based on increased reliance on market forces, decentralization, export-led development, lower taxes, foreign investment, and privatization. These reforms have brought Turkey impressive benefits, including a 1990 gross national product (GNP) growth rate that was the highest of any OECD country.

Inflation, Growth: Inflation, fueled primarily by growing public sector deficits, continues to be a serious problem. In 1991 consumer prices (CPI) rose by 71 percent, the highest annual rate since 1988. Moderating food prices contributed to a slowdown in CPI growth in mid-1992, but inflation for the full year will probably be above 60 percent. Inflation, together with the Gulf Crisis, tipped the Turkish economy into recession in the first half of 1991; a modest recovery in the second half led to 0.3 percent GNP growth for the year as a whole, insufficient to maintain Turkey's per capita income in the face of annual 2.2 percent population growth. 1992 was off to a better start, with 6.3 percent real economic growth for the first half of the year; GNP is expected to rise 5.5 percent for the year as a whole.

Fiscal Policy: The Turkish Government continues to spend far more than it receives in revenues and tax receipts. In 1991 the public sector borrowing requirement (PSBR) reached a record 9.2 percent of GNP, up from 7.7 percent in 1990. The PSBR, which includes the borrowing requirements of budgetary departments, state economic enterprises (SEEs), and off-budget funds, is not expected to be reduced substantially in 1992. The government has incurred sizable debt to finance major infrastructure projects such as the Ataturk Dam and the Southeast Anatolia Project, and to support the SEEs. Deficits are financed primarily through domestic borrowing and advances from the Central Bank.

Monetary Policy: In 1990 Turkey's Central Bank instituted a comprehensive monetary policy that targets items on its balance sheet rather than macroeconomic variables. By targeting the growth of its balance sheet, domestic liabilities, domestic assets, and Central Bank Money, the Bank hoped to provide sufficient liquidity to the economy while maintaining stable interest and exchange rate movements. In January 1992 the Bank issued a new program that is broadly in line with the 1990 plan. This program assumes a fiscal policy based on substantial declines in inflation and the government budget deficit, and a limit to short-term advances provided to the Treasury by the Bank. By October 1992, many analysts believe that these assumptions are no longer valid. Long-term deposit interest rates are slightly positive in real terms; deposits have been growing faster than inflation.

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2. Exchange Rate Policy

The Turkish lira (TL) is fully convertible and its exchange rate is determined by the market. The Central Bank intervenes in the money markets to dampen short-term exchange-rate fluctuations and to provide liquidity during extraordinary events, such as during the Gulf War.

The TL appreciated in real trade-weighted terms (adjusted by relative CPI changes) by more than 20 percent in 1989 and 1990, and by about one percent in 1991 (although it depreciated slightly vis-a-vis the dollar). For 1992 through September, the TL/dollar exchange rate change has closely tracked CPI increases, resulting in no real effective appreciation or depreciation.

3. Structural Policies

Since 1980 Turkey has made substantial progress in implementing structural reforms and liberalizing its trade and foreign exchange regimes. Privatization of state economic enterprises (SEEs), which account for nearly 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 35 percent of the PSBR in 1991. 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.

Following liberalization of the import regime in 1989, imports began to climb dramatically, rising some 41 percent in 1990. Due primarily to slowing economic growth, they declined by nearly 6 percent in 1991 to $21 billion. Turkey's largest source of imports in 1991 was Germany, which accounted for 15 percent of total imports, followed by the United States, with 10.7 percent. In line with 1992's economic recovery, total imports grew nine percent during the first seven months of the year; imports from the U.S. were up sixteen percent during the same period, resulting in a U.S. trade surplus of $1.1 billion.

By the terms of its Association Agreement with the European Community (EC), Turkey is scheduled to adopt the EC's Common External Tariff in 1996. This should result in generally-lower tariffs and fees on U.S. imports than those currently in effect.

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 1991 Turkey's gross outstanding external debt equalled $48.7 billion. Debt service obligations for 1991 were up slightly from 1990's level to $7.5 billion. Turkey has had no recent difficulty in servicing its foreign debt, and no problems are foreseen.

The Turkish debt service ratio, in fact, has dropped annually from 1988 when it was 35.6 percent of foreign exchange revenues; 1991's comparable figure was 26.8 percent. The public sector, including state economic enterprises and local governments, remained the major borrower, accounting for about 78 percent of total outstanding debt and 96 percent of medium- and long-term debt. Bilateral official lenders, principally OECD member countries, accounted for approximately 28 percent of Turkey's 1991 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 $5.4 billion as of June 1992, with $619 million in new credits signed during the Bank's 1992 fiscal year. Turkey completed payments in 1990 on its last IMF standby agreement, which had been reached in 1984.

5. Significant Barriers to U.S. Exports

Import Licenses: In general, most new products may be freely imported. However, there are some restrictions on the import of used and reconditioned equipment. Certification that quality standards have been met is required from the Ministries of Health or Agriculture for the importation of human and veterinary drugs and for certain foodstuffs. Importers must establish a spare parts and repair network for most products which need after-sales service (e.g., photocopiers, EDP equipment, diesel generators). The import regime consists of a core list which indicates the applicable customs duties and surcharges for each commodity. A second list consists of commodities which are encouraged for investment purposes and are exempt from customs duties (surcharges are still levied).

Import Surcharges: Although Turkey has gradually liberalized its trade regime, import duties remain high on certain products such as wine, wood products, and foreign films. In addition, imports are subject to surcharges and an array of taxes. Since their introduction in early 1984, a proliferating variety of surcharges has diminished the overall liberalization of the import regime. Although the government has eliminated some surcharges, today about 5,000 items are still subject to them. The frequent revision of surcharge rates makes tracking of Turkey's import liberalization difficult. The highest levies amount to over 60 percent of the value of the imported item. By comparison, however, the highest tariff rate is about 40 percent (for luxury items), while most tariffs are 20 percent and under.

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. In several instances, government authorities have ignored the results of "best and final offer" bidding competitions only to reopen bidding for the same project a second, and even a third time. In early 1992 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 variety of incentives are provided to investors of all nationalities to encourage investment in certain regions and sectors.

6. Export Subsidies Policies

Turkey employs a number of incentives to promote exports, including export credits and a variety of tax incentives. The Turkish Eximbank provides exporters with credits, guarantees, and insurance programs; foreign-owned firms, including several U.S. companies, make use of TurkExim's programs, especially for trade with the republics of the former Soviet Union.

An export tax rebate system was eliminated in 1989 in conjunction with Turkey's accession to the General Agreement on Tariffs and Trade Subsidies Code. A partial deduction for corporate tax purposes allows exporters to deduct 8 percent (down from 16 percent in 1991) of their industrial export revenues above $250,000 from their taxable income. Exported products are not subject to the value added tax.

7. Protection of U.S. Intellectual Property

Turkey needs improved copyright and patent protection as well as greater penalties and enforcement of existing legislation. As a result of inadequate protection for intellectual property, in 1992 Turkey was placed on the "Priority 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.

Copyrights: Turkey's copyright law ("Intellectual and Artistic Works Law") dates back to 1951. Unauthorized copying and sale of U.S.-origin books, videos, sound recordings, and computer programs by local producers are widespread. The 1987 Cinema, Video, and Music Works Law provided greater protection for these 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 finally passed a law prohibiting computer software piracy. A new copyright law and a new Cinema Video law have been drafted, but as of October 1992 they have not been presented to Parliament.

Patents (Product and Process): Turkey's 1879 Patent Law does not provide protection for human or veterinary drugs nor 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. The patent term in Turkey is only 15 years from the date of filing. New draft patent legislation has been prepared but as of October 1992 had not yet been presented to Parliament.

Trademarks: Counterfeiting of foreign trademarked products, such as jeans, perfumes, and spare car parts, is widespread. Trademark lawyers generally believe that the relevant laws are adequate, but that the criminal justice system, overwhelmed by far more serious crimes, is not willing to devote the effort necessary to prosecute offenders. Counterfeiters are generally small operations rather than large companies.

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 $35 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. 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 worked closely with Turkish government officials on the preparation of the new intellectual property rights draft laws.

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 as anyone directly employed by central government ministries) are not permitted to organize unions.

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. Turkish law and the labor court system require collective bargaining before a strike. The law specifies a series of steps which a union must take before it may legally strike, and a similar series of steps before an employer may engage in a lockout. Nonbinding mediation is the last of these steps. Once a strike is declared, the struck employer may respond with a lockout. If the struck firm chooses to remain open, it is prohibited from hiring strikebreakers or from using administrative personnel to perform jobs normally done by strikers. Solidarity, wildcat, and general strikes are illegal.

Constitutional amendments that would grant all categories of employees the right to form unions and would also expand the right to strike were submitted to Parliament for consideration in late 1992.

The 1984 law establishing free trade zones forbids strikes for ten years following their establishment, although union organizing and collective bargaining are permitted. The High Arbitration Board settles disputes in all areas where srikes are forbidden.

b. Right to Organize and Bargain Collectively

Apart from the categories of public employees noted above, Turkish workers have the right to organize and bargain collectively. The law requires that in order to become a bargaining agent a union must represent not only 50 percent plus one of the employees at a given work site, but also 10 percent of all workers in that particular branch of industry nationwide. Once the union is certified by the Ministry of Labor, the employer must enter good faith negotiations with it.

c. Prohibition of Forced or Compulsory Labor

The Constitution prohibits forced or compulsory labor.

d. Minimum Age of Employment for Children

The Constitution prohibits work unsuitable to the age of a person, and current legislation forbids full time employment of children under 15. The law also requires that school children of age 13 and 14 who work part time must have their working hours adjusted to accommodate school requirements. In practice, many children under 13 work as street peddlars, in home handicrafts, on family farms, and in various other endeavors. Under-aged children are not employed in unionized industry or services.

e. Acceptable Conditions of Work

The Labor Ministry is legally obliged to adjust the minimum wage at least every two years and has done so annually for the past several years. Labor law provides for a nominal 45-hour work week and limits the overtime that may be requested by an employer. Most workers in Turkey receive nonwage benefits such as transportation and meal allowances and sometimes housing or subsidized vacations. In recent years fringe benefits have accounted for as much as two-thirds of total remuneration in the industrial sector. Occupational safety and health regulations and procedures are mandated by law, but limitations on resources and lack of safety awareness often result in inadequate enforcement.

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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 an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		104
Total Manufacturing		282
Food & Kindred Products	(D)	
Chemicals and Allied Products	52	
Metals, Primary & Fabricated	(D)	
Machinery, except Electrical	(D)	
Electric & Electronic Equipment	17	
Transportation Equipment	(D)	
Other Manufacturing	42	
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, November 1992, Vol. 72, No. 8, Table 11.3

TURKMENISTAN

Key Economic Indicators*

(Millions of rubles unless otherwise noted)

	1990	1991	1992 1/
Income Production and Employment			
GDP (at current prices) 2/	7,582	14,667	152,282
By Sector:			
Agriculture	2,548	5,680	55,546
Manufacturing	833	2,514	23,555
Construction	950	2,225	19,280
Other Services 3/	1,915	3,145	24,718
Net Exports of Goods and Services	2,585	8,868	N/A
Labor Force (000s)	1,859	1,923	1,963
Unemployment Rate (pct.)	1.9	1.9	2.2
Money and Prices			
Money Supply (pcntg growth)	N/A	220	650
Base Interest Rate (pct)4/	8	8-12	15-17
Personal Saving Rate (pct)	12.4	25.8	8.9
Retail Inflation (pct)	4.6	87.3	686.5
Wholesale Inflation	N/A	201.0	950.0
Consumer Price Inflation(%)	N/A	89.8	717.8
Exchange Rate (ruble/USD)			
Official	0.59	0.58	200
Commercial	0.59	1.7	N/A
Parallel	18.8	59.0	N/A
Balance of Payments and Trade			
Total Exports FOB(bill$) 5/	2.641	7.836	1.200
Exports to U.S.	N/A	N/A	N/A
Total Imports CIF(bill $)5/	3,612	6,938	1.000
Aid from U.S.(mil dols)	N/A	N/A	12.7 6/
Trade Balance (mill $) 5/	-971	898	200

* All figures should be regarded as indicators of order of magnitude only.
1/ 1992 figures are all estimates based on available monthly data in October 1992.
2/ GDP at factor cost.
3/ Ministry of Economics & Finance notation "added value of services"
4/ Figures are actual average annual interest rates
5/ Merchandise trade
6/ Other U.S. assistance was available through regioal programs for which a country-by-country breakdown is not available.

1. General Policy Framework

Turkmenistan formally declared its independence from the USSR on October 27, 1991. President Niyazov, who was elected unopposed on October 27, 1990 was previously Chairman of

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Turkmenistan's Supreme Soviet and First Secretary of the Central Committee of the Republic's Communist Party. He stood for re-election in June 1992. Unchallenged, he won 99.5 percent of the vote.

President Niyazov has declared that Turkmenistan should develop its economic potential by creating a market economy that maintains a role for the state in industry, science, health, and national culture. Turkmenistan is making only limited moves toward transforming its economy. For the next three to five years, oil, gas, minerals, and most agriculture, which constitute approximately 80 percent of the economy, have been reserved for state ownership and control. The government expects to reduce the level of state involvement in these key sectors of the economy only gradually.

Turkmenistan's economy is highly dependent on the production and processing of energy resources and cotton. The republic is rich in natural resources with an estimated 8.1 trillion cubic meters of natural gas reserves and 700 million tons of oil reserves. Turkmenistan has large reserves of various minerals and salts, with indications of commercially exploitable deposits of gold, silver, and platinum. Cotton is the dominant agricultural crop, accounting for more than 50 percent of arable land and 60 percent of total agricultural production in 1991.

Turkmenistan's economy is predominantly agricultural, with agriculture accounting for nearly half of GDP and more than two-fifths of total employment. Agricultural production relies heavily on irrigation. While agricultural yields have been comparatively low, due to years of inefficient water use, salinization, inappropriate land irrigation, and overdevelopment of cotton cultivation, the government has reduced the area allotted to cotton and will introduce charges for irrigation water in January 1993. The government also has ambitious plans to develop a food processing industry to use Turkmenistan's surplus production of fruits and vegetables more efficiently.

Livestock accounted for nearly one-fourth of total gross agricultural production in 1991. The large degree of specialization of the agricultural sector has rendered the economy heavily dependent on food imports. In 1991, Turkmenistan imported 65 percent of its grain consumption, 45 percent of milk and dairy products (especially cheese), 70 percent of its consumption of potatoes, and 100 percent of its sugar. To reduce its dependence on food imports, the government has encouraged domestic grain and sugar beet production and has plans to invest in dairy and sugar processing plants and equipment.

The specialization of Turkmenistan's production and the openness of the economy make the country particularly vulnerable to external shocks, as evidenced by the serious economic consequences stemming from disruptions to trade among the former Soviet republics since 1989. While Turkmenistan has aggressively pursued new export markets for its energy, mineral, and cotton production, and has broadened its range of import sources, problems in interrepublican trade continue to affect key sectors of the economy, including health care, agriculture, and construction.

Turkmenistan's fiscal record in recent years has been one of moderate but sustained surpluses. Taxes make up about 40 percent of revenue, with profit transfers from state-owned enterprises increasingly making up the remainder. In the first nine months of 1992, the budget remained roughly in balance, but outlays for capital investments, subsidies to cover price differentials on essential consumer products, education, health care, social security, and public sector wage increases (two announced during 1992) threatened to push the 1992 budget into deficit.

With respect to monetary policy, the main instruments of credit control include reserve requirements and refinance policy. However, as part of the ruble zone, Turkmenistan imports Russian inflation and has only limited control over monetary policy. The level of banks' access to Central Bank credit is effectively determined by the Ministry of Economics and Finance which sets interest rates and provides credit guidelines to banks. In principle, foreign companies have access to domestic credit, but they are encouraged to make their own external credit arrangements.

Turkmenistan continues to use the Russian ruble. The government has announced its intention to issue a national currency at some point but it has assured the Government of Russia that is will provide six months' notice before introducing its own currency.

Turkmenistan joined the IMF, World Bank and European Bank for Reconstruction and Development in 1992. The World Bank anticipates lending about $80 million to Turkmenistan in the next year or two. Loans would provide support for institution building, agricultural reform and energy sector improvements.

Turkmenistan became an observer to the GATT in June of 1992.

2. Exchange Rate Policy

The Central Bank of Russia provides the current Russian ruble exchange rate to Turkmen banking authorities at least weekly, although unlike Russia, Turkmenistan maintains multiple exchange rates.

3. Structural Policies

The government is anxious to attract foreign investments to develop Turkmenistan's substantial energy, mineral, and agricultural resources. A battery of laws on foreign investment, banking, property ownership, and intellectual property rights protection passed in 1992 were intended to attract investors. Turkmenistan is discussing a bilateral trade agreement with the United States.

The government in 1992 developed a list of goods and services whose importation would be subject to licensing or prohibition. The goods and services included on this list do not constitute a significant barrier to U.S. or other foreign exports. While the conditions under which foreign exchange will be made available for the importation of goods and services have not been clearly specified, foreign exchange is available for goods and services which the government considers priority items.

A varying proportion of foreign exchange proceeds from the export of certain goods must be surrendered to support of the government's foreign exchange fund. The surrender of hard currency earnings from exports is made on the basis of ruble wholesale prices. That is, exporters receive the equivalent of the domestic ruble price of the goods exported in return for the foreign exchange surrendered. To the extent that domestic wholesale prices are set by the government at levels below international prices, the system of surrender requirements creates an implicit tax on exporters. To avoid this implicit tax, many exporters engage in barter.

4. Debt Management Policies

In the economic agreement signed with Russia on July 31, 1992 Russia assumed all of Turkmenistan's debt obligations as a member of the former Soviet Union (FSU), while Turkmenistan surrendered all claims to FSU assets. As a result, Turkmenistan officials stated that Turkmenistan had no official external debt as of August 1.

5. Significant Barriers to U.S. Exports

There are no significant formal barriers to U.S. exports. However, the shortage of hard currency and poor transportation and communications infrastructure impeded trade. Both government and individual importers rely heavily on barter trade, and with Russia, on clearing arrangements (which are *de facto* barter deals based on ostensible international prices).

To normalize its trade and investment relations with Turkmenistan, the United States has proposed a new network of bilateral economic agreements. The Turkmenistani government is considering a draft U.S.-Turkmenistan trade agreement proposed by the United States, which provides reciprocal Most Favored Nation status.

Preliminary discussions were held on a U.S.-Turkmenistan bilateral investment treaty, which would establish a bilateral legal framework to stimulate investment. The United States has also proposed a bilateral tax treaty, which would provide U.S. businesses relief from double taxation of income. An Overseas Private Investment Corporation (OPIC) agreement, which allows OPIC to offer political risk insurance and other programs to U.S. investors in Turkmenistan, was also concluded in 1992 and is in force.

6. Export Subsidies Policies

While the government provides subsidies to state enterprises, these are aimed at supporting production and employment, not exports. Foreign exchange surrender policies actually create an implicit tax on exports.

7. Protection of U.S. Intellectual Property

In September 1992, the president signed a law on the protection of intellectual property rights. The law should provide adequate protection, but there is, as yet, no history of enforcement. Government officials have indicated that Turkmenistan intends to join major multilateral intellectual property conventions. The draft U.S.-Turkmenistan trade agreement currently under consideration contains commitments on protection of intellectual property.

8. Worker Rights

a. Right of Association

Turkmenistan has inherited the Soviet system of government-affiliated trade unions. While no law specifically prohibits the establishment of independent unions, there are no such unions and no attempts were made to register an independent trade union in 1992. Strikes are not prohibited by law, but no strikes occurred in 1992. Disputes over work conditions or other grievances are resolved through negotiation among the trade union, government, and the employing concern (which is also, invariably, a government enterprise).

b. Right to Organize and Bargain Collectively

The right to collective bargaining is not protected by law. Minimum wages and general guidelines for wages are set by the Ministry of Economics and Finance. In practice, the worker's ability to bargain is severely limited by the fact that both trade union and factory/economic concern are affiliated with the government. The Turkmen economy remains almost entirely state controlled, and while laws facilitating privatization have been passed, little progress has been made.

c. Prohibition of Forced or Compulsory Labor

Compulsory labor is forbidden by Turkmenistan's Constitution.

d. Minimum Age of Employment of Children

The minimum age of employment of children is 16; in a few heavy industries, it is 18. Turkmenistan has compulsory education through the secondary school level. Children aged 16 through 18 may not work more than six hours per day, and those under 15 may only work with the permission of parents and trade unions, which is rarely granted. Abuses in child labor laws occur, particularly in rural areas during the cotton harvesting season.

e. Acceptable Conditions of Work

Turkmenistan's first national minimum wage was set in January 1992. The Ministry of Economics and Finance reviews a market basket of commodities quarterly to adjust the minimum wage to prevailing prices. Rapidly rising prices for food, clothing, and other basics quickly erode the purchasing power of the the minimum wage. The standard work week is 40 hours. Left over from the Soviet era, when productivity took precedence over the health and safety of workers, is an economic system with substandard working conditions. Turkmen industrial workers often labor in an unsafe environment and are not provided proper protective equipment. Agricultural workers, in particular, are subjected to environmental health hazards. The government recognizes these as areas of concern, but it has not moved effectively to deal with them.

f. Rights in Sectors with U.S. Investment

There is currently no direct U.S. investment in Turkmenistan.

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Key Economic Indicators

(BILLIONS OF CURRENT RUBLES UNLESS OTHERWISE NOTED)

INCOME PRODUCTION AND EMPLOYMENT	1990	1991	1992 /1
GDP	164.8	234.0	N/A
REAL NMP GROWTH (PCT)	-3.6	-11.2	-17.5
NMP Produced Total	118.0	188.4	N/A
BY SECTOR:			
Industry (incl. turnover taxes)	48.7	80.9	N/A
Agriculture	35.8	50.6	N/A
Transport & Communication	7.1	11.8	N/A
Construction	11.5	21.2	N/A
Other	14.9	25.0	N/A
Net Exports of Goods and Services	.4	9.0	N/A
Labor Force (000s)	24,210	24,121	N/A

MONEY AND PRICES	1990	1991	1992
PERSONAL SAVINGS RATE	28.3	95.4	N/A
RETAIL INFLATION	4.2	84.2	610 /2
WHOLESALE INFLATION	4.5	125.4	N/A
CONSUMER PRICE INDEX	N/A	190.1	N/A
EXCHANGE RATE (USD/RUBLES)			
OFFICIAL	1.67	1.72	331 /3
PARALLEL	5.56	90.00	505 /3
U.S. AID	n/a	n/a	n/a 4/

* Figures should be considered indicators of order of magnitude only.
1/ IMF Staff estimates
2/ 6 month data
3/ As of October 30, 1992
4/ For FY92 U.S. assistance was available through regional programs for which a country-by-country breakdown is not available.

1. General Policy Framework

Ukraine declared independence on August 24, 1991 and the population overwhelmingly ratified independence in a national referendum on December 1, 1991. Ukraine is the second largest nation of the former Soviet Union in terms of population and economic power, the third in terms of area. It stretches across 603,700 square kilometers and is populated by 51.9 million people (1992), of which three quarters are ethnic Ukrainians and one fifth are ethnic Russians. Ukraine's principal resources include fertile "black earth" agricultural land and significant coal reserves. The nation's broad natural resource endowment led to a diversified economy, including a strong agricultural and food processing industry, large heavy industry sector and substantial capital goods sector oriented toward military production.

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In 1992 the Ukrainian Government focused on the creation of mechanisms and institutions that characterize an independent nation's economy. Ukraine became a member of the International Monetary Fund, International Bank for Reconstruction and Development, European Bank for Reconstruction and Development, and an observer to the General Agreement on Tariffs and Trade. The World Bank anticipates lending over a billion dollars to Ukraine over the next one to two years. Among other reform efforts, these loans will include support for institution building, social protection, import of essential goods, and telecommunications.

Early in the year the government expressed its desire to stabilize the situation and move toward a market-oriented economy. Reluctant to cause social disruptions, the government moved at a slow pace to introduce reforms. Much of the legislation necessary to build a framework for economic reform was adopted by the Ukrainian Parliament in the first six months of 1992, including a privatization plan, bankruptcy law, foreign investment law, and many others. However, implementation lags behind and has met with much quiet opposition from elements with vested interests in the former command economy. The government of former Prime Minister Vitold Fokin could not reach a consensus on the scale and pace of economic reform and the economic disarray gradually worsened.

The previous administrative system and command economy links between the former republics of the Soviet Union continued to break down through 1992 and caused severe disruptions in supply links and production throughout the Ukrainian economy. Attendant with this breakdown in authority there have been allegations of widespread corruption.

A drought in 1991 created significant problems in the agricultural sector that affected the 1992 supply situation. The Ukrainian coal industry continued its sharp decline, output falling to less than 127 million metric tons in 1991 with major consequences for the metallurgy and heavy industry sectors. Inflation accelerated throughout the year. For the third year in a row, Ukraine will experience an accelerating decline in national income.

In light of these problems, growing public disquiet and a parliamentary vote of no-confidence in the Fokin government, President Kravchuk appointed a new Prime Minister in late September -- Leonid Kuchma, former general director of one of Ukraine's largest and most successful military-industrial plants. Kuchma immediately announced his intention to bring an end to the economic recession through stabilization measures. He identified his top priorities as economic stabilization (even at the expense of market reform), curbing corruption, and restructuring economic ties with Russia. Kuchma also appointed several well-respected economic reformers to the new Cabinet of Ministers.

Inflation in Ukraine continues to grow, currently approaching hyper-inflationary levels. Pressure began in early January, when the Ukrainian Government announced a major price reform. Prices on basic products rose five to ten times their original, very low levels within the first few days. In response, the government gradually reintroduced regulated prices on many categories of consumer goods, energy, and transportation. Slow price reform, uncontrolled wage increases in industry and large monetary emissions necessary to finance fiscal and enterprise deficits continue to fuel domestic inflation.

Ukraine's budget deficit was about 20 percent of GDP in September and Kuchma has said it could be upwards of 44 percent of GDP at year's end. Government support for state-owned enterprises, notably the agricultural sector, coal industry, and military-industrial complex, is a major strain on the budget. The deficit is currently financed primarily through a loose monetary policy; 211.8 billion rubles were released during the first seven months of 1992. In addition, the government has announced its intention to issue government financial securities to finance at least a portion of this deficit. In spite of the adoption of a law on bankruptcy, the Ukrainian government is reluctant to allow state-owned enterprises to declare themselves insolvent. The government intervenes to maintain employment levels and cushion the troubled economy. As a result of such policies, official unemployment hovers at two percent.

2. Exchange Rate Policies

On January 10, 1992 Ukraine adopted a system of multi-use coupons as legal tender. The government introduced this system in response to two concerns -- a complete cut-off in supplies of rubles from the Russian Central Bank, and concern over exports of Ukrainian lower-priced goods to other new independent states. The coupon, or karbovanets, became the sole legal unit of currency on Ukrainian territory on November 12, when the government eliminated the ruble from use in all cash and non-cash transactions. The Ukrainian government considers the coupon, originally set at the market exchange rate of 1.454 coupons per ruble, a transitional currency, until the new Ukrainian currency -- the hryvnia -- is introduced in 1993. A two-tiered official exchange rate exists for the coupon against the ruble. The National Bank of Ukraine sets the rate weekly for trade operations. The second official rate is determined by individual commercial banks with no restrictions (other than that the maximum deviation of the buy rate to the sell rate is five percent for non-cash transactions). A third rate is the "street" or unofficial rate, set by unlicensed traders.

Ukraine currently has an official exchange rate and several unofficial rates. The official Ukrainian National Bank rate is established through a series of weekly currency auctions in which five Ukrainian banks bid for supplies of hard currency. The resulting rate of exchange is used for sales of hard currencies to the commercial banking system. Although restrictions on exchange rate fluctuations exist, commercial banks have substantial leeway, charging widely-differing rates. In addition to the two official exchange rates and the varying commercial bank practices, a "street" or unofficial rate is established by unlicensed traders. Exchange rate policies are likely to change soon. A

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law on foreign currency exchange will be submitted to the Parliament for consideration this winter.

Now that Ukraine has left the ruble zone, the government is seeking to establish viable trade and payments mechanisms with the Russian Government.

3. Structural Policies

Legislation has been passed to lay the foundation for a privatization program. In the beginning of December 1992, the National Bank of the Ukraine created accounts for the citizens of Ukraine as a first step in enterprise privatization. However, key laws that will enable implementation of the program have not yet been passed.

Ukraine undertook significant tax reform during 1992 aimed at compatibility with international norms. Ukraine replaced the former revenue based system with a value-added tax, excise taxes, enterprise income tax and individual income tax. Ukrainian enterprises are under a significant tax burden and pay a number of different taxes, including a flat 40 percent tax on hard currency earnings. Most foreign joint ventures are shielded from taxation by tax benefits granted by the Ukrainian Law on Foreign Investment, which provides for a tax holiday of five years with subsequent reduced taxation. However, the disincentives created by high taxes are a major concern of the domestic emerging private sector and have spurred tax reform efforts. In light of this criticism, the government plans to introduce major tax reform this winter, lowering tax rates and increasing the tax base.

According to official estimates, the Ukrainian Government maintains price controls on approximately 17 percent of production, including transportation, certain food products, rents, electricity and heating, as well as domestically-produced oil, gas, and coal. In addition, limits exist on certain industry profitability levels. Ukrainian officials have been reluctant to fully decontrol prices in an economy dominated by large monopolies, claiming prices would rise immediately without attendant production increases.

4. Debt Management Policies

Ukraine's share of the debt and assets of the former Soviet Union is 16.37 percent, as agreed in an interrepublic treaty dated December 4, 1991. Creditors have agreed to defer some payments on certain FSU debt due in 1992, which has benefitted all the former republics of the USSR. In November, Ukraine and Russia signed a protocol assigning Russia management responsibility for Ukraine's share of the debt, pending a bilateral agreement to resolve outstanding issues. The protocol was terminated on December 31 and negotiations continue between Russia and Ukraine on issues surrounding the division of the external assets and debt.

Since independence, Ukraine has incurred a modest foreign debt, including credits of $110 million from the United States, C$50 million from Canada, and 130 million ECU form the European Community. The government established a hard currency credit committee to consider all governmental hard currency debt obligations and issuance of state guarantees on credits.

5. Significant Barriers to U.S. Exports

The lack of hard currency and personnel trained in Western economic ways, and the absence of well-developed banking and telecommunications facilities, impede rapid growth of trade. However, the government is making significant strides in opening its economy.

Ukraine's domestic production standards and certification requirements apply equally to domestically-produced and imported products. Product testing and certification generally relates to technical, safety, and environmental standards as well as efficacy standards for pharmaceutical and veterinary products. At a minimum, imports to Ukraine are required to meet the certification standards of their country of origin. In cases where Ukrainian standards are not established, country of origin standards may prevail.

The Ukrainian Government does not impose import duties on enterprises with foreign capital nor on wholly-owned foreign enterprises as long as the goods being imported are for the investor's own use or the enterprise's use or production, such as capital equipment or production materials. Duties on goods imported for resale are subject to varying ad valorem rates which are currently in the process of being revised.

Imported goods are not considered legally entered until they have been processed through the port of entry and cleared by Ukrainian customs officials. Import licenses are required for very few goods -- primarily medicines, pesticides, and some industrial chemical products.

To normalize its trade and investment relations with Ukraine, the United States has proposed a new network of bilateral economic agreements. The U.S.-Ukraine trade agreement, which provides reciprocal Most Favored Nation status, was signed and entered into force in June 1992.

A bilateral investment treaty, which would establish a legal framework to stimulate investment, is under active consideration by Ukraine. A U.S.-proposed bilateral tax treaty, which would provide U.S. businesses relief from double taxation of income, is being negotiated. In addition, an Overseas Private Investment Corporation (OPIC) incentive agreement, which allows OPIC to offer political risk insurance and other programs to U.S. investors in Ukraine, was concluded in 1992 and is in force.

6. Export Subsidies Policies

Government subsidies to state-owned industry are an integral part of Ukraine's economy. These subsidies, however, are not specifically designed to provide direct or indirect support for exports, but rather to maintain full employment and production during the transition from a centrally controlled to a market-oriented economic system.

The government does not target export subsidies specifically to small business. Indeed, due to short supply of consumer goods and continued price controls, the government has restricted exports of many consumer goods.

In 1992, the U.S. Department of Commerce preliminarily found that uranium from Ukraine was being dumped in the United States. In October, Commerce signed an agreement with Ukraine to suspend the dumping investigation and restrict Ukraine's uranium exports to the United States.

Commerce is currently investigating the dumping of ferrosilicon from Ukraine.

7. Protection of U.S. Intellectual Property

Ukraine is committed legislatively to the protection of intellectual property, though enforcement remains inadequate. Ukraine is a successor state to many of the conventions and agreements signed by the former Soviet Union. Ukraine abides by the International Copyright Convention (Geneva, 1952) and is preparing to join the Berne Convention on Protection of Literary and Artistic Works (1971). In addition, in August, the Ukrainian Government adopted the Paris Convention for Protection of Industrial Property (March 2, 1883; amended in 1967 and in 1979); the Madrid Agreement on the International Registration of Marks (April 14, 1891; amended in 1967 and 1979); and the Agreement on Patent Cooperation (June 1970; amended in 1979 and 1984.) Draft intellectual property legislation is being prepared for submission to the Parliament in November. The U.S-Ukraine bilateral trade agreement includes commitments on protection of intellectual property.

8. Worker Rights

a. Right of Association

Until the end of 1991, Ukrainian labor unions were affiliated with the all-union Central Council of Trade Unions in Moscow. In 1992, the official Ukrainian trade unions were named the "Federation of Trade Unions," and in some cases, began to work independently of the government and state enterprises. Independent unions and professional organizations emerged in 1992. Alternative unions now exist in most sectors of the economy.

Soviet law, or pertinent parts of the 1978 Ukrainian Constitution, continue to regulate the activities of trade unions. To these were added the 1992 laws on wages and labor conflict resolution. In principle, all workers and civil servants (including the military) are free to form unions. In practice, the government discourages certain categories of workers (e.g., nuclear power plant employees) from forming unions. The law on labor conflict resolution guarantees the right to strike to all but members of the military, civil and security services, and employees of "continuing process plants" (e.g., metallurgical factories). The law prohibits strikes that "may infringe on the basic needs of the population" (e.g., rail and air transportation). Strikes based solely on political demands are considered illegal. Although the law forbids penalizing union members from participating in strikes, some workers reportedly were threatened with wage cuts and demotions in the wake of the September transportation strike.

b. Right to Organize and Bargain Collectively

In accordance with the law on enterprises, issues concerning wages, work conditions, rights and liabilities of management are supposed to be resolved at the enterprise level by joint worker-management commissions. The division of responsibilities between the joint commissions and structures left over from the Soviet system (i.e., trade unions and the council of the enterprise) are not clearly defined. Overlapping spheres of responsibility frequently impede the collective bargaining process. The law on Labor Conflict Resolution introduced another bureaucracy, the National Mediatory and Reconciliation Service, to mediate labor-management disputes that cannot be resolved at the enterprise level. The head of the National Mediation Service is appointed by the President.

There are no export processing zones in Ukraine.

c. Prohibition of Forced or Compulsory Labor

The Ukrainian Constitution forbids compulsory labor; however, it is known to exist in prisons and certain military formations.

d. Minimum Age for Employment of Children

Education is compulsory in Ukraine up to the age of 15 years. The law on education is rigorously enforced by the Ministry of Education. The minimum employment age is 17. However, in certain non-hazardous industries, enterprises can negotiate with the government to hire employees in the 15-17 age range.

e. Acceptable Conditions of Work

In 1992, the Ukrainian government established a country-wide minimum wage. The current law on wages, pensions, and social security provide for mechanisms to index the minimum wage to inflation. The labor code provides for a maximum 41-hour workweek and mandates at least one uninterrupted rest period lasting 42 hours each week. In addition the law provides for at least 15 work days of vacation per year. The Ukrainian Constitution and other laws contain occupational safety and health standards, but these are frequently ignored in practice.

f. Rights in Sectors with U.S. Investment

There is little or no significant U.S. investment in Ukraine.

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Key Economic Indicators

(Billions of Pounds Sterling Unless Otherwise Noted)

	1990	1991	1992 1/
Income and Production and Employment			
Real GDP (1985 prices)2/	417.9	408.6	405.4
Real GDP Growth (pct.)	.5	-2.2	-0.8
GDP (at current prices)2/	505.1	527.0	523.2
By Sector:			
Agriculture	7.10	7.4	7.3
Energy and Water	24.33	25.4	25.2
Manufacturing	107.00	111.8	111.0
Construction	36.08	37.7	37.4
Rents	30.72	32.1	31.9
Financial Services	87.26	91.2	90.6
Other Services	135.17	141.3	140.3
Government, Health, and Education	76.67	80.1	79.5
Net Exports of Goods and Services	-24.4	-8.3	-12.8
Real Per Capita GDP	7,280	7,094	7,014
Labor Force (millions)	28.53	28.33	28.2
Unemployment Rate (pct)	5.8	8.1	10.1
Money and Prices			
M2 money supply (Bil BPS)	473.4	501.0	530.1
Base Interest Rate 3/	14.0	10.5	7.0
Personal Saving Rate(DI)	9.0	10.2	10.5
Retail Inflation (pct)	9.5	5.8	3.4
Wholesale Inflation (pct)	5.9	5.8	3.2
Balance of Payments and Trade (Billions of US Dollars)			
Total Exports FOB 4/	181.1	183.0	184.7
Exports to U.S.	23.1	20.1	20.9
Total Imports FOB 4/	214.5	201.3	207.1
Imports from U.S.	25.6	24.3	23.4
Trade Balance 4/	-33.4	-18.3	-22.4
Balance with U.S.	-2.5	-4.2	-2.5
Exchange Rate (USD/pound)	1.78	1.77	1.75

1/ - Annualized 1992 trade data based on data through September, 1992.
2/ - GDP at market prices.
3/ - Figures are actual, average annual interest rates.
4/ - Merchandise trade.

1. General Policy Framework

The UK has a free market economy and open financial services environment which encourage open competition. Most formerly government-owned industries have been privatized. Among the few remaining barriers to international trade and investment are preferential treatment for UK firms in telecommunications, electrical equipment, and the oil and gas industries.

The economy has been in recession since the autumn of 1990. The government refocused its economic policy after leaving the EC Exchange Rate Mechanism (ERM) and after the October parliamentary debate over job losses in the coal industry. Although low inflation remains a priority, growth is now the primary goal. Inflation in 1992 is estimated at 3.4 percent.

Real GDP rose 0.5 percent in 1990 and fell by 2.2 percent in 1991. Real GDP fell an estimated 1 percent in 1992. Current forecasts predict positive GDP growth in 1993 of 1 percent. Unemployment is currently estimated at 2.88 million, nearky 10 percent of the workforce.

Fiscal Policy: From 1987 through 1990, tight control on expenditures, proceeds from privatization, and increased tax revenues generated by rising GDP produced central government and public sector surpluses. In 1990, the public sector surplus was five billion pounds. However, in 1991, the public sector produced a ten billion pound deficit which grew to an estimated 33 billion pounds in 1992. The deficit is expected to continue to grow, to between 45 and 50 billion pounds, in 1993.

The Conservative government retains its goal of reducing the basic personal income tax rate to 20 percent as soon as possible. Current rates are 25 and 40 percent. For tax purposes, capital gains are adjusted for inflation. The first five thousand pounds in capital gains are tax free, and the remainder is generally taxed at regular income tax rates. Gains from the sale of a primary home are exempt. Corporate tax rates are 25 percent for companies earning under 200,000 pounds, and 35 percent for companies earning over 200,000 pounds.

The highly unpopular Community Charge, or poll tax, introduced in April 1990, will be replaced by a new Council Tax on April 1, 1993. This is a hybrid tax calculated on both property values and capitation, a uniform per capita component of the tax.

Since leaving the ERM, Her Majesty's Government (HMG) has tried to reestablish confidence in the financial markets by projecting an image of fiscal responsibility. A spending cap of 244.5 billion pounds is in place for the 1993/94 budget. However, increased unemployment could push spending over this level. Possible coal mine closures could cost the government one billion pounds in severance pay alone.

Monetary Policy: The UK 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. The Conservative government's new emphasis on growth could lead to looser money supply.

2. Exchange Rate Policy

Exchange rate policy changed radically when the UK withdrew from the ERM on September 19, 1992. High German interest rates, reflecting the cost of reunification, made the deutchmark (DM) more attractive to investors than the pound. The resulting upward pressure on the DM and the downward pressure on the pound stretched the currencies to their ERM limits. On September 16, known as "Black Wednesday," the pound fell below the 2.78 DM floor established by the ERM.

In an attempt to regain sterling's position, HMG announced two increases in interest rates in a single day, for a total increase of five percentage points. However, the pound left the ERM before the second increase went into effect. The government also used billions of pounds in currency reserves in an attempt to prop up the pound. When intervention failed, the UK withdrew from the ERM and reduced interest rates to ten percent from a high of 15 percent. On November 12th the base rate was lowered to seven percent.

Since leaving the ERM, HMG has pursued a discretionary policy based on money supply data, house prices, and a trade-weighted exchange rate for the pound. The current government is committed to reentering the ERM, although it has not attempted to fix a date for doing so. It is generally believed that any eventual return to the ERM would be possible only after financial markets stabilize and EC interest rate differentials narrow; the Prime Minister has indicated that reentry will not take place in 1993.

3. Structural Policies

In the past twelve years, Conservative governments pursued growth and increased efficiency through structural reform. The financial services and transportation industries were deregulated. Mortgage regulations were relaxed, and much of the public housing stock privatized. The automotive, aerospace, electrical power, water, and coal industries were also privatized. Subsidies were cut substantially, and capital controls lifted. Employment legislation increased market flexibility, democratized unions, and increased union accountability for the industrial acts of their members.

Although there has been great progress, some challenges remain. Recent reports on the general education system raised concerns regarding basic education and testing procedures. In addition, social welfare programs and the business community are still adjusting to job losses and changes in the business climate resulting from privatization.

4. Debt Management Policies

The UK has no significant external public debt. London is one of the foremost international financial centers of the world, and British financial institutions are major intermediaries of credit flows to the developing countries.

5. Significant Barriers to U.S. Exports

Although structural reforms have made it easier for U.S.

exporters to enter UK markets, some barriers remain in telecommunications, the energy industry, and potentially in utilities procurement. Some problem areas and specific regulations resulting in trade barriers are profiled below.

Broadcasting and Telecommunications: The 1990 Broadcasting Act, adopted under the 1989 EC Broadcast Directive, requires that "a suitable proportion" of television programs broadcast in the UK 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. The practical effect may be to relax those limits somewhat, given the EC "where practicable" 50 percent quota. However, it does, for the first time, formally impose legal quotas.

HMG completed its review of the British Telecom/Mercury duopoly in 1991, and opened the UK domestic telephony market for competition. However, some market entry barriers persist; a principal barrier is the high cost of interconnection rates, two to three times higher than in the U.S. market, that initiate or terminate telephone calls. OFTEL, the British Telecom Regulatory Agency, is reviewing the issue, but it is not clear when or if OFTEL may act to drive interconnection rates closer to actual costs. BT could retain substantial control of the international long-distance market by keeping it uneconomical for U.S. companies to lease international lines and resell the capacity to British customers (international simple resale). While HMG is expected to allow international simple resale between the United States and UK, the government has stated that it is unlikely to permit U.S. entrants to operate international long distance service using their own facilities in the near term.

Offshore Oilfield Contracts: In 1985, the UK Department of Trade and Industry Energy Offshore Supplies Office (OSO), officially encouraged oil companies to award contracts involving new offshore technology to firms with majority British ownership. The OSO has stated this policy is no longer in force, although contractors are encouraged to give a "fair chance" to UK based firms including UK subsidiaries of US firms.

Although senior HMG officials show a willingness to discuss these issues, actual business practices in the industry still impede U.S. access to these markets. For example, although U.S. firms received over 40 percent of the awarded acreage in the annual frontier licencing round, anecdotal accounts from industry sources indicate that U.S. companies had to sweeten their bids by indicating that they were likely to award supply and service contracts to UK companies.

Utilities Procurement: The UK implemented the EC Utilities Directive in 1992 by instituting a series of regulations based on the Directive. The regulations allow government-owned and private utilities to favor EC over foreign suppliers. Depending on how the regulations were implemented, they could hurt U.S. producers of equipment for the telecommunications and energy fields.

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6. Export Subsidies Policies

The Conservative government opposes subsidies as a general principle, and UK trade-financing mechanisms do not significantly distort trade. Britain has the Export Credits Guarantee Department (ECGD), an institution similar to the Export-Import Bank of the United States. The ECGD was partially privatized in 1991.

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 our own Agency for International Development -AID) for projects in developing countries. Occasionally the United States objects to financing offered to specific projects.

The UK'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 UK and other developed countries the 1987 "Arrangement on Officially Supported Export Credits". It seems that Britain has adhered to the Arrangement.

7. Protection of U.S. Intellectual Property

UK intellectual property laws are strict, comprehensive and rigorously enforced. The UK is a signatory to all relevant international conventions, including the Convention Establishing the World Intellectual Property Organization (WIPO), the Paris Convention for the Protection of Industrial Property, the Berne Convention for the Protection of Literary and Artistic Works, the Patent Cooperation Treaty, the Geneva Phonograms Convention and the Universal Copyright Convention.

New copyright legislation simplified the process and permitted the UK to join the most recent text of the Berne Convention. The United Kingdom's position in international fora are very similar to U.S. positions.

8. Worker Rights

a. Right of Association

Unionization of the workforce in Britain is prohibited only in the armed forces, security services, and police force.

b. Right to organize and bargain collectively

Over 10.2 million workers, about 40 percent of the work force, are organized. Employers are not required to bargain with union representatives. However, they are legally barred from discriminating based on union membership except in the armed forces, police force, or security services where union membership is prohibited.

THE UNITED KINGDOM

The 1990 Employment Act made unions responsible for members' industrial actions, including unofficial strikes, unless union officials repudiate the action in writing. Unofficial strikers can be legally dismissed, and voluntary work stoppage is considered a breach of contract.

During the 1980s, parliament eliminated immunity from prosecution in secondary strikes and in actions with suspected political motivations. Actions against subsidiaries of companies engaged in bargaining disputes are banned if the subsidiary is the employer of record. Unions encouraging such actions are subject to fines and seizure of their assets. Many unions claim that workers are not protected from employer secondary action such as work transfers within the corporate structure.

c. Prohibition of forced or compulsory labor

Forced or compulsory labor is unknown in the UK.

d. Minimum age for employment of children

Children under 16 years old may work in an industrial enterprise only as part of an educational course. Local education authorities can limit employment of children under 16 years old if working will interfere with the child's education.

e. Acceptable Conditions of Work

Minimum wage and overtime rates for adult workers in 26 low-wage industries are set by councils including employers and union members, and are legally enforced by inspectors. Minimum wage rates are substantially below national average earnings. Daily and weekly working hours are not limited by law.

Hazardous working conditions are banned by the Health and Safety At Work Act of 1974. A health and safety commission submits regulatory proposals, appoints investigatory committees, does research, and trains workers. The Health and Safety Executive (HSE), enforces health and safety regulations and may initiate criminal proceedings. This system is efficient and fully involves workers' representatives.

In November 1992, the Government introduced a bill that would, if enacted, abolish the wage councils.

f. Rights in Sectors with U.S. Investment

All U.S. corporations operating within the UK are obliged to obey legislation relating to worker rights.

THE UNITED KINGDOM

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category	Amount	
Petroleum		9,540
Total Manufacturing		20,851
Food & Kindred Products	3,387	
Chemicals & Allied Products	3,299	
Metals, Primary & Fabricated	998	
Machinery, except Electrical	3,027	
Electric & Electronic Equipment	1,435	
Transportation Equipment	1,211	
Other Manufacturing	7,494	
Wholesale Trade		2,940
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		33,331

Source: U.S. Department of Commerce, Survey of Current Business, November 1992, vol. 72, No. 9, Table 3.1

UZBEKISTAN

Key Economic Indicators*

(billions of rubles unless otherwise noted)

	1990	1991	1992(proj)
Income Production and employment			
Real GDP growth (percent)	4.3	(8)	(12)
GDP (current prices) /1	32.43	56.3	20
By sector			
Agriculture	10.36	19.88	33
Manufacturing /2	6.65	15.93	5
Construction	3.44	4.9	1
Services	11.5	15.3	6
Health and education	.55	.82	N/A
Net exports of goods and services	N/A	N/A	19.7
Real per capita GDP (ooo's)	2.547	5.088	N/A
Labor force (people)	8,788.1	8,976.8	9,245
Unemployment rate	6.8	N/A	N/A
Money and prices			
Retail inflation (pct)	31	82	675
Exchange rate U.S.$/ruble official /3	1/6	1/20-90	1/90-300
Balance of payments & and trade			
Total exports FOB ($ bil) /4	1.137	2.196	1.4
Total imports CIF ($ bil)	2.32	3.63	1.7
Aid from U.S.	0	0	n/a 6/
External public debt	N/A	N/A	0 5/
Debt service payments paid	N/A	0	
Foreign exchange reserves U.S.$ millions)	N/A	N/A	4
Trade balance ($ bil)	-1.18	-1.43	-0.3

* Figures should be considered indicators of order of magnitude only.
1/ Reflects high rate of inflation
2/ Industrial manufacturing only
3/ Numbers indicate range over the year
4/ To countries outside the former USSR
5/ Russia has taken Uzbekistan's share of FSU debt in exchange for Uzbekistan's claims on FSU assets.
6/ Assistance was available through regional programs for which a country-by-country breakdown is not available.

1. General Policy Framework

The Republic of Uzbekistan proclaimed its independence on August 31, 1991. The Government has moved relatively slowly on economic reform. It is attempting to manage a slow and careful transition to a market economy that will avoid social dislocation and potential unrest. One of the government's primary tools for easing the transition has been the heavy use of subsidies for basic food products, including bread, meat, cooking oil, and dairy products. Wages and allowances have been repeatedly racheted upward to keep pace with the depreciating ruble, but most experts agree that wages increases have significantly lagged behind inflation. Economic development to create jobs is a top priority, given powerful demographic pressures (3.5% population growth behind a rapidly growing workforce--2.4% in 1992). There are high hopes for foreign investment and joint ventures, both for income and for jobs. Yet the slow pace of privatization, complications of the laws on property and foreign investment, and general economic and political uncertainty mean that foreign investors remain cautious. Moreover, the government remains commited to retaining control over major parts of the economy, including oil, natural gas, metallurgy, transport, chemicals, and cotton.

Trade is a vital part of Uzbekistan's economy, but trade with other formerly soviet republics has been damaged by the loss of confidence in the ruble and high inflation. Trade outside the ruble zone was formerly conducted by Soviet organizations in Moscow, and the shift to decentralized trade has caught Uzbekistan with a shortage of experience with foreign trade. Barter, sometimes on a large scale, is currently an important trading mechanism in all markets. Uzbekistan is working on developing cooperative programs in the areas of joint use of common energy, irrigation, and water systems with its Central Asian neighbors.

Agriculture and the related agro-industrial sector dominate production in Uzbekistan, although Uzbekistan also has significant output of minerals (especially gold and uranium, but also silver, copper lead, zinc, wolfram, and tungsten), and oil and natural gas. Uzbekistan is the world's fourth largest producer of cotton (which accounts for about 40% of the gross value of agricultural production), and produces significant amounts of silk and lamb's wool. Uzbekistan also produces considerable amounts of fruits, vegetables, and some grain. The government is encouraging diversification to lessen reliance on cotton.

Uzbekistan is self-sufficient in natural gas, but is dependent on imports of increasingly expensive oil and petroleum products, as well as some key food products (cereal grains, cooking oil, sugar, dairy products, and meats). Uzbekistan, however, does enjoy abundant unexploited mineral resources. Prospected and potential deposits of the main kinds of energy resources are quite large and could reduce Uzbekistan's dependence on other CIS states for energy imports.

One of the legacies of the Soviet period is that little industrial processing of Uzbekistan's raw materials occurs within the country. Only ten percent of the country's cotton production is processed locally. Uzbekistan's exports have ~~thus~~ been primarily raw materials, with cotton a major component, although other exports include machinery, agricultural equipment and some textiles.

Fiscal policy tools: The size of the government deficit is growing, primarily because of consumer price subsidies (the total cost of which has more than quadrupled over the last year), but also because of rising direct transfer payments.

UZBEKISTAN

Government expenditure was 46 percent of GDP in 1990, and 55 percent in 1991. The minimum wage and the basic pensions rate in October, 1992 were nearly six times that of January 1, 1992. Government sources say cotton export earnings, foreign trade credits, and gold deposits help finance this expenditure. In March, 1992 the government introduced innovative national lottery and bond issuance schemes as an additional financing tool.

Monetary policy tools: Uzbekistan remains for the time being in the ruble zone and as a result is able to exercise only minimal control over the money supply through arrangements between the Central Bank of Uzbekistan and the Central Bank of Russia. High inflation due to uncontrolled monetary growth in Russia has spread to Uzbekistan, and short of dropping out of the ruble zone or forcing the creation of a inter-governmental (CIS) central bank, there is little that it can do to control this.

Uzbekistan joined the IMF, World Bank and European Bank for Reconstruction and Development in 1992. The World Bank is responsible for coordination of assistance to Uzbekistan and in Deccember hosted a pre-consultative group meeting to discuss Uzbekistan's technical assistance needs and priorities. Over the next one to two years, the Bank anticipates lending Uzbekistan about $200 million to support institution building, cotton sector reform, and human resources development.

Uzbekistan has expressed interest in becoming a GATT observer.

2. Exchange Rate Policy

The government has been attempting to support the ruble within its territory by pegging the ruble/dollar exchange rate, and by attempting to restrict money-changing to the Central Bank. Official rates for the ruble are generally higher (or lag behind) the rates in Moscow. An active black market in dollars and absence of currency movement controls among the CIS states is slowly undermining the government's efforts. Rumors abound that Uzbekistan will issue its own currency by 1993, one that will be backed by a gold reserve, but officials say they would prefer to remain in a stable ruble zone.

3. Structural Policies

The Government of Uzbekistan controls international trade very tightly. The private sector is growing, with increasingly active trade contacts abroad, but it is strictly regulated by the Ministry of Foreign Economic Relations, through a system of import and export licensing.

Price controls and rationing: Although most domestic prices were initially liberalized in January 1992, prices still remain substantially lower than prices in the rest of the CIS. A coupon system was introduced in January 1992 to attempt to stabilize prices of consumer goods and support state stores. The state sets prices for all goods sold in

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state stores, and subsidizes a limited number of basic commodities and food products. This has kept prices in such stores generally lower than bazaar prices, but has not solved the supply problem.

Wholesale and retail prices were raised repeatedly in 1992. Prices in private stores and bazaars are determined by the market. The government has not implemented any large scale privatization, and claims to want to avoid the Russian experience. Despite the lack of a government program, the number of private stores and bazaars is growing rapidly.

Tax, regulatory, or other policies: A 30 percent value-added tax (not applied to foods, services, or agriculture) was introduced in 1992. A tax on repatriated dollars (10 percent) seems now to be acting as a major disincentive for foreign investors, who prefer to avoid such transactions entirely in favor of barter or output deals.

The Government of Uzbekistan has taken some measures to promote trade flows and foreign investment. Joint ventures with foreign investors enjoy a variety of investment incentives, including a two-year "tax holiday." Those joint ventures investing in priority sectors designated by the Government of Uzbekistan enjoy up to a five-year tax holiday. Foreign investors pay fees (on a sliding scale) to repatriate profits, but may accept or purchase local products for export in lieu of cash profits. They may also reinvest ruble profits within the CIS. The number of commodities that face export restrictions through licensing requirements has been reduced from 176 to 76. Also, import taxes have been removed until January 1, 1994 in order to increase the supply of consumer goods.

4. Debt Management Policies

Uzbekistan has assigned its claims to former Soviet assets to Russia in exchange for Russia's assumption of liability for Uzbekistan's share of FSU debt.

5. Significant Barriers to U.S. Exports

Export licenses are required for exports of "strategic goods," including cotton, silk, gold, copper, and mineral fertilizers.

Lack of a modern banking system, absence of local credit mechanisms, inexperience with trade, banking, and international finance, and non-standard accounting practices inhibit expanded relations with foreign trading partners. Statistics and basic economic data are often difficult to acquire and interpret. New legislation often leaves important areas subject to subsequent actions by the legislature and thus introduces considerable uncertainty.

The basic industrial and transportation infrastructure of Uzbekistan is in many respects outmoded. Major capital investment will be needed in many sectors to bring the country closer to western standards.

Transport links to routes through Afghanistan are closed due to the continuing conflict there, while links to the Black Sea are long and difficult. Special precautions are necessary to ensure safe arrival of cargo shipped by rail or road transport from Russian and Ukrainian ports. Only three airports can receive large cargo planes (with cargoes of forty tons or more), and some intercity roads are in poor condition. Good passenger air links are available to Europe, South Asia, and Israel and the Middle East. Charter air cargo service is available from Uzbekistan to Europe.

Communications: Telephone lines (and therefore facsimile communications) are extremely poor within the country, and international telephone service is not always adequate. Satellite and cellular telephone service is available commercially, and some express mail and package delivery services are available from the west to Uzbekistan.

Land may not be privately owned in Uzbekistan, although it can be leased and rights to use it can be inherited. A major program of land reform, providing long-term leased plots to farmers, was initiated in 1992. Up to 700,000 hectares of land was reportedly distributed to farmers under this program in 1992.

To normalize its trade and investment relations with Uzbekistan, the United States has proposed a new network of bilateral economic agreements. Negotiations continue on a U.S.-Uzbekistan trade agreement, which provides reciprocal Most Favored Nation status.

A U.S.-proposed draft U.S.-Uzbekistan bilateral investment treaty, which would establish a bilateral legal framework to stimulate investment, is under consideration by the Uzbek Government. The United States has also proposed a draft bilateral tax treaty, which would provide U.S. businesses relief from double taxation of income. An Overseas Private Investment Corporation (OPIC) agreement, which allows OPIC to offer political risk insurance and other programs to U.S. investors in Uzbekistan was also concluded in 1992 and is in force. The U.S. Export-Import Bank is open for short term cover (maturities up to 360 days) in Uzbekistan.

6. Export subsidies policies

Subsidies to state enterprises are an integral part of the economy. However, these subsidies are not aimed at specifically supporting exports but at supporting employment, production and state revenues. For example, cotton must be sold to the state and a system of differentiated prices for agricultural inputs and harvested cotton favors state and collective farms over private leaseholder farmers. This operates mainly as a method by which the state gleans the bulk of the profit from cotton exports at the expense of producers, but it also has the effect of a subsidy to state farmers *versus* private ones.

In 1992, the U.S. Departmentof Commerce preliminarily found that uranium from Uzbekistan was being dumped in the United States. In October, Commerce signed an agreement with Uzbekistan to suspend the dumping investigation and restrict Uzbekistan's uranium exports to the United States.

7. Protection of U.S. Intellectual Property

Uzbekistan is not a member of any international agreements protecting intellectual property rights. Copyright and trademark violations are not uncommon in Uzbekistan. However, the Ministry of Foreign Economic Relations is considering broad intellectual properties protection legislation and regulation. The draft U.S.-Uzbekistan trade agreement currently under consideration contains commitments on protection of intellectual property.

8. Worker rights

a. The right of association

Uzbekistan law specifically proclaims that all workers have the right voluntarily to create and join unions of their choice and that trade unions themselves can voluntarily associate territorially or sectorally, and may choose their own international affiliations. Unions are also legally independent of the state's administrative and economic bodies. So far, the *de facto* centralized trade union structure has not changed very much following the shift from Moscow to Tashkent. A council of the Uzbekistan Federation of Trade Unions provides central leadership.

While the labor law gives unions oversight for both individual and collective labor disputes, the law does not mention strikes or cite a right to strike. The labor front in 1992 was quiet.

c. The right to organize and bargain collectively:

Unions are empowered to conclude agreements with enterprises. However, privatization is in its very early phases in Uzbekistan, so there is no experience yet with negotiations that could be described as adversarial ones between unions and private employers. With very few exceptions, the state is still the major employer, and the unions do not appear to presume conflicts of interest with the state.

c. Prohibition of forced or compulsory labor:

The draft constitution that is now under consideration in Uzbekistan specifically prohibits forced labor.

d. Minimum age of employment of children:

The minimum working age is 16. 15-year-olds can work with permission, but have a shorter work day.

e. Acceptable conditions of work

The work week is set at 41 hours per week. Some factories have apparently reduced work hours in order to avoid layoffs. Some workers are entitled to overtime pay, but it is rarely paid. Occupational health and safety standards are established by the labor ministry in consultation with the unions. There is a health and safety inspectorate within the labor ministry.

f. Rights in sectors with U.S. Investment

Investment is too limited to permit comment on any differences. There are no current sectoral statistics on U.S. investment in Uzbekistan.

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SERBIA AND MONTENEGRO

The United Nations has imposed comprehensive economic sanctions on Serbia and Montenegro because of its aggression and actions regarding Bosnia-Herzegovina. These sanctions have compounded the economic decline already underway in the former Yugoslav states. The war in Bosnia-Herzegovina is being financed largely by the Serbian Government in Belgrade. Inflation for fiscal year 1992 is estimated at over 1,900 percent, and black market currency transactions are flourishing. The United Nations sanctions imposed against Serbia and Montenegro have created severe shortages for the manufacturing sector, which is now operating at only about 30 percent of capacity. Workers laid off because of manufacturing shutdowns and slowdowns are receiving large unemployment compensation (60-80 percent of regular pay) from the government, which is increasingly unable to meet even basic government costs. Food prices have increased to the point that most families find it difficult to buy basic necessities. The sanctions have effectively shut down banking operations. Oil stocks are still available in Serbia, which produces about one third of its oil market needs. The recent UN Resolution 787 has tightened the sanctions on fuel and other key materials and is beginning to have an effect.

One anecdotal, but believable, source of supply for the Serbian and Montenegrin markets has been goods confiscated from Muslims who have been forced out of their homes in Bosnia. Serbian "settlers" move into the homes left by the Muslims and take anything of value. Most of the settlers eventually return to their homes in Serbia and Montenegro.

The poorest region governed from Belgrade is Kosovo. The population of Kosovo is 90 percent ethnic Albanian, and the region has the highest infant mortality rate in Europe and the highest rate of infectious disease -- both symptoms of a poor, underdeveloped economy. Serbia in the best of times did not supply Kosovo with fuel and raw materials as well as it did the rest of its territory.

The economic forecast for Serbia-Montenegro is bleak. The cost of the war effort and entitlement programs continues to rise while GDP plummets and hard currency reserves are depleted. Even if the crisis ends and sanctions are lifted, the rebuilding of the Serbian-Montenegrin infrastructure will be a lengthy and expensive process.

BOSNIA-HERZEGOVINA

Bosnia-Herzegovina is a war zone and consequently has very little economic activity or development. Where there were once world renowned resorts, there are now burnt-out villages and destroyed factories. The Bosnian Serbs are conducting a policy of "ethnic cleansing" to eliminate an entire sector of the population, namely, the Muslims. Many reports of atrocities state that the primary targets for killing are the better educated, more skilled Muslims. Those engaged in unskilled labor are the ones sometimes permitted to emigrate.

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As in any war zone, there appears to be an entrenched black market. The currency of choice is the German mark. Humanitarian aid coming into the country is subject to "tolls" as it makes its way to the needy, usually 20 percent of the shipment, but sometimes as much as 70 percent. Hijacked humanitarian aid sometimes appears on the black market. Some stories claim it is also used to feed the troops who seize it.

Bosnia-Herzegovina receives its natural gas from Russia via a pipeline that transits Serbia-Montenegro. Natural gas reaches Bosnia-Herzegovina at levels significantly below those of the pre-war period. Goods removed from the homes of people who have been "ethnically cleansed" appear on the black market or are exported to Serbia-Montenegro.

The supply lines into Bosnia-Herzegovina are often interrupted by bad weather or by fighting. Sarajevo, the capital of Bosnia-Herzegovina, is besieged and is currently experiencing shortages of everything, including food, water, electricity, and fuel. Humanitarian aid has been intermittent and insufficient to meet full requirements. In the winter months, when the need is greatest, supply routes become impassable and airports often close.

The economic outlook for Bosnia-Herzegovina is bleak. Even if hostilities ended at once, the infrastructure is extremely damaged and a large part of the most productive segment of society has been dislocated or eliminated. There are no financial reserves to begin rebuilding. It will be years before Bosnia-Herzegovina can recover from the current crisis.

CROATIA

The deterioration of Croatia's economy continues. One third of Croatia's territory, including 400,000 hectares of arable land, is occupied by Serb paramilitary forces. Its GDP in 1992 is half the size it was in 1988; 25-30 percent of its agricultural capacity has been destroyed. Monthly inflation at the end of 1992 was running at 30 percent, and average per capita incomes are declining. Croatia's domestic consolidated debt is 48 percent of GDP, reaching 70 percent of GDP when foreign debt is included.

Occupation of territories by Serb paramilitary forces has cut a key railroad line from the coast to the capital and the Adria pipeline. Tourism, a key source of hard currency, has been hard hit due to the war in Croatia and Bosnia. Trade with Bosnia has ceased due to the collapse of Bosnia's war-torn economy. Trade with Serbia has collapsed due to hostilities and international sanctions.

Croatia's economy also carries the burden of 700,000 refugees and displaced persons from Bosnia and occupied Croat territories. It is estimated that some 80 percent of refugees have found shelter with families in Croatia; this situation is untenable in the longer-term. The remainder are housed in refugee centers and hotels. While the international community has provided the bulk of the food needed for the refugees,

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medical care and utilities have been paid for by the Croatian Government. Conditions in many refugee camps are inadequate; warm water is lacking, sanitation and medical care are poor, there are no schools, and children lack milk and vitamins. Refugees continue to flow in at an average rate of 300-500 a day, and pressures are likely to mount as the winter and the war continue.

The Croatian Government is attempting to implement economic reform measures, including privatization. A December 14th decision by the International Monetary Fund has cleared the way for Croatia to join as one of the successor states to the former Yugoslavia. Membership in the World Bank should follow shortly after joining the IMF. EBRD membership is expected shortly. Following the outbreak of conflict in the former Yugoslavia, the United States suspended all benefits to Yugoslavia under the Generalized System of Preferences (GSP). Benefits under this program were subsequently extended on September 11, 1992 to all the republics of the former Yugoslavia except Serbia and Montenegro. Croatia is seeking a bilateral investment treaty with the United States. Despite the difficult economic situation, foreign investors continue to identify opportunities in Croatia.

SLOVENIA

Before the breakup of the Yugoslav federation in 1991, Slovenia was the country's most developed republic, producing 20 percent of GNP and 30 percent of exports with only 8.4 percent of the country's population. Widely regarded as Yugoslavia's wealthiest republic, Slovenia was unable to insulate itself completely from the Yugoslav economic downturn of the 1980's, and trends that began then continue to adversely affect the economy. The country is now in a severe recession resulting from the disruption of intra-Yugoslav trade, its own halting reform efforts, and the legacy of 1980's economic problems. Output in the first half of 1992 fell by 16 percent, and unemployment hit approximately 11 percent by mid-1992, with no prospects for recovery in sight.

Slovenia's largest Yugoslav trading partner had been Serbia before UN sanctions terminated this commerce, and economists believe this pattern will quickly reemerge whenever sanctions are lifted. In 1990, 30 percent of Slovenia's exports went to, and 28 percent of its imports came from, other Yugoslav republics. After the shock brought on by the collapse of former trade patterns, Slovene firms have successfully redirected much of their trade to the West. For the first half of 1992 a $250 million trade surplus was recorded as exports rose and imports fell; hard currency reserves rose to over one billion dollars.

The Bank of Slovenia's tight control of monetary policy has brought inflation under control, and this has helped the Slovenian currency, the tolar, to hold its value since its introduction in October 1991.

Slovenia has not implemented a coordinated economic reform program. A privatization law was passed in November 1992, after more than two years of parliamentary debate. The government has not begun to tackle the problem of restructuring state enterprises, of which 1,300 were classified as unprofitable. Nevertheless, Slovenia remains relatively attractive to foreign investors, and German investments predominate.

Slovenia is making rapid progress in establishing itself with international financial institutions. In October 1992 Slovenia became the first former Yugoslav republic to join the EBRD. A December 14th decision by the International Monetary Fund cleared the way for Slovenia's accession as one of the successor states to the former Yugoslavia. Membership in the World Bank is expected shortly after IMF membership. Slovenia currently has observer status at the GATT. In 1992, Slovenia applied for accession to the GATT based upon the prior contracting party status of Yugoslavia. The GATT indicated that Slovenia should pursue contracting party status through the normal accession process, and a GATT Working Party has been established to consider Slovenia's application.

MACEDONIA

The former Yugoslav Republic of Macedonia has proclaimed its statehood, but has not been formally recognized by the United States to date. The term "Macedonia" is used informally in this report for convenience; its use is not intended to have international, legal, or diplomatic significance.

Macedonia's economy has suffered a number of serious shocks since 1990. The conflict in the former Yugoslavia has caused a flood of refugees, a breakdown of trade and capital flows, and the loss of infrastructure. Unemployment is running at over 25 percent of the labor force. Although compliance with the UN sanctions against Serbia is not complete in Macedonia, it nonetheless feels the strain of losing its former major trading partner.

The absence of international recognition has also hampered the Macedonian economy. Greece, which once provided Macedonia with access to the sea via Thessaloniki, has disrupted cross-border trade. Nonetheless, Greece has permitted humanitarian shipments of oil, and shipments of food, to Macedonia.

GDP declined by about 8 percent in 1990, 13 percent in 1991, and is thought to have dropped at least another 20 percent in 1992. Industry and mining are the largest sectors of the economy, together contributing about 40 percent of GDP. The main products are textiles and footwear; food, beverages, and tobacco products; basic metals and metal products; and chemicals. Agriculture contributes about 15 percent of GDP; the main crops are tobacco, grapes, and vegetables. Most of Macedonia's agricultural sector is in private hands, but the industrial base is largely socially owned. Although 84 percent of the 12,867 enterprises registered in Macedonia are privately owned, over 94 percent of the country's production was generated by state-owned enterprises. The existing private sector is small and concentrated in the service sector. Many of the registered private businesses exist only on paper.

Inflation for the first four months of 1992 was 380 percent, compared with 230 percent for all of 1991. In April, 1992 the government launched a stabilization program consisting of currency reform, tight monetary and fiscal policies, a wage freeze, selected price controls, and a fixed exchange rate. The stabilization program brought the monthly inflation rate to 17 percent by June which, though higher than the target rate, was still a significant achievement given the regional difficulties and uncertainties.

ARGENTINA

Key Economic Indicators

(millions of US Dollars)

	1990	1991	1992 1/
Income, Production, Employment			
Real GDP USD (1990 prices)	106,000	115,000	122,000
Real GDP Growth (pct.)	0	8.5	6.5
GDP (at current prices) 2/	106,000	129,000	153,000
Growth by sector (percent GDP)			
Agriculture	11.6	3.6	3.4
Industry	-0.9	12.7	10.0
Minerals	5.5	-5.8	1.0
Services	-1.3	6.6	5.0
Real Per capita Income (USD)	3,252	3,909	4,581
Labor Force (000s)	12,300	12,500	12,800
Unemployment rate (percent) 3/	8.8	6.4	6.6
Money and Prices (annual percentage growth)			
Money Supply (M1) 4/	881	116	44
Commercial Interest Rates			
On 30 days Deposits (monthly)4/	6.7	1.2	4.0(Nov)
Savings Rate (% of GDP)	9.8	9.3	12.4
Investment Rate (Pct of GDP)	8.1	11.5	15.1
Wholesale inflation 4/	798	57	5
CPI, percent change 4/	1,344	84	18
Exchange Rate (usd/peso) 5/			
- Official	.4888	.9552	.9300
- Parallel	.4888	.9552	.9300
Balance of Payments and Trade			
Total Exports (FOB) 6/	12,354	11,977	12,800
Exports to U.S. (FOB) 7/	1,625	1,367	1,230
Total Imports (CIF) 6/	4,078	8,275	14,000
Imports from the U.S. (CIF) 7/	1,122	1,897	3,000
Aid from the U.S.(Thousands USD)	160	1,100	1,200
External Public Debt 8/	62,000	61,000	63,000
Debt Service Payments 9/	1,511	1,582	NA
Gold and Foreign Exch Res. 10/	5,874	6,243	10,500
Trade Balance 6/	8,276	3,702	-1,200
Balance with U.S. 7/	503	-530	-1,770

Notes for Table

1/ Estimates for 1992 are based on those presented by the Argentine Government in its Budget Bill for 1993.
2/ Figures provided in nominal gdp are virtually the same in dollars or pesos after April 1991 when convertibility plan took effect, linking the peso at the rate of one to one with the dollar.
3/ In greater Buenos Aires area
4/ End of period
5/ Average for the period
6/ Merchandise trade based on official Argentine Government data
7/ Merchandise trade based on U.S. Department of Commerce data
8/ Includes interest arrears
9/ Includes net debt service paid by public sector to

international financial institutions and on Government of Argentina Foreign Currency Bonds (BONEX)
10/ Estimated: includes gold, SDRS, foreign exchange holdings, and outstanding ALADI balances

1. General Policy Framework

After decades of instability that culminated in two bouts of hyperinflation in 1989-90, the Menem Administration has undertaken a wide-ranging reform program. Shortly after President 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 1991 the Congress passed the Convertibility Law, which introduced a fixed exchange rate and placed even greater emphasis on fiscal discipline. Subsequent laws and decrees have provided the framework required to regulate the newly-privatized utilities and have begun to remove the state controls which distorted economic life in Argentina. Inflation has fallen to below two percent per month, an impressive achievement in the Argentine context.

The fiscal deficit disappeared on a cash basis in 1992 following a dramatic increase in tax collections. The draft Budget Law which the Executive has presented to Congress contains a projection for a small fiscal surplus in 1993, with no further growth in accruals owed to pensioners and the foreign commercial banking community. The continued sale of state assets -- particularly the state-owned petroleum company, YPF -- will allow the Government to capitalize a pension fund and retire part of its enormous stock of domestic debt.

Under the Convertibility Law, the Government issues local currency backed on a one-to-one basis by international reserves. Thus, the Central Bank controls the money supply by either buying or selling dollars. From April 1991 to November 1992, the Central Bank bought over eight billion dollars, issuing an equivalent number of pesos in the process.

2. Exchange Rate Policies

There are no restrictions on the free movement of funds in and out of Argentina. The Central Bank is required to sell dollars on demand under the Convertibility Law at the exchange rate ceiling of one peso per one U.S. dollar. The Bank has also chosen to buy dollars at the bottom of a one percent intervention range, thereby ensuring that the exchange rate never drops below 0.99 pesos per one U.S. dollar. With the large inflow of foreign exchange from abroad attracted by the high return on financial instruments denominated in pesos and the normal remonetization of a domestic economy following hyperinflationary periods, the Argentine exchange market has tended to trade at the bottom of this range. The market has rarely tested the will of the Argentine Government to defend the exchange ceiling for the peso; when it has, the Central Bank has easily met its obligations under the Convertibility Law.

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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. The economic reactivation has also tended to promote imports as the product of successful economic stabilization, increased real income at home and the prospects for continued stability and growth.

3. Structural policies

Argentina is in a middle phase of what will likely be a long and difficult process of structural reform. The Government is working to remove the "Argentine costs," those unusual inefficiencies and distortions in utilities, transportation and communications among others, which hamper the price competitiveness of many Argentine goods. This process of reform at the national level and restructuring at the firm level should lead to a higher level of imports for some time to come. Companies will be eager to invest in capital goods to increase their efficiency and to buy more inputs to feed the growing productive process; the high level of demand will lead to the importation of finished goods as well. However, the Government has shown concern at a growing trade deficit in late 1992. It reacted by increasing the reimbursement of indirect taxes for exports and the incidence of the statistics tax on imports to hault this trend.

Most prices in Argentina are set by market forces. Present trends, if continued, are for the Government to provide fewer industrial production subsidies and to lift controls, leaving increasingly fewer regulated prices; controls will remain, however, on prices where market imperfections are deemed to exist (such as natural monopolies).

While the government increases the efficiency of tax enforcement and works to eliminate the more distorting taxes that remain, it will be obliged to rely heavily on easily collectable taxes. These taxes (principally on consumption and international trade) tend to be regressive in nature. It will be some time before the Government will be able to rely more on income tax and other less regressive sources of income.

4. Debt Management Policies

During the 1980s the Argentine Federal Government assumed the medium- and long-term external debt obligations of the private sector. Presently, over 90 percent of the total stock of debt is the responsibility of the public sector. The Government has faithfully serviced its debt with the international financial institutions and the Paris Club (within the terms of several reschedulings). The government stopped amortizing its debt to commercial banks some time ago and allowed substantial interest arrears to accumulate. A Brady Plan-type restructuring of this commercial debt, involving about $9 billion in arrears in addition to a base of $27 billion at end-1991, is scheduled to be implemented in early 1993.

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Early estimates suggest that the Government will comply with the targets set under the first year of its three year Extended Funding Facility from the International Monetary Fund. The World Bank and InterAmerican Development Bank are both major sources of development capital for Argentina.

5. Significant Barriers to U.S. Exports

Barriers to U.S. Exports: Overall, the Menem Administration has taken significant steps to open the economy to imports. Import licensing requirements have been removed. The average non-trade weighted tariff has fallen from 22 percent early in 1991 to the current level of 9.8 percent. The maximum tariff has fallen from 40 percent to 20 percent.

The Government has removed most of the quantitative limits on imports, with the exception of quotas on automobiles and a ban on the import of used products such as cloths, tires, and motorcycles. With Argentina facing its first overall trade deficit in a decade in 1992, the Government recently increased its statistics tax on imports by 7 percentage points. This tax increase affects all imports except capital goods. The statistics tax was previously eliminated on exports. There is a discriminatory tariff on the import of Spanish language books printed in non-Spanish speaking countries.

Opportunities for U.S. exports of plant propagation material are inhibited by the absence of written, up-to-date phytosanitary regulations. Increasing tax pressure on imported animal genetics, and bovine semen and embryos, is reducing U.S. competitiveness relative to domestic sources.

Barriers to U.S. Services: Argentina has made significant progress in opening parts of its service sector. Particular progress has been made in the insurance sector, where the requirement to reinsure in Argentina has been eliminated. The insurance registry for new insurance firms remains closed because the Government determined the market was "saturated". However, new to market foreign firms can now enter by purchasing one of the numerous previously registered firms and changing the name. Regulations have also been changed to allow groups such as international accounting firms to use their international names, rather than the name of an Argentine representative.

In other areas, significant restrictions remain. Certain portions of the Argentine market are technically reserved for locally produced films and advertisements. 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. Restrictions on the ownership of broadcasting firms remain in effect. 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. The Congress recently ratified a Bilateral Investment Treaty with the United States. Foreign investors enjoy national treatment in all sectors except: air transportation, shipbuilding, nuclear energy centers, uranium mining, insurance, fishing, and any establishment (except for mining) in areas along Argentina's borders.

Government procurement practices: "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 the cost for importers. However, there has been some improvement and more is planned. Argentine Customs is in the process of installing an automated customs system, based on the French model.

6. Export Subsidies Policies

On September 20 1991, the United States and Argentina signed an agreement in which the Argentine Government committed to eliminate its remaining subsidies for industrial exports. The Argentine Congress recently ratified Argentina's accession to the GATT Subsidies Code.

7. Protection of U.S. Intellectual Property

The Government of Argentina is a member of the World Intellectual Property Organization, and has signed and ratified numerous multilateral intellectual property conventions, including the non-substantive provisions of the 1967 Stockholm Act of the Paris Convention for the Protection of Industrial Property, the 1988 Brussels text of the Berne Convention for the Protection of Artistic and Literary Works, the 1952 Geneva Universal Copyright Convention, the Rome Convention, and the Geneva Phonograms Convention. In 1992, Argentina was again named to the Special 301 Watch List.

Patents: The Argentine patent law, which is the weakest element of the IPR regime, was promulgated in 1864 and is inadequate. It does not provide protection for pharmaceutical products, and has other serious flaws, such as a stringent working requirement and onerous dependent patemt provisions, and a maximum patent term of only 15 years. The Menem Administration has submitted a bill to the Congress that would provide product patent protection and broaden legal coverage to include pharmaceuticals. However, congressional progress on the bill has been very slow. In the absence of such protection a number of U.S. firms have expressed concerns about investing in Argentina for fear of exposing their proprietary technology to pirating. Pirating of U.S. patents is estimated to cost U.S. pharmaceutical patent holders more than 30 million dollars a year in sales.

Copyrights: Argentina's copyright law is fairly comprehensive, though it does not provide explicit protection for new technologies such as computer software or semi-conductor works. Protection for computer software has been available in Argentina through the courts. A U.S. copyright industry association estimates losses due to piracy in Argentina at more than 43 million dollars annually.

8. Worker Rights

a. Right of Association

The labor movement, representing about one-third of the work force, remains an important political and economic force. The power of Argentina's labor federation's umbrella organization, the CGT, has waned considerably in comparison with the recent past. In the three-plus years of the Menem government, the CGT has staged only one general work stoppage, despite considerable unhappiness over concrete issues such as wages, social security reform, and labor flexibilization. This tolerance is due to recognition among large sectors of the labor movement that the government's economic reform program is producing tangible, positive results.

Unions have the right to strike, subject to compulsory conciliation and arbitration by the Labor Ministry. Some unions, particularly the Metallurgical Workers, Teachers and Bank Workers, have exercised that right frequently over the past year, with little or no official interference. Management is obliged to pay striking workers until such point as the Labor Ministry decrees compulsory arbitration. Trade unions are free to associate with international organizations and many Argentine unions are active in these trade union groups.

b. Right to Organize and Bargain Collectively

Federal labor law and regulations apply uniformly throughout the country. Antiunion discrimination is prohibited by law, and well-developed mechanisms are in place and functioning to resolve complaints. Labor and management are legally subject to a binding collective bargaining process which sets basic wage levels on an industry-wide basis. Management and the government are trying to disarticulate this arrangement, allowing management more flexibility in dealing with unions.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is illegal in Argentina and is not practiced.

d. Minimum Age for the Employment of Children

Employment of children under 14 years of age is prohibited, except within the family. Minors aged 14 and 15 may work in restricted types of employment but not more than six hours a day or 35 hours a week. The same law applies to minors 16 to 18 years of age, although competent authorities may allow exceptions. Violators are tried before appropriate courts, but due to the reduction in most families' earning power, these restrictions are probably honored more in the breach than in practice.

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e. Acceptable Conditions of Work

The official minimum monthly wage is about 100 dollars.

Argentine law offers comprehensive protection for worker rights and sets acceptable standards for health and accident protection. The maximum workday is eight hours; the work week is 48 hours. Premiums are paid for work beyond those limits, which is increasingly the case as workers seek to augment inadequate basic salaries by undertaking overtime work. Rules governing vacations and maternity and sick leave are comparable to or better than those that prevail in Western industrialized nations, and are generally observed. Occupation health and safety standards are also comparable to those of industrialized nations, but the Federal Government and many provincial governments lack the resources to enforce these standards, despite union vigilance against violations.

f. Rights in Sectors with U.S. Investment

National law makes no distinction between worker rights in nationally-owned enterprises, and those in the sectors with U.S. investment. There is no officially designated export processing zone in Argentina. The rights enjoyed by Argentine employees of U.S.-owned firms in Argentina equal or surpass Argentine legal requirements.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		463
Total Manufacturing		1,907
Food & Kindred Products	412	
Chemicals and Allied Products	451	
Metals, Primary & Fabricated	83	
Machinery, except Electrical	(D)	
Electric & Electronic Equipment	70	
Transportation Equipment	(D)	
Other Manufacturing	356	
Wholesale Trade		164
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		2,534

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

Source: U.S. Department of Commerce, Survey of Current Business, November 1992, Vol. 72, No. 8, Table 11.3

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Key Economic Indicators

(Millions of U.S. Dollars)

	1990	1991	1992 (mid-year)
Income, Production, and Employment			
Real GDP	2,522	2,598	N/A
GDP growth Rate	1.0	3.0	N/A
GDP by sector (% of total):			
Tourism	60.0	60.0	N/A
Finance	10.0	10.0	N/A
Manufacturing	3.0	3.0	N/A
Agriculture/Fisheries	5.0	5.0	N/A
GDP per capita	9,902	11,120	N/A
Labor force	127,400	130,100	130,200
Unemployment rate (%)	14.0	16.0	14.3
Money and Prices			
Money supply (M1)	338.7	361.2	365.1
Commercial interest rate (%)	9.0	9.0	8.0
Savings rate	4.58-7.00	4.23-6.64	3.29-5.92
Consumer price index (1987=100)	120.4	128.2	131.8
Consumer price index (%) change	4.6	7.2	6.6
Exchange rate (US$:B$)	1:1	1:1	1:1
Balance of Payments and Trade			
Total exports (FOB)	2,813.5	N/A	N/A
Non-oil (est)	287.8	N/A	N/A
Exports to the U.S.	507.0	465.3	N/A
Total imports (CIF)	3,022.5	N/A	N/A
Non-oil (est)	1,036.2	N/A	N/A
Imports from U.S.	785.4	706.0	N/A
Aid from the U.S.	0	0	0
Aid from other countries	0	0	0
External public debt	119.9	129.2	130.3
Debt repayment	47.5	48.6	28.4
Foreign exchange reserves	159.5	171.8	204.1
Balance of Payments			
Current account	-180.1	-238.0	N/A
Merchandise exports (FOB)	306.1	319.8	N/A
Merchandise imports (CIF)	1,128.2	1,142.2	N/A
Services (net)	783.4	570.2	N/A

N/A = Not Available

1. General Policy Framework

The Bahamas is a politically stable, middle-income, developing country. The economy is based primarily on tourism and financial services, which account for approximately 60 percent and 10 percent of the gross domestic product (GDP), respectively. The agricultural and industrial sectors, while small, have recently been the focus of Government efforts to expand these sectors to produce economic growth and diversify the economy.

The United States remains The Bahamas' major trading partner. U.S. firms exported over $700 million worth of goods and services to The Bahamas in 1991. 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 U.S. dollars. 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 in part to investment in capital projects by the Government and public corporations. The recurrent deficit for 1991 was $60 million while the overall budget deficit in 1991 was $101.5 million. Deficits are financed through bond issues, treasury bills, short-term advances from the banking system, and Central Bank financing. In October 1991, the Government increased several import duties and raised the gasoline tax, taxes on remittances of foreign currency, and the departure tax on cruise ship visitors. Total 1991 national debt was $1.16 billion, up from $912.3 million in 1990.

Domestic financing through commercial bank loans and the issuance of government securities continued to increase in 1992. The deficit was financed through a $25 million issue of long-term government securities, together with short-term advances from the domestic banking system.

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 to preserve foreign exchange reserves, and liquidity remained tight in 1992. Bank lending came to a virtual halt between January and September 1991. Although bank lending increased somewhat during late 1991 and 1992, banks continue to require down payments of 35 percent of the amount of the loan, and interest rates are relatively high. The recession has affected commercial banks because of the increasing numbers of customers who have forfeited mortgage payments.

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 $172 million in 1991, due partly to tighter liquidity.

3. Structural Policies

Price controls exist on 13 items, including gasoline, utility rates, public transportation, automobiles, and auto parts. Inflation accelerated from 4.6 percent in 1990 to 7.2 percent in 1991, but then dropped slightly to an annualized rate of 6.6 percent in mid-1992.

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 apply 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 raised the harbor departure tax from $7 to $20 per person. Following protests from cruise ship operators, the harbor departure tax was lowered to $15, effective April 1, 1992.

In October 1991, the Government implemented new legislation to attract and promote investment. The Investment Incentives Act (IIA) divides The Bahamas into four economic zones for 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 the 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 production. 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. The Government will likely renew this agreement before it expires in 1993.

Although The Bahamas encourages foreign investment, specific businesses are reserved exclusively for Bahamians and others for joint ventures with Bahamian residents. The Government has historically been reluctant to privatize state enterprises in insurance, electricity, hotels, and telecommunications. However, budget problems have induced the Government to discuss privatizing some state-owned hotels.

4. Debt Management Policies

The Bahamas' national debt reached $1.16 billion in 1991, with debt service of $78.3 million accounting for 8.2 percent of total Government revenues.

5. Significant Barriers To U.S. Exports

The Bahamas is a $700 million market for U.S. companies. There are no barriers to the import of U.S. goods, although a substantial duty applies to most 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 designed 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. Additionally, 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 Bern 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 grants labor unions the rights of free assembly and association. Unions operate without restriction or Government control, and are guaranteed the right to strike and to maintain affiliations with international trade union organizations.

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b. Right to Organize and Bargain Collectively

Workers are free to organize. 30,000 workers (25 percent of the work force) belong to unions. Collective bargaining is protected and the Ministry of Labor is responsible for mediating disputes. The Industrial Relations Act requires employers to recognize trade unions.

c. Prohibition of Forced or Compulsory Labor

The Constitution prohibits forced or compulsory labor. Such labor does not exist in practice.

d. Minimum Age for Employment of Children

While no laws prohibit 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

The Fair Labor Standards Act limits the regular workweek to 48 hours and provides for at least one 24-hour rest period. The Ministry of Labor is responsible for enforcing labor laws and has a team of several inspectors who make on-site visits to enforce occupational health and safety standards and investigate employee concerns and complaints. Employers generally cooperate with the inspections in implementing safety standards. There are no legislated minimum wage levels in The Bahamas. A 1988 law provides for maternity leave and the right to reemployment after childbirth. Worker rights legislation applies equally to all sectors of the economy.

f. Rights in Sectors with U.S. Investment

Labor laws and regulations are enforced uniformly throughout the country, including within the export processing zones. They apply equally to all sectors of the economy.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		272
Total Manufacturing		67
Food & Kindred Products	(D)	
Chemicals and Allied Products	(D)	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	*	
Wholesale Trade		111
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		450

(D)-Suppressed to avoid disclosing data of individual companies
* Less than $500,00
Source: U.S. Department of Commerce, Survey of Current Business, November 1992, Vol. 72, No. 8, Table 11.3

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Key Economic Indicators

(millions US dollars)

	1989	1990	1991
Income, Production, and Employment:			
Real GDP (1974 prices)	454.55	440.45	421.9
Real GDP Growth Rate	3.6%	-3.1%	-4.0
Real GDP (1974 prices, by sector)			
Sugar	14.10	14.75	14.0
Other agriculture	14.10	17.80	17.05
Mining	3.10	3.25	3.15
Manufacturing	45.15	43.95	41.5
Utilities	13.05	12.20	13.55
Construction	33.45	30.05	27.8
Wholesale & retail trade	90.50	86.00	80.6
Tourism	67.75	63.20	57.55
Transport & communication	34.45	34.45	33.8
Business & gen. services	77.75	75.70	73.75
Government	59.30	60.20	58.95
Size of labor force ('000)	124.5	124.8	119.8
Unemployment rate	15.5	15.0	23.4
Money & Prices			
Money supply (M1)	257.3	300.8	274.9
Commercial Interest rate	11.0	10.25	14.5
Investment Rate	22.6%	21.9%	
Consumer Price Index (1980=100)	178.8	184.9	199.9
Exchange rate (fixed US$1=BDS$2)	2/1	2/1	2/1
Balance of Payments & Trade (current $ million)			
Total exports	187.2	210.55	205.8
Total exports to U.S.	36.4	25.95	27.6
Total imports (CIF)	677.15	703.95	697.0
Total imports from U.S.	234.65	234.0	252.65
Aid from U.S.	0.494	0.715	1.127
External public debt	551.8	539.85	532.35
Annual debt service payments	105.45	151.5	172.75
Gold & foreign exchange reserves	134.1	75.0	35.2
Balance of payments (Current Account)	-5.3	-75.1	-91.4

1. General Policy Framework

Barbados, the easternmost of the Caribbean Windward Islands, is only 166 square miles in area (14 miles wide and 21 long), with a population of about 254,000. It is a

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British-style parliamentary democracy with a market-oriented economy based on private ownership and international trade. Tourism, offshore business and financial services, and agriculture underpin foreign trade, with sugar the main foreign exchange earning crop. Offshore banking and financial services, transportation, and communications are increasingly important sectors. Mining and quarrying are limited, but Barbados produces enough petroleum and natural gas to satisfy nearly half its domestic needs.

Barbados entered an 18-month Standby Arrangement with the International Monetary Fund (IMF) in October 1991. Economic austerity measures are in place to reduce government spending, halt major capital and public works construction projects, limit official borrowing, and reduce the level of public sector employment. The measures coincide with a recession in tourism, construction, manufacturing, and agriculture. The high fiscal deficits in 1990 and 1991 were fueled by pre-election government spending (national elections were held in January 1991). Government spending for social safety net programs, education up to the tertiary level, wages and salaries for a relatively large civil service, and health services subsidies also contributed to the growth of the deficit in recent years. Deficits are financed principally by borrowing from the Central Bank of Barbados (BCB) and local insurance and financial institutions. This trend, coupled with the over-valued local dollar, caused foreign exchange losses and the depletion of foreign reserves in 1991. Trade in a wide range of products imported from the United States declined as a result.

Barbados's IMF agreement is conceived as the first stage of a structural adjustment process which, over the decade, will be assisted by the World Bank, the Caribbean Development Bank (CDB), and the Inter-American Development Bank (IDB). The austerity measures now in place aim to avert a devaluation of the Barbados dollar (BDS $2 = U.S.$1). Monetary policy depends on open market operations, adjustment of reserve requirements, and other mechanisms to control the money supply. The IMF Standby Arrangement has sharply cut local imports and consumption, dampening demand for foreign exchange, and reducing the fiscal deficit. As part of the adjustment process, some parastatals are being privatized, i.e., the National Oil and National Petroleum Exploration Companies, the Arawak Cement Plant, Barbados Flour Mills, Pine Hill Dairy, Barbados External Telecommunications, The Heywoods Resort, and others. However, the Government will maintain equity roles in television, radio, tourism facilities, utilities, housing, the airport, and seaport.

Barbados's trade policy seeks to stimulate exports, protect domestic light industry, maintain the government's revenue base, and limit foreign exchange outflows by the judicious use of border measures and tariffs. The United States is the most important trading partner, followed by Canada, the UK and CARICOM. Certain import substitution protections for local manufacturers are being removed to create an export enterprise bias. Special licenses and incentives for direct foreign investors and exporters are available, particularly in tourism, data entry/keyboarding, and the offshore business and financial services sectors.

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High local factor costs (wages, utilities, taxes) challenge the viability of many local firms. The recent economic downturn has affected local production and thereby the quantity of U.S. imports.

Although the depletion of foreign exchange reserves in 1991 led to fears of a devaluation, the Government stood fast against devaluation and opted instead for an austerity package. Its goal was to take spending power out of the hands of businesses and consumers to stem the outflow of foreign exchange while at the same time reducing government expenditure. A credit squeeze has been in effect since 1989. Increases in industrial rents, higher energy costs, a recent reform of the direct tax system and an imminent reform of the indirect tax systems, along with rising utility, transportation, and water rates have affected consumers, retailers and wholesalers alike. With a continuing balance of trade and payments deficit and increasing unemployment (estimated in late 1992 at about 23 percent), Barbados remains in a difficult position. Recovery will hinge on the efficacy of the restructuring program and the performance of tourism in 1993.

2. Exchange Rate Policies

The Government is committed to maintaining a fixed exchange rate vis-a-vis the U.S. dollar, but economic pressures may yet compel a devaluation. The Ministry of Finance makes monetary and foreign exchange control policies. 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. After being depleted to the point in 1991 that normal business transactions were impaired, the country's foreign reserve position has improved somewhat and exchange control today is lenient.

U.S. products are highly favored by Barbadian consumers despite relatively high tariffs and taxes. Current exchange rate policy, the scarcity of foreign reserves, and the ongoing structural adjustment process have reduced local imports of industrial inputs, machinery, capital equipment, high value food items and consumer goods from all suppliers, including the United States.

3. Structural Policies

All foreign investors receive equal treatment, and there is no discrimination against U.S. corporations or investors. 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 (Data entry and information processing, insurance, banking and financial services) sector has emerged as a key growth area in recent years. Tax and other concessions are offered to 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. 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.

The trade-oriented Barbadian economy normally offers significant potential for U.S. exports and direct investment, but due to the climate of austerity, near-term prospects are limited. Because of the need to stem the outflow of foreign exchange, a restrictive administration of the import licensing system has been institu'ed while the "negative list" for proscribed imports that compete with local products has been maintained. Pricing policies are essentially market-driven with some government intervention for essential products. Price controls or subsidies apply to key consumer goods such as food, pharmaceuticals, and energy. Local prices for most commodities tend to be higher than the U.S. average.

A reform of the direct tax system in mid-1992 broadened the tax base while lowering maximum rates. A reform of the indirect tax system in 1993 may feature a value-added tax (VAT) to replace the panoply of indirect taxes now in effect. Barbados has concluded a Tax Information Exchange Agreement (for access to 936 Program funds) with the United States and will be eligible for investment sector loan/grant programs under the Enterprise for the America's Initiative. An initial negotiating seesion on a Bilateral Investment Treaty (BIT) was held in July 1992. Business convention expenses are deductible for U.S.-based companies and customs duty reductions and exemptions on imports are available in targetted sectors. Barbados has concluded seven double taxation treaties including Switzerland (1963), the United Kingdom (1970), Canada (1980), the U.S. (1984, Protocol 1991), Finland (1989), Norway (1990), and Sweden (1991). Other tax treaties are under discussion with Latin American, European, East Asian and African Countries. Foreign investors are eligible for tax incentives including full exemption from all income and withholding taxes for offshore industries. Export-oriented manufacturing firms may receive tax holidays, and tourism investors take advantage of tax concessions for construction or major refurbishment of hotels.

4. Debt Management Policies

The IMF austerity measures have strengthened the government's financial position, reducing the first-half 1992 public sector deficit to BDS $13.8 million from BDS $77.5 million in the previous full year. However, revenue declined by BDS $23.8 million (4.5 percent) in the first half of 1992, as direct and indirect tax collections reflected declining economic activity. The fiscal deficit was financed mainly from domestic sources -- Central Bank, commercial banks, National Insurance Board, and others -- because of reduced accessibility to foreign financing. Barbados' total external debt for 1991 was BDS $1,064.7 million. About BDS $778.7 represents Central Government debt; BDS $34.7 represents government guaranteed debt; BDS $50.3 was Central Bank debt; private sector debt was BDS $201 million. The balance of payments improved somewhat during the first half of 1992 despite declines in foreign exchange earnings from domestic exports, tourism, and other services. The improvement resulted from a 20-percent fall in imports. Central Bank net international reserves rose by nearly BDS $58 million in the first half of 1992, compared to a decrease of BDS $44 million during the second half of 1991.

According to the Central Bank, heavy short term debt payments in recent years peaked in 1991 and are now tapering off. The external debt payments for the 1991 to 1995 period include: 1991 = BDS $ 308.7 million; 1992 = BDS $ 216.2 million; 1993 = BDS $ 130 million; 1994 = BDS $ 116.4 million; and 1995 = BDS $104.8 million. In early 1992, faced with difficulty repaying a Japanese yen-denominated loan dating from 1986, the government used funds from the sale of its shares in the telephone company and flour mill to assist in servicing the debt.

The Consumer price index rose 8.1 percent in 1991 versus 3.4 percent in 1990. Some moderation occurred in 1992, with retail prices in the first six months rising a modest 0.8 percent as a result of declining domestic demand and low import inflation. Layoffs and business closures continue even as statistics on the economic fundamentals began to show improvement in late 1992. The potential for U.S. exports will remain limited until the recovery broadens.

5. Significant Barriers to U.S. Exports

The IMF austerity measures have spurred reforms to the island's regulatory environment and administrative procedures affecting trade and finance. The recent introduction of the Caricom Common External Tariff will disadvantage certain U.S. exports, but may help others. Barbados maintains restrictions, including licensing, on imports that compete with local and CARICOM goods. (Certain industries, however, benefit from duty-free importation of key productive inputs.) Import duties based on tariff classification and composed of three types of levies -- customs duties, consumption taxes and stamp taxes -- will be simplified in future reforms. Foreign sales corporations, international business corporations and banks can still 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.

Barbados permits one hundred percent ownership of investments and property. No industries are closed to foreign investment, but some restrictions or barriers to foreign investment exist. Prior government approval is required in the form of a license in order to invest in utilities, broadcasting, banking and insurance enterprises. There are no percentage or other restrictions on foreign ownership of a local enterprise or participation in a joint venture. Non-residents require BCB permission to purchase real property, which is usually granted. 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 licensing and customs officials can slow down the process for importing essential inputs.

6. Export Subsidies Policies

Barbados gives priority to investments which intend to manufacture for export. Apparel, gloves, hand tools, bicycles and parts, costume jewelry, hardware, electrical appliances/devices, electronic assembly, footwear, furniture, and auto parts are examples of goods that qualify for preference. The Government provides special incentives to export industries; i.e., ten year tax holiday followed by a 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; and free advisory and support services from the Barbados Investment and 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. Bulk users of utilities (gas, water and electricity) are eligible for resource discounts. Other types of export guarantee schemes provide letters of credit and credit insurance for exporters.

7. Protection of U.S. Intellectual Property

The Barbados Government has made efforts in recent years to improve the legal regime to protect, acquire and dispose of all property rights, including intellectual property. Barbados is a signatory of the Paris Convention of Intellectual Property Rights (IPR), the Madrid accords, and is a member of the World Industrial Property Organization (WIPO). Barbadian law does not promote domestic industries at the expense of foreign industrial and intellectual property rights holders. However, Barbados has only limited experience with IPR matters and very few industrial designs or patents have been registered here. There have been no recent court challenges or settlements for patent, trademark or copyright infringements although infringement is commonplace in certain sub-sectors of the economy; i.e., video cassette rentals/sales; t-shirt production of unlicensed copyrighted images; software piracy; and satellite signal piracy. Enforcement has not been an active priority of government.

Separate statutes govern and regulate 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 patent protection for 14 years. The Trademarks Act of 1981 (act 1981-56, statutory instrument 1984 number 85) protects trademarks initially for 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. There is no specific statutory reference to trade secrets or semiconductor chip layout designs. The WIPO sent a consultant to Barbados in 1990 to review current IPR statutes and administrative and enforcement procedures, and has recommended improvements that are under review. The U.S. Embassy has no estimate of lost U.S. import opportunities related to local IPR protection standards.

An initial negotiating session on a bilateral IPR agreement was held in July 1992.

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. Policemen, teachers, doctors, civil servants and other public workers participated in the demonstrations and industrial actions mentioned. Barbadian trade unions are free to affiliate with trade union internationals and participate actively in regional and international labor organizations, including the ILO in Geneva.

b. Right to Organize and Bargain Collectively

The rights to organize and to bargain collectively are provided by law and respected in practice. Over 20 percent of the workforce 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. There are no manufacturing or other areas where collective bargaining rights are legally or administratively impaired. However, large data processing "factories" similar to export processing zones located in the bridgetown harbor area do not typically allow their workers to become unionized.

c. Prohibition of Forced and Compulsory Labor

Forced or compulsory labor is prohibited by the Constitution of Barbados and does not exist.

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d. Minimum Age of Employment of Children

The legal minimum working age of 16 in Barbados is generally observed, with the possible exception of family businesses and very poor families who allow children to work in the informal sector at younger ages. Minimum employment age limitations are reinforced by compulsory primary and secondary education policies.

e. Acceptable Conditions of Work

The standard workweek is 40 hours in five days, and workers are guaranteed a minimum of three weeks of annual leave. Minimum wages for specified categories of workers are mandated and enforced by law. 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. Legally mandated safety and health standards are enforced by the Department of Labor, and are in keeping with normal standards. Many of these support services are being reexamined in light of the IMF austerity program and Government's ability to afford such costly safety net systems.

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-EPZ's 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 an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		77
Total Manufacturing		12
Food & Kindred Products	0	
Chemicals and 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, November 1992

BOLIVIA

Key Economic Indicators

(Millions of US dollars except where indicated)

	1990	1991	1992 a/
Population (millions) b/	6.16	6.28	6.40
Income, Production, Employment c			
Real GDP percent change 1980 pesos	2.6	4.1	3.5
Real GDP per capita income	900.4	966.1	984.4 j/
Percent change	2.74	7.30	1.89 j/
Nominal GDP	5,546.6	6,067.3	6,300.00 j/
Sectoral GDP Percentage	100.0	100.0	100.0
Agriculture	20.8	21.30	n/a
Manufacturing	13.2	13.72	n/a
Trade Services	12.9	16.76	n/a
Public Administration	9.0	8.73	n/a
Mining	8.9	8.99	n/a
Transportation/Commun.	8.6	8.53	n/a
Oil Industry	6.4	6.29	n/a
Others	20.2	15.69	n/a
Unemployment rate percent f/	8.1	7.0	7.1 j/
Money and Prices c/			
Money supply (M1) (millions of Bolivianos)	988.0	1,446.8	1,438.5 h/
Fiscal deficit percent GDP /	4.8	4.3	3.7
Inflation (12 months)	18.0	14.5	12.0 j/
Commercial Bank Deposits g/	797.4	1,121.1	1,463.09
Interest Rates on Dollars			
Loans Avg percent	22.2	19.1	18.5 h/
Deposits Avg. percent	14.4	12.1	11.5 h/
CD Time Deposits Avg percent	15.2	8.4	7.3 h/
Exchange Rate (Bs/dols) c/			
Year-end	3.40	3.73	4.10 j/
Average	3.17	3.59	3.85 j/
Trade and Balance of Payments c			
Total exports (fob)	920.7	848.6	734.8 k/
Exports to the U.S. d/	203.2	208.7	72.4 e/
Exports - Natural gas	225.3	232.6	147.2 k/
Exports - Tin (cif)	106.2	99.7	92.0 k/
Other mineral exports (cif)	295.0	256.4	253.4 k/
Tot. imports (cif frontier)	715.6	992.3	1,086.2 k/
Imports from the U.S. d/	138.5	189.7	95.5 e/
Current account balance	39.2	(313.4)	(279.2)
Capital account balance	114.0	128.7	147.2
Central Bank gross reserves (year-end)	375.7	393.0	499.9 h/
Central Bank Net reserves (year-end)	132.3	200.3	280.9 h/
Public Foreign Debt i/			
Total	3,768.5	3,582.3	3,644.7
Loan disbursements	323.5	279.4	148.6 h/
Capital payments	138.7	107.0	64.4 h/

Interest payments	89.6	113.2	72.3 h

a/ Estimated data (Central Bank of Bolivia and UDAPE) and/or targets set by the GOB and the IMF.
b/ National Institute of Statistics (based on 1992 census).
c/ Central Bank of Bolivia.
d/ U.S. Department of Commerce.
e/ U.S. Department of Commerce as of June 1992.
f/ Based on surveys of urban areas. Data does not consider under-employment.
g/ Superintendency of banks
h/ As of September 30, 1992
i/ Foreign Debt of the Central Bank of Bolivia
j/ U.S. Embassy estimate
k/ Annualized from National Institute of Statistics as of June 1992.
l/ IMF data. N.B. The IMF estimate of GDP is much lower than that reported by the Central Bank.

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 1985. In September 1992, the IMF Board agreed to extend Bolivia's Enhanced Structural Adjustment Facility Program for an almost unprecedented fourth 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 4.1 percent annually starting in 1987), and growing amounts of private investment. The economy is expected to grow at least 3.5 percent in 1992 with inflation of less than 12 percent. Commercial bank deposits have nearly tripled since 1989 to over 1.5 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. Trade surpluses and large inflows of foreign aid have resulted in growing foreign exchange reserves. Net reserves in the Central Bank had reached 281 million dollars by October 1992, about three months worth of imports. The positive growth since 1986 has more than offset the decline of the economy during the first half of the decade. By 1990 the GDP and export figures were back to about where they had been in 1980. During the decade the population grew by 13 percent to an estimated 6.1 million so GDP per capita fell during the decade to about 900 dollars in 1990.

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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) to 3.7 percent of GDP in 1992 (as estimated by the IMF). Central government expenditures and tax revenues came to about 12.5 percent of GDP in 1991. Tax revenues have risen sharply due to better administration and increasing tax rates. The government also receives transfers from public enterprises (8.4 percent of GDP in 1990) and from foreign grants (1.4 percent of GDP). Budget deficits have been covered by foreign loans and the sale of certificates of deposit by the Central Bank. With the budget deficit shrinking, the number of certificates of deposit in circulation has decreased to only 100 million dollars worth by October 1992 and the interest rate offered on the certificates has declined from 16.2 percent in 1989 to 7.3 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 (359 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 84 percent of the 1.5 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 have fallen over the last two years as growing confidence in Bolivia's financial stability led to excessive liquidity in the banks and as government borrowing has decreased. By September 1992 the average rate of dollar deposits had fallen to 11.6 percent and the average rate on dollar loans was down to 18.5 percent from 16 and 24.3 percent respectively in 1989.

2. Exchange Rate Policy

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 decide the minimum rate and the number of dollars to offer for sale. The average amount of dollars offered each day is five million. Sealed bids are then collected and opened with dollars going to those bidding at or above the minimum rate. With this mechanism the Central Bank has slowly devalued the Boliviano in line with domestic inflation and inflation in Bolivia's major trading partners. The rates set by the BOLSIN cannot ignore market forces because currency exchanges in banks, hotels, exchange houses, and on the street corners are legal and active. Parallel market exchange rates are always within one percent of 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 five percent. In addition, the government charges a 13 percent value-added tax, and a two percent transaction tax on all goods, whether imported or produced domestically, when they are sold. There are some excise taxes on some consumer products including cars. Import permits were required for sugar, cement, and wheat, but that requirement was eliminated in September 1990 after the promulgation of an investment law. The central government sets the prices of fuels while the municipal governments try to control the price of a kind of bread roll commonly consumed by poorer members of society. Miscellaneous customs broker fees, chamber documentation fees, etc. are charged on imports in some instances.

In late 1990 and early 1991, the Bolivian Congress approved three laws that the executive branch had pushed hard in order to promote private investment. The investment law establishes many guarantees, such as remission of profits, freedom to set prices, convertibility of currency, etc., that had been previously implemented by Presidential decree. That law essentially guarantees national treatment for foreign investors and authorizes international arbitration. Chapter III, article 26 of the Hydorcarbons Law prohibits international arbitration in the hydrocarbons sector, however. The hydrocarbons law authorized 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 100,000 Bolivianos (about $25,000) are, by law, handled by one of three private purchasing agents. The purchasing agents sell the bid specifications, evaluate the bids, and rank order the offers for the government office or corporation making the purchase.

4. Debt Management Policies

The Bolivian Government owes over $3.6 billion 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. The bilateral debts have been rescheduled four times now by the Paris Club, the last time for an 18-month period. Furthermore, several foreign governments have forgiven substantial amounts of the bilateral debt. In September 1990, the U.S. Government forgave $372 million owed by the Bolivian government including all of the old A.I.D. loans and $31 million of the old PL-480 loans. (All U.S. assistance to Bolivia has been on a grant basis since the late 1980s.)

The Bolivian Government has reduced the debt it owes to commercial banks from over $700 million in 1985 to about $185 million by mid-1992. 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 proposing to exchange the remaining commercial debt at 16 cents on the dollar.

5. Significant Barriers to U.S. Exports

There are no significant barriers to U.S. exports to Bolivia. While Bolivia's tariff structure (two rates of 5 and 10 percent) is among the most liberal in Latin America, the additional import taxes imposed significantly increases the cost of importing. The minor barriers to U.S. direct investment apply to all foreign investors, not just U.S. investors. The requirement to obtain import licenses, previously required for sugar, wheat, and cement was eliminated in September 1990 with the passage of the Investment Law. Article 8 of that law states, "Freedom to import and export goods and services is guaranteed, with the exception of those products that affect public health and/or the security of the state." Chemicals that can be used to produce narcotics are among those products identified as affecting public health. Again, none of these restrictions discriminate against U.S. exporters.

In October, 1992, the Bolivian Government eliminated the tariffs on all but 11 products coming from four members of the Andean Pact (Venezuela, Colombia, and Ecuador) which means that similar products coming from the United States will be at a slight price disadvantage. However, less than five percent of Bolivia's current level of trade is with those Andean countries. The Andean Pact is committed to adopting a common external tariff by November, but Bolivia will be allowed to keep its tariff rates at five and ten percent.

Bolivia became a member of GATT in August 1990 but has not yet signed any of the GATT codes on government procurement, standards, etc.

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 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 six percent of the fob value of the export. The certificates were to offset the ten percent value-added tax charged on all purchases in Bolivia. The certificate program then was replaced with a "drawback" scheme which rebates either two or four percent of the fob value of most "non-traditional" exports. There are no direct or indirect subsidies for exports. The government has recently drafted an export law that would grant rebates of all the domestic taxes paid on the production of items later exported. That bill is being considered by the Bolivian congress.

7. Protection of U.S. Intellectual Property

Bolivia does not provide adequate and effective protection of intellectual proerty rights, particularly for patents and trademarks. The Bolivian Government recognizes that its 90-year old industrial property law needs to be updated and has committed to begin negotiations with the United States in 1993.

Copyright protection was improved during 1992 by the promulgation of two laws. The Film Law is intended to protect films and videos by requiring all such products to be registered with the newly created National Movie Council. The Copyright Law enhances protection for literary, artistic, and scientific works. Both of these new laws will need regulations in order to be implemented.

8. Worker Rights

a. Right of Association

Bolivian workers may establish and join organizations of their own choosing, and they are free to elect their own leaders. This right applies to workers in all areas of the country. There are no areas where workers are governed by anything other than the general labor code. Labor law prohibits any contract which denies workers' constitutional rights and freedoms.

b. Right to Organize and Bargain Collectively

Bolivian workers have the legal 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 government representatives and freely elected labor leaders are common. Workers in the private sector possess and frequently exercise the right to strike. Employees of government agencies (e.g. the Airport Administration Agency) also stage short strikes from time to time.

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 1992.

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. For example, child labor under 14 years of age is common. Young children can be found on the streets selling lottery tickets and other goods, shining shoes, and assisting bus drivers. They 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. 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 adequately 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. Petroleum industry worker rights 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.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		138
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals and Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		6
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		144

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

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, November 1992

BRAZIL

Key Economic Indicators

	1990	1991	1992 1/
INCOME, PRODUCTION AND EMPLOYMENT			
GDP AT CURRENT PRICES (USD BILLIONS)	478	412	420
REAL GDP GROWTH (PCT)	-4.0	1.21	-0.2
PER CAPITA GDP (CURRENT USD)	3,338	2,822	2,823
LABOR FORCE (000S)	62,000	63,200	64,400
UNEMPLOYMENT RATE (PCT)	4.28	4.83	6.21
MONEY AND PRICES			
MONEY SUPPLY (M2) (ANNUAL PCT GROWTH)	529.8	629.3	1,963.6
INTEREST RATE FOR FINANCING WORKING CAPITAL (MONTHLY NOMINAL RATE - PCT)	27.0	35.0	32.5
PERSONAL SAVINGS RATE (MONTHLY NOMINAL RATES-PCT)	20.0	29.1	27.0
RETAIL INFLATION (CONSUMER PRICE INDEX - ANNUAL INFLATION - PCT)	1,585.2	475.1	1,163.5
WHOLESALE INFLATION (WHOLESALE PRICE INDEX - ANNUAL INFLATION - PCT)	1,449.5	471.7	1,151.7
EXCHANGE RATE (CR/USD) OFFICIAL/COMMERCIAL (IN CR)	170.06	1,068.80	12,500
PARALLEL (IN CR)	186.00	1,140.00	14,257
BALANCE OF PAYMENT AND TRADE			
TOTAL EXPORTS (MILLION USD FOB)	31,414	31,636	35,600
EXPORTS TO US (MILLION USD FOB)	7,976	6,727	7,602
TOTAL IMPORTS (MILLION USD FOB)	20,661	21,014	20,900
IMPORTS FROM US (MILLION USD FOB)	5,062	6,154	6,123
EXTERNAL DEBT (BILLION USD)	122,200	121,300	123,300
DEBT SERVICE PAYMENT (PAID ANNUALLY) (BILLION USD)	8,212	8,784	9,000
GOLD AND FOREIGN EXCHANGE RESERVES (MILLION USD)	9,973	9,406	24,500
TOTAL TRADE BALANCE (MILLION USD)	10,753	10,622	14,700
TRADE BALANCE WITH US (MILLION USD)	2,914	573	1,479

1/ Forecast for 1992 according to the Brazilian Government responsible agency.

BRAZIL

1. General Policy Framework

Upon assuming office in March 1990, President Collor announced his intention to implement sweeping economic reforms to stop inflation and integrate Brazil into the developed world. Although Collor's first two economic programs significantly reduced trade barriers and other distortions, the failure to address Brazil's large structural fiscal deficits has resulted in double-digit monthly inflation rates and a general lack of confidence in the government's economic policies. With monthly inflation reaching 25 percent in late September, the Collor government had hoped to implement emergency tax measures before the end of 1992 that would reduce inflation and enable Brazil to get back on track with its IMF program. However, the suspension of President Collor pending impeachment proceedings on September 29 cast doubt on the prospects for a comprehensive fiscal reform. Acting President Itamar Franco has named a relatively unknown economic team, and is uncertain of obtaining a working majority in Congress. In December 1992, President Collor resigned and was barred from holding political office for eight years by the Senate; Itamar Franco was sworn in as president.

In recent years, Brazil has tried to reduce inflation by tightening monetary policy. However, the failure of the government to address adequately the fiscal deficit undermined this policy. Ultimately, the Central Bank was forced to finance the deficit, which contributed to inflation. After Collor's failed heterodox economic programs under his first economic team, a new team substantially raised real interest rates in November, 1991 (overnight interbank funds rose above 4 percent on a monthly basis) to halt the outflow of foreign exchange and suppress inflation. The resulting high rates of interest led to a reduction of the monthly inflation rate from 25 percent to around 20 percent through the first half of 1992, and stimulated a massive inflow of short-term foreign capital (bringing exchange reserves up to nearly $22 billion by September, 1992). However, this was achieved at the cost of a recession during the last months of 1991 and the first quarter of 1992; real GDP in 1992 is expected to decline by 0.2 percent. In addition, high real interest rates substantially increased the cost of servicing government domestic debt, worsening the fiscal deficit.

High unemployment and poor fiscal performance forced the Central Bank to ease real interest rates by several percentage points in April and May. Easier monetary policy, combined with increased market uncertainty regarding the political corruption scandal, resulted in small but steady increases in inflation during the third quarter of 1992. Current Central Bank policy is to maintain interbank rates slightly above inflation, which is now estimated at more than 25 percent per month.

2. Exchange Rate Policies

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Brazil has three exchange rates: a commercial rate, the tourist rate, and the semi-official parallel rate. Import-export transactions utilize the commercial rate, while the tourist and parallel rates are generally for individual transactions. During 1992, the Central Bank intervened in the commercial market on a daily basis to allow the cruzeiro to depreciate against the dollar at about the same rate as expected Brazilian inflation. The Central Bank also strived to contain the spread between the parallel and commercial rates by periodic interventions in defense of the tourist rate and through a high real interest rate policy. Private arbitrage generally keeps the tourist rate slightly below the parallel rate. Increases in the spread between the parallel and commercial rates are generally 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 1992, depreciation of the various exchange rates was roughly in line with the rate of Brazilian inflation, resulting in no real devaluation of the cruzeiro in relation to the dollar.

3. Structural Policies

In August 1991 the government began to repay the remaining blocked financial assets and eliminated almost all price controls decreed under the two previous Collor plans. In August 1992 the final repayment of blocked assets was made. While the government thus opted for orthodox adjustment policies, it jaw-boned large companies to keep their price increases at or below the prevailing rate of inflation, and threatened to invoke selective price controls against offending sectors. Both as part of the market liberalization process and as a means for restraining inflation, import tariffs have been steadily reduced in accordance with a three-year schedule established in 1990. The latest round of reductions took place in October 1992, bringing the maximum tariff down to 45 percent and the average trade-weighted tariff down to 17.1 percent. The next, and final, round of tariff reductions takes effect in July 1993.

As part of an effort to reduce the size of government, the Collor government formally initiated a privatization program with the auction of a large steel mill (USIMINAS) in October 1991, and since then held auctions for several other state enterprises. However, the privatization program has gone forward slowly and its future is unclear. President Franco has already raised doubts about his commitment to the program by suspending the privatization auction of a fertilzer company and opposing plans to privatize CSN, a huge steel manufacturer.

Tax policies underwent a major review during 1992. A special government commission was instated to make recommendations for a simpler tax collection system. The Collor government has urged that Congress pass the package this year, permitting its implementation at the beginning of 1993. However, as of November 1992, an entirely new economic team is defining its priorities, and the Franco government is striving to achieve a working majority in Congress. An emergency tax package submitted in early November faces uncertain prospects in light of strong criticism from business and financial groups.

4. Debt Management Policies

Brazil's external debt totals approximately $120 billion, of which about $42 billion is medium-term commercial bank debt owed by the government. Foreign private bank debt is $69.5 billion, of which the U.S. share is $18.5 billion. In July 1989, Brazil stopped debt service payments, and by end-1990 interest arrears were nearly $9 billion. In January 1991, Brazil resumed payment of 30 percent of interest accrued to banks. In April, Brazil and its commercial bank creditors reached a settlement in which the government paid 25 percent of outstanding interest arrears in cash, covering the balance with 10-year bonds.

Negotiations have been completed with the banks on a comprehensive debt reduction package. An agreement on a termsheet outlining the various debt instruments that would be used in such a deal was reached in September, 1992. Nevertheless, Brazil will need to get back on track with its IMF program prior to closing the debt accord. The prospects of the government closing an accord with the banks prior to June 1993 are remote.

The IMF approved an SDR 1.5-billion standby program for January 1992-September 1993. However, the government missed fiscal targets for both end-March and end-June 1992 due to its inability to close the fiscal deficit gap, and has not yet sought a waiver for those targets. Paris Club creditors agreed in late February 1992 to reschedule a large portion of Brazil's debts coming due during 1992-93.

5. Significant Barriers to U.S. Exports

Import Licenses: Although Brazil requires import licenses for virtually all products, the long-standing practice of using licensing as a nontariff barrier to protect domestic industry has been, with a few exceptions, abandoned. Import licenses are now used primarily for statistical and exchange control purposes and (in contrast to the long delays once encountered by U.S. exporters to Brazil) are generally issued within 5 days. Further, a 1.8-percent ad valorum import license fee was replaced in January 1992 by a standard fee of approximately $90 for import licenses covering shipments exceeding $5,000 in value. At present, the U.S. Embassy is aware of only of only two complaints by U.S. companies regarding import licenses.

In January 1993, the Ministry of Industry and Commerce's Department of Foreign Trade (DECEX) will inaugurate a computer-based system, known as SISCOMEX, to facilitate import-export operations. SISCOMEX will reduce the number of import documents to one computer-generated page which can be transmitted electronically between system subscribers (mainly banks and import-export firms), DECEX, and customs authorities. In addition, SISCOMEX is expected to process requests for import licenses within 24 hours when the system becomes fully operational in May 1993.

Services Barriers: Lack of administrative transparency, legal and administrative restrictions on remittances, and occasionally-arbitrary application of regulations and laws in general limit U.S. services exports to Brazil. In some areas, foreign companies are prevented from providing technical services unless Brazilian firms are unable to perform them.

Many service trade possibilities are precluded by limitations on foreign capital under the 1988 Constitution. In particular, services in the telecommunications, oilfield, and mining industries are severely restricted. Financial services are also affected, though the full extent of those limitations will remain unclear until implementing legislation for the constitution is enacted. In the meantime, 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). At the technical level, some review of insurance rules is in progress, but a change in reinsurance seems unlikely.

Significant changes may emerge from a comprehensive constitutional review in October 1993. Opinion surveys of members of Congress and the public at large suggest that a number of restrictions applicable to services may be eliminated or modified to allow broader participation by foreign companies. Other legal and administrative obstacles to foreign services suppliers are already being eased. In January 1992, the government announced new rules which allow foreign remittances of trademark licenses fees and technology transfer payments covered by franchising agreements. The change effectively ends a twenty-year ban on international franchising in Brazil.

Investment Barriers: In addition to the restrictions on the services-related investments mentioned above, foreign investment is prohibited in petroleum production, refining, and transportation, public utilities, media, real estate, shipping, and various other "strategic industries." In still other sectors, Brazil limits foreign equity participation, imposes local-content requirements and links incentives to export performance.

In September 1991, the Collor administration proposed constitutional amendments to rescind state monopolies in petroleum and telecommunications, and lift the restriction on foreign equity participation in mining. While the proposals were discussed in congressional hearings and officially remain on the agenda, further action is unlikely to be taken until the October 1993 constitutional review.

In December 1991, Brazil removed the 40 to 60 percent surcharge applicable to foreign remittance of profits and dividends, leaving a flat rate surcharge of 25 percent (lowered again to 15 percent) on such transfers. In addition, Central Bank regulations were altered in January 1992 to allow foreign enterprises to register reinvested profits as foreign capital at the cruzeiro exchange rate in effect at the time earnings were declared. This addressed a frequent complaint of foreign investors that the typical three-month lapse between the declaration of earnings and the registration of reinvested capital resulted in substantial depreciation of the real value of the investments.

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 automobile and pharmaceutical industries, objected to the inflexibility of such controls, which forced them into unprofitable production and discouraged investment. Although the Collor Administration abolished controls on most items, and the new Franco Administration has given assurances that it will not reinstate them, there continue to be calls for selective price controls on those products having increases out of proportion to production costs.

Informatics: In 1984 Brazil promulgated a law codifying policies implemented since the 1970's to promote a national computer industry. Under that law, the informatics sector was 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 the informatics sector through October 1992. U.S. export and investment losses resulting from Brazil's informatics policy were 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 the following month. The law upheld the October 1992 date ending the restriction on imported informatics products.

Under the new law, foreign firms are allowed to enter the market without being compelled to set up Brazilian majority-owned joint ventures, as they were in the past. However, they may continue to face discrimination in several forms. As of November 1992, Congressional hearings were being held to draft implementing regulations for the new informatics law. A number of measures under consideration that would favor local informatics manufacturers are: 1) higher import tariffs on imported informatics products; 2) sales tax exemptions for domestically-manufactured informatics products; 3) preferential government procurement policies; 4) tax incentives for domestic research and development activities and capital formation; and 5) local content requirements for foreign firms.

Common Market of the Southern Cone (MERCOSUL): In August 1990 Brazil, Argentina, Paraguay, and Uruguay jointly signed a treaty establishing a timetable for creation of the Southern Cone Common Market (MERCOSUL). The target date for the complete elimination of internal market barriers is 1995, by which time the four countries must harmonize tariffs, industrial and transportation standards, intellectual property and consumer protection codes, and tax regimes. The Brazilian Congress ratified the treaty in October 1991.

The United States has supported the broad objectives of MERCOSUL and, in the context of the Enterprise for the Americas Initiative under the "Four Plus One" Agreement, the United States and the four member countries agreed to consult closely on trade and investment relations and pursue trade and investment liberalization. However, the effects that MERCOSUL might have on U.S. exporters and investors are still unclear. A number of U.S. manufacturers with local operations are rationalizing their production facilities among the four countries and seeking opportunities arising from harmonization of tariffs, consumer codes, and other laws. Others, particularly exporters who do not manufacture in any of the four countries, fear that possible "upward" harmonization of nontariff barriers could restrict their access to the larger MERCOSUL market. United States policy is to encourage the member countries of the MERCOSUL to follow GATT rules regarding the creation of customs unions (i.e., GATT Article XXIV) which will help ensure that such a customs union will not raise new barriers to U.S. commerce.

Government Procurement: The Brazilian constitution mandates preferential treatment of "Brazilian national-capital companies" in federal procurement contracts. State and municipal governments, as well as related agencies and companies, also follow informal "Buy Brazil" policies. A law prohibiting foreign-owned firms from bidding on public sector contracts financed by international lending institutions has been rescinded, but some state-controlled firms still specify contracts as open only to "national" firms.

While federal agencies and parastatals have recently been given some leeway 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." Further, proposed rules would require the federal government to buy equipment made by Brazilian-owned computer manufacturers even if the cost is up to 30 percent higher than the foreign-made equivalent. Congressional action on this proposal is expected in early 1993.

Brazil is not a contracting party to the GATT Code on Government procurement.

6. Export Subsidies Policies

Unlike the direct subsidies offered to Brazilian exporters in the 1980's, the current export finance program, PROEX, is intended to eliminate the distortions in foreign currency-linked lending caused by Brazil's high rates of inflation and currency depreciation. Under PROEX, the federal government guarantees real rates of interest of 8 to 8.5 percent to commercial banks that finance export sales. This keeps lines of credit open to Brazilian exporters at rates approximately equal to those offered by other countries to their exporters. According to government officials, this policy is consistent with Organization for Economic Cooperation and Development guidelines for export incentives.

Whereas export financing was previously available only for capital goods, the government expanded the list of eligible products in February 1992 to include automobiles, auto-parts, and a number of consumer goods. At the same time, the government announced that freight costs could be included in the amount to be financed.

7. Protection of U.S. Intellectual Property

In June 1990 the Brazilian government commited to the United States to address inadequacies in its intellectual property rights regime, particularly the lack of patent protection for pharmaceuticals. In May 1991, the government sponsored a bill in Brazil's Congress addressing some of the concerns expressed by foreign governments and companies, but containing serious flaws that undermined the effectiveness of the proposed law. Following extensive congressional hearings and public debate between October 1991 and June 1992, the Brazilian legislature produced another bill that was improved, but still insufficient when compared to emerging international standards. However, the eruption of a major political crisis in June caused further action to be suspended. As of November 1992, the bill remains in Congress; strong opposition from local business interests and several political parties has rendered approval before mid-1993 doubtful, at best.

Patents: Brazil currently does not provide either product or process patent protection for pharmaceutical substances, processed foods, metallurgical alloys, chemicals, or biotechnological inventions. The bill now before Congress would provide protection for all of these areas, but is vague with regard to biotechnology. It would also extend the term for product patents from 15 to 20 years. A number of flaws remain, such as compulsory licensing, domestic working requirements, and no restriction on parallel imports.

Trade Secrets: Brazil lacks explicit legal protection for trade secrets, although a criminal statute against unfair trade practices can, in theory, be applied to prosecute the disclosure of privileged trade information. With the modifications introduced in Congress, the government-sponsored patent and trademark bill includes civil penalties and injunctive relief for trade secret infringement.

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Trademarks: All licensing and technical assistance agreements (including franchising), as well as trademarks, must be registered with the National Institute for Industrial Property (INPI). Without such registration, a trademark or patent is subject to cancellation for nonuse. Until recently, bogus trademark registrations were relatively common, often resulting in protracted legal actions by the legitimate trademark owners.

In August 1992, Brazil announced that it would abide by the 1967 Stockholm text of the Paris Convention in its entirety. Previously, Brazil had adhered only to the so-called nonsubstantive articles of the Convention (articles 13-30), and refused to allow international judicial review of trademark disputes. Even before compliance was formalized, INPI began enforcing Article 6(bis) of the Paris Convention by eliminating many of the 6000 bogus registrations of well-known international trademarks and commercial names. However, legal actions by a number of trademark pirates has slowed down the process, thus formal adoption of the full Stockholm text was deemed necessary.

Copyrights: While Brazil's copyright law generally conforms to world-class standards, it is vitiated by weak enforcement and specific weaknesses. 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. In 1991, the government of Brazil introduced a bill amending the penal code to allow criminal as well as civil prosecution of copyright violations. The bill is now in the final stages of congressional deliberation, and should be sent to President Franco in November for final approval. American film industry representatives believe that the law, if passed, will facilitate the seizure and destruction of pirated material.

Another government-sponsored bill still in the committee stage deals with copyright protection for computer software programs. The bill includes injunctive relief and more stringent criminal and civil penalties for copyright infringement, though questions persist about discriminatory treatment of non-Brazilian manufacturers with respect to government procurement. The bill is primarily designed to eliminate the most serious remaining market access barriers for computer software, but fails to address other weaknesses. These include the short term of protection under the existing law (i.e., 25 years as opposed to the life of the author plus 50 years). Several hearings on the bill were held in 1992, but further action is not expected until early 1993 due to a backlog of congressional business.

Impact on U.S. Trade: In 1987, the Pharmaceutical Manufacturers Association of America filed a complaint which led to the initiation of a Section 301 investigation which resulted in the 1988 imposition of sharp tariff increases on $39 million of Brazilian exports per annum. Those sanctions were ended in June 1990 after the Brazilian government announced its commitment to revise the Industrial Property Code to extend patent protection to pharmaceuticals. The U.S. motion picture industry estimates its annual losses from piracy in Brazil 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 legal sales of $80 million in 1991.

8. Worker Rights

a. Right of Association

Brazil's Labor Code has long provided for union representation of all Brazilian workers but imposed a hierarchical, unitary system known as "UNICIDADE," which prohibited multiple unions of the same professional category in a given geographic area. It also stipulated that no union's geographic base could be smaller than a municipality. Workers in a union whose numbers increased could petition the state to split a preexisting union into two or more unions. The 1988 Constitution freed workers to organize new unions out of old ones without prior authorization from the government. The sole bureaucratic requirement for new unions is to register with the Ministry of Labor and Social Security which, by judicial decision, is bound to receive and record their registration. The government has introduced legislation that would remove itself from dues collection and would automatically recognize the existence of a new union organization. However, the proposal in its most recent form would also give the government responsibility for recognition of a union as bargaining agent for a specific group of workers, thus retaining control of a key step in the process.

The Constitution provides for the right to strike. Enabling legislation passed in June 1989 stipulates that essential services remain in operation during a strike and that workers notify employers at least 48 hours before beginning a walkout. The Constitution prohibits government interference in labor unions but provides that "abuse" of the right to strike (such as not maintaining essential services or not giving advance notice, denying workers not on strike access to their jobs, or damaging property) will be punishable under the law.

During the year, there were strikes in the steel, oil, and banking industries, and an attempted general strike. Courts ruled the petrochemical workers' strike abusive because of its disruption of fuel supplies in much of Southern Brazil. Formerly the ruling of abusiveness was virtually automatic; more recently the courts have been applying the law with more discretion. The Sao Paulo Regional Labor Court ruled on April 30 that the Sao Paulo metalworkers' strike was not abusive and refused to issue a back-to-work order. According to union officials, this was the first metalworkers' strike since 1964 that had not been ruled abusive.

b. Right to Organize and Bargain Collectively

The right to organize is provided for by the Constitution, and trade unions are legally mandated to represent workers. The government has encouraged labor and management to resolve differences through collective bargaining, which has become commonplace. Nevertheless, a system of labor courts continues to exercise normative powers with regard to the settlement of labor disputes, thereby discouraging direct negotiation. Existing law charges these same courts (as well as personnel linked to the Federal Labor Ministry) with mediation responsibility in the preliminary stages of dispute settlement. Arbitration by neutral, professional third parties is part of a labor reform proposal introduced by the Collor administration and awaiting Congressional action. International Labor Organization (ILO) bodies noted in 1991 that provisions of law restrict collective bargaining by imposing wage parameters which may not be exceeded.

The Constitution incorporates a provision from the Labor Code that prohibits the dismissal of employees who are candidates for or holders of union leadership positions. In general, however, enforcement of laws protecting union members from discrimination lack effectiveness.

c. Prohibition of Forced or Compulsory Labor

While the Constitution prohibits forced labor, there have been repeated credible charges that it exists in Brazil, despite federal government assertions that it is taking steps to halt the practice and prosecute perpetrators. In 1991 the Pastoral Land Commission (CPT) again denounced specific labor contractors for maintaining "slave" work forces. The CPT charged that contractors deducted transportation and other inflated expenses from the workers' meager salaries and employed armed guards to prevent the "indebted" workers from leaving. In November, formal indictments for slave labor practices were entered against two agents for employees of involuntary labor in the state of Para. Other accusations of compulsory labor occurred in Acre, Mato Grosso do Sul, Goias, Rio Grande do Sul, Sao Paulo state, and in Rio de Janeiro state.

d. Minimum Age for Employment of Children

The minimum working age under the Constitution is 14, except for apprentices, and legal restrictions have been approved to protect working minors under age 18. By law, the permission of parents or guardians is required for minors to work, and provision must be made for them to attend school through the primary grades. All minors are barred from night work and from work that constitutes a physical strain. Minors are also prohibited from employment in unhealthful, dangerous, or morally harmful conditions. Despite these legal restrictions, however, approximately 34 percent of all children between the ages of 10 and 14 are working. Many, perhaps most, of these working minors are working in violation of the law, but accurate statistics are not available. Economic conditions often compel children to contribute income to their families (or their own upkeep if they have left home). Enforcement of these laws is severely limited because the Ministry of Labor and Social Security, the responsible agency, deploys too few inspectors and accepts a widely held view that it is better for these minors to work than to be involved in street crime.

e. Acceptable Conditions of Work

The 1988 Constitution limits the workweek to 44 hours. It expanded pay and fringe benefits and established new protections for agricultural and domestic workers. Several of these provisions have proved unenforceable under current economic conditions in Brazil. Worker purchasing power declined in recent years, but in September Congress raised the monthly minimum wage to roughly double its value during the first eight months of the year, and a new increase is scheduled for January 1992. It is estimated that some 40 percent of economically active individuals, including minors, earn no more than the minimum wage.

Many Brazilian workers suffer from unsafe working environments. Occupational health and safety standards are set by the Fundacentro, which is under the authority of the Minister of Labor and Social Security. Enforcement of these standards is inconsistent because the Ministry lacks sufficient resources for adequate inspection and enforcement. In practice, if a worker has a problem in the workplace and has trouble getting relief directly from his employer, he can file a claim with the Regional Labor Court, although in practice this is a cumbersome, protracted process. The most recent figures gathered by the government's social security system show that in 1990 there were 745,555 total registered workplace accidents, of which 5,355 were fatal and 18,878 caused permanent disabilities. As these figures measure only those incidents involving covered workers (some 23 million out of a total work force which exceeds 50 million) they undoubtedly understate the extent of the problem.

f. Rights in Sectors with U.S. Investment

U.S. investment is concentrated heavily in the transportation equipment, food, chemicals, and electric/electronic equipment industries. Labor conditions in industries owned by foreign investors generally meet or exceed the minimum legal standards established under Brazil's Labor Code.

BRAZIL

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		859
Total Manufacturing		11,002
Food & Kindred Products	794	
Chemicals and Allied Products	2,181	
Metals, Primary & Fabricated	1,133	
Machinery, except Electrical	(D)	
Electric & Electronic Equipment	(D)	
Transportation Equipment	1,650	
Other Manufacturing	2,806	
Wholesale Trade		395
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		12,256

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

Source: U.S. Department of Commerce, Survey of Current Business, November 1992, Vol. 72, No. 8, Table 11.3

CHILE

Key Economic Indicators

(Billions of 1977 Pesos unless otherwise noted) 1/

	1990	1991	1992:H1
Income, Production, and Employment			
Real GDP	480	509	552
GDP (at current prices)	8,478	10,939	n/a
Real GDP Growth (percent)	2.1	6.0	8.5
Real GDP by Sector:			
Agriculture	40	40	26
Utilities	12	13	7
Manufacturing	99	104	56
Construction	28	30	16
Fishing	4	4	3
Mining	35	37	18
Trade	86	94	50
Transport/Communications	33	37	21
Other (includes services)	141	149	80
Real Per Capita Income (000s of Pesos)	36	38	41
Labor Force (000s)	4,700	4,800	4,800
Unemployment Rate (percent)	5.7	5.3	4.9
Money and Prices (Annual Percentage Growth)			
Money Supply (M1)	14.3	41.3	44.9
Base Interest Rate 2/	13.3	8.5	7.8
Wholesale Inflation (12-months)	25.7	6.5	10.5
Consumer Price Index (12-months)	27.3	18.7	14.5
Av. Exchange Rate (Pesos/US$)			
Mid-point of Band	313	366	382
Inter-Bank	305	349	352
Balance of Payments and Trade (millions of current U.S. dollars unless noted)			
Total Exports FOB	8,310	8,929	10,210
Total Exports to U.S.	1,469	1,582	1,762
Total Imports FOB	7,037	7,353	8,252
Total Imports from U.S.	1,373	1,596	1,716
Aid from U.S. /3	1	13	4
External Public Debt /4	12,943	11,508	10,665
Debt Service Payments (paid)	3,191	2,132	n/a
Gold and Foreign Exchange Reserves (US$ Millions)	5,347	6,639	8,037
Trade Balance	1,273	1,576	1,958
Balance with U.S.	96	14	23

1/ National accounts are reported only in 1977 Chilean pesos. Year-end figures for 1990 and 1991, June figures for 1992.
2/ Inflation-adjusted, average, annualized financial system 90-365 day loan rate.
3/ Fiscal years.
4/ Includes debt owed to International Monetary Fund.

CHILE

1. General Policy Framework

Chile's economic expansion is now well into its ninth consecutive year. Annual growth has averaged about six percent. The current expansion rests on a much more solid foundation than the period of economic growth that occurred after the onset of military rule in the mid-1970s. Although the government liberalized domestic prices and removed trade barriers, the period from 1974-82 was characterized by an unsustainable accumulation of foreign debt and an overvalued exchange rate that contributed to a severe recession in 1982-83. In contrast, the most striking features of the present expansion are the reduction in foreign debt relative to GDP and exports, and the rapid diversification of the export base. Although copper remains the country's largest export earner and foreign investment pours into the mining sector, exports of fish, forestry products, fresh fruit, and wine have registered double-digit growth rates for several years.

The democratic government that took office in 1990 after nearly 17 years of military rule has maintained the basic orientation of its predecessor's economic policies, aiming for macroeconomic stability and openness to foreign trade and investment. The government has reported small fiscal surpluses in each of the last two years, and a small surplus is projected for 1992 as well.

Despite the continuity of fundamental economic policies across the democratic transition, there have been some important differences between the Aylwin government and the military regime. Privatization has largely come to a halt; the new emphasis is on finding ways for private firms to participate in activities that have normally been reserved for the state, such as public infrastructure and new investments by the state copper mining firm. The right for labor to organize, bargain, and strike was broadened substantially in 1990, although strike activity has been very limited during the first two years of the government's term. There has also been more of an emphasis on narrowing the gaps in income distribution, as evinced by a tax hike and a sharp increase in the minimum wage (both in 1990) and increased government spending on health and social programs.

The Central Bank's monetary policy targets real interest rates. It has raised interest rates twice in the course of 1992 in the face of vigorous economic growth. Despite large capital inflows that have exerted upward pressure on the peso, the authorities have sought to maintain an exchange rate which provides incentives to invest in export industries. In the past, this objective has at times impinged upon the Central Bank's ability to raise interest rates.

All indicators for 1992 point to a very strong year. The economy should grow about 8.5 percent. Keeping inflation on a downward path is a high priority. While the government's 13.5 percent inflation target appears within reach, the authorities have cautioned that further gains will be difficult to achieve in the short term given the strength of activity and spending. The balance of payments remains healthy. Aided by high copper prices, strong growth in non-copper exports, and low interest rates on foreign debt, a small current account deficit on the order of only 1-1/2 percent of GDP is projected, notwithstanding surging imports. In a report on the Chilean economy released in August 1992, Standard and Poor's (S&P) gave Chile a "BBB" rating, making it the first Latin American country to achieve an investment-grade rating since the dawning of the debt crisis. In September, S&P gave an "AA" rating for internal debt.

2. Exchange Rate Policies

The Central Bank pegs the peso to a basket composed of the U.S. dollar, the mark, and the yen (weighted 50 percent, 30 percent, and 20 percent, respectively). The exchange rate is adjusted to reflect inflation differentials between Chile and its major trading partners in the preceding month. Although the path for the crawling peg relative to the basket is determined one month in advance, the individual cross rates are determined daily, depending on market rates for the dollar, mark, and yen. The interbank rate is allowed to move within a 20 percent band around the crawling peg. A 30 percent reserve requirement is levied on all foreign borrowing in order to narrow the interest rate differential between domestic and foreign assets. The purpose of this measure is to reduce upward pressure on the Chilean peso.

Despite the Central Bank's determination to maintain a competitive exchange rate, the peso has been gaining strength for much of the past three years. The peso appreciated against the currencies of Chile's major trading partners by 8.8 percent in 1991, and by another 7.0 percent in the first half of 1992. In a sense, the exchange rate problems are a manifestation of success. Chilean interest rates have exceeded the international norm for years, and the country has always offered a host of projects with high potential rates of return. But the precipitating factor in the peso's new-found strength was an altered perception abroad of Chilean risk. The dramatic reduction of Chile's foreign debt, the consolidation of its democracy, and market-oriented policies of the country's democratic government signalled to foreign markets that Chile was a safe harbor for capital, opening the floodgates to an unprecedented inflow of foreign investment.

3. Structural Policies

Pricing Policies: In general, the Government 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 source of the material. U.S. exports enter Chile and compete freely with other imports and Chilean products. Import decisions are typically related to price competitiveness and product availability. (Certain agricultural products are an exception. See Section 5.)

Tax Policies: An 18 percent value added tax (VAT) applies to all sales transactions and accounts for more than ten percent of total government revenue. There is an 11 percent *ad valorem* duty on all imports. The maximum progressive personal income tax rate is 50 percent. Tax evasion is not a serious problem. Profits are taxed at a flat rate of 15 percent for retained earnings, 35 percent for distributed profits.

Regulatory Policies: Regulation of the Chilean economy is limited, as nearly all prices (including financial asset prices) are free to move with market conditions. The most heavily regulated areas of the economy are the banking sector, utilities, the securities markets, 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). In the last year, the government has promulgated regulations that will allow private firms to invest in and operate railroad freight services and other public infrastructure projects for the first time. Most Chilean ports are administered by a state-owned firm, although stevedoring services are typically provided by the private sector.

Duty Free Zones: There are duty free zones in Iquique and Punta Arenas, and a limited duty free zone in Arica. Less than 2-1/2 percent of Chilean imports pass through these zones.

4. Debt Management Policies

The Chilean government restructured 1991-94 debt maturities with its creditor banks in September 1990. As part of the agreement, the banks participated in a $320 million Eurobond issue. As of the end of 1991, Chile's external debt stock stood at $16.4 billion, or 52 percent of its gross domestic product. (In 1985, the debt-to-GDP ratio stood at 135 percent.) Chilean debt on the secondary market now sells for more than 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 which enabled Chile to exchange $3.6 billion of external debt for equity in Chilean businesses.

5. Significant Barriers to U.S. Exports

Chile generally has relatively few barriers to U.S. exports. 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. Tariffs are GATT-bound at 35 percent, and the uniform Chilean rate is currently 11 percent. Tariffs are lower than 11 percent for certain products from Latin American Integration Association member states, most products from Mexico (which has a free trade agreement with Chile), products imported by diplomats and the Chilean military, and ten products of developing countries under the generalized system of preferences.

Duties may be deferred for a period of seven years for capital goods imports purchased as inputs for products to be exported. (See section six.)

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: Capital invested in Chile may not be repatriated for three years, although a proposal has been submitted by the government to the legislature to reduce this to one year. All foreign investment is subject to pro forma screening. Royalty contracts must be approved by the Central bank. Contracts may set fees and royalties only as a percentage of sales. Payments are usually limited to one percent for use of trademarks, three percent for the use of trade secrets and proprietary processes, and five percent for the use of patents.

Trade-related investment measures are applied only to the automobile industry. Manufacturers from the United States (GM) and France (Peugeot/Renault) are provided tax benefits for meeting local content requirements.

With few exceptions, fishing in the country's exclusive economic zone is reserved for Chilean flag vessels with majority Chilean ownership.

Principal Nontariff Barriers: Chile's most egregious nontariff barrier is the import price band system for certain agricultural commodities, which currently applies to wheat, milled flour, vegetable oils, and sugar. Imports of these commodities are levied with specific duties on top of the across-the-board 11 percent tariff.

The Government applies duty surcharges on products that it determines to have received subsidies from exporting countries. In the last year, the Commission has slapped surcharges on rice and Argentine sugar, and established minimum customs values on cotton yarn.

Animal Health and Phytosanitary Requirements: Chile occasionally uses animal health and phytosanitary requirements in a nontransparent manner that has the effect of impeding imports. No public comment process or announcement of proposed rule changes precedes the promulgation of these requirements. However, Chilean authorities have in some instances eliminated or liberalized specific requirements when presented scientific evidence by U.S. animal health or phytosanitary officials.

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 product 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.

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6. Export Subsidies Policies

With minor exceptions, the Chilean government does not provide exporters with direct or indirect support such as preferential financing or export promotion funds. The Chilean government does, however, offer a few 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 their exports' value. 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.

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.

Under Decree Law 701, Chile provides bonuses to private land owners, regardless of nationality, for 75 percent of the cost for the establishment, administration, and management of nonnative forest plantations. A law to extend the subsidy to native species is pending before Congress. Bonuses totalling $93 million have been granted under the program, which increases the competitiveness of certain forest products that compete with U.S. products.

7. Protection of U.S. Intellectual Property

Chile's intellectual property regime is generally compatible with international norms, but its protection of patents remains deficient. Efforts to enforce intellectual property rights in Chilean courts have been successful. Chile does not have a *sui generis* statute for protecting the design of semiconductors nor does it have comprehensive trade secret protection. Chile belongs to the World Intellectual Property Organization.

Patents: The Industrial Property Law promulgated in September 1991 substantially improved Chile's protection of industrial patents, but falls short of international standards. The law provides a patent term of 15 years from the date of grant. (The term in the United States is 17 years.) The law also does not consider plant and animal varieties and surgical methods as patentable subject matter. Finally, the law does not provide transition (or "pipeline") protection for pharmaceutical patents filed abroad before the law's promulgation. Because of this lacuna and the long lead times involved in the marketing of new pharmaceutical products, the law will not prevent local companies from pirating foreign pharmaceutical patents for several more years. In addition, the registration procedures required by the Health Ministry to market new drugs are more onerous for the first-to-file, which tend to be foreign firms. Finally, payments for the use of patents may not exceed five percent of sales.

Copyrights: The Chilean Congress recently approved legislation that extends the term of copyright protection from 30 years to 50 years. Piracy of video and audio tapes has been subject to criminal penalties since 1985.

Trademarks: Chilean law provides for the protection of registered trademarks and prioritizes trademark rights according to filing date. Local use of the mark is not required for registration. Payments for use of trademarks may not exceed one percent of sales.

Impact of Chile's Intellectual Property Practices on U.S. Trade: Most observers believe that the pharmaceutical industry has suffered most from the infringement of its intellectual property rights in Chile, although the Embassy does not have estimates of damages. U.S. industry sources have estimated losses due to copyright infringement at $24 million, $15 million of which is attributed to computer software. Software piracy is believed to be declining as access to authorized dealers and service improves.

8. Worker Rights

a. Right of Association

Workers in Chile have the right to form and join unions, but only about 12 percent of the work force is organized. Public sector employees are not allowed to form unions under the labor code, but they form "associations" which have legal status and participate in labor confederations. Only police and the military are not permitted to form unions. 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.

b. Right to Organize and Bargain Collectively

Unions organize freely in Chile, but union officials must be employed in a business their union represents, even if their salaries are paid by a labor confederation. The climate for collective bargaining improved with the passage of the labor reforms, but the process is strictly regulated. Public sector wages are set unilaterally by the Government and there is no formal bargaining, but the Government is proposing changes in the 70 year-old law.

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-1970s.

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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 15 to 18 can work longer hours at a wider variety of jobs, but only with their parents' or guardians' permission. 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. The minimum wage is approximately $100 per month, but lower paid workers also receive a tax-exempt family subsidy. The government estimates that workers earning the minimum wage have recovered the earning power (relative to other wage earners) they once enjoyed.

f. Rights in Sectors with U.S. Investment

Labor rights in sectors with U.S. investment are the same as those specified above. U.S. companies are involved in virtually every sector of the Chilean economy, and are subject to the same laws that apply to their counterparts from Chile and other countries. Labor laws apply uniformly throughout the country.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		(D)
Total Manufacturing		188
Food & Kindred Products	50	
Chemicals and Allied Products	80	
Metals, Primary & Fabricated	-186	
Machinery, except Electrical	0	
Electric & Electronic Equipment	(D)	
Transportation Equipment	(D)	
Other Manufacturing	171	
Wholesale Trade		87
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, November 1992, Vol. 72, No. 8, Table 11.3

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Key Economic Indicators

	1990	1991	1992P
Income, Production and Employment			
Real GDP 1/	734.3	751.2	766.2
Real GDP Growth Rate (pct)	4.2	2.3	2.0
GDP (At Current Prices, Billions of pesos)			
By Sector:			
Agriculture	3,267	4,595	5,882
Mining	1,765	1,984	2,743
Manufacturing	4,115	5,189	6,376
Electricity, gas, water	537	804	1,060
Construction	967	1,224	1,692
Commerce	2,866	3,919	5,137
Transport/Communications	1,843	2,395	3,139
Financial Services	2,173	2,834	3,809
Personal Services	984	3,513	4,632
Government Services	1,710	2,233	2,944
Real per Capita GDP (Pesos)	22,265	22,357	22,404
Labor Force (millions)	11.9	12.4	12.5
Unemployment Rate (pct)	10.6	9.4	11.2
Money and Prices (annual percentage growth)			
Money Supply (M2)	29.7	32.0	45.0
Base Interest Rate	31.0	30.9	28.0
Personal Savings Rate (pct)	7.4	n/a	n/a
Retail Inflation	32.4	26.8	27.0
Producer Price Index 2/	100.0	124.9	155.0
Consumer Price Index 3/	166.9	211.7	275.0
Exchange Rate (Pesos/USD) 4/			
Official	569	707	800
Parallel	563	632	730
Balance of Payments and Trade (Million U.S. Dollars)			
Total Exports FOB	7,079	7,572	7,389
Exports to U.S.	2,793	2,561	2,750
Total Imports CIF	5,588	4,965	5,512
Imports from U.S.	1,959	1,815	3,000
Aid from U.S	15	50	50
External Public Debt	14,809	14,661	14,381
Debt Service Pmts	3,147	3,287	3,200
Gold and Foreign Exchange Reserves	4,501	6,420	8,000
Trade Balance	1,176	3,038	1,853
Balance with U.S.	1,169	880	(250)

Sources: Central Bank, National Planning Department, and National Department of Statistics
1/ Billions 1975 Pesos, 1975 Peso Rate: 33 pesos = USD 1
2/ base 1990 = 100
3/ base 1988 = 100
4/ end of period

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1. General Policy Framework

The Gaviria Administration has undertaken a profound economic reform program known as "apertura" intended to open up the Colombian economy to international trade and investment. Shortly after taking office in August 1990, the government drafted and pushed through Congress a series of laws to reform the foreign exchange and tax regimes, labor code, and foreign investment regime, and to privatize state enterprises such as the ports and railroads. Tariffs were slashed from an average of 36 percent in 1990 to 12 percent in 1992, while non-tariff barriers such as prior import licenses were virtually eliminated. The Colombian Government opened up nearly all sectors of the economy to foreign investment, including the financial sector and value-added telecommunications services.

Concurrent with the economic reform program, the Colombian Government's macroeconomic program emphasized fiscal and monetary austerity in order to reduce the rate of inflation, which had increased to 32.4 percent in 1990. The government imposed a 100 percent reserve requirement on the banks in 1991 and increased open market operations. Fiscal policy emphasized tax collection and an increase in the value-added tax (VAT) while restraining government expenditures. The public sector fiscal deficit fell to 0.5 percent of GDP in 1991, financed primarily through domestic borrowing.

Due to the sharply increased inflows of capital attracted by Colombia's high real rates of interest in 1991, the money supply continued to grow at unacceptably high rates and strong pressures mounted for the peso to appreciate against the dollar. Inflation fell only slightly to 26.8 percent in 1991 as a consequence of the large capital inflows, which also boosted international reserves from $4.5 billion in 1989 to $7.0 billion by year-end 1991. Inflation is expected to reach about 27 percent in 1992.

Macroeconomic performance has been negatively affected by guerrilla violence, high interest rates, electrical rationing, and depressed prices for major Colombian exports (particularly coffee). Real GDP growth fell from 4.2 percent in 1990 to 2.3 percent in 1991 and is projected to decline to 2.0 percent in 1992.

The United States is Colombia's principal trading partner, accounting for about 40 percent of its exports and imports. Colombia is the fourth largest export market for the United States in Latin America. U.S. exports to Colombia are up 54 percent during the first half of 1992 and could reach $3 billion this year. For the first time in five years, the United States will likely run a trade surplus with Colombia. Factors encouraging this are lower interest rates, the strong peso, and the depreciation of the dollar against the yen and the German mark.

Colombian exports in 1991 reached $7.6 billion, up from $7.1 billion in 1990 due to strong growth in non-traditional exports (flowers, leather products, printed materials, and textiles), bananas, and coal. Exports have fallen slightly in

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1992 due to the appreciation of the peso and economic recession in overseas markets.

Imports fell slightly to $5.2 billion in 1991 versus $5.6 billion in 1990. During the first half of 1992, imports grew 14 percent, led by capital goods, raw materials, and consumer goods (especially autos and electrical generators).

Colombia has been a leader in the Andean Pact negotiations to liberalize trade and investment regimes. The Andean Pact plans to complete a free trade zone and is completing negotiations on a common external tariff. Colombia is also negotiating free trade agreements with the G-3 (Mexico and Venezuela) and with Chile. Colombia presently benefits from duty free entry for the majority of its non-traditional exports to the U.S. under the Andean Trade Preference Act for a 10-year period. In addition, Colombia has special access to the European Community under an EC program for the Andean countries.

Foreign investment is important in the petroleum, mining, financial, and construction sectors. The Colombian Government actively encourages foreign investment, including foreign participation in portfolio investments. U.S. investment represents 68 percent ($2.5 billion) of the $3.7 billion total new foreign direct investment registered between 1967 and 1991. After several years of low growth, significant amounts of new foreign investment are beginning to flow again to Colombia. New foreign direct investment in non-petroleum sectors for the first half of 1992 totaled $424 million, a 122 percent increase over the same period in 1991. In addition, almost $600 million has been invested in the petroleum sector in the first half of 1992, mostly the result of discovery of the massive Cusiana oil field by an international consortium.

2. Exchange Rate Policy

Decree Law 9 issued in January 1991 completely revised Colombia's foreign exchange regime. With the closure of the foreign exchange window at the Central Bank, all transactions now take place in the private financial system. Colombia now has essentially a free market exchange system. All commercial transactions are now conducted at free market exchange rates determined by the financial markets.

The Central Bank issues exchange certificates to purchase the excess of the private banks' foreign exchange position in order to temporarily sterilize the inflow of foreign exchange and minimize its impact on the money supply. These exchange certificates are actively traded on a secondary market. The government intervenes in the exchange markets to keep the peso within a twelve percent band of the official rate by buying and selling exchange certificates.

3. Structural Policies

Privatization: The Gaviria Administration has had some success in implementing its ambitious privatization plan. Three banks in which the government intervened during the

1982-84 financial crisis were sold to private investors. The state port administration agency (Colpuertos) was liquidated and Colombia's ports will be offered for private management. The state railroad company was also liquidated and the government authorized private companies as well as mixed enterprises to invest in the railways.

However, the government's plan to privatize the state telecommunications company TELECOM was halted due to a week-long strike by workers. In addition, plans to open up value-added telecommunication services to private companies in joint venture with TELECOM have been held up by a Council of State decision. The Colombian Government passed legislation to clarify the legal issues concerning foreign investment in telecommunciations.

Prices: Colombia has an essentially free-market economy, with market-determined prices. Exceptions include refined petroleum products and public utilities. Pharmaceutical product prices were deregulated in 1992. The Colombian Government establishes minimum guaranteed prices for certain basic agricultural commodities, but in most cases such products are sold in the local market at prices which exceed the floor levels. The government also sets price bands, with a flexible tariff system on imports for eight agricultural commodities. The domestic support price for coffee is set through a negotiation between the national coffee federation and the government.

Tax Policies: Colombia enacted a tax reform package in 1992 which increased the value added tax and tightened up tax collection procedures. A special "war tax" assessed on petroleum, coal, and ferronickel exporters was increased, with the revenues intended to finance the military and police. Major sources of government revenue are personal and corporate income taxes (45 percent), the value-added tax (28 percent), and import duties (13 percent). Colombia provides certain tax incentives in order to promote investment and non-traditional exports. Investments in free trade zones are exempted from all income and value-added taxes as well as import duties.

Regulatory Policies: The Colombian Government maintains performance requirements for investors only in the automobile assembly sector. These requirements were liberalized in 1991 to permit assemblers to choose an optimal mix of export and local content requirements for "trade balancing" purposes.

4. Debt Management Policies

Colombia's external debt is relatively small compared to GDP. The country did not have to reschedule its external debt during the 1980s. Colombia consistently paid both principal and interest to its creditors and consequently has one of the highest credit ratings in Latin America. External debt stands at $17 billion, while the debt service ratio is 41 percent and declining. Since 1985, the Colombian Government has successfully negotiated four syndicated commercial bank debt refinancing packages. The latest refinancing ("Hercules") was concluded in April 1991 for $1.76 billion, including $200 million in new funds. Colombia received a $200 million investment sector loan from the Interamerican Development Bank in 1991 to assist in privatization and improvement of its investment climate.

With its strong international reserves position and superior credit rating, Colombia has successfully reentered the international capital markets with $250 million in dollar-denominated bond issues. In addition, the government has liberalized and stimulated the growth of capital markets in Colombia by authorizing the creation of private pension and severance pay funds in addition to foreign capital country funds to invest in the stock markets. Despite Colombia's successful management of its external debt, sectoral debt problems remain, particularly in the electrical sector and with the state coal company Carbocol. The Finance Ministry has assumed these debts and has developed privatization plans for these troubled sectors.

5. Significant Barriers To U.S. Exports

Import licensing: Colombia's prior import licensing requirement was previously the most significant import restriction. In 1991, the government eliminated most prior import licensing requirements. Some 98 percent of tariff categories are now imported freely, requiring only prior registration with the Colombian Trade Institute (Incomex). The remaining two percent of product categories still subject to prior import licensing include certain chemicals which could be used to manufacture narcotics, and arms and munitions. Government imports, donations, and nonreimbursable imports also require prior licenses.

Import Duties: Under the "apertura" program, Colombia has substantially consolidated and reduced tariff duties. There are currently five tariff levels: 0, 5, 10, 15, and 20 percent. Exceptions to these tariff levels are automobiles (35 and 40 percent), pick-up trucks and jeeps (50 percent), and agricultural products subject to the "price-band" flexible tariff system.

The average trade-weighted tariff duty is now 11.8 percent (compared to 35.5 percent in December 1990). By sectors, average effective protection to local industry is 18 percent for raw materials and intermediate goods, 15 percent for capital goods, and 37 percent for consumer goods.

Other Import Fees: The import surcharge was eliminated in 1992.

Services Barriers

Royalties: The royalty committee was abolished in 1992. Ceilings on all types of royalty remittances (including film) were eliminated. The only requirement is for royalty contracts to be registered with Incomex.

Banking: Law 9 and 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.

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Maritime Transportation: The Colombian government eliminated cargo reserves and other restrictions on maritime trade on October 15, 1991 with Decree 2327 (with the exception of Colombian green coffee exports). In addition, maritime tariffs, chartering services, and route assignments were deregulated.

Insurance: Goods transported within Colombia must be insured by companies with commercial presence in the country.

Audiovisual: Colombian law restricts foreign produced television programs to 45 percent of air time.

Advertising: Colombian law requires at least 50 percent local content.

Standards, testing, labeling, and certification: The certificate of origin is not required, except for imports from Latin America Integration Association (ALADI) and Andean Pact member countries. Certain types of imports require permits by specialized agencies in Colombia. For example, some agricultural commodities require a phytosanitiary certificate from the Colombian Agricultural Institute (ICA). Imports of foodstuffs, pharmaceutical products, cosmetics and certain other products require a Ministry of Health license, and frequently encounter long delays.

Investment Barriers: The Andean Pact eliminated in 1991 the remaining restrictions on foreign investment by adopting Decision 291, which provides equal access by foreign investors to the regional trade preferences. Colombia has significantly opened up its economy to foreign investment through new regulations which are based on the principles of national treatment, universality, and automaticity for foreign investors. The new regulations also eliminated the ceiling on profit remittances, which previously were limited to 25 percent of registered capital. Remittance taxes will be reduced over the next four years from 20 to 12 percent.

Law 9 of 1991, Resolutions 49, 51, 52, and 53 of the Council of Economic and Social Policy (CONPES), and Resolution 57 of the Central Bank are the principal regulations governing foreign investment. They grant national treatment for foreign investors and permit 100 percent foreign ownership in virtually all sectors of the Colombian economy. Exceptions include national security and the disposal of hazardous waste products. There are also some restrictions in the services sector. The Colombian Government approved regulations authorizing the operation of country investment funds, permitting foreign capital to invest directly in the Colombian stock markets.

Despite these investment reforms, some barriers remain. Investment screening has been largely eliminated, and those mechanisms still in place are generally routine and nondiscriminatory. Prior approval by the National Planning Department (DNP) for foreign investment is required only for investments a) providing a public service (energy, water, health, communications), b) requesting coverage by international insurance or risk protection mechanisms (such as

OPIC), or c) over $100 million in activities related to mining or petroleum. The Ministry of Communications must approve investment applications in that sector, and the Ministry of Mines must approve all applications for foreign investment related to hydrocarbons. All foreign investments must be registered with the Central Bank's foreign exchange office within three months in order to assure their right to remit profits. All foreign investors (equivalent for the requirements on domestic investors) must obtain an operating license from the Superintendent of Companies and register with the local Chamber of Commerce.

Government Procurement Practices: Law 222 of 1987 requires 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 the requirement that a foreign contractor associate or subcontract with a Colombian firm for at least 40 percent of the value of the contract; to increase its bid proposal by 20 percent when in competition with domestic contractors; and to list all costs and expenses in the bid (local bidders are exempt from this requirement). The Colombian Government plans to submit a bill to Congress in order to eliminate the discriminatory provisions of Law 222.

Customs Procedures: The Colombian Government is undertaking a comprehensive overhaul of customs procedures in order to reduce corruption and contraband trade. The number of customs forms will be reduced from ten to two. Importers will be responsible for self-valuing import shipments and for paying import duties through the commercial banking system. The emphasis for Customs administration will be on post-clearance investigation of fraud and corruption. These measures, once implemented, should greatly facilitate the import process and reduce delays. Colombia also intends to adhere to the GATT Customs Valuation Code.

6. Export Subsidies Policies

The Colombian Government provides three types of export incentives: indirect tax rebate certificates (CERTS), duty exemptions on the import of capital goods and raw materials used for production of export goods (Plan Vallejo), and a subsidy on export credit insurance premiums through the Colombian Bank of Foreign Trade (Bancoldex). However, these export incentive programs have been significantly reduced following the 1990 accession of Colombia to the GATT Subsidies Code. The government plans to phase out the CERT program in 1993, replacing it with a transparent indirect tax drawback system.

7. Protection of U.S. Intellectual Property

While the adoption of Andean Pact Decision 313 is 1992 is an improvement over Decision 85, Colombia still does not provide adequate and effective protection of intellectual property rights (IPR). Decision 313 permits Andean Pact

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members to strengthen their IPR regimes beyond the minimum Andean PAct provision by international agreements or national laws.

Colombia remained on the U.S. Special 301 Watch List in 1992 due to continuing concerns over deficiencies in its IPR regime. These include a short patent term, overly broad compulsory licensing provisions, working requirements, and lack of transitional ("pipeline") protection.

Patents: Decision 313 provides patent protection for most products, including pharmaceuticals, biotechnology, and plant varieties. (Only pharmaceuticals on the World Health Organization list of "essential medicines" are excluded.) The law extends the patent term to 15 years, with an extension of five years provided on evidence that the product is used or produced domestically. The Colombian Government is currently drafting implementing regulations for Decision 313 which are expected to clarify and simplify patent application procedures.

Colombia is a not a member of the Paris Convention for the Protection of Industrial Property, although the government plans to submit it to Congress for ratification in 1993.

Copyrights: Colombia's copyright law is based on Law 23 of 1982, which was extended to cover computer software by decree 1360 of 1989. Colombian law provides copyright protection for the life of the author plus 80 years. If the owner of the work is a legal entity, the term of protection is only 30 years from the date of first publication.

Although Colombia has a modern copyright law, lack of enforcement remains a serious problem. Video cassette and satellite signal piracy continue to be widespread. There is no protection for semiconductor mask work layout designs. Colombia belongs to both the Berne and the Universal Copyright Conventions. The government has joined the Geneva Convention for the Protection of Phonograms to Congress, and the government has passed amendments to the copyright law to significantly increase penalties for copyright infringement.

Trademarks: Colombia's trademark protection requires registration and use of a trademark in country. Trademark registrations granted under Decision 313 have a ten year duration and may be renewed for successive ten year periods. Priority rights are granted to the first application for trademark in another Andean Pact country or in any country which grants reciprocal rights. Trademark owners do not have a cause of action against importation of products from other Andean Pact countries that bear their trademarks without authorization. Colombia is a member of the InterAmerican Convention for Trademark and Commercial Protection.

New Technologies: Computer software has explicit copyright protection under a law enacted in 1989. Biotechnology and plant varietal protection is under study by the Ministry of Agriculture.

The International Intellectual Property Rights Alliance estimates that trade losses due to piracy of motion pictures, sound recording, and musical compositions, books, and computer software total at least $81 million per year in Colombia.

8. Worker Rights

a. Right of Association

The right of workers to organize unions and strike is recognized by law. The Colombian labor code was completely revised in December 1990 by Law 50, which authorizes automatic legal recognition of unions which have obtained 25 signatures from a workplace, and strengthens penalties for interfering with workers' freedom of association. The new Labor Law also authorizes the independence of labor organizations to determine internal rules and elect officers. In addition, the law forbids the dissolution of trade unions by administrative decree. Colombian workers are organized into 2,265 unions, 101 federations, and three confederations. Unions may establish international affiliations without governmental restrictions. The Constitution extends the right to strike to nonessential public employees. Before carrying out a legal strike, unions must negotiate directly with management and engage in conciliation procedures if no agreement results. By law, public employees must go to binding arbitration if conciliation talks fail. In practice, public service unions decide by membership vote whether or not to seek arbitration.

b. Right to Organize and Bargain Collectively

The right of workers to organize and engage in collective bargaining is protected by the Colombian Constitution. Unions have been moderately successful in organizing larger firms and public services, but include less than 8 percent of Colombia's economically active population. Weak union organizations have limited workers' bargaining power in the private sector. Anti-union discrimination or the obstruction of union association is illegal and enforced by administrative labor inspections. The use of strikebreakers is prohibited by the labor code. Colombian labor law is applied in the country's free trade zones (FTZ). There is no restriction against union organization or collective bargaining agreements in the FTZ's.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is prohibited by the Consititution, which specifically forbids slavery or any treatment of human beings in servitude. This prohibition is respected in practice.

d. Minimum Age for Employment of Children

The Constitution prohibits the employment of children in most jobs under the age of 14. The labor code prohibits youths under the age of 18 from receiving government work permits. While this provision is generally respected by larger private companies, the extensive informal economy is effectively outside government control.

e. Acceptable Conditions of Work

The Colombian Government annually sets a national minimum wage which serves as an important benchmark for wage negotiations. However, an estimated one quarter of the labor force, mainly in the informal sector, earns less than the minimum wage. The labor code also establishes a standard work day of eight hours and a forty-eight hour work week. Enforcement of these laws is the responsibility of the Ministry of Labor and the courts.

f. Rights in Sectors with U.S. Investment

All foreign investors are subject to Colombian laws protecting worker rights The main sectors of the economy with U.S. investment are the petroleum, coal mining, chemical, and manufacturing industries. In practice, worker rights and working conditions in those sectors are superior to those prevailing elsewhere in the economy due to the large size and high degree of organization of the enterprises. Examples include 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.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		385
Total Manufacturing		845
Food & Kindred Products	224	
Chemicals and Allied Products	225	
Metals, Primary & Fabricated	(D)	
Machinery, except Electrical	*	
Electric & Electronic Equipment	28	
Transportation Equipment	(D)	
Other Manufacturing	280	
Wholesale Trade		(D)
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

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

* - Less than $500,00

Source: U.S. Department of Commerce, Survey of Current Business, November 1992, Vol. 72, No. 8, Table 11.3

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Key Economic Indicators

(Billions of 1985 colones unless otherwise noted)

	1990	1991	1992 1/
INCOME, PRODUCTION AND EMPLOYMENT			
REAL GDP	247.683	250.902	264.205
REAL GDP GROWTH (PCT.)	3.6	2.1	4.0
GDP (AT CURRENT PRICES)	522.206	690.670	846.865
BY SECTOR:			
AGRICULTURE	84.035	124.036	145.393
ENERGY AND WATER	16.227	24.000	36.014
MANUFACTURING	98.091	130.560	160.758
CONSTRUCTION	16.796	18.644	20.662
FINANCIAL SERVICES	44.777	55.210	70.132
OTHER SERVICES	184.359	247.054	300.347
GOVERNMENT, HEALTH AND EDUCATION	77.920	91.166	113.558
REAL PER CAPITA GDP(85 COLS)	8455.0	8447.7	8642.6
LABOR FORCE (THOUSANDS)	1017.0	1066.0	N/A
UNEMPLOYMENT RATE (PERCENT)	4.6	5.5	4.5
MONEY AND PRICES (ANNUAL PERCENTAGE GROWTH)			
MONEY SUPPLY (M2)	21.5	33.9	25.0
BASE INTEREST RATE 2/	27.0	31.9	19.0
WHOLESALE INFLATION	25.9	22.3	16.0
CONSUMER PRICE INDEX	27.25	25.32	16.0
EXCHANGE RATE (col/USD)			
OFFICIAL	104	137	139
PARALLEL	106	141	139
BALANCE OF PAYMENTS AND TRADE (MIL DOLLARS)			
TOTAL EXPORTS FOB 3/	1361.3	1487.3	1782.8
EXPORTS TO U.S.	586.1	606.4	696.5
TOTAL IMPORTS CIF 3/	-2026.1	-1853.8	-2421.6
IMPORTS FROM U.S.	N/A	825.4	801.2
AID FROM U.S.	74.2	51.6	17.4
AID FROM OTHER COUNTRIES	25.5	117.1	N/A
EXTERNAL PUBLIC DEBT	3173.0	3198.0	3476.0
DEBT SERVICE PAYMENTS (PAID)	477.0	359.0	N/A
GOLD AND FOREIGN EXCHANGE RESERVES	515.0	515.3	56
TRADE BALANCE 3/	-664.8	-366.5	-638.8
BALANCE WITH U.S.	-19	-120	-60

1/ 1992 estimates based on available monthly data
2/ figures are actual, average annual rates, not change
3/ merchandise trade

1. General Policy Framework

Costa Rica's general policy framework continues to be based on "apertura," opening the economy to international competition, applied with cautious gradualism. 1991-92 policy highlights were tariff reductions, elimination of most consumption taxes on imported goods, removal of tariff exemptions for selected groups of importers, lifting of controls from the foreign exchange market, reduced restrictions on private banking, and cutbacks in price controls. Full and secure "apertura" remains a goal and not a reality. Most of these reforms were only partial and were imposed by decree rather than legislation. The Central Bank restrained the growth of the money supply during 1991 and early 1992 to create a more stable business environment. As a result, monthly inflation has fallen from around 3 percent to near 1 percent. Inflation was 25 percent in 1991, and earlier estimates were that it might fall to 16-18 percent in 1992. However, current estimates now indicate a repeat of the 25 percent rate, despite the central government's holding spending growth below revenue growth.

These multiple reforms have contributed to an improving economy. Unemployment is 4.5 percent, down from 5 percent in 1991. Exports, despite low coffee prices, are 15 percent higher than 1991 (also reflecting the success of past economic diversification efforts). Real GDP will increase by more than 5 percent this year with the population growing 2.3 percent. The central government restrained spending growth by eliminating more than 10,000 jobs in 1991-92. Revenue growth of 40 percent in the first three quarters of 1992 helped reduced the central government deficit, despite 25 percent growth in spending over the same period. The deficit is financed by central government sales of short-term securities to the social security fund and to state-owned banks. The consolidated budget deficit continues to fall as a percentage of GDP, from 5.2 percent in 1990 to 2.0 percent in 1991 and to an estimated 1.9 to 2 percent for 1992.

Despite support for the "opening" policies, there will be pressures to increase spending as the February 1994 national elections approach. At present, the fiscal accounts are roughly within the targets set by the government and agreed to by the IMF. The major concern now is the Central Bank fiscal deficit, (2.0 of GDP in 1992 versus 1.5 percent in 1991), the increase of which is due largely to the cost of open market operations to stabilize the exchange rate following the March 1992 foreign exchange liberalization. The liberalization resulted in a large inflow of foreign funds, which increased the Central Bank's international reserves and commercial bank reserves. Despite Central Bank efforts, liquidity has grown rapidly since June and threatens renewed inflation in the second half of 1993. To counter these inflationary trends, the Central Bank increased reserve requirements and suspended its purchase of government securities.

2. Exchange Rate Policy

In March, 1992, the Central Bank replaced the crawling peg system with a dirty float that seems to be operating with little official intervention. Other reforms removed regulatory restrictions on capital movements, eliminated surcharges, and abolished the cumbersome procedures previously

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imposed on importers seeking foreign exchange. Although the practice is illegal, dollars are freely traded on the street at rates within one percent of bank rates. Present exchange rate stability is largely a result of large private capital inflows, which have kept the nominal exchange rate in October 1992 near the level of December 1991. These inflows, however, caused a 10 percent appreciation in the real exchange rate of the colon in 1992 (Costa Rican inflation in the first three quarters exceeded that in Europe and North America). The capital inflows also helped finance a 31 percent increase in imports in the first three quarters of 1992 compared to the same period in 1991. Offshore banks and the parallel market finance as much as half of Costa Rica's foreign trade.

Legislation recently legalized dollar transactions outside the banking system and provide a secure legal status for contracts denominated in foreign currencies (under existing law, contracts/loans denominated in foreign currency can be paid at an exchange rate set by Congress, regardless of the contract's terms. At present that rate is US$1.00 = 20 colones).

3. Structural Policies

Pricing Policies: Costa Rica began 1992 with price controls applied to every product sold at retail. The government now fixes prices for only 11 product lines. In early 1993, price fixing is to be cut back to just three commodities: milk, shortening, and sugar, all sold in markets kept noncompetitive by government interventions. In January 1992, restrictions on wholesale and retail price markups applied to all products. Now they apply to only 175 categories of products bought mostly by the poor.

Tax Policies: In June 1992, consumption taxes, ranging from 10 to 100 percent ad valorem, were lifted from 300 categories of imports. Consumption taxes remain on some items and range from 5 to 75 percent. Taxes, including tariffs, on automobiles are in the 175 percent ad valorem range, in contrast to last year's 200 percent range.

Tariff and other Trade Restrictions: Quantitative import restrictions have been abolished. Most tariff rates were cut to a 27 percent maximum in June 1992 and will be cut to a 20 percent maximum in June 1993. Licensing requirements have been abolished for imports and exports of basic grains (though the government has said it will use temporary compensatory tariffs if dumping is observed for these grains). A court challenge is pending to the constitutionality of the abolition of grain import licenses.

4. Debt Management Policies

Costa Rica's official total foreign debt grew by $324 million (11 percent) from $2,955 million in June 1991 to $3,379 million in June 1992. Costa Rica restructured its debt in 1990 with its successful buy-back arrangement under the Brady Plan. 80 percent of Costa Rican official debt is owed to multilateral and bilateral lenders. Multilateral debt is expected to grow as the country borrows more from the World Bank and the IDB in coming years.

Costa Rica is stretching its indebtedness capacity. In December 1991 the debt service paid/exports ratio was 18 percent, compared to a 20 percent maximum recommended by the IMF. Debt service for 1992 is estimated by the Central Bank at $530 million, up approximately 20 percent from 1991. During 1992, the government allowed arrears to accumulate on previously rescheduled Paris Club debts. Those arrears must be cleared for Costa Rica to obtain a new stand-by program with the IMF in 1993. The government is planning a $30 million payment to Paris Club members, including Eximbank, before the end of 1992. Debt to Paris Club members represents about 30 percent of total debt, half of it owed to the United States. The government may successfully negotiate a new IMF stand-by in early 1993. A $170 million investment sector loan from the IDB and a $200 million third structural adjustment loan from the World Bank are also in the pipeline.

5. Significant Barriers to U.S. Exports

Tariffs, Taxes and Import Licenses: Costa Rica is a member of the Central American Common Market (CACM), and gives duty free access to goods from CACM member states. U.S. goods remain subject to tariffs. U.S. goods are currently subject to customs duties ranging from 1 to 40 percent *ad valorem* (except automobiles, at 100 percent). Costa Rica has announced its intention to lower most tariffs to a maximum of 20 percent by June 1993 with a minimum tariff of 5 to 10 percent. Certain imports are still subject to consumption taxes ranging from 5 to 75 percent, but the list has been reduced from 1991.

Corruption and inefficiency continue to plague the customs system, resulting in delays, theft, and high costs. Costa Rica has done away with the requirement of an import permit for basic grains, and has opposed the implementation of a CACM price band system for agricultural imports, but is under pressure to implement one for corn. At this time, U.S. basic grain exports are not subject to a CACM price band system. In addition, Costa Rica has raised its tariff on milled rice to 35 percent, and may raise it as far as 55 percent (the GATT limit). Costa Rica has an import permit requirement for pork, chicken, and most dairy products, which serves as a *de facto* ban on such imports.

Services Barriers: Foreign banks located in Costa Rica are limited to long term (over 90 day) savings, bonds, foreign exchange, and international services. Demand deposits are a constitutionally established monopoly of state banks. All types of insurance are also a government monopoly, as are electricity and direct dial telephone service.

Government Procurement Practices: The Costa Rican Government mainly procures through open public bidding. Costa Rican law permits private tenders in certain instances, and allows direct contracting of goods and services in small quantities or in cases of national emergency. The major problem for U.S. companies is delay, often in connection with the appeals process. At least two appeals are permitted for each public tender, and new offers must be submitted after each successful appeal, often in response to new specifications. Even in the absence of appeal, delays in awards are lengthy. Bidders cannot adjust for their increased costs due to the time delay (unless their bid so specifies). U.S. bidders at times encounter unusual requirements, such as requiring previous experience in Latin America, or that the bidder not be a holding company of a parent company.

Investment Barriers: Unpaid expropriations of property remain a major problem for investors in Costa Rica. Absentee investors in agricultural land face the often realized threat of squatters, who are virtually impossible to lawfully remove. Squatters usually receive title to properties after the land is expropriated, years after the invasion. While no cases exist of unpaid expropriation of industrial or urban property, U.S. citizens have unpaid claims for expropriation of agricultural land dating back to 1964. In most cases, the land was taken to give title to squatters, or to expand national parks or indigenous or biologic reserves.

Disputes over payment for government expropriation of real property are infrequently resolved in Costa Rica. While it is theoretically possible to obtain redress within the Costa Rican legal system, litigating against the Government of Costa Rica is a lengthy process which precludes any realistic prospect of prompt, adequate, or effective compensation. To date, we know of no cases in which U.S. citizens obtained compensation within the Costa Rican court system for expropriated property. The few cases resolved have been the result of direct negotiations between the claimants (usually with the assistance of the United States Government) and the Government of Costa Rica.

Costa Rica recognizes the jurisdiction of Costa Rican courts only, and, as of mid-October 1992, has not agreed to submit such disputes to international arbitration. Costa Rica established a special arbitration procedure in 1991 to deal with U.S. expropriation disputes. The procedure is complex, lengthy (at least two and one-half years before arbitral award payment), and appears subject to Costa Rican Government influence. Of the three U.S. claimants who have agreed to this procedure, one has suspended his arbitration with criminal complaints against two arbitrators, and the only claimant to complete the arbitration immediately moved to have the award annulled because the claimant felt it was inadequate and the product of a biased procedure.

Tourism development: The Costa Rican Tourism Institute may create "touristic zones," within the 200 meter wide maritime shore zone, allowing concessionaires to build and operate tourism businesses along the coast. However, Costa Rican law requires that concessionaires be Costa Rican citizens, and that concessionaire corporations have at least 50 percent Costa Rican capital.

6. Export Subsidies Policies

The Government of Costa Rica provides tax incentives to non-traditional exporters and to companies which generate foreign exchange, such as tourism. However, a 1990 law requires the phasing out of these subsidies by 1996. The cost of negotiable tax rebate certificates (CATs) fell 4 percent during the first three quarters of 1992 over the same period in 1991, after adjusting for the 25 percent tax on CATs imposed in October, 1991.

7. Protection of U.S. Intellectual Property

Costa Rica is a signatory to most major international agreements and conventions on intellectual property, and is a member of the World Intellectual Property Organization. Significant weaknesses exist in the Costa Rican IPR system, both in the laws and in enforcement.

Costa Rica's copyright laws are generally adequate. One deficiency is the lack of express protection for computer programs and databases, although computer programs have been accepted at the national registry under the existing law. Other problems include 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. Costa Rica is a signatory to numerous copyright conventions, including the Universal Copyright Convention (Paris 1971), the Rome Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations (1961), and the Berne Convention for the Protection of Literary and Artistic Works (Paris Act 1971).

The major copyright problem is enforcement. The 1982 copyright law was suspended from July 1990 until October 1992 for Supreme Court review of its constitutionality. Although the Court upheld the law, it struck down as too vague the three month criminal penalty provision for all violations of the law without a specified penalty. This leaves enforcement of the law in doubt, as certain sections have penalties while others do not. Even where the law is in effect, penalty provisions are inadequate. Fines are as little as 50 dollars. Prison terms range from one to twelve months, but are frequently suspended. Criminal cases must be brought by an injured party who must also keep the case active.

With the exception of some smaller cable companies outside of the San Jose metropolitan area, all cable television operators have signed quitclaim agreements with U.S. producers. The videocassette market continues to be almost 100 percent pirated tapes. The audiocassette market continues to be approximately 20 to 25 percent pirated.

Costa Rican patent laws are inadequate in several critical areas. The term of protection is too short. Patents are granted for a non-extendable 12 year term, and, in the case of products deemed "in the public interest," patents are granted for only one year. This exception applies to pharmaceuticals, items with therapeutic applications, chemical and agricultural fertilizers, agrichemicals and all beverage and food products.

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No patent protection is extended to plant or animal varieties, any essentially biological process, or microbiological products or processes. Costa Rica also has broad compulsory licensing laws that force patent owners to license inventions that are not locally produced. Patent owners cannot enforce their patents against infringing imports until local production has begun. Costa Rican law also provides for compulsory dependent patent licensing and for expropriation of patents. Inventions deemed contrary to law, morality, public health, or public safety are excluded from protection.

Costa Rica is a signatory to the Convention of Paris (20 May 1883), and the Rio de Janeiro Convention on Patents, Industrial Designs, Trademarks and Literary and Artistic Property (1906). Costa Rica is not a signatory to the Paris Convention for the Protection of Industrial Property, which extends national treatment to foreign patent applicants. However, the Minister of Justice recently announced that Costa Rica would accede to the Paris Convention after amendment to a Central American compact which prevents Costa Rica from unilaterally signing the Convention.

Trademarks, service marks, trade names, and slogans can be registered in Costa Rica. There is no requirement of actual use. Registration is for renewable ten year periods from the date of registration.

Counterfeit goods are widely available in Costa Rica and compete with goods manufactured under trademark authorization. Another problem is the local registration by speculators of famous marks not yet registered in Costa Rica, who must be bought out by the legitimate rights holders if and when they come to Costa Rica.

Trade secrets are protected by Costa Rican law and the Constitution. Article 24 of the Constitution protects the confidentiality of communications, and the Penal Code stipulates prison sentences for divulging trade, employment, or other secrets. The punishment doubles for public servants. Some of the patent, trademark, and model laws provide criminal and civil penalties for divulging trade secrets. The burden of enforcement is on the affected party.

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 to affiliate internationally. However, many trade union organizations contend that trade unions' right of association has been hurt by the "Solidarismo" movement. "Solidarismo" espouses cooperation between employers and employees; Solidarista Associations are financed in part by the employer and are allowed to offer a wide range of services and engage in profit-making activities, which unions are not permitted to do. Employers have sometimes encouraged the formation of Solidarista Associations and "accept" direct agreements with Solidaristas in order to head off attempts to start unions or to negotiate collective agreements. In June 1991 the International Labor Organization ruled that management use of Solidarismo and Solidarista involvement in trade union activities are violations of freedom of association. The Calderon administration has introduced a bill to prohibit Solidaristas from engaging "directly or indirectly" in collective bargaining.

b. Right to Organize and Bargain Collectively:

The right to organize is protected by the Constitution. However, the 1943 Labor Code 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. Several proposals to modernize the Labor Code are under consideration, but no major reform is likely to pass in the near future. Public sector workers are prohibited by law from collective bargaining or striking. Public sector workers do strike on occasion, however, and penalties are usually rescinded as part of a settlement. Collective bargaining is allowed in the private sector. All normal Costa Rican labor regulations apply to the country's nine export processing zones. They are often not enforced, however, mainly because the Labor Ministry lacks expertise and resources.

c. Prohibition of Forced or Compulsory Labor:

The Constitution prohibits forced or compulsory labor and there are no known instances of either.

d. Minimum Age for Employment of Children:

The Constitution provides special employment protection for women and minors and establishes the minimum working age at 12 years, with special regulations in force for workers under 15. A child welfare agency, in cooperation with the Labor Ministry, is responsible for enforcement. Although data is lacking, child labor appears to be an integral part of the large informal economy. Enforcement in the formal sector is reasonably effective.

e. Acceptable Conditions of Work:

A National Wage Board, composed of three members each from government, business, and labor, sets wages and salaries for all sectors. The minimum wage is legally enforced; pay can and does exceed the minimum wage. The Constitution sets the workday hours, remuneration for overtime, days of rest, and annual vacation rights. Maximum work hours are eight during the day and six at night, up to weekly totals of 48 and 36 hours, respectively. Ten-hour days are permitted for work not considered unhealthful or dangerous, but weekly totals may not exceed 48 hours. Nonagricultural workers receive an overtime premium of 50 percent of regular wages for work in excess of the daily work shift, but agricultural workers are not paid overtime if they work beyond their normal hours voluntarily.

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A 1967 law governs health and safety at the workplace. This law requires industrial, agricultural and commercial firms with 10 or more workers to establish a management-labor committee, and allows the government to inspect workplaces and to fine employers for violations. But there are too few labor inspectors, especially outside of San Jose, to ensure that minimum conditions of safety and sanitation are maintained.

f. Rights in Sectors with U.S. Investment:

Working conditions do not differ from the general description above in any sector with U.S. investment.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		2
Total Manufacturing		170
Food & Kindred Products	53	
Chemicals and Allied Products	(D)	
Metals, Primary & Fabricated	(D)	
Machinery, except Electrical	0	
Electric & Electronic Equipment	25	
Transportation Equipment	0	
Other Manufacturing	22	
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, November 1992

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Key Economic Indicators

(millions of US dollars unless otherwise noted)

	1990	1991	1992 1/
Income, Production and Employment			
Real GDP (1985 Prices in Millions of DR Pesos)	15,412	15,319	15,932
Real GDP Growth (PCT)	-5.4	-0.6	4.0
GDP(Current Prices in US Dollars)	7,001	7,175	7,958
By Sector:			
Agriculture	1,071	1,098	1,218
Energy and Water	119	122	135
Manufacturing	1,120	1,148	1,273
Construction	504	517	573
New Housing Investment	462	474	525
Financial Services	455	466	517
Other Services	686	703	780
Government, Health and Education	721	739	820
Others	1,863	1,908	2,117
Net Exports of Goods and Services	-379.5	-443.9	-314
Real Per Cap GDP(1985 Prices in DR Pesos)2/	2,171	2,099	2,124
Labor Force (000's) 3/	2,990	3,115	3,240
Unemployment Rate (PCT.) 4/	29	30	30
Money and Prices (Annual Percentage Growth)			
Money Supply (M2)	39	41	17
Base Interest Rate 5/	43	34	29
Retail Inflation	100.7	4.0	6.0-7.0
Consumer Price Index 6/	1,231.67	1,895.31	2,027.82
Exchange Rate (USDOL/DRPESO)			
Official	8.65	12.74	12.75
Parallel	11.13	13.07	12.85
Balance of Payments and Trade			
National Exports (FOB) 7/	734.6	658.2	600.0
Trade Zone Exports (Value Added)	196.0	250.0	250.0
Exports to U.S. 8/	1,747.0	2,017.1	2,262.6
National Imports CIF 7/	1,792.8	1,728.8	2,000.0
Imports from U.S. 8/	1,658.2	1,742.7	2,028.8
Aid from U.S. 9/	25.9	21.1	23.7
Aid from Other Countries 10/	28.5	30.5	N/A
External Public Debt	4,481.4	4,582.3	4,685.4
Debt Service Payments (Paid)	367.7	643.9	524.6
Gold and Foreign Exchange Reserves 11/	180.2	500.1	453.8
Trade Balance (National) 7/	-1,058.2	-1,070.6	-1,400.0
Balance with U.S. 8/	88.8	274.4	233.8

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SOURCE: Economic Studies Department, Central Bank of the Dominican Republic , unless otherwise indicated.

1/ U.S. Embassy projections for 1992 Calendar Year.
2/ Source: The Dominican National Statistic Office is the source of population figures used to calculate per capita GDP.
3/ Source: Dominican National Planning Office.
4/ Source: U.S. Embassy Economic Section estimates.
5/ The 1992 figure is as of September, 1992. Short term (90 day) credit cost.
6/ May 1976-April 1977 equals 100.
7/ "National Exports" means all exports other than from Free Trade Zones. "National Imports" means all imports other than those bound for Free Trade Zones.
8/ Source: U.S. Department of Commerce. This data includes all items exported to or imported from the Dominican Republic by the United States, including Dominican Free Trade Zone activity.
9/ Calculation based on U.S. Government Fiscal Year.
10/ Source: United Nations Development Program.
11/ As of September, 1992.

1. General Policy Framework

During the late 1980's, the Dominican Republic suffered through a deep economic crisis. This crisis came about largely as the result of unsound government fiscal and monetary policies, and was exacerbated by declining world market prices for the country's principal exports. 1990 marked both the low point and the turning point. In that year, inflation reached 100 percent, GDP dropped approximately five percent, and the currency suffered major devaluations.

Starting in 1990, the government began to put its economic house in order. The budget deficit was slashed and the exchange rate and interest rates were allowed to float. Inflation was quickly brought under control, dropping to four percent in 1991. Economic growth resumed in the second half of 1991; in October 1992 the Central Bank projected seven percent GDP growth for 1992 (actual growth may be lower).

In addition to steps aimed at addressing the country's immediate macroeconomic difficulties, the government initiated a series of structural reforms in late 1990 designed to address more long-term deficiencies.

In the area of fiscal policy, in 1990 the government began to eliminate its large deficits. Tax collection mechanisms were improved and spending on inefficient parastatal enterprises was greatly reduced. In 1991, the government relied for revenue on import duties (31 percent of revenue), a value added tax (12 percent of revenue), income taxes (19 percent of revenue), and a special petroleum products surcharge (14 percent of revenue). The remaining 24% of government income came from several additional taxes (including asset and consumption taxes) and from foreign loans and grants.

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Monetary policy has long been an area of great difficulty in the Dominican Republic. During the late 1980's, the government financed its fiscal deficits by expanding the money supply. This led to high inflation. The government has largely eliminated this particular kind of "inflation finance," but other factors have caused the money supply to grow at a significant and potentially worrisome rate. During 1991, the money supply grew at approximately 30-40 percent per year. Most of this growth can be attributed to Central Bank purchases of foreign exchange (dollars) for use in debt service and in the build-up of foreign reserve stocks. So far this monetary increase has not led to renewed inflation.

2. Exchange Rate Policy

In response to the crisis of the late 1980's, the Dominican Republic moved to a market-determined exchange rate system for most transactions. Importers are now able to obtain hard currency directly from commercial banks instead of from the Central Bank. However, the Central Bank charges a two percent commission to review all foreign exchange transactions conducted by commercial banks. The Central Bank rates follow those set by the market in the commercial banking system. The liberalization of the foreign exchange market has eliminated queueing for foreign exchange and represents a significant improvement from the point of view of U.S. exporters seeking to make sales in the Dominican Republic.

3. Structural Policies

Starting in 1990, the government began to eliminate many of the distorting price control and subsidy programs that had contributed to the crisis of the late 1980's. Today, the vast majority of prices are determined by market forces.

Of particular interest to U.S. exporters are reforms in the customs and tariffs area. In September 1990 the government enacted a major tariff reform by presidential decree. The decree reduced and simplified the tariff schedule to six categories with seven tariff rates ranging from 5 to 35 percent. It also replaced quantitative import restrictions with tariffs, transformed all tariffs to ad valorem rates, and imposed a temporary surcharge that will be phased out over three years. The first year has passed and the surcharge is currently 10 percent.

The Dominican Republic also carried out major changes in its tax system aimed at increasing tax revenues. The concept of taxable income has been enlarged, marginal tax rates on individuals and companies were reduced, and capital gains are now no longer considered exempted income.

In May 1992 a new labor code was promulgated. Provisions of this new code increase a variety of employee benefits and may result in increased labor costs.

The banking and finance system is also undergoing reform. The goal is a healthier, more competitive and transparent finance system with closer compliance to clearly understood "rules of the game." The new finance and monetary law is expected to be enacted in early 1993.

Government policy prohibits new foreign investment in a number of areas including public utilities, communications and media, national defense production, forest exploitation, and domestic air, surface and water transportation.

4. Debt Management Policies

The total external debt of the Dominican Government is approximately four billion dollars. Approximately three billion is official debt and one billion is owed to commercial lenders. A significant portion of the official debt has been rescheduled under the terms of a Paris Club negotiation concluded in November, 1991. A large amount of non-Paris Club debt was reduced through the repurchase of the Dominican Republic's Venezuelan and Mexican oil debt at a substantial discount. Progress on the Dominican Republic's commercial debt has been very slow: as of December 1992 the Dominican Government had still not come to terms with its commercial creditors.

Total external debt outstanding as a percentage of GNP was 65 percent in 1991.

Debt restructuring and economic reform have left the Dominican Republic better able to handle its external debt responsibilities.

5. Significant Barriers to U.S. Exports

Tariffs on most products fall within a 5 to 35 percent range. There is an import surcharge of 10 percent which is scheduled to be abolished in September 1993. The Government of the Dominican Republic imposes a 5 to 80 percent selective consumption tax on "non-essential" imports such as home appliances, alcohol, perfumes, jewelry, and automobiles and auto-parts. In the case of automobiles, the tax is differentiated by engine size. Because of the engine size differentiation, U.S. automobiles frequently face prohibitive import duties.

The Dominican Republic continues to require a consular invoice and "legalization" of documents, which must be performed by a Dominican consulate in the United States. Moreover, importers are required to obtain licenses from the Dominican Customs Service.

A Spanish language labelling requirement is being proposed, but is not yet in effect. There are food and drug testing and certification requirements, but these are not burdensome.

Many businessmen complain that bringing goods through Dominican customs is a slow and arduous process. Customs' interpretation of exonerated materials being brought into the country provokes many complaints. Certain imported goods which are ostensibly exonerated from duties, are frequently delayed by Customs. This requires exporters to spend more time and money to clear these items.

Arbitrary customs clearance procedures sometimes cause firms to have their merchandise held up for as long as a year. The use of "negotiated fee" practices to gain faster customs clearance continues to put some U.S. firms at a competitive disadvantage in the Dominican market. U.S. firms must comply with the provisions of the U.S. Foreign Corrupt Practices Act.

The Government of the Dominican Republic has a centralized government procurement office; but, the procurement activities of this office are basically limited to expendable supply items for the government's general office work. In practice, each public sector entity has its own procurement office, both for transactions in the domestic market and for imports.

For foreigners, ownership of more than approximately one-half acre (2,000 square meters) needs Presidential approval.

Foreign investment must receive approval from the Foreign Investment Directorate of the Central Bank in order to qualify for repatriation of profits. The granting of such approval sometimes is time-consuming and the procedures are unclear, making approval sometimes difficult. Under Law 861 (Article 16) of July 1978, companies registered under the foreign investment law are limited in remitting profits or dividends abroad to 25 percent of registered capital per year. Unregistered investment has no right to transfer profits.

Capital gains have the right to be remitted only up to two percent annually and, cumulatively, to 20 percent of the original investment. Invested (and registered) capital may be remitted, but only upon the sale or liquidation of the enterprise.

Royalties (payments made for technology transfers, licensing contracts and for use of patents and trademarks) may only be paid based on a percentage of sales. Further, each such contract must be individually approved by the Foreign Investment Directorate.

Reinvestment of profits is highly restricted. The enterprise must be in the agribusiness or tourism sectors, must export at least 80 percent of its sales, and must remain at least 70 percent domestically owned.

All contracts with foreigners for the use of trademarks, or for the use of specialized technical knowledge, must be submitted to the Foreign Investment Directorate for registration. The Directorate is permitted to delay or even to disapprove them.

Financial institutions doing business in the Dominican Republic must be at least 50 percent Dominican owned, as per Law 861, Article 23 of July, 1978. Exceptions to this law are

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CITIBANK and the Bank of Nova Scotia, which were grandfathered in because they were here prior to passage of this law. A new Finance and Monetary Code, presently under consideration, could bring changes to this local ownership requirement.

Foreign companies cannot obtain internal credit for a period greater than one year without prior approval from the Central Bank, as per Law 861 (Article 28) of July 1978.

Sectors reserved by other provisions of Law 861 for domestic investment are: public utilities, communications and media, national defense production, forest exploitation, and domestic air, surface and water transport. (Some foreign businesses operate in these sectors because they have been "grandfathered in.") Foreign investors can participate in joint ventures (defined as having 51 to 70 percent Dominican capital and management control) in fishing, insurance, farming, animal husbandry, and commercial and investment banking.

The Dominican Government has stated its intent to modify and make less restrictive the Foreign Investment Law 861.

The electricity sector continues to be a weak link in the Dominican economy. Recently, the Dominican Government announced plans to purchase electricity from private suppliers and to move toward privatization. Although the IMF letter of intent states the government's willingness to privatize the electricity sector, little progress has been made.

Foreign employees may not exceed 20 percent of a firm's workforce. This is not applicable when foreign employees only perform managerial or administrative functions.

Dominican expropriation standards (e.g., in the "public interest") do not appear to be consistent with international law standards; several investors have outstanding disputes concerning expropriated property.

The Dominican Republic has not recognized the general right of investors to binding international arbitration.

All mineral resources belong to the state, which controls all rights to explore or exploit them. Although private investment has been permitted in selected sites, the process of choosing and contracting such areas has not been clear or transparent.

Investors operating in the Dominican Republic's Free Trade Zones experience far fewer problems than do investors working outside the Zones.

6. Export Subsidies Policies

The Dominican Republic has two sets of legislation for export promotion: The Free Trade Zone Law (Law No. 8-90, passed in 1990) and the Export Incentive Law (Law No. 69, passed in 1979). The Free Trade Zone Law provides 100 percent exemption on all taxes, duties, and charges affecting the productive and trade operations at Free Trade Zones. These

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incentives are provided to specific beneficiaries for up to 20 years, depending on the location of the zone. This legislation is managed jointly by the Foreign Trade Zone National Council and by the Dominican Customs Service.

The Export Incentive Law provides for Tax and Duty Free treatment of import of inputs from overseas that are to be processed and re-exported as final products. This legislation is managed by the Dominican Export Promotion Center and the Dominican Customs Service. In practice, use of the Export Incentive Law to import raw materials for process and re-export is cumbersome and delays in clearing Customs can take anywhere from 20-60 days. This Customs clearance process has made completion of production contracts with specific deadlines very difficult. As a result, non-free trade zone exporters rarely take advantage of the Export Incentive Law. Most prefer to import raw materials using the normal Customs procedures which, although more costly, are also more rapid and predictable.

There is no preferential financing for local exporters nor is there a government fund for export promotion.

Currently, the Government of the Dominican Republic, in conjunction with the Exporters Association and the United Nations Development Program, is working to create an export promotion policy for non-FTZ products.

7. Protection of U.S. Intellectual Property

In general, copyright laws are adequate, but enforcement is weak, resulting in widespread piracy. Although the Dominican Republic is a signatory to the Paris Convention and the Universal Copyright Convention, and last year became a member of the World Intellectual Property Organization, the lack of a strong regulatory environment results in inadequate protection of intellectual property rights. In 1992, the Dominican Republic was the subject of a petition by the Motion Picture Export Association of America (MPEAA) before the United States Trade Representative, alleging piracy of satellite television signals and unauthorized use of videos in Dominican theaters. Benefits under the Generalized System of Preferences Program and the Caribbean Basin Initiative were endangered by this petition. In November 1992, the Dominican Government announced steps to halt the unauthorized retransmissions of premium cable channels that may help to remedy this situation.

Patents (product and process): In a local pharmaceutical market of approximately 110 million dollars a year, Dominican manufacturers supply about 70 percent of the total. Of that, about seven per cent is counterfeit. The Secretariat of Public Health is considering a regulation which will allow registration of patents only upon prior approval of the Secretariat. This could allow local counterfeiters to register their products with the Secretariat first, thereby preventing legitimate companies from registering their patents. The Patent Office (at the Secretariat of Industry and Commerce) has decided to stop accepting pharmaceutical patents until an arrangement is worked out with the

Secretariat of Public Health.

Trademarks and Copyright: Many apparel brands are counterfeited and sold in the local market. In addition to the MPEAA complaint, problems have arisen with illegally copied videos, software, and books.

Protection of intellectual property rights is so poor that it is virtually impossible to quantify its impact on U.S.-Dominican trade. In its complaint, the MPEAA estimates that losses to its members from theft of satellite programming are more than one million dollars per year. Losses due to other counterfeiting cost U.S. companies millions more.

8. Worker Rights

a. Right of Association

The Constitution provides for the freedom to organize labor unions and also for the rights of workers to strike and for the private sector to lock out. All workers, except military and police, are free to organize, and strikes are legal except in sectors which are considered essential services. Organized labor in the Dominican Republic represents about 12 percent of the work force and is divided among three large confederations, three minor confederations, and a number of independent unions. Labor unions can and do freely affiliate regionally and internationally.

b. Right to Organize and Bargain Collectively

Collective bargaining is permitted and usually takes place in firms which have a "highly technical" labor force and union representation. A union may represent the workers in collective bargaining when it has received the support of an absolute majority of the workers of a firm. Since there has been a history of labor conflict in the Free Trade Zones, with organized labor accusing companies of firing workers for engaging in union organizing activities, the Labor Code protects from layoffs up to 20 members of a union in formation and between 5 to 10 members of a union executive council, depending on the size of the workforce. This measure is designed to protect individuals working to form new unions. Firings of workers by the Dominican Electric Corporation have led to management/labor disputes which have yet to be resolved.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is prohibited by law. The Dominican Government has been criticized for its treatment of Haitian workers employed by the State Sugar Council (CEA). Alleged abuses have included forced recruitment, compulsory labor, and restrictions on freedom of movement. Instances of forced labor and restrictions on movement occurred in only isolated instances on CEA plantations in 1992. Forced labor has not been a problem in other areas.

d. Minimum Age for Employment of Children

The Labor Code prohibits employment of youths under 14 years of age and places various restrictions on the employment of youths under the age of 16. In practice, there are large numbers of minors working illegally, primarily in the informal sector. The high level of unemployment and the lack of a social safety net create pressures on families to allow children to earn supplemental income. Instances of child labor in CEA sugar plantations have diminished greatly and most observers concede that such practice is no longer a serious problem.

e. Acceptable Conditions of Work

The Labor Code establishes a standard work of eight hours per day and 44 hours per week, with an uninterrupted rest period of 36 hours each week. In practice, a typical workweek is Monday through Friday plus half day Saturday, but longer hours are not unusual, especially for agricultural and informal sector workers. Workers are entitled to a 35 percent wage differential when working between 44 and 68 hours per week and a 100 percent differential for any hours above 68 per week. The vast majority of workers receive the minimum wage (which varies by law in accordance with the type of activity and the size of the company). Safety and health conditions at places of work do not always meet legal standards. The existing social security system does not apply to all workers and is underfunded.

f. Rights in Sectors with U.S. Investment

U.S.-based multinationals active in the free trade zones represent one of the principal sources of U.S. investment in the Dominican Republic. The free trade zone sector's compliance with the right to organize and bargain collectively is a matter of legal dispute, as the Dominican Labor Secretariat has filed charges against several free trade zone firms for allegedly violating union protection provisions of the new labor code. Some companies in the free trade zones adhere to significantly higher worker safety and health standards than do non-free trade zone companies. In other categories of workers rights, conditions in sectors with U.S. investment do not differ significantly from conditions in sectors lacking U.S. investment.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		(D)
Total Manufacturing		96
Food & Kindred Products	(D)	
Chemicals and Allied Products	26	
Metals, Primary & Fabricated	(D)	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	55	
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, November 1992

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Key Economic Indicators

	1990	1991	1992 1/
Income, Production and Employment			
GDP (billions, U.S. dollars) 2/	10.6	11.6	12.0
GDP Growth Rate (percent)	2.3	4.4	3.0
GDP/Capita (U.S. dollars) 2/	985	1,052	1,070
GDP by Sector (percent growth)			
Agriculture, Fishing	2.7	6.6	N/A
Petroleum, Mining	-0.5	4.8	N/A
Manufacturing	-1.3	3.7	N/A
Construction	-13.7	-3.2	N/A
Services	3.1	3.4	N/A
Other	39.5	13.8	N/A
Size of Labor Force (millions)	3.5	3.6	3.7
Unemployment Rate 3/	8.0	8.0	8.0
Money and Prices			
Money Supply (M1, pct. growth)	52.2	46.5	45.0
Commercial Interest Rates (est.)	55.0	55.0	65.0
Savings Rate (pct GDP)	17.5	18.1	18.0
Inflation (CPI, year-end)	49.5	49.0	65.0
Official Exchange Rate 4/	768	1,050	1,575
Parallel Exchange Rate 4/	822	1,080	1,590
Balance of Payments and Trade (Millions of U.S. dollars unless otherwise noted)			
Exports (FOB)	2,714	2,851	2,965
Imports (CIF)	1,711	2,207	2,380
Exports to U.S. 5/	1,377	1,328	1,380
Imports from U.S. 5/	680	948	1,025
Aid from U.S. 6/	19.5	20.7	21.2
External Public Debt (bil.)	11.9	12.3	12.7
Annual Debt Service Payments (bil)	1.4	1.2	1.2
Net Foreign Exchange Reserves	601	760	700
Balance of Payments			
Current Account	-166	-467	-515
Trade Account	1,003	644	585
Service Balance 7/	-1,239	-1,221	-1,210
Transfers	107	110	110
Capital Account	568	630	455
Investment	82	85	N/A
External Debt	-497	-582	N/A
Arrears	848	995	N/A
Other	135	132	N/A
Change in Reserves	400	159	-60

1/ 1992 data are U.S. Embassy estimates.

2/ Sucres converted at the average intervention rate for the year. Because of real appreciation of the sucre, dollar figures overstate growth of GDP and GDP/capita.

3/ Ministry of Labor figures for open unemployment; other estimates place unemployment at 7 to 12 percent. Underemployment estimated at 40-60 percent.

4/ Exchange rates cited are annual averages.

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5/ U.S. data, may vary from Ecuadorian data.

6/ Data are for U.S. fiscal year.

7/ Includes interest due but not fully paid.

1. General Policy Framework

A new government under President Sixto Duran Ballen took office in August 1992 and introduced an economic stabilization program to reduce the budget deficit and increase international reserves. The government has announced plans to implement a broader structural reform program, which would include privatization, capital market reforms, and other measures to improve the investment climate. The economy grew 4.4 percent in 1991, compared to 2.3 percent in 1990, driven by strong agricultural exports. Growth in 1992 is expected to decline to around 3 percent, as the export boom weakens and the government's adjustment program takes effect in the final quarter of the year.

Trade liberalization and strong economic growth led to a large increase in imports from the United States in 1991 and the first half of 1992. However, a sharp devaluation of the sucre and the austerity program should depress demand for imports through the first part of 1993. Growth should pick up in the second half of 1993, as should demand for U.S. goods, particularly if economic reform leads to increased investment.

The outgoing government left the Duran Ballen government with a large budget deficit, obliging the government to raise additional revenue by increasing fuel and electricity prices and trim expenditures. In the past few years, deficits have been financed by accumulation of large arrears to suppliers and foreign banks, foreign borrowing, and limited sales of govern- ment securities. The Central Bank also incurs substantial losses, financed through monetary emission, because of subsidies and over-staffing. By 1992, the subsidies had largely been eliminated and staff was being reduced.

Inflation has been a persistent problem in Ecuador, having stuck at an annual rate of about 50 percent since 1989. The economic stabilization program is designed to bring inflation down to about 35 percent by the end of 1993, although inflation is expected to climb to about 65 percent in 1992 because of energy price increases and the devaluation. In 1991, the money supply (M1) increased by 46.5 percent, and it probably will increase by about the same amount in 1992. Since the Central Bank has not been able to control monetary growth, it has pressured private sector banks to limit private sector credit expansion through high required reserves and forced purchases of government bonds. The new government lowered reserve requirements and has said that it will use open market operations to control the money supply.

Net international reserves were $760 million at the end of 1991. Ecuador traditionally runs a sizable trade surplus, but has only been able to maintain adequate international reserves by accumulating arrears on its large external debt. Reserves fell sharply before the new government took office, but have since increased and should finish 1992 at about $700 million, over three months of import cover.

2. Exchange Rate Policies

Ecuador has two functioning exchange rates, the intervention and the free-market rates. Public sector transactions are conducted at the intervention rate, which is set by the government. Exporters now sell their foreign exchange earnings at the free market rate. Importers may purchase dollars from the Central Bank at the intervention rate or on 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.

The government devalued the currency by 35 percent to 2,000 sucres/dollar in September. The devaluation more than compensated for prior real appreciation, allowing the government to freeze temporarily the sucre against the dollar, using it as an anchor against inflation. Public sector exporters only receive 1,700 sucres for every dollar surrendered. Importers would have to pay 2,000 sucres/dollar at the Central Bank, but instead have resorted to the free market, where the exchange rate was about 1,900 sucres/dollar in early December. This policy has permitted to the Central Bank to increase international reserves, although it has also led to monetary expansion.

3. Structural Policies

The Duran Ballen government has indicated its intent to pursue a structural reform program to promote investment and economic growth, although it has not yet finalized important elements of the program. Its greatest challenge will be privatization of parastatal firms, reducing public sector employment and curtailing over-regulation of the economy. The government has created a new committee, the National Council for the Modernization of the State (CONAM), which will review all public enterprises for possible privatization. The government moved rapidly on regional free trade, initiating bilateral free trade with its Andean Pact partners Colombia and Bolivia, a partial free trade agreement with Peru, and is negotiating a similar arrangement with Venezuela. Ecuador applied in September 1992 to join the GATT. Other significant reforms under consideration include a Capital Markets Law, a law to unify the public sector budget (currently half of public sector spending is off-budget), a measure to unify the tax structure so foreign firms pay the same income tax as Ecuadorian companies, and additional liberalization of foreign investment regulations.

The prior government initiated a number of structural reforms, although it did so unevenly. Its most notable reforms were in the area of trade, reducing tariffs and tariff dispersion and eliminating most non-tariff surcharges. Other major reforms under the previous government include a new tax law, an in-bond industry law, liberalized foreign investment regulation, a slight loosening of the restrictive Labor Code, a revised mining law, and reform of the Central Bank.

4. Debt Management Policies

Ecuador has yet to restructure its external debt with commercial banks. At the end of 1991 total external debt was $12.3 billion, of which $1.9 billion was interest arrears. Over half the debt, $7.3 billion, and almost all the arrears, are owed to commercial banks. Ecuador stopped debt servicing to the commercial banks in 1987, but began paying about 30 percent of interest due in June 1989. The prior government began discussions with commercial bank creditors in August 1989 but was unable to reach agreement. The Duran Ballen government intends to give high priority to an agreement with the commercial banks, although it will first need to obtain an IMF agreement.

Ecuador was actively negotiating with the IMF during the last quarter of 1992 for a stand-by agreement to replace the one that was signed in December 1991. Ecuador promptly fell out of compliance with that agreement, failing to meet important targets in the first quarter of 1992. In February 1992 Ecuador reached an agreement with the Paris Club to reschedule official bilateral debt that fell due in 1991 and 1992.

5. Significant Barriers To U.S. Exports

Import fees for most products range from five to 20 percent. Included within the rates are import duties ranging from two to 17 percent and three percent in other fees. Ecuador now permits the importation of new cars and light trucks, which carry a 40 percent tariff, although the import of used cars and light trucks remains banned. Ecuador's tariff schedule is based on the GATT's harmonized system of nomenclature.

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.

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, 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 investment in public services must obtain prior governmental approval. The new government is revising investment regulations to further facilitate foreign investment.

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.

6. Export Subsidies Policies

Ecuador does not currently have any export subsidy programs.

7. Protection of U.S. Intellectual Property

Ecuador is not a member of the UN-affiliated World Intellectual Property Organization, but does accord protection to foreign-registered property. In March 1992, Ecuador implemented Andean Pact Decision 313, which improves protection of intellectual property rights over previous Andean Pact standards. Even so, there are serious deficiencies in Ecuadorean patent and trademark protection. For example, the patent term is only 15 years, and local use needs to be demonstrated to obtain a five year extension. There is no pipeline protection for pharmaceutical products, and compulsory licensing can be imposed. Because of these shortcomings, Ecuador was named on the Special 301 watch list.

Ecuador does not provide adequate and effective copyright protection. 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. Illegal registration of trademarks can be a problem, since the government lacks the resources to monitor and control such registrations. To address this problem, the government signed a Memorandum of Understanding with the U.S. Patent and Trademark Office in August 1992 to share information on trademark registration.

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. Work places 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. The government recently approved labor code reforms which seek to boost employment without significantly limiting worker rights.

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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 30 or more workers belonging to a union must negotiate collectively when the union so requests. The Labor Code prohibits discrimination against unions and requires management to grant meeting space and time off for union activities. The minority of workers fortunate enough to hold jobs in the modern public or private sector usually receive substantially more than the minimum wage in pacts negotiated collectively. 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. Despite recent reforms, the Labor Code remains highly unfavorable to employers and is a disincentive to employment creation.

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 and 18 are required to have parental or guardian permission to work. In practice, enforcement of child labor laws is seriously inadequate. 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" in the informal sector or as street peddlers.

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 basic minimum wage is about $30 per month, although employers must pay numerous other allowances that exceed the minimum wage. The vast majority of organized workers in the parastatals and formal private sector enterprises earn substantially more than the minimum wage and significantly better benefits. 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. There are no specific regulations governing health and safety standards in the agricultural sector and, in practice, there is no enforcement of safety rules in small mines and remote locations. The government has recently announced its intention to increase the work week to 48 hours, but some Congressional opposition to this change can be expected.

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. In 1992 there were no strikes or serious labor problems in any U.S. subsidiary, to the extent that the U.S. Embassy is aware. U.S. companies with 30 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 an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		(D)
Total Manufacturing	169	
Food & Kindred Products	(D)	
Chemicals and Allied Products	16	
Metals, Primary & Fabricated	19	
Machinery, except Electrical	0	
Electric & Electronic Equipment	19	
Transportation Equipment	(D)	
Other Manufacturing	81	
Wholesale Trade		40
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, November 1992, Vol. 72, No. 8, Table 11.3

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Key Economic Indicators

(in colones or U.S. dollars as indicated)

	1990	1991	1992 1/ (est)
Income, Production and Employment			
GDP (mils current CLS)	41,057.2	47,792.0	53,837.0
GDP (mils constant CLS)	3,285.0	3,399.0	3,553.0
Real gdp growth (PCT CH)	3.4	3.5	4.2
GDP by sector (PCT OF GDP)			
-Agriculture	11.2	10.1	10.3
-Energy/water	1.9	2.0	2.1
-Manufacturing	18.1	18.8	18.8
-Construction	2.6	2.7	2.8
-Rents	5.8	5.7	5.7
-Financial services	2.7	2.4	2.4
-Government, health and education	7.9	7.7	7.0
-Other services	10.4	10.4	10.4
-Net exports of goods and serv (mils cls)	-4,584.3	-5,497.0	-5,692.0
Per capita GDP (curr dollars)	1,015.3	1,111.4	1,163.0
Labor force urban (thou)	982.8	1,080.0	1,188.0
Unemployment rate urb. Pct 2/	11.4	7.5	8.0
Money and Prices			
Money supply m2 (pct ch)	26.4	18.1	16.0
Commercial interest rates			
-Loans	17-22	20-22	16-18
-Deposits	10-19	8-20	8-15
-Consumer price index (PCT CH)	19.3	9.8	18.0
-Exchange rate Market (CLS/USD)	7.7	8.0	8.7
Balance of Payments & Trade (millions of dollars)			
Total exports FOB	580.2	588.0	683.0
Exports to U.S.	237.5	260.0	280.0
Total imports CIF	1,262.5	1406.0	1,470.0
Imports from the U.S.	537.2	574.4	600.0
Aid from the U.S.	261.9	235.1	270.0
Aid from others and IFIS	165.0	180.0	200.0
External public debt - (bils dols)	2.0	2.5	2.6
Debt Service	109.7	134.7	145.0
Net int'l reserves end - Year (dols million)	445.0	465.0	525.0
Trade Balance - (million dols)	-682.3	-818.0	-787.0

1/ 1992 figures are all estimates based on available data through july, 1992.

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2/ Unemployment for urban workers reported by the Ministry of Planning includes those who lost their jobs during the year, plus those without a job for more than a year. Political opposition forces and labor unions allege that urban unemployment (part-time workers and workers paid below minimum wage) is as high as 30 percent.

1. General Policy Framework

On December 15, 1992 the Government of El Salvador, the FMLN, and the international community celebrated the closure of the Salvadoran ceasefire and the end of the first stage of the peace process. This opens the way to a new phase of economic development. President Cristiani's comprehensive structural adjustment program and opening of the economy to international competition, underway since 1989, have already proven beneficial. Despite severe energy rationing during the first semester of 1992 and the lowest recorded international coffee prices in 20 years, the Salvadoran economy is expected to exceed 4 percent growth in real terms in 1992, the highest rate achieved during the last 13 years.

Ongoing measures to open the economy to international competition include:

- elimination of controls on the allocation of foreign exchange;
- legalizing the operations of foreign exchange houses;
- liberalizing the exchange rate; and
- removing price controls on most basic consumer goods.

Currently only three petroleum products, public bus fares, and public utilities (water and energy) are subject to price controls by the Ministry of Economy.

External tariffs have been compressed to a range of 5 to 20 percent for all but a few categories of goods. Interest rates have been liberalized.

A privatization program is underway. During 1992, the two largest banks and one small bank were privatized. The sale of two other banks was initiated in November, and they should be sold to private shareholders by early 1993. A modern hotel was also sold to private shareholders in 1992. In 1993, several savings and loans associations are to be privatized. Finally, legislation is under study to privatize segments of the energy sector as well as parts of the airport and ports authority.

The government faces a difficult time as expenditures, including many unexpected associated with the reconstruction effort, are increasing. The fiscal deficit for 1992, before grants, is estimated at 5.4 percent of GDP, up from 4.6 percent in 1991. The money supply (M2) is programmed to increase 16 percent in 1992, compared to 18 percent growth during 1991. In mid 1992, the Central Bank issued stabilization bonds to soak up about one billion colones in excess liquidity to ease the pressure on prices and the balance of payments. Despite the implementation of a ten percent value added tax (VAT) on

September 1, 1992 the fiscal situation is likely to remain difficult. The VAT, however, has allowed the Salvadoran Government (as of October and November 1992), to increase its revenues by 26 percent over the amount that could have been collected under the old sales (stamp) tax. The expectations are for even higher collections in 1993.

Beginning in August 1992, inflation picked up, partly the result of a rush of pre-VAT purchasing. In September, with the implementation of the 10 percent VAT, a 30 percent increase in electricity rates, a 40 to 50 percent rise in public transportation fares, and a ten percent tariff increase for milk imports, the rate of inflation for the month reached 4.7 percent. Consequently, the October/October twelve-month point-to-point inflation rate jumped to 17 percent, compared to 14.3 percent in 1991. While cost increases have contributed to the higher level of inflation, the growing fiscal deficit and the government's monetary policy since the beginning of April 1992 have also been significant factors.

The major concerns currently facing El Salvador's economy are:

- The large fiscal deficit, partly generated by spending associated with the peace accords but also due to continued government expenses.

- Inflation that could end up close to 18 percent.

- A widening trade deficit, thus far ameliorated by foreign aid and remittances from Salvadoran workers abroad.

- Pressure on the manufacturing sector to improve its competitiveness during the 1990s. The sector faces challenges arising from ongoing trade liberalization in the hemisphere, including strengthening of the Central American Common Market.

While the open unemployment rate is currently near 8 percent, the reintegration of 20,000 ex-combatants into the productive sector is likely to increase this figure.

2. Exchange Rate Policy

A floating exchange rate system was adopted in 1990 and the Salvadoran Government is committed to maintaining it. As of October 1992, more than 60 private and bank affiliated exchange houses were operating in El Salvador. Official receipts and coffee earnings continue to be handled by the Central Bank, but all other international operations are left to the private sector. Worker remittances are estimated to be $700 million annually: these help offset the trade deficit. While the colon was stable for the first half of 1992, in the second half lower than expected coffee export revenues, accelerated purchases in anticipation of VAT implementation, and a surge in monetary emission related to a widening fiscal deficit caused a sharp depreciation of the colon, pushing the exchange rate over nine colones/one dollar.

All exchange houses are required by the Central Bank to report weekly to the bank on purchasing transactions involving

$10,000 or more. Although there are no controls on the amount of currency which can be brought into or taken out of the country, whenever judged convenient the Central Bank can require information on international operations carried out by firms or individuals.

3. Structural Policies

Only a few basic commodities and utilities are subject to price controls by the Ministry of Economy. In 1990 a price band system was established on corn, the chief basic grain produced in El Salvador. In 1991 the price band mechanism was extended to rice and sorghum. The price band mechanism adjusts the external tariff rates in response to fluctuations in world prices and thus partially insulates the domestic market from external shocks. During 1992, electricity and water rates increased as government subsidies were cut. The government's target is to eventually transform the energy (CEL) and water (ANDA) autonomous agencies into self-sustaining enterprises.

Tax Policies: An extensive reform of the tax system has been underway since 1989. The income tax for businesses and individuals was simplified and top marginal rates cut to 25 percent, a VAT was introduced with very few exemptions to replace the antiquated sales tax, tax administration and enforcement is being tightened, and customs operations modernized. By 1993, the major source of government revenue will be the VAT, which is programmed to contribute up to 50 percent of total revenues. Income taxes are still important, as well as import duties and excise taxes. Export taxes, except for coffee, have been eliminated. Coffee export taxes should be phased out soon. The objective of these reforms is to stimulate investment, improve public finances, promote exports, and enhance equity. El Salvador acceded to the GATT in 1990, and by January 1995 import tariffs for almost every product should range from 5 to 20 percent.

4. Debt Management Policies

El Salvador's external debt increased from $2.13 billion in 1990 to $2.172 billion in 1991. More than 80 percent of the debt is owed to governments, especially the United States, and to multilateral development lenders. Under the Paris Club arrangement of September 1990, $137 million owed to the U.S. Eximbank was rescheduled in 1991. In Decmeber 1992 the U.S. Government forgave $464 million in El Slavador's PL-480 and AID debt under the Enterprise for the Americas Initiative. Both the World Bank and the Interamerican Development Bank are assisting El Salvador in developing a policy to stimulate investment. Foreign investment during 1991 and 1992 tripled over the average registered figures for 1987 to 1990. El Salvador has no external debt arrears, and has a favorable reserve position.

5. Significant Barriers to U.S. Exports

As a member of the Central American Common Market (CACM), El Salvador gives free access to goods from the other CACM

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member states. U.S. goods are subject to tariffs ranging from 5 to 20 percent ad valorem; the only exceptions are automobiles, alcoholic beverages, textiles, and certain luxury items, which are subject to special treatment. Recently, the Ministry of Agriculture has raised some non-tariff barriers to protect local producers of poultry products, in light of growing competition from non-CACM suppliers, especially the U.S.

El Salvador welcomes foreign investment, and its foreign investment promotion and protection law, free trade regime, and regulations on foreign exchange earnings remittances are among the most liberal in Latin America. Due to past problems associated with some travel agencies and other fraudulent service operations, however, service industries may only remit 50 percent of their profits. Through this measure, the government has sought to protect the consumer. Telephone services and electricity generation and distribution remain in the hands of the Salvadoran Government, but privatization of segments of these areas is planned. For example, cellular telephone services have been contracted to a private company, and it is expected than within several years the private sector will be allowed to generate and sell electricity. Upon the expiration of a fifty-year lease in 1986, the Salvadoran Government nationalized the assets of the San Salvador Electric Utility (CAESS). The nationalization created a dispute between the government and the CAESS shareholders, eighty-five percent of whom are U.S. citizens, over compensation for the value of the company's assets. The expropriation case appeared to have been nearing a resolution until pending litigation initiated by a Salvadoran former employee of CAESS held up settlement.

Service Barriers: Foreign banks still face strict controls. Sight deposits in foreign banks are limited to 30 percent of total deposits, and 50 percent of the total loan portfolio must be funded by external sources. Under the reprivatization program of state owned banks and savings and loans associations, no new foreign or domestic banks can be established until after July 22, 1993.

Standards, labelling, testing, certification: Import licenses are still required for a number of products, primarily agricultural products and live animals. Laboratory testing and certification are required for most pharmaceutical products and processed canned foods. Unprocessed foods and live animals require sanitary certificates. Importers often experience bureaucratic delays in processing customs documents, and shipments may be delayed for long periods. Damage and robbery of merchandise at customs and border posts are common. However, the Salvadoran Government has initiated a program to modernize customs operations and streamline procedures.

6. Export Subsidies Policies

El Salvador's 1990 export reactivation law and free trade zone law established generous benefits for firms engaged in the export of non-traditional goods (merchandise other than coffee, sugar, shrimp, cotton, and beef). Exporters of non-traditional products are entitled to an 8 percent rebate on the fob value of exports. Drawback operations are entitled to an 8 percent rebate on the local value added tax. Temporarily, companies located in free zones are also entitled to an 8 percent rebate. Firms operating in free zones enjoy fiscal incentives, including exemption from income taxes for up to 15 years, and total exemption of import duties for machinery, equipment, and raw materials.

7. Protection of U.S. Intellectual Property

In early 1992, El Salvador was placed on the U.S. Government's special 301 watch list for the lack of effective intellectual property rights (IPR) protection legislation. El Salvador's IPR law dates from 1922 and fails to provide adequate protection in several key areas. Although El Salvador is a signatory to the Geneva Phonograms Convention and the Rome Convention, the government is not a member of the Berne Convention for the Protection of Literary and Artistic Works or the Paris Convention for the Protection of Industrial Property. The current administration has recognized that El Salvador's IPR legislation is deficient and has drafted a law offering more complete protection. The law has not yet been presented to the Salvadoran National Assembly for consideration, but it is hoped that the government will shortly do so.

Patents: El Salvador's patent law includes a vaguely worded exclusion from patentability. Inventions whose exploitation may be contrary to prohibitive laws or which may endanger the national security are not patentable. A patent term can be five, ten, or fifteen years from grant, at the option of the applicant. The patent term can be extended for five years, in exceptional cases, at the discretion of the patent office.

Copyrights: El Salvador's copyright law, implemented by decree in 1963, is deficient. Sound recordings are not explicitly protected in the law. Without adequate protection for sound recordings, audio cassette piracy has flourished. The U.S. recording industry has reported that 90 percent of the local market, (approximately 100,000 units per month) is claimed by illicit copies. El Salvador's copyright law covers traditional subject matters, but does not explicitly protect computer programs as literary works or compilations of facts or other materials, such as databases.

Trade secrets: El Salvador has no law providing explicit protection against misappropriation of trade secrets.

Semiconductor chips: El Salvador has no law extending protection to mask works fixed in semiconductor chip products.

8. Worker Rights

a. Right of Association

The Constitution prohibits the government from using nationality, race, sex, creed, or political philosophy to prevent workers or employers from organizing themselves into unions or associations. However, inadequate labor legislation and enforcement has impeded full realization of these rights.

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In the peace accords signed in Chapultepec, Mexico in January 1992, the government committed itself to seeking consensus on revised labor legislation through a socio-economic forum with equal representation from labor, government, and the private sector. Legally, only private sector nonagricultural workers have the right to form unions and to strike, while employees of nine autonomous agencies may form unions but not strike. Public employee strikes are illegal, but frequent, and generally settled through negotiations between public employee associations and the government. Approximately 150 trade unions, employee associations and peasant organizations have a combined membership of 400,000, roughly 15 percent of the work force. Unions freely affiliate with international labor organizations.

b. Right to Organize and Bargain Collectively

The right of collective bargaining is granted in both the Constitution and the labor code, although it is generally accepted that the labor code protections are inadequate. Both private sector unions (by law) and public sector employee associations (in fact) use the mechanism of collective bargaining extensively. However, collective bargaining agreements signed by public employee associations are not enforceable under the labor code. The socioeconomic forum called for in the Peace Accords offers a historic opportunity to improve relations and cooperation between the government and the private sector. Illegal land seizures have been a major irritant and the private sector is determined to protect property rights, arguing that the government has been lax in this area during the peace process. All three sectors have agreed on an agenda for the forum, including a revision of the labor code. The constitution provides that union officials at the time of their election, throughout their term, and for one year following their term, shall not be fired, suspended for disciplinary reasons, removed, or demoted except for legal reasons. El Salvador has two export processing zones (one public and one private) currently operating and two more under construction. Labor regulations in these zones are identical to those throughout the country, but currently there are no unions in the firms in these zones.

c. Prohibition of Forced or Compulsory Labor

The Constitution prohibits forced or compulsory labor, except in the case of calamity and other instances specified by the law. This provision is generally honored in practice.

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 may be made only in cases where it can be demonstrated that such employment is indispensable to the sustenance of the minor and his family. This is most often the case with children of peasant families who traditionally work with their families during the planting and harvesting seasons. Children frequently work as vendors and general laborers in small business, especially in the informal sector. Inspections by the Ministry of Labor are insufficient to fully enforce the law.

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e. Acceptable Conditions of Work

The government's national minimum wage council recommends increases in the minimum wages for commercial, industrial, service, and agroindustrial employees. The law limits the workday to 6 hours for minors under 14 and 18 years of age and 8 hours for adults. Premium pay is mandated for longer hours. The average workweek is 44 hours. The Constitution and the labor code require employers, including the government, to take steps to ensure that employees are not placed at risk in their work places. The Ministry of Labor attempts to enforce the applicable regulations, but has limited power to force compliance. Increases in applicable fines and overall improvement of labor ministry enforcement powers are among the issues to be determined in designing a new labor code and related legislation.

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 an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		26
Total Manufacturing		22
Food & Kindred Products	0	
Chemicals and Allied Products	(D)	
Metals, Primary & Fabricated	(D)	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	6	
Wholesale Trade		-7
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		41

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

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, November 1992

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Key Economic Indicators

(Millions of Quetzales unless otherwise noted)

Production and Employment	1990	1991	1992 (est.)
Real GDP (1985 prices)*	12,904	13,330	13,890
Real GDP growth (pct.)	3.1	3.3	4.2
GDP at current prices	34.317	47.034	53.668
by sector:			
Agriculture	3,342	3,439	3,570
Utilities (Energy/Water N.A)	323	333	333
Manufacturing	1,949	1,986	2,056
Construction	258	267	293
Housing (Rents N/A)	645	667	695
Mining	26	27	28
Transportation	1,032	1.080	1,153
Commerce	3,110	3,199	3.347
Finance	529	573	596
Publ. Adm. and Defense	903	946	972
Other Services	787	813	847
Real Per Capita GDP ('85 prs)*	1,403	1,408	1,425
Labor Force (thousands)	2,797	2,872	2,923
Unemployment Rate (percent)**	6.4	6.6	6.2
Money and Prices			
(Annual Percentage Growth)			
Money Supply (M2)	7,294	10,846	12,711
(annual change %)	20.0	48.7	12.7
Base Interest Rate:***			
Commercial-banks (savings)	19.0	16.0	18.0
Commercial banks (loans)	28.0	23.0	23.0
Retail Inflation	60.6	10.2	10.0
Consumer Price Index	346	461	507
Exchange Rate (Quet/USD)			
Official	4.52	5.07	5 24
Parallel	4.63	5.06	5.25
Balance of Payments And Trade (mils of $)			
Total Exports FOB	1,212	1,230	1,328
Exports to U.S.(merchandise)	450	445	497
Total Imports CIF	1,428	1,673	1,808
Imports from U.S.(merchandise)	652	764	944
Aid from U.S.	123	111	70
Aid from Other Countries	62.7	N/A	N/A
External Public Debt	2,602	2,561	2,503
Debt Service Payments (paid)	499	532	N/A
Gold and Foreign Exchange Reserves	371	790	755
Trade Balance	(216)	(443)	(480)
Balance/merchandise with U.S.	(202)	(319)	(447)

Data are from Guatemalan Government sources.

*Real GDP (1985) as calculated by the U.S. Embassy since Central Bank data is based on 1958. Real GDP is presented according to the Central Bank break down of the productive sectors.

** Unemployment figures provided by the Guatemalan government do not reflect serious underemployment, estimated as high as 50 percent.

***Interest rates are indicative (maximum average levels) because the rates for savings and loans have been freed since August 15, 1989.

1. General Policy Framework

The Guatemalan economy is dominated by a strong private sector, with the government sector accounting for only about 10 percent of GDP. Agriculture accounts for a quarter of all output, two thirds of all exports, and over half of all employment. Half of all exports come from just six traditional agricultural products: coffee, sugar, bananas, cardamon, meat, and cotton. Because of low world prices, export receipts from these traditional exports have fallen markedly over the last two years. The other main activities are commerce and manufacturing, contributing 24 percent and 15 percent of total GDP, respectively. Finance has been the fastest growing sector, averaging more than 7 percent annual growth over the last three years. Nontraditional exports produced about a third of export receipts in 1991, up from 17 percent five years earlier. Tourism receipts have more than doubled in the same period.

The Administration of Jorge Serrano Elias has acted decisively to restore economic growth and stability since assuming power in January 1991. Real GDP grew 3.3 percent last year, approximately 4.2 percent this year, and is expected to grow about five percent in 1993. Inflation has been reduced to about 10 percent annually, after a peak of 60 percent in 1990. The quetzal, which was falling rapidly at the end of the previous administration, was stabilized at approximately five to the dollar. A major tax reform was adopted in 1992 which included a broadening of the value added tax base, and a rationalization of the income tax. Import tariffs have been lowered and the band of applicable rates narrowed to 5 to 20 percent.

For the first time in over 30 years, the central government budget was in balance in 1991. Similarly, the consolidated public sector deficit has been cut dramatically, falling from almost 5 percent of GDP in 1990 to .05 percent in 1992. Past deficits resulted primarily from parastatal and Bank of Guatemala (BOG) operating losses. However, the government is phasing out subsidies to the 38 parastatals by 1995. The government is also hoping to minimize BOG operating losses, due to debt servicing and open market operations, by bringing down domestic interest rates over the medium term. With decreasing subsidization of the parastatals and an effective stabilization plan in place, the government plans to shift significant resources to social and investment spending, as shown by the Administration's 1993 budget proposal.

Beginning in 1991, the Serrano economic team implemented a policy of zero net credit to the central government, which halted the prior tendency to monetarize the deficit. For the last two years, the deficit has been financed primarily by various bonds issued by the Finance Ministry. With the recent conclusion of an IMF stand-by agreement, the small deficit is slated to be covered by external financing.

Monetary policy has been similarly conservative since early 1991. Relying exclusively on its own CDs and bonds, the BOG has kept a fairly tight rein on monetary growth. As a result, inflation was lowered dramatically, from over 60 percent in 1990, to less than 10 percent in 1991. Although monetary growth jumped rather suddenly in the middle of 1992, the BOG has recently initiated a number of monetary measures, including a 3 percent increase in reserve requirements, designed to keep inflation around 10 percent this year by soaking up roughly one sixth of the total money supply.

2. Exchange Rate Policy

Since late 1990, the Bank of Guatemala has operated an official auction system for foreign exchange. Under this system, foreign exchange may be purchased for any use, subject to availability. Under Guatemalan law, all foreign currency receipts must be sold to the Bank of Guatemala. The BOG in turn makes a set amount of U.S. dollars available to both foreign and domestic bidders in the official auction. Bids can be 5 centavos higher or lower than a reference exchange rate. The reference rate is adjusted every 15 days by the Bank of Guatemala at the the weighted average of the last three weekly auctions. Each bidder can buy a maximum of $250,000 per day in the auction.

Under this system, the quetzal can depreciate only 5 centavos every three weeks. With inflation in Guatemala relatively low, but still exceeding that of its major trading partner, the United States, the quetzal has appreciated in real terms over the last several years to the benefit of U.S. exporters.

3. Structural Policies

The Guatemalan economy is generally open to foreign goods; there are few restrictions on imports. Wheat, wheat flour, and petroleum products are virtually the only products on which Guatemala maintains price controls. In addition, the government publishes (but does not enforce) "suggested prices" for some food stuffs. In other cases in which prices are subsidized, such as electricity, the government has taken steps to minimize those distortions. Direct government control of production is small and decreasing, with rapidly growing private participation in such key areas as electricity generation. Even in those sectors controlled by the Government, such as telecommunications, foreign companies are generally allowed to compete for contracts on an equal basis with domestic producers.

As part of fiscal reform, the government has simplified most taxes on businesses operating in Guatemala. These reforms

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include a lowering of tariffs and narrowing of the tariff band. In addition to reducing price distortions, the tariff reform should remove some of the uncertainty exporters and importers previously faced at the border. Similarly, the expanded value added tax and income tax are simpler than previous versions, with fewer exceptions and fewer brackets respectively. Tax holidays on real estate, import and income taxes are routinely granted foreign investors in the few free trade zones and for maquiladora (drawback) operations.

Guatemala has also taken steps to streamline the regulatory process. For instance, all government processing of exports has been centralized in a "one stop shop." Virtually all export restrictions have been eliminated. The government is also establishing a "one stop shop" for investors. Nonetheless, the bureaucracy often presents a difficult hurdle for both domestic and foreign companies, subjecting them to requirements that are both ambiguous and inconsistently applied. It is not unusual for regulations to contain few explicit criteria for the government decision maker, thus generating significant uncertainty. There is no consistent pattern of judicial review of administrative regulation.

4. Debt Management Policies

Guatemalan debt continues to be relatively low and has not posed a constraint on imports from the U.S. Declining slightly from a total of $2.6 billion at the end of 1990 to $2.4 billion by the end of 1991, external public debt is currently around 20 percent of GDP. Two-thirds of this debt is incurred, or guaranteed, by the central government and the remainder is owed by the Bank of Guatemala. Approximately 45 percent of the external debt is with multilateral organizations, primarily the Interamerican Development Bank and the World Bank. Roughly one tenth of the total external debt is owed to the U.S. Agency for International Development, with another 7.5 percent of the debt attributable to the U.S. PL-480 program, for a total of approximately $400 million.

The government has been steadily clearing the arrears with international financial institutions that it inherited from the previous administration. The last remaining 66 million dollars in World Bank arrears should be cleared by the end of 1992, in conjunction with the signing of a stand-by agreement with the International Monetary Fund. Guatemala is then expected to sign a $120 million Economic Modernization and Social Development Loan with the World Bank, and in 1993, an Investment Sector Loan with the Interamerican Development Bank. Because the Government of Guatemala has been clearing these arrears, total debt service has been slightly greater than 40 percent of exports for the last two years.

The government of Guatemala has recently rescheduled its debts with Mexico and Venezuela. Spain has offered to forgive half of the $380 million debt and reschedule the remainder.

Negotiations are also underway in regard to Guatemala's $70 million bilateral debt with Canada. The Guatemalans may seek a Paris Club debt rescheduling in 1993.

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5. Significant Barriers to U.S. Exports

Guatemala has made significant progress in reducing or eliminating most barriers to U.S. exports and investment; nevertheless, some areas still need attention. As of January 1993, Guatemala subjects imports to the common external tariff of the Central American Common Market, which varies from 5 to 20 percent on the CIF value of essentially all manufactured goods. The previous 3 percent tariff surcharge has been eliminated, leaving only the 7 percent value added tax in addition to the basic tariff rates.

The government limits the importation of some agricultural products through import tariffs ranging from 5 to 42 percent and nontariff barriers in the form of import licensing requirements for grains, oilseed products and other bulk items. In late 1992 Guatemala imposed a tariff rate quota on poultry imports, with the first 300 tons per month subject to a 20 percent tariff and everything above 300 tons subject to a 42 percent rate. These tariff rates are calculated on an arbitrarily set value of 61 cents per pound, rather than the actual contract price which can be significantly lower. On August 1, 1992 the government implemented a price band mechanism (variable levy) for yellow corn, milled and rough brown rice, and sorghum. The effect has been to raise import tariffs from five percent to 15-20 percent.

There are few legal or regulatory barriers to either foreign or domestic investment in Guatemala. Foreign investors are granted national treatment by law and can own up to 100 percent of local businesses, with the exception of communications firms which must have majority domestic ownership. Informal approval procedures do restrict market entry in service industries such as banking, auditing and insurance. Foreign insurance companies cannot operate directly; they must set up Guatemalan subsidiary corporations. Non-national auditing companies must associate with local accounting firms.

Government procurement is subject to competitive bid for all items over $170,000. Although the rules appear clear, U.S. suppliers have complained of abuses arising from inappropriate use of an exemption from competitive bidding requirements for "emergencies" and from the practice of disqualifying the low bidder if more than 30 percent below the next lowest bid.

Burdensome customs procedures and administrative delay have led to complaints by U.S. importers who believe that some delays are perpetuated by local customs officials seeking payoffs in return for service.

6. Export Subsidies Policies

With the possible exception of a proposed $15 per hundred weight subsidy on the export of coffee which may take effect in late 1992, Guatemala does not subsidize exports. Significant tax exemptions are granted to both foreign and domestic enterprises producing for export, thus indirectly subsidizing these products.

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7. Protection of U.S. Intellectual Property

Although Guatemalan law generally provides an adequate system for the acquisition and transfer of both real property and tangible personal property by non-nationals, and recent progress has been made in the protection afforded cable television transmissions, the level of protection provided intellectual property is inadequate. Both the legal basis of protection and the compliance enforcement mechanism are in need of expansion and modernization. In April 1992, USTR placed Guatemala on the Special 301 "Watch List."

PATENTS: Guatemala currently provides inadequate protection due to a patent law which is too narrow in scope, precluding protection for computer programs, mathematical methods, living organisms, commercial plans, surgical, therapeutic or diagnostic methods and chemical compounds or compositions. Protection is also circumscribed by short patent terms (15 years except for patented processes for the production of food, beverages, medicines and agro-chemical products which last only 10 years), broad compulsory licensing provisions and burdensome local exploitation requirements.

TRADEMARKS: In September, Guatemala took a major step forward by announcing its intention to adhere to the Paris Agreement on Commercial Trademarks; nevertheless, Guatemalan law at present provides inadequate protection due to generally ineffective enforcement provisions against counterfeiters and a lack of adequate measures to protect internationally famous marks.

COPYRIGHTS: In June, Guatemala enacted a long awaited law prohibiting the pirated use of satellite television transmissions for commercial use. Enforcement provisions are effective in December, 1992.

Despite Guatemala's adherence to the Rome and Geneva Conventions which require the protection of sound recordings, Guatemalan law currently provides no such protection. Guatemala makes no specific provision for the protection of trade secrets or semiconductor chip design. A U.S. industry group has estimated that trade losses due to copyright infringement in Guatemala are over $12.5 million annually. U.S. losses in the cable television sector should decrease markedly due to the September 1992 signing of contracts between the major Guatemalan cable operators and the Motion Picture Export Association of America for the rights to transmit U.S. programming.

8. Worker Rights

a. Right of Association

Guatemala is one of several countries whose labor practices are under review by the United States Government, based on petitions filed in the General System of Preferences review, alleging that internationally recognized worker rights are not protected. Approximately five percent of the Guatemalan work force is unionized.

Workers face complicated and complex bureaucratic procedures in obtaining legal authorization to form a union. The Ministry of Labor attempted to simplify these procedures in 1991, but a legal opinion indicated this could only be accomplished by changing the Labor Code. Union leaders charge that management often encourages competing unions to form when negotiating contracts, and that solidarity associations, which function with management encouragement, make "no strike" agreements.

b. Right to Organize and Bargain Collectively

The Labor Code allows collective bargaining, but emphasizes the protection of individual worker rights. Although anti-union practices are forbidden, enforcement requires court action, and current penalties are inadequate to provide deterrence. The labor court system is badly overloaded. In recognition of this problem, the Government established 7 new labor courts in 1992. Perhaps the greatest obstacle to union organizing and collective bargaining is not the law, but the inability of the legal system to enforce the law. Labor demands for economic benefits and improved working conditions are sometimes met with threats and violence.

c. Prohibition of Forced or Compulsory Labor

The Guatemalan Constitution prohibits forced labor and specifically states that service in civil defense patrols is voluntary. Human rights groups continue to claim, with some justification in conflictive areas, that coercion is used to recruit for these patrols. In connection with on-going peace talks with the guerillas, the Government of Guatemala unilaterally declared, that it would cease the formation of new patrols in those areas where guerrilla actions do not justify their creation. The future of the civil patrols will ultimately be decided in the on-going peace negotiations.

d. Minimum Age for the Employment of Children

The Constitution provides a minimum age of 14 for the employment of children.

Government statistics indicate that 50,000 children under this age are employed in the formal sector, with only 5,000 of them having legal permission to work. An unknown number are employed in the informal sector as street vendors, beggars and menial laborers. Enforcement of labor regulations related to the employment of minors is generally weak and ineffective.

e. Acceptable Working Conditions

The Constitution provides for a 44-hour work week. While occupational safety and health regulations exist, they are generally weak and not effectively enforced. Social security health officers must report violations to overworked labor inspectors, who lack the training and resources necessary to investigate. The minimum wage applies to most workers, but surveys carried out by the Ministry of Labor show that many workers do not receive the legal minimum wage to which they are entitled.

f. Rights in Sectors with U.S. Investment

Guatemala does not register foreign investment and so accurate records of U.S. investment in any specific sector are not available. Union leaders state that international corporations in Guatemala have, in general, been respectful of worker rights. The notable exception has been some Asian-owned firms in the textile sector. U.S. companies operating in Guatemala are more likely to have unions than their Guatemalan competitors and are also credited with providing better wages and working conditions.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		28
Total Manufacturing		136
Food & Kindred Products	36	
Chemicals and Allied Products	(D)	
Metals, Primary & Fabricated	(D)	
Machinery, except Electrical	0	
Electric & Electronic Equipment	-1	
Transportation Equipment	0	
Other Manufacturing	38	
Wholesale Trade		*
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		164

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

* - Less than $500,000

Source: U.S. Department of Commerce, (unpublished)
Bureau of Economic Anaysis, November 1992

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Key Economic Indicators

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

	1990	1991	1992 1/
Income, Production and Employment			
GDP in Local Currency (million gourdes)	13,811	16,112	N/A
Real GDP Growth in Local Currency (Percent)	-3	-4	N/A
GDP (at Current Prices)	1,864	2,103	N/A
By Sector (Percent):			
Agriculture	27.62	28.42	N/A
Energy and Water	1.09	.97	N/A
Manufacturing	15.73	13.09	N/A
Construction	6.04	6.24	N/A
Commerce	17.25	16.14	N/A
Rents	5.89	6.03	N/A
Financial Services	0.15	0.15	N/A
Other Services	14.62	16.53	N/A
Social Services	3.77	3.80	N/A
Net Exports of Goods and Services	-8.27	-9.60	N/A
Nominal Per Capita GDP (U.S. Dollars)	288	319	N/A
Unemployment Rate (Percent)	40-50	40-50	N/A
Money and Prices (Annual Percentage Growth)			
Money Supply (M2)	10.1	4.2	N/A
Base Interest Rate 2/	15-22	16-22	12-18
Consumer Price Index	16.33	20.6	20.1 3/
Exchange Rate (Gourde/USD)			
Official	5	5	--
Parallel	7.41	7.66	9.09
Balance of Payments and Trade			
IMF DATA			
Total Exports FOB	165.1	145.6	N/A
Total Imports FOB	275.8	251.6	N/A
USDOC DATA			
Exports to U.S.	342.6	284.6	92.2
Imports from U.S.	477.6	392.1	147.8
Aid from U.S. (disbursed)	61.8	78.9	59.1
Aid from Other Countries	62.5	N/A	N/A
External Public Debt (year end)	865.6	847.7	N/A
Debt Service Payments (Paid)	51.8	51.2	0
International Reserves (net)	-61.1	-41.9	N/A
Trade Balance 4/	-110.7	-106	N/A
Balance with U.S.	-135	-107.5	-55.6

1/ 1992 figures are all estimates based on avail-

able monthly data in October 1992.
2/ Figures are ranges of actual interest rates, not changes in them.
3/ September 1991 to September 1992
4/ Merchandise trade.

1. General Policy Framework

Haiti's economy is predominantly agricultural-based, open, and market-oriented. Its performance is strongly influenced by the United States, its major market, and the country is dependent on concessional foreign assistance.

Following the military ouster of President Aristide on September 30, 1991 the United States suspended aid. In conformity with OAS resolutions calling for economic sanctions, the United States froze Haitian Government assets in the United States and imposed a trade embargo on the country, effective November 5, 1991. These sanctions are still in effect. Donations of humanitarian aid as well as certain food items (sugar, rice, beans, cooking oil, wheat and corn flour, milk, and edible lard) are exempt from the trade embargo. Other items, including articles for assembly and others of a humanitarian nature, can also be exported from the U.S. under license.

Fiscal Policy: For the past decade, Haiti has run a public sector deficit, financed through a combination of central bank credit, money creation, and international aid. The biggest causes of the deficit have been insufficient domestic fiscal resources and excessive current expenditures, particularly salaries. As of May 25, 1992 (last date available), the public sector deficit was estimated to be 577.5 million gourdes, or 3.6 percent of Gross Domestic Product (GDP). For the entire previous fiscal year (90/91), the deficit totaled 430.5 million gourdes (2.7 percent of GDP) after external grants of 495 million gourdes. The large public sector deficit for fiscal year 91/92 is the result of: (1) a decline in revenues, both tax and customs, due to a drop in economic activity and general tax avoidance; (2) an increase in outlays for wages and salaries, reflecting an increase in the number of government employees; and (3) a sharp increase in financing of public enterprises.

Monetary Policy: There is no financial market in Haiti. Monetary policy has been conducted mainly through the regulation of reserve requirements. The bulk of the 577.5-million-gourde public sector deficit noted above has been financed by the Central Bank. This expansion of public sector credit led to an accumulation of liquidity within the commercial banking system, which, beginning in April, was used to accommodate a sudden increase in private credit demand to purchase dollars. The gourde consequently dropped sharply by 22 percent, from 8.87 gourdes/$1 at the end of March to 11.36 gourdes/$1 on June 15. To absorb the demand for dollars and halt the decline in the gourde, the Central Bank hiked required reserve ratios on June 15. Excess liquidity dropped immediately, and the gourde recovered somewhat. In early September, following the raising of the legal limit on monetary emission by Parliament, the exchange rate dropped again. As of December 1, it stood at 11.35 gourdes/$1.

2. Exchange Rate Policy

Haiti's currency, the gourde, has long been officially tied to the U.S. dollar at a rate of five gourdes to one dollar. Since the early 1980s, a parallel market in foreign exchange has existed. Until April 1991, the official exchange rate applied to receipts of the public enterprises, disbursements of official external loans and most grants, 20 percent of all inward private transfers, and 40 percent of export proceeds. On the payment side, the official rate applied mainly to public debt service payments and petroleum imports. Beginning in April 1991, the Government of Haiti removed the 20 percent surrender requirement on remittances and transferred some public capital transactions to the free market. On September 16, 1991 the Central Bank ceased all operations at the official rate, thereby unifying the exchange system at the free floating market rate. Since the September coup, all official transactions have been made at the market rate.

3. Structural Policies

Haiti is essentially a market-oriented economy. Although a residue of traditional economic "dirigisme" (interventionism) remains, particularly in the powers still reserved to the state, the market follows its own laws. In the few areas where the government controls prices or supplies, its efforts are frequently undercut by contraband or overwhelmed by the sheer number of minor retailers. Even when ex-factory prices on goods produced by state-owned enterprises, such as flour and cement, are set by the Government of Haiti, what the consumer pays is governed by levels of supply and demand. Gasoline pump prices and utility prices, which are more efficiently regulated, are probably the only exceptions to the rule.

The tax system is inefficient. Direct taxes represent only about 15 percent of receipts. Moreover, tax evasion is widespread. Foreign trade receipts have fallen as a percentage of total receipts due to the abolition of certain export taxes and the embargo. A value-added tax of 10 percent is applied across the board.

4. Debt Management Policies

Since the coup, Haiti has not serviced its external debt, and arrears are estimated at over 16.5 million dollars as of July 1992.

As of the end of fiscal year 1991, total external debt stood at a relatively modest $848 million, or 14 percent of exports. The bulk is on concessional terms. On the eve of the September 1991 coup, the United States forgave an estimated $124 million in official bilateral debt,

HAITI

5. Significant Barriers to U.S. Exports

The Haiti transactions regulations implementing the President's Executive Orders Nos. 12775 and 12779 effectively ban the export of most U.S. goods, technology, and services to Haiti. On the Haitian side, only seven products require import licenses; rice, corn, millet, beans, sugar, fifth quarters of pork, and poultry parts. However, these products readily come in as contraband.

6. Export Subsidies Policies

The only practice resembling an indirect export subsidy is the duty exemption available to semifinished products which are processed locally and reexported. Haiti is not a member of the GATT subsidies code.

7. Protection of U.S. Intellectual Property

Intellectual property is not a significant issue in Haitian trade or commercial circles. Again, the economy produces a relatively small variety of products. Much of what it does produce in the manufacturing sector is for export to countries like the United States, which would not tolerate open patent infringements. The bulk of manufactured goods sold in the local market is imported. There is also a modest amount of video piracy taking place. Because legal protections for patent or copyright holders are virtually nonexistent, the potential for more extensive abuse of intellectual property rights exists, especially if economic activity in Haiti were to pick up. For the moment, however, the problem is insignificant.

8. Worker Rights

a. Right of Association:

The constitution and the labor code guarantee the right of association. Workers, including those in the public sector, are specifically granted the right to form and join unions without prior government authorization. A union, which must have a minimum of ten members, is required to register with the Ministry of Social Affairs within 60 days of its establishment. Tripartite negotiations (labor, management, and government), begun in 1986 to revise the labor code, concluded in May. The revised code (which has yet to be approved by the legislature) recognizes the right to strike, but restricts the duration of certain types of strikes, as did the previous code. Under the new code, the Ministry of Social Affairs must recognize workers' right to strike in each case before the strike is legal.

b. Right to Organize and Bargain Collectively:

Trade union organizing activities are protected by the labor code, and those who interfere with this right may be fined. Employers, however, still routinely attempt to prevent workers from organizing labor unions, and government enforcement remains mostly ineffective. Collective bargaining has never been widespread in Haiti and was nonexistent in 1992.

c. Prohibition of Forced or Compulsory Labor:

The labor code prohibits forced or compulsory labor, but enforcement of these provisions is practically nonexistent. Forced domestic labor by an estimated 109,000 children in Haiti, called "Restavek" in Haitian Creole, continued unabated during 1992. These children serve as unpaid domestic labor, work long hours, receive poor nourishment, little or no education, and are frequently beaten and sexually abused. Local human rights groups do not regard the plight of these children as a priority. The Justice and Social Affairs Ministries of the two 1992 post-coup governments were equally silent on the issue.

d. Minimum Age for Employment of Children:

The minimum age for factory employment is 15 years. Fierce adult competition for jobs ensures that child labor is not a factor in the industrial sector. Children under 15 also work at odd jobs in both rural and urban settings in Haiti to supplement family income. Enforcement of the law, which is the responsibility of the Ministry of Social Affairs, has been criticized by the International Labor Organization as inadequate.

e. Acceptable Conditions of Work:

A few weeks before the coup, Parliament passed a new minimum wage of 26 gourdes a day for workers in the industrial sector. Although technically it became law before the coup, the legislation has never been published in the equivalent of the Federal Register. Many companies in the assembly sector have adopted the new wage. Moreover, the majority of Haitians who work in the agricultural sector must survive on considerably less than the minimum wage. The labor code sets the normal work day at eight hours and the work week at 48 hours and establishes minimum health and safety standards. The government has not systematically enforced these provisions. These regulations are somewhat better observed in the industrial sector, which is concentrated in the Port-au-Prince area and is more accessible to outside scrutiny. The minimum wage law applies to the agricultural sector, but is not enforced.

f. Rights in Sectors with U.S. Investment:

Though workers in industries owned by Americans tend to be better paid and enjoy better working conditions, there is no formal difference in worker rights between those sectors where U.S. capital is invested and those where it is not. While Haiti has no export processing zones as such, prior to the economic embargo it did have a sizable export-oriented assembly sector. The Haitian Labor Code does not distinguish between industries producing for the domestic market and those producing for export.

HAITI

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		4
Total Manufacturing		(D)
Food & Kindred Products	0	
Chemicals and 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, November 1992

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Key Economic Indicators

(millions of Lempiras, unless otherwise stated)

-	1990	1991	1992E
INCOME, PRODUCTION, AND EMPLOYMENT			
Real GDP (1978 prices)	5,165.0	5,281.0	5,466.0
Real GDP Growth (Pct)	0.1	2.2	3.5
GDP by sector:			
- Agriculture	1,285.0	1,329.0	1,406.0
- Transport/Communications	703.0	770.0	797.0
- Manufacturing	709.0	709.0	734.0
- Commerce	503.0	518.0	536.0
- Utilities	353.0	476.0	493.0
- Banking and Insurance	335.0	355.0	367.0
- Housing	313.0	325.0	336.0
- Construction	218.0	225.0	233.0
- Other	746.0	799.0	564.0
Real Per Cap. GDP 3/	600.3	636.9	675.1
Labor Force (thousands)	1,384.1	1,429.7	1,476.9
Unemployment rate (Pct)	13.8	13.8	13.8
MONEY AND PRICES			
Money Supply (M1)	1,831.1	2,139.3	2,417.5
Bank Interest rates	28.0	26.0	22.0
Savings rate/GDP	4.4	11.5	14.0
Investment rate/GDP	14.0	15.0	n.a.
Consumer Price Index 1/	36.4	21.4	11.0
Wholesale Price Index 1/	29.6	34.6	24.3
Exchange Rates (Lempiras/Dollar):			
- Official 2/	4.44	5.32	5.40
- Parallel 2/	5.10	5.63	5.97
BALANCE OF PAYMENTS AND TRADE 3/			
Total Exports (FOB)	812.4	779.9	768.2
Exports to U.S.	428.9	419.6	413.3
Total Imports (CIF)	880.4	879.8	889.1
Imports from U.S.	348.1	356.6	359.6
Aid from U.S.	183.8	122.9	89.7
Aid from other countries	450.1	375.6	n.a.
Foreign Public Debt 4/	2,786.9	2,445.6	3,157.0
Annual Debt Service:			
- Capital	99.6	69.0	68.0
- Interest	74.5	77.9	77.0
- Total	174.1	146.9	145.0
Gold and FX Reserves	43.2	109.9	206.0
Balance of Payments 5/	56.2	90.5	n.a.

n.a.- Not Available.
(E) Estimated figures.
1/ Percent change.
2/ 1990 and 1991 exchange rates represent averages for the Government-determined Customs Valuation Rate.
3/ Millions of U.S. Dollars.
4/ IMF Debt and Short Term Debt not included.
5/ Change in Net International Reserves.

HONDURAS

Sources: Central Bank of Honduras (CBH), Ministry of Public Finance, United Nations Economic Commission for Latin America (ECLA), Agency for International Development (AID), and International Monetary Fund (IMF).

1. General Policy Framework

Honduras has abundant natural resources and receives substantial U.S. economic assistance, but regional conflict during the 1980s contributed to making it one of the poorest countries in the Western Hemisphere. During the 1980's, the economy also suffered from unfavorable terms of trade, and the inappropriate economic policies adopted by successive governments.

Economic adjustment policies instituted by the new governemnt since 1990 have substantially improved economic conditions. The Honduran Government has eliminated price controls on nearly all consumer goods, established a market oriented foreign exchange regime, reduced or eliminated state marketing mechanisms, dramatically reduced import tariff duties, liberalized interest rates and foreign exchange controls, and cut the fiscal deficit by implementing revenue-raising and expenditure-reduction measures.

These far-reaching reforms have begun to lay a solid foundation for long term economic growth. However, in 1991, such policies, together with lower coffee export prices, required painful sacrifices as urban disposable income declined and unemployment increased in some sectors. Following only modest real GDP growth in 1991, the economy is projected to expand to 3.5 percent in 1992. The inflation rate, after a 1990 surge (at 36.4 percent), has dropped substantially, and is not expected to exceed 11 percent in 1992.

The Honduran economy is making the transition from a highly protectionist, import-substitution economy to an open, export-oriented one. Agriculture, the most important sector in the Honduran economy, accounting for approximately one-quarter of GDP, grew 3.4 percent in real terms in 1991 and is expected to grow 5.8 percent in 1992.

Collapsing world coffee prices led to a drop in coffee export revenues of $35 million in 1991 and little improvement is expected in 1992. The manufacturing sector remained stagnant in 1991, while services fell 10.6 percent and public administration/defense dropped 3.8 percent. Buoyed by price and exchange rate liberalization, the manufacturing sector is expected to lead the economic recovery in 1992.

During 1991, the Honduran economic stabilization progeam earned substantial support from the International Monetary Fund (IMF), the World Bank (IBRD), and the Inter-American Development Bank (IDB). The U.S. also provided $124.7 million in direct assistance to Honduras during CY 1992. Of this total, $102.7 million represented economic assistance, and $22 million consisted of military aid.

HONDURAS

Significant efforts were made during 1990-91 to improve Honduran public finances. The result was a reduction in the government's 1991 fiscal deficit. Tax administration was improved, utility tariffs were adjusted to slash costly subsidies, and expenditures in goods and services were cut. Unlike the previous year, in 1991 the Government avoided the traditional end-of-year spending surge that increases money supply and fuels inflation. Central government current revenues rose by 41 percent, well above the current expenditure increases. As a result, the overall public sector deficit fell from 6.3 percent of GDP in 1990, to about 4 percent in 1991. Fiscal reduction trends continue, and the Government is projecting a fiscal deficit target of 2.5 to 3 percent of nominal GDP for 1992. The oversized bureaucracy remains a significant drain on public resources.

The Government implemented a mix of tight monetary policies and financial sector reforms during 1991 aimed at controlling inflation, stabilizing the currency, and building up net international reserves. High rediscount rates and strict rediscount line management decreased Central Bank exposure with the commercial banking sector. Central Bank credit to the public sector also fell by 50 percent during 1991.

Commercial bank interest rates were liberalized for all loan categories except basic grains production and low-cost housing, which continue at subsidized levels.

2. Exchange Rate Policy

In March 1990, the Central Bank devalued the Lempira for the first time in over seventy years. Several subsequent devaluations and an elimination of foreign exchange controls brought the Lempira to a rate of 5.8 Lempiras to the dollar in November 1992. A self-financing mechanism for exporters was introduced, reducing incentives to hoard dollars outside the banking system. Dollar-denominated bank accounts were legalized and, in May 1991, the Central Bank eliminated restrictions on the use of currency purchased in the black market for financing imports.

The Government-set "Interbank Rate of Exchange" for the Lempira remained stable from the last quarter of 1991 through the first half of 1992. In February 1992, the Central Bank authorized foreign exchange house operations, with the goal of eventually unifying the "Interbank Rate" and the parallel rate. In June 1992, commercial banks were permitted to trade freely in foreign currencies and the Lempira was floated. The combination of stable monetary and fiscal policies, high nominal interest rates on domestic savings, and free market foreign exchange policies has begun to reverse a decade-long trend of capital flight.

3. Structural Policies

Pricing Policies: By the end of 1992, the number of price-controlled consumer and industrial goods had fallen to

10 items from a total of 63 in 1986. Additional liberalization measures are under discussion. The absence of a large industrial sector has promoted competitive bidding as the standard for most international procurement. Furthermore, a gradual reduction in the number of state-owned companies has reduced the opportunities for restrictive industrial sourcing. the privatization process was stalled during much of 1991, but the pace has picked up in 1992.

During 1992, the government sustained an ambitious structural adjustment reform program in agriculture, trade, and public sector pricing policies to strengthen the foundations for long term economic stabilization and growth. In the agricultural sector, price liberalization of nine previously controlled food products was completed and the import of basic grains was shifted to the new interbank exchange rate. In addition, the government ended the state marketing board's monopoly on import and commercialization of basic grains and eliminated export and import controls on agricultural products. A price-band system on imported basic grains was implemented to replace the guarantee of farmgate prices.

Revenue Policies: In March 1990, the Honduran Government introduced sweeping changes in the level and administration of taxes. During 1991 and 1992, the Government has continued its staged reduction in import tariffs. From a 4-35 percent range in January 1991, import tariffs were compressed to a 5-20 percent band, effective as of January of 1992. By January 1993, further administrative simplifications of tariff administration and reduction or removal of tariff surcharges are planned.

Regulatory Policies: Progress on privatization during 1991 was slower than expected due to political controversy and bureaucratic delays on the part of some of the implementing agencies. Only three enterprises were sold in 1991, with a total worth of only 6.9 million Lempiras ($1.2 million.) However, giving new impetus to this initiative in 1992, eleven enterprises/assets totalling 460.6 million Lempiras ($78.5 million) were privatized . To date the Government has privatized 29 enterprises and earned 530.9 million Lempiras ($90.5 million) in revenues. Among the privatized companies are TAN Airlines (40 percent ownership), three hotels, two steel companies, two dairy plants, two cement factories, two printing shops and others. In addition, the Ministry of Communications, Public Works and Transportation (SECOPT) began shifting road maintenance to the private sector. The Government plans to complete the sale of most state-owned businesses (excluding public utilities) by the end of 1993.

4. Debt Management Policies

Government debt policy has focused on reducing foreign debt and reopening vital credit lines from the international financial institutions (IFI's). In mid 1990 the Government eliminated very large arrears to the IFIs. The Honduran Government has reduced its official indebtedness and virtually eliminated external debt arrears. The U.S. Government forgave $434 million in bilateral debt in September 1991. The Dutch and Swiss Governments subsequently forgave $6.8 million and $10.7 million in official debt, respectively. The World Bank declared Honduras eligible for lending from its IDA affiliate on highly concessional terms. Finally, the Government continued to reduce its commercial debt. By the end of 1992, Honduras' total external public debt stood at $3.1 billion.

5. Significant Barriers to U.S. Exports

Honduras is a relatively open market for U.S. exports and investments and, over the past six months, the GOH has taken important steps toward improving the trade and investment climate. However, much work remains to be done. The most significant barriers to trade and investment are described below:

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.

Trademarks: The Honduran trademark law has a major deficiency in that there is no provision for "notorious marks". Those affected, however, may invoke the General Inter-American Convention for Trademark and Commercial Protection (Washington, 1929). Otherwise, a relatively well-known foreign trademark can be legally registered in Honduras by anyone wishing to do so, unless the application is administratively contested within 15 days. After that period, legal action is required to contest use of a registered trademark. Several local firms make a practice of registering foreign trademarks locally before the foreign companies enter the market. These foreign companies then must purchase their own trademarks back from the Honduran owner in order to use it in Honduras. In addition, trademarks registered legally in Honduras automatically expire if not used within 18 months.

Several restrictions exist on foreign investment in Honduras, despite a new foreign investment law. Majority ownership must be held by Honduran nationals in several types of industry. These include: (1) beneficiaries of the National Agrarian Reform Law; (2) commercial fishing or direct exploitation of forest resources; (3) local transportation; (4) representatives, agents and distributors for foreign broadcasting; and (5) insurance and financial services. 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 (4,942 acres), depending on location and factors such as the availability of irrigation. Honduran law also precludes foreigners from establishing businesses capitalized at under 150,000 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. The elimination of foreign exchange controls has facilitated the repatriation of profits.

HONDURAS

6. Export Subsidies Policies

With the exception of Free Trade Zones and industrial parks, almost all export subsidies have been eliminated. The Temporary Import Law, passed in 1984, allows exporters to bring 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 GOH 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. Honduras's status under the Generalized System of Preferences (GSP) was reviewd because local cable companies' pirating U.S. satellite signals. This review has forced the Government to move seriously to reform its IPR legislation. As part of the GSP review process, Honduras has committed itself to seek congressional ratification of comprehensive IPR legislation in 1993.

Patents: Honduran law regarding patents was enacted in 1919 and has not been sufficiently updated. Because no law yet 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-1970's, when Honduras adopted the international classification system for products and services.

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 profit from this loophole.

Copyrights: While no Honduran law specifically addresses copyright protection, the national congress ratified the Rome, Geneva and Berne Conventions on literary and artistic creation in 1989. A specific bill protecting audio recording rights that targets cassette pirates was passed by congress in late 1991. The status of satellite television programs, satellite signals, software programs and other new technology is now being addressed. There is significant pirating of satellite signals by local cable companies. While it is impossible to quantify precisely the impact on U.S. trade and investment opportunities, the lack of adequate protection for intellectual property rights clearly results in loss of export income.

HONDURAS

8. Worker Rights

a. Right of Association

Workers have the legal right to form and join labor unions. Although only about 20 percent of the work force is organized, trade unions exert considerable economic and political influence. Organized labor frequently participates in public rallies against government policies without interference. The right to strike, along with a wide range of other basic labor rights, is provided for in the Constitution and honored in practice. The civil service code stipulates that public workers do not have the right to strike.

A number of private firms have instituted "solidarity" associations. (Solidarity is a labor/management concept which provides an array of services through an association and a joint employer/worker capital fund.) Organized labor, including the American Federation of Labor and the Congress of Industrial Organizations and the International Confederation of Free Trade Unions (ICFTU), strongly opposes these as associations on the grounds that they do not permit strikes and have inadequate grievance procedures. The membership of such associations remained static during 1992.

b. Right to Organize and Bargain Collectively

The right to organize and bargain collectively is protected by law, but not always observed in practice. Retribution by employers for trade union activity is not uncommon, although prohibited in the labor code. There have been cases of companies threatening to close down if unionized. Some workers have been harassed and, in some cases, fired because of their efforts to form a trade union. Workers fired for union activity may apply to the Ministry of Labor 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, which was last adjusted in June 1992.

Free trade zones and industrial parks are governed by the same labor regulations as the rest of private industry. Working conditions are generally considered superior to those prevailing in the rest of the country. A special decree covering export processing zones provides that, in the event of a labor dispute which could interrupt or delay production of export deliveries, workers will be treated under the same labor code provisions as public sector workers, i.e., they may not strike. Nonetheless, strikes have occurred in export processing zones and have not been declared illegal by the Ministry of Labor.

Unions are active in the government-owned Puerto Cortes free trade zone, but factory owners have resisted efforts to organize the new privately-owned industrial parks. According to a recent survey, only one company operating within the privately-owned industrial parks is presently unionized. Blacklisting is prohibited by the Honduran labor code.

Nevertheless, there is credible evidence that informal blacklisting does occur in the privately-owned industrial parks. In addition, when unions are formed, a list of initial members must be submitted to the Ministry of Labor as part of the process of obtaining official recognition. Before official recognition is granted, however, the Ministry of Labor informs the company of the impending union organization. Unfortunately, some companies in the industrial parks have taken this information and dismissed union organizers before recognition is granted. There is no evidence, however, that the Government or military maintains union blacklists.

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. High unemployment and widespread poverty have resulted in many children supplementing family income by working in small family farms, as street vendors, in construction sites or in small workshops.

e. Acceptable Conditions of Work

In May 1992, organized labor and the private sector umbrella organization agreed on a 13.7 percent increase in the minimum wage, which became effective June 1. 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 not effective. After the third consecutive annual increase, the minimum wage varies by occupation and location, but ranges from USD 1.75 to 3.15 per day. The law prescribes an eight-hour workday and a 44-hour workweek. The labor code provides for a paid annual vacation of 10 workdays after one year and 20 workdays after 4 years. These regulations are frequently ignored in practice. The Ministry of Labor is responsible for enforcing national health and safety laws but, given a lack of resources, the laws are not well enforced.

Reliable reports indicate that as many as 50 deaths per year result from serious health and safety hazards facing Miskito indian scuba divers employed in lobster and conch harvesting off the Caribbean coast of Honduras. Some complaints have also arisen about the failure of foreign factory managers to comply with the labor code in factories located in free zones and industrial parks.

f. Rights in Sectors with U.S. Investment

Workers in each sector in which U.S. capital is invested enjoy all the rights listed above.

HONDURAS

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		4
Total Manufacturing		146
Food & Kindred Products	119	
Chemicals and Allied Products	1	
Metals, Primary & Fabricated	*	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	26	
Wholesale Trade		19
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		169

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

Source: U.S. Department of Commerce, (unpublished)
Bureau of Economic Anaysis, November 1992

JAMAICA

Key Economic Indicators

	1990	1991	1992proj
Income, Production and Employment			
Real GDP(Jdol Millions) (1986 Base Year)	16916.1	16954.4	17208.7
Real GDP Growth Rate	2.8	0.8	2.0
GDP By Major Sectors (at current prices)			
Agriculture, Forestry, and Fishing	1586.3	2412.2	N/A
Mining and Quarrying	2831.3	4816.6	N/A
Manufacturing,	5866.9	7704.2	N/A
Construction, and Installation	3586.8	5564.7	N/A
Distributive Trade	6201.4	8765.7	N/A
Transportation, Storage and Communication	2429.8	3649.6	N/A
Real Estate and Business Services	1794.6	2173.1	N/A
Government Services	2420.8	2878.6	N/A
Total	29822.7	42367.0	N/A
Real GDP Per Capita (Jdol 1986 Base)	7039.6	6988.6	N/A
Labor Force(000'S)/1	1058.5	1072.5	1082.1
Unemployment Rate (Avg)	15.3	15.4	15.6
Money and Prices (annual pct. growth)			
Money Supply (M2) (JdolMillions)	11296.8	17466.5	22281.7 (June'92Avg.
Commercial Interest Rate	31.0	36.03	58.5 (Aug'92)
Personal Savings rate	18.0	15-21	15-27
Retail inflation	29.8	80.2	52.2
Consumer Price Index (Dec-Dec)	166.1	299.3	455.5
Exchange Rate(J$/US$)	7.28	12.03	22.20
Balance of Payments and Trade (Millions of U.S. Dollars)			
Total Exports FOB	1157.5	1145.2	1080.3
Total Exports to U.S.	339.1	345.2	392.4
Total Imports Cif	1942.4	1799.5	1558.5
Total Imports from U.S.	948.8	911.0	762.6
AID from U.S. (FY90, FY91, FY92)	71.7	80.0	66.6
AID From Other Countries	119.7	N/A	N/A
External Public Debt (USdol Millions)	4152.0	3874.3	3850.0 (June'92
Debt Service Payments (Actual)(USdol Millions)	663.8	611.5	624.5
Net Official Reserves			

(USdol Millions) dec	-447.8	-373.3	N/A
Trade Balance(USdol millions)	-784.9	-654.3	-478.2
Trade Balance with U.S. (USdol millions)	-609.7	-565.8	-370.2

/1 January 1992

1. General Policy Framework

Tourism and the bauxite/alumina industry account for approximately three-quarters of Jamaica's foreign exchange earnings. As such, both GDP and foreign exchange inflows are extremely sensitive to external economic factors. Agriculture employs 27 percent of the workforce, and approximately one-half of Jamaica's workers are employed in the services sector, including a large number of street vendors, domestic employees, security guards, and retail sales workers. The relatively small size of the Jamaican economy, duties on capital inputs, and the concentration of wealth and income serves to encourage importation at the expense of local production. The manufacturing sector's relative contribution to GDP has declined from approximately one-half in the 1960s to 20 percent in 1991. However, the Government of Jamaica has been successful in promoting investment in export-oriented manufacturing enterprises in recent years. Combined, manufacturing and construction generate approximately 30 percent of GDP.

Significant economic events in 1991 included chronic inflation, substantial public sector deficit spending, and a 50 percent devaluation of the Jamaican currency. Economic growth declined from a rate of 2.8 percent in 1990 to 0.8 percent in 1991. Several policy initiatives, including liberalization of foreign exchange controls, replacement of certain excise taxes and duties with a General Consumption Tax (GCT - a value added tax), accelerated privatization of government-owned entities, and monetary and fiscal policy reform measures have been introduced to enhance competition and promote economic growth.

Fiscal year 1992-93 (April 1992 - March 1993) economic targets include the attainment of surplus of 0.1 percent of GDP in public sector operations (i.e., revenues, including taxes, duties, income from parastatals, and direct foreign assistance slightly exceed total government outlays). The price level target calls for a reduction in the rate of inflation to an annual rate of retail price increases of 15 percent during the final quarter (Jan-Mar 1993) of the fiscal year. The Jamaican fiscal year (JFY) 1993 budget calls for J Dollar 26.3 billion in outlays, of which approximately half is for debt service. Although the JFY 1993 government outlays represent an increase of 46 percent over JFY 1992, the estimated rate of inflation during the period was 52 percent, indicating a decline in real expenditures.

The central government deficit is estimated at J dollar 5.8 billion for JFY 1993. The deficit is to be funded mainly by foreign assistance and external borrowing.

Until August 1992, the Bank of Jamaica (BOJ) attempted to reduce spending demand by issuing short-term certificates of deposit (CDs) at interest rates which exceeded 50 percent. Interest payments on the maturing CDs only served to increase liquidity, necessitating additional CD offerings. Funds acquired by the BOJ through issuance of CDs were borrowed by the central government and used to finance current expenditures. In effect, the BOJ's open market operations were a means by which the Government of Jamaica funded its fiscal deficit.

Recent reforms in the monetary operations of the BOJ include the transfer of government ministries' commercial accounts to commercial banks, increasing financial institutions' reserve requirements, and the discontinuation of issuance of CDs. To absorb excess liquidity, the ceiling on treasury bills has been increased from J dollar 4.5 billion to J dollar 6.5 billion, and the Ministry of Finance has also issued medium-term, variable rate instruments.

2. Exchange Rate Policies

In August 1992 the Exchange Control Act was repealed, eliminating all controls on current and capital account flows. The principal remaining restriction is that foreign exchange transactions must be effected through an authorised dealer, and licenses are tightly regulated. 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 BOJ.

In June 1992 a foreign exchange stabilization fund was established by licensed foreign exchange dealers. Under this program, authorized foreign exchange dealers voluntarily sell to the BOJ 5 percent of their daily foreign exchange purchases. Dealers are then permitted to draw-down up to 50 percent of their total contributions to the fund. The balance of the fund will remain available to the BOJ in the event of a foreign exchange shortfall. As of October 1992, the fund's balance amounted to approximately $20 million and no foreign currency dealers had accessed the fund. The Bank of Jamaica reports that foreign exchange holdings, largely in the form of U.S. dollar-denominated accounts, have risen from $100 million in 1991 to approximately $260 million in IIIQ 1992.

3. Structural Policies

Price Control: Pursuant to a 1990 agreement with the International Monetary Fund (IMF), the Government of Jamaica has successfully removed all price controls, except for domestic kerosene, dark sugar, and bus fares. Prices of these items can be changed only after ministerial approval.

Tax Policies: A tax reform package introduced in October 1991 replaced certain excise duties, special consumption duties, and other taxes with a 10 percent value added tax (General Consumption Tax - GCT). Over J dollar 3 billion in revenues were collected via the GCT in the year following introduction. Jamaica implemented the Caribbean Economic Community (Caricom) Common External Tariff (CET) on February 15, 1991. Under the CET, goods produced in Caricom states are not subject to import duty. Third-country imports are presently subject to import duties ranging between 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. In October 1992 the Caricom Heads of Government agreed to a reduction in the maximum CET rate to 30 percent, phased-in over a two-year period starting January 1993.

Although the Government of Jamaica offers incentives to approved foreign investors, including income-tax holidays and duty-free importation of capital goods and raw materials, extremely bureaucratic importation procedures are a frequently cited impediment to investment and commerce.

Regulatory policies: All monopoly rights of the state Jamaica Commodity Trading Company (JCTC) ceased December 31, 1991. The Embassy is unaware of any government regulatory policy that would have a significant discriminatory or adverse impact on U.S. exports.

4. Debt Management Policies

The stock of external debt improved from $4.15 billion in 1990 to $3.87 billion in 1991. This was due mainly to debt forgiveness by bilateral creditors (United States, United Kingdom, and Netherlands), debt conversion with commercial banks, debt servicing, and reduction in inflows of new sources of funding. However, it represents 110 percent of GDP or 160 percent of exports of goods and services. Per capita debt amounts to $1,614. Half of the public debt is owed to bilateral donors (the United States is the largest bilateral creditor), 35 percent to multilateral institutions, 9 percent to commercial banks, and 6 percent to other entities. Debt-service-payments obligations account for 30.6 percent of exports of goods and services, or approximately one-half of government outlays.

Jamaica successfuly completed its IMF stand-by program in June 1992 and has negotiated a new three-year Extended Fund Facility (EFF) with the IMF which goes to the IMF Board for approval in December 1992. In July 1991, the Paris Club agreed to reschedule payments coming due in the period July 1991-June 1992; the Paris Club subsequently extended this period through September 1992 to correspond with the extended IMF standby period. The July 1991 rescheduling, including the extension, covered about $156 million in payments due. The Government of Jamaica has requested a new Paris Club rescheduling to cover payments due during the period of the EFF, and will probably meet with Paris Club creditors in January or February 1993 (after IMF approval of the EFF). Jamaica continues to benefit from a multi-year, debt/equity swap arrangement concluded in 1987 with commercial banks. To date, about $103 million, or 26 percent of commercial debt, has been converted through this program. Approximately 60 percent of Jamaica's debt is long-term debt (over 10 years) at concessionary rates.

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5. Significant Barriers to U.S. Exports

Government procurement practices: Government procurement is generally effected through open tenders and U.S. firms are eligible to bid. The range of manufactured goods produced locally is relatively small, so instances of foreign goods competing with domestic manufacturers are very limited.

Customs procedures: Exporters and importers have expressed concern over cumbersome customs procedures and operations. Although the Government of Jamaica has taken steps to streamline procedures and eliminate corruption, reform has been slow. In addition, counternarcotics measures also impose a significant burden on exporters.

6. Export Subsidies Policies

The Export Industry Encouragement Act allows approved export manufacturers access to duty-free imported raw materials and capital goods for a maximum of ten years. Other benefits are available from the Jamaican government's EX-IM Bank, including 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 respects intellectual property rights. The Jamaican Constitution guarantees property rights and Parliament has enacted legislation to protect and facilitate acquisition and disposition of all property rights, including intellectual property. 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 Bern (copyright) Convention. The Government of Jamaica and the Government of the United States are presently negotiating a bilateral intellectual property agreement. The Embassy is not aware of any complaint concerning the protection of intellectual property in Jamaica.

Patents: 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. Further, 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.

Copyrights: A final draft of copyright legislation based on Bern Convention was tabled before the parliament for approval before the end of 1992. The new bill, when passed, will adhere to the principles of more recent international conventions and will cover a wide range of works, including books, music, broadcasts, computer programs and databases. Piracy of broadcasts and pre-recorded video cassettes for distribution in the domestic and regional market is widespread.

New Technologies: There is no statute with regard to new technologies. Jamaica follows common law principles as established in England. Breaches of such laws can result in either injunction or suit for damages.

8. Worker Rights

a. Right of Association

The Jamaican Constitution guarantees the rights of assembly and association, freedom of speech, and protection of private property. These rights are widely observed.

b. Right to Organize and Bargain Collectively

Article 23 of the Jamaican Constitution guarantees the right to form, join and belong to trade unions. This right is freely exercised. Collective bargaining is widely used as a means of settling disputes. The Labor Relations and Industrial Disputes Act (LRIDA) codifies regulations on worker rights. About 16 percent of the work force is unionized, and unions play an important economic and political role in Jamaican affairs. In the Kingston Free Zone, none of the 18 factories are unionized. Several of Jamaica's largest unions, including the National Workers' Union, have been unable to organize workers there over the past several years.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is not practiced. Jamaica is a party to the relevant ILO conventions.

d. Minimum Age for Employment of Children

The Juvenile Act prohibits child labor, defined as the employment of children under the age of twelve, except by parents or guardians in domestic, agricultural, or horticultural work. While children are observed peddling goods and services, the practice of child labor is not widespread.

e. Acceptable Conditions of Work

A 40-hour week with 8-hour days is standard, with overtime and holiday pay at time-and-a-half and double time, respectively. Jamaican law requires all factories to be registered, inspected and approved by the Ministry of Labor. Inspections, however, are limited by scarce resources and a narrow legal definition of "factory."

f. Rights in Sectors With U.S. Investment

U.S. investment in Jamaica is concentrated in the bauxite/alumina industry, petroleum products marketing, food and related products, light manufacturing (mainly in-bond apparel assembly), banking, tourism, data processing, and office machine sales and distribution. Worker rights are respected in these sectors, and most of the firms involved are unionized. 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 an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		(D)
Total Manufacturing		510
Food & Kindred Products	19	
Chemicals and Allied Products	(D)	
Metals, Primary & Fabricated	(D)	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	15	
Wholesale Trade		78
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, November 1992, Vol. 72, No. 8, Table 11.3

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Key Economic Indicators

	1990	1991	1992 est
INCOME, PRODUCTION AND EMPLOYMENT			
GDP (Current U.S. Dollars bill)	241.9	283.6	319.0
Per Capita GDP (Current U.S. Dollars)	2935.7	3376.2	3726.6
Real GDP Growth Rate (Percent Over Previous Year)	4.4	3.6	2.5
Contribution by Sector (Percent of GDP)			
Agriculture, Forestry and Fishing	7.6	7.3	N/A
Mining	3.5	3.4	N/A
Manufacturing	22.5	22.5	N/A
Construction	5.0	4.9	N/A
Electricity	1.5	1.5	N/A
Commerce, Restaurants and Hotels	25.5	25.7	N/A
Transport, Storage and Communications	6.5	6.7	N/A
Financial Services, Insurance and Real Estate	10.5	10.6	N/A
Communal Services, Social and Personal	17.4	17.4	N/A
Size of Labor Force (Millions)	26.2	26.8	27.4
Open Unemployment Rate (Percent of Work force)	4.0	3.2	3.0
MONEY AND PRICES			
Money Supply (M1 Growth Rate)	62.6	122.2	50.0

(Note: The large increase in money supply in 1991 resulted from a change in regulatory requirements rather than in actual new increases in currency in circulation.)

	1990	1991	1992 est
Commercial Interest Rates (Average Annual Rate)	38.2	24.7	22.0
Savings Rate (pct GNP)	17.7	16.2	16.7
Investment (Pct. of GDP - Constant 1980 Pesos)	18.8	19.7	20.5
Consumer Price Index (Dec.-Dec. Growth Rate)	29.9	18.8	11.0
Wholesale Price Index (Dec.-Dec. Growth Rate)	29.2	11.0	10.2
Exchange Rate (Year-End Interbank Rate)	2943.2	3075.0	3115.0
BALANCE OF PAYMENTS AND TRADE (BILLIONS OF U.S. DOLLARS)			
Merchandise Exports (FOB)	26.8	27.1	28.1
Percent of Exports to U.S.	70.5	69.5	69.5
Merchandise Imports (FOB)	31.3	38.2	47.0
Percent of Imports from U.S.	63.1	62.1	62.1

(NOTE: Based on Mexican data which exclude imports/exports for the in-bond sector. U.S. figures include the in-bond sector and are not comparable directly with Mexican figures.)

Aid from U.S.(mil dols)	49	47.8	37.3
External Public Debt	77.8	80.0	76.0
External Debt Service Payments (interest paid on total external debt)	9.2	8.4	8.0
Gold/Foreign Exchange Reserves	10.2	17.5	18.0
Balance of Payments	3.3	7.3	0.5

1. General Policy Framework

Since 1987, Mexican economic policy has featured a series of government-labor-private sector price and wage restraint pacts, now known as the Pacts for Stability, Competitiveness and Employment. The Pacts have combined traditional austerity measures (tight fiscal and monetary policies) heterodox economic measures (price (diminishing), wage, and exchange rate controls) with rapid trade liberalization. The Pacts have been successful in lowering inflation and restoring economic confidence while avoiding a sharp recession. Between 1987 and 1991, inflation fell from 159 percent to 19 percent and the annual real rate of economic growth (as measured by the gross domestic product) increased from 1.7 percent to 3.6 percent. The current Pact was announced on October 20, 1992 and will be in effect through December 1993. Under the new pact, the prices of gas and electricity will increase by 10 percent, the minimum wage will increase 7 percent and the exchange rate policy was slightly modified.

For 1992 and 1993, the Mexican government's top two economic priorities are lowering inflation (through tight fiscal and monetary policies) and maintaining a viable external balance. As evidence of its tight fiscal policies, the Mexican public sector overall deficit fell from 4.0 percent of Gross Domestic Product (GDP) in 1990 to 1.5 percent of GDP in 1991. For 1992, the Mexican government projects that the public sector deficit will become a surplus amounting to about 0.4 percent of GDP, excluding revenues from the sales of state-owned companies. Under the Salinas administration, Mexican government revenues have increased due to the sale of state-owned companies and improved tax compliance. At the same time, expenditures have declined due to lower interest rates on public sector internal debt and a streamlining of the Mexican bureaucracy.

On the external side, trade liberalization measures since Mexico's 1986 accession to the GATT have increased Mexican firms' export orientation and contributed to rapid growth of nontraditional exports. Manufactured goods exports increased at a 17.6 percent annual rate between 1986 and 1991, contributing to an annual overall export growth of 9.6 percent. Reductions in import barriers have contributed to even faster growth of imports, however, resulting in widening trade and current account deficits. A $19 billion trade deficit is projected for 1992. U.S. companies have been the primary beneficiaries of Mexico's trade liberalization since

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70 percent of all Mexican imports come from the United States. In 1991, the United States ran a $2 billion trade surplus with Mexico, based on $33.3 billion of exports to Mexico and only $31.1 billion of imports from Mexico.

Mexico has been able to support large trade deficits by attracting enormous capital inflows. In 1991, Mexico ran a $20.2 billion capital account surplus which more than covered its $13.3 billion current account deficit (the major component of the current account deficit was a $11.1 billion trade deficit). The challenge for 1992 will be to attract sufficient foreign capital to support a projected $21 billion current account deficit.

Mexico's central bank controls the money supply and manages domestic interest rates through the size of its weekly auction of government securities and by buying or selling treasury bills in the secondary market. Capital inflows to Mexico began to decline in April 1992 due to weakness in the Mexican stock market and regulatory changes that limited foreign borrowing by Mexican banks. The Bank of Mexico responded by increasing interest rates to attract foreign capital into the Mexican money market. Between March and September 1992, Mexican interest rates (as measured by 28-day treasury bills) increased from 11 to 20 percent. Higher interest rates have been successful in attracting enough foreign capital to pay for Mexico's current account deficit, but the high interest rates have also caused a slowdown in economic growth. During 1992, the Mexican economy is projected to grow by about 2.5 percent in real terms versus 3.6 percent real growth in 1991. Slower economic growth should help the Mexican government to lower inflation to a single digit in 1993.

2. Exchange Rate Policies

Mexico has had a managed floating exchange rate since November 1991. The rate at which large foreign exchange transactions are done fluctuates within a band. The actual exchange rate within that band is determined by market forces. The bottom of the band is fixed at 3,051.2 pesos per dollar. The top of the band increases by 0.4 pesos per day. As of August 18, 1992 there was a 3.0 percent spread between the top and bottom of the exchange rate band. Under current policy, that spread will increase to 9 percent by the end of December 1993.

Inflation in Mexico has been consistently higher than in the United States and the daily widening of the dollar-peso band has not compensated for the difference. Therefore, in real terms the peso has steadily appreciated versus the U.S. dollar. The peso appreciated by 9.9 percent against the dollar in 1990, by 9.3 percent in 1991, and by another 4.6 percent during the first eight months of 1992. The United States' strogn export perfromance to Mexico reflects not only the strong peso, but also Mexico's need to modernize and the strong reputation of U.S. goods in the Mexican market.

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3. Structural Policies

In 1991 and 1992, the Mexican government continued its efforts to restructure and modernize the economy through trade liberalization, the privatization of state-owned companies and reforms to pricing and taxation policies. By far the most important development in Mexican trade policy was the completion of negotiations of the North American Free Trade Agreement (NAFTA) and President Bush's September 18 notification to the U.S. Congress that he intends to sign that agreement. The agreement will create jobs and generate economic growth in all three countries. When approved by the legislatures of these three countries, NAFTA will create a market with over 360 million consumers and $6 trillion in combined gross domestic production. NAFTA's key features are:

- Elimination of tariffs and non-tariff barriers on agricultural and industrial products. Ninety-nine percent of bilateral United States/Mexican trade will be duty free within 10 years.
- Opening of Mexico's $146 billion service industry to U.S. providers and U.S. investment.
- Opening of large Mexican government purchasing and construction contracts to competitive bidding by U.S. firms.
- Increased investment opportunities in Mexico because U.S. companies will have the right to settle investment disputes via international arbitration and will be guaranteed national treatment.

Between 1982 and August 1992, the Mexican Government privatized 932 companies. As of August 1992, 223 firms remained in the federal government's domain, 87 of which were in the process of being privatized. The most important privatizations completed in 1992 were the sales of Mexico's 18 commercial banks (for which the government received $12.4 billion). Most of the money from privatizations has been used to retire public sector internal and external debt. Along with privatizations, the government has expanded the role of the private sector in large-scale infrastructure projects formerly reserved for the state. For example, the government granted temporary concessions to the private sector to construct and operate highways in Mexico.

Regulation of the Mexican economy has decreased significantly since 1990. In 1992, only a few basic commodities remained directly price controlled. In November 1991, the Mexican value-added tax was reduced from rates of 15 and 20 percent to a single rate of 10 percent, which decreased the price of most goods and services in Mexico and helped to lower inflation. Between 1988 and 1991, the maximum corporate tax rate was reduced from 39.2 to 35 percent, and the maximum marginal tax rate for individuals was lowered from 50 to 35 percent. In September 1992, the United States and Mexico signed a bilateral tax treaty to eliminate the double taxation of income.

4. Debt Management Policies

During 1992, 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. This has resulted in large capital inflows and the reopening of international credit markets to Mexican borrowers at progressively more favorable terms. During the first eight months of 1992, five private sector Mexican companies issued $944 million of medium-term debt in international markets. The improved availability of credit has helped U.S. exports, since some of the money raised abroad is used by Mexican companies to purchase machinery and equipment from the United States.

In December 1991, Mexico's total external debt was $104.1 billion, $80.0 billion dollars of which was held by the public sector. Mexico's total external debt as a ratio to GDP was 35.6 percent in 1991, down from 47 percent in 1989, and it is projected to decrease to 31.7 percent of GDP in 1992. Mexico has used some of its privatization revenues to retire external debt.

5. Significant Barriers to U.S. Exports

Import Licenses: Mexico eliminated its universal regime of import license requirements in 1985 and is obliged under GATT to eventually eliminate all import licensing requirements. The Mexican Government still requires import licenses for 198 product categories including poultry, seafood, dairy products, beans, wheat, corn, vegetable oil and animal fats, firearms, some petrochemicals, cars and trucks, and a few other manufactured goods. Import licensing requirements affect approximately eight percent of total U.S. exports to Mexico. Most of these requirements will be phased out in the NAFTA.

Automobiles: Investment and trade in the automobile sector are subject to the restrictions of the Mexican auto decree, including such performance requirements as local content, foreign exchange balancing, and quantitative import restrictions. Foreign ownership in most auto parts manufacturing companies is limited to 40 percent. NAFTA will open the Mexican automotive sector by including such reforms as the phasing out of the auto decree over 10 years, eliminating import tariffs over 10 years, and allowing the immediate establishment of 100 percent foreign-owned auto parts firms.

Insurance: Foreign ownership of Mexican insurance companies is limited by law to 49 percent. 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 domestic market. Under NAFTA, limitations on ownership of Mexican insurance companies will be eliminated. U.S. insurance companies with existing joint ventures will be able to take majority control by 1996. U.S. insurers wishing to enter Mexico will be able to acquire an interest in existing firms or start their own, subject to a short transition period. Mexican consumers will be able to purchase banking, securities and some insurance services from

U.S. companies that prefer to do business from their home office.

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: Until NAFTA goes into effect, foreign participation in the financial services sectors is severely limited. Currently, foreigners are permitted to own only minority shares of Mexican financial intermediaries (banks, brokerage houses, insurance companies, etc.) and are prohibited from investing in foreign exchange houses and credit unions. About 35 U.S. banks have representative offices in Mexico, but the activities of those offices are very restricted. Once NAFTA goes into effect, U.S. financial service providers will be able to establish 100 percent U.S. - owned financial institutions in Mexico, subject to some limitations on size that will be eliminated by the year 2000. Given Mexico's rapid economic growth and the increase in U.S. - Mexico trade, the opening of Mexico's financial services sector to U.S. investment represents an outstanding opportunity for U.S. financial service providers.

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 access to Mexico. Although full trucking authority for U.S. carriers is still limited to the border commercial zone, U.S. freight carriers have open access for trailer entry into Mexico and may thus deliver door-to-door. Mexican tractors and drivers are required by law to haul all trailers bound for interior points, but this has not been considered a major obstacle by U.S. transportation companies. U.S. charter tour buses now have full access to all points in Mexico; regularly scheduled bus operations are restricted reciprocally to the border zones. Mexican authorities are implementing new safety, weight and dimension regulations to meet U.S. standards, and the two countries are preparing for the standardization and reciprocal recognition of commercial drivers licenses. The United States and Mexican trucking associations hold joint meetings. Under the terms of the North American Free Trade Agreement, a schedule for full liberalization has been negotiated.

Standards, Testing, Labelling and Certification: Mexico has in the last several years resorted to a variety of nontariff mechanisms to slow the volume of sub-standard goods flowing into the country. The drafting and implementation of sanitary, consumer protection, and safety regulations have sometimes had an impact on legitmate trade. In addition, poor communication between the various agencies responsible for enforcement has often resulted in confusion and trade disruptions.

When U.S. exports have been adversely affected, the Mexican government has been responsive to U.S. concerns and has resolved individual U.S. exporters' problems, albeit in piece-meal fashion. During 1992, Mexico continued efforts to reform the process for drafting, announcing and implementing new standards regulations in order to make the process more transparent and invite greater input from the public. The end result sought by Mexican authorities greatly resembles the U.S. federal regulatory model.

Under the NAFTA, Mexico has affirmed its obligations relating to standards under GATT, and has committed to use international standards as a basis for its standards-related trade measures. As a NAFTA party, Mexico will allow testing facilities in other countries to apply for accreditation on a national treatment basis. Mexico will have four years to implement this obligation.

Investment Barriers: A national foreign investment commission, chaired by the Ministry of Commerce and Industrial Development, regulates foreign investment in Mexico. The country's 1973 investment law reserves 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).

Provisions contained in NAFTA will open Mexico to greater U.S. investment by assuring U.S. companies' national treatment, the right to international arbitration and the right to transfer funds without restrictions. NAFTA will also eliminate many barriers to investment in Mexico such as trade balancing and domestic content requirements. Under NAFTA, Mexico will allow the private ownership and operation of electric generating plants for self-generation, co-generation, and independent power production. The NAFTA will also lift Mexican investment restrictions on all but basic petrochemicals reserved to the state.

Government Procurement: Mexico in 1991 abandoned the rule that state-owned enterprises give preference in procurement to national suppliers. However, Mexican nationals still enjoy preferential treatment, both official and unofficial, in bidding for government orders. NAFTA will give U.S. suppliers immediate and growing access to the Mexican government procurement market, including the state-owned oil company, PEMEX, and the federal power utility, CFE, which are the two largest purchasing entities in the Mexican government. Mexico will immediately open 50 percent of PEMEX and CFE procurement to U.S. suppliers and this percentage will increase in steps until all PEMEX and CFE procurement is open by the tenth year. Mexico has not joined the GATT Procurement Code.

6. Export Subsidies Policies

The Mexican government has informed the U.S. government that it is in full compliance with a 1986 bilateral understanding with the United States on export subsidies. The U.S. International Trade Commission found in April 1990 that past Mexican export subsidy programs have either ended or the subsidy element has diminished. Mexico has not yet joined the GATT subsidies code.

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 an entirely new law 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. Product patent protection was extended to all processes and products, including chemicals, alloys, pharmaceuticals, biotechnology and plant varieties. 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. Federal authorities have already begun to enforce the laws by seizing pirated computer software being used by a large multinational company. In October 1992, authorities also destroyed 250,000 pirated video recordings, as a warning to copyright violators. NAFTA provisions will further strengthen IPR protection.

8. Worker Rights

For an introduction to the Mexican labor law system, see "A Primer on Mexican Labor Law," (US Department of Labor 1991) and "A Comparison of Labor Law in the United States and Mexico: An Overview," (US Department of Labor 1992).

a. Right of Association

The Constitution and specific provisions of the current Federal Labor Law (FLL) give all workers the right to form and join trade unions of their own choosing. Unions must register with the labor secretariat or equivalent state government authorities. In theory registration requirements are not onerous, involving the submission of basic information about the union in order to give it legal status. There have been repeated allegations by labor activists, however, that the federal and state labor authorities improperly use this administrative procedure to withhold registration from groups considered disruptive to government policies. Privately, trade unionists supportive of the Government and even employers say this occurs.

About 30 to 35 percent of the total Mexican work force is organized in trade unions, most of which are members of several large union confederations, known as labor centrals. Mexican unions may join together freely in labor centrals without the Government's prior approval but require registration in order to have legal status. As with union registration, there is evidence this requirement can be misapplied to function as a restriction. It took from early 1990 until September 4, 1992, for one new labor central whose members were all well established, registered trade unions, to obtain its registration. In this case, although the new central's member unions were all Labor Congress (CT) members, they had been outspokenly critical of traditional leadership of the Congress.

The largest Mexican trade union organization is the Confederation of Mexican Workers (CTM), organizationally a major supporter of the PRI. All PRI-affiliated federations, such as the CTM, and a number of autonomous unions (a total of 37 organizations) belong to the CT, a trade union coordinating body which represents approximately 85 percent of Mexico's organized workers.

The tradition of a significant presence of union officers in the Government, especially in elected positions, and the continued union influence in the nominating process for PRI candidates at all levels of government, perpetuates a symbiotic relationship that limits the freedom of action of unions. For example, union officers support government economic policies and PRI political candidates in return for having a voice in policy formation. When systemic reforms were instituted in the late 1980's, however, the mainstream labor organizations began to lose strength within the ruling PRI. After the August 1991 federal legislative elections, in which fewer than usual PRI labor candidates participated, the percentage of CT senators and deputies in the federal congress fell to less than 10 percent. In 1992, only one labor leader was named as a PRI gubernatorial candidate. This, and the reality of privatization and economic restructuring of the economy, have prompted a debate within the CT about how best to adjust to changing circumstances.

Mexican law grants workers the right to strike. The FLL requires as a first step that a 6- to 10-day strike notice be filed, followed by a brief, government-sponsored mediation effort. If a strike is ruled illegal, employees must return to work within 24 hours or face dismissal for cause. On the other hand, once a legally recognized strike occurs, by law the company (or its subunit) that is the strike target must shut down totally. Even management officials may not enter the premises until the strike is resolved.

The FLL also permits strikes by public sector employees, although this rarely occurs. Strike figures for 1992 are expected to be higher than for 1990 or 1991, mainly due to prolonged strikes within the cotton textile industry and at a large Volkswagen plant. During 1991, strike activity was low; 7,006 notices of intent to strike were filed with the Federal Board of Conciliation and Arbitration (JFCA), and 136 actual strikes occurred. The comparable figures for 1990 were 6,395 strike notices and 149 strikes.

Labor leader Agapito Gonzalez Cavazos was arrested in

January 1992 in Matamoros. He was accused of tax fraud but, since his union had just instituted legal strikes against a number of "maquiladora" (in-bond export) plants with expired labor contracts, his supporters charged harassment. Mexican government officials denied this. Due to his advanced age and health problems, Agapito Gonzalez was kept under a loose form of house arrest in a private hospital in Mexico City while government prosecutors and his own lawyers worked on his case. He was released on bond in mid-October 1992 and resumed his union activities in Matamoros.

Unions and labor centrals are free to join or affiliate with international labor organizations and do so actively.

b. Right to Organize and Bargain Collectively

The FLL strongly upholds the right to organize and to bargain collectively. On the basis of only a small showing of interest by employees, an employer must recognize the union concerned and make arrangements either for a union recognition election or proceed immediately to negotiate a collective bargaining agreement, and such agreements are commonplace. According to the employers, FLL bias on this point is so pronounced that it has led many of them to encourage company unionism as an alternative to organization by national or local unions affiliated with the dominant labor centrals. Union representation elections are traditionally open (not secret), and votes are recorded by name. Management as well as competing trade union officials are with the presiding JFCA official when each and every worker votes.

The public sector is almost totally organized. The degree of private sector organization varies widely by states. While most traditional industrial areas are heavily organized, states with a small industrial base usually have few unions. Workers are protected by law from antiunion discrimination, but this law is unevenly enforced, especially in states with a low degree of unionization.

The rate of unionization of maquiladora industries varies by area, but is comparatively low. The Attorney General for Human Rights of Baja California attributes the low rate of unionization of maquiladoras in his state to the fact that the relatively good wage and benefit packages of the large maquiladoras reduce the incentives to unionize. However, other observers report abject working conditions and inadequate wages in these industries and allege central and local government as well as employer efforts to suppress unionization. There is, however, no credible evidence that the central Government has suppressed the unionization of maquiladoras. There are indicators that some state and local government figures and business leaders have discouraged unionization in their respective areas. Critics correctly point out that it is difficult to explain the low level of unionization in some states, given the ease of unionization under the law, yet the trade unions have not instituted any complaints either with the Government or with the International Labor Organization (ILO).

c. Prohibition of Forced or Compulsory Labor

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The Constitution prohibits forced labor. There have been no credible reports of forced labor for many years.

d. Minimum Age for Employment of Children

The FLL sets 14 as the minimum age for employment by children. Children from 14 to 15 may work a maximum of 6 hours, may not work overtime or at night, and may not be employed in jobs deemed hazardous. In the formal sector, enforcement is reasonably adequate for large and medium-size companies; it is less certain for small companies. As with employee safety and health, the worst enforcement problem is with the many very small companies. Eighty-five percent of all registered Mexican companies have 15 or less employees, and 80 percent have 5 or less employees, indicating the vast scope of the enforcement challenge just within the formal economy.

Illegal child labor is largely found in the informal economy, which includes significant numbers of underage street vendors, employees in very small businesses, and workers in rural areas. The ILO reports that approximately 18 percent of Mexican children aged 12 to 14 work. Often such children work for their parents or other close relatives. In addition, small-scale employers prepared to disregard company registration, social security, health, safety, and tax laws are often equally prepared to violate child labor laws.

In 1992 the Mexican Government increased from six to nine the minimum number of years that children must attend school. The move was part of a major educational reform effort designed, in large part, to upgrade the skills of the Mexican labor force. The Government recognizes as a long-term goal the need to continue increasing educational opportunities for youth.

e. Acceptable Conditions of Work

The Constitution and the FLL provide for a minimum wage for workers, which is set by the tripartite National Minimum Wage Commission (government, labor, employers). In December 1987, the major labor centrals and unions, along with employers, agreed to a temporary tripartite accord with the Government to limit price and wage increases to compensate for purchasing power losses caused by inflation. The accord has since been renewed annually. By 1991 annual inflation was reduced to 19 percent and was expected to be about 12 percent for 1992. Wages set by collective bargaining agreements and white-collar salaries in the private sector generally kept pace with inflation even though the minimum wage has not. Since the financial collapse of 1982, the minimum wage ceased being adequate. Recent data on urban areas indicate that 14 percent of urban workers earn less than one minimum wage, 41 percent earn between one and two minimum wages, and 32 percent earn between two and five minimum wages.

The FLL sets 48 hours as the standard legal workweek. The FLL provides that workers who are asked to exceed 3 hours of overtime per day or work any overtime on 3 consecutive days must be paid triple the normal wage. For most industrial workers, especially unionized ones, the real workweek has declined to about 42 hours, although they are paid for a full 48 hours. (This is why unions jealously defend the legal ban on hourly wages in favor of daily wages.)

Mexico's legislation and rules regarding employee health and safety are relatively advanced. All employers are bound by law to observe the "General Regulations on Safety and Health in the Workplace" issued jointly by Secretariat of Labor and Social Welfare (STPS) and the Mexican Institute of Social Security (IMSS). In addition, in late 1991 the maquiladora associations in northern border states agreed to cooperate in a special program with STPS and IMSS health and safety experts to help their member companies overcome any deficiencies in their compliance.

The focal point of standard setting and enforcement in the workplace is in FLL-mandated bipartite (management and labor) safety and health committees in the plants and offices of every company. These meet at least monthly to consider workplace safety and health needs and file copies of their minutes with federal or state labor inspectors. Government labor inspectors schedule their own activities largely in response to the findings of these workplace committees. Individual employees may also complain directly to the Office of Labor Inspection or the General Directorate of Medicine and Safety in the Workplace. Workers may remove themselves from hazardous situations without jeopardizing their employment. Complaints may be brought before the Federal Board of Conciliation and Arbitration at no cost to the plaintiff. Mexican labor and social security officials report that compliance is reasonably good by most large companies, both foreign-owned and domestic. Most compliance difficulties occur with small businesses, few of which export any goods or services.

f. Rights in Sectors with U.S. Investment

In all sectors with U.S. investment, the rights of association and to organize and bargain collectively, a prohibition on the use of forced or compulsory labor, a minimum work age, acceptable working conditions exist and are respected.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		(D)
Total Manufacturing		8,493
Food & Kindred Products	932	
Chemicals and Allied Products	1,974	
Metals, Primary & Fabricated	337	
Machinery, except Electrical	426	
Electric & Electronic Equipment	553	
Transportation Equipment	2,335	
Other Manufacturing	1,936	
Wholesale Trade		681
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, November 1992, Vol. 72, No. 8, Table 11.3

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Key Economic Indicators
(Millions of US Dollars Unless Otherwise Noted)

	1990	1991	1992 1/
Income, Production and Employment			
Real GDP (1991 Dollars)	1,378.2	1,368.0	1,381.7
Real GDP Growth (Pct)	0.9	-0.7	1.0
GDP By Sector:			
Agriculture 2/	216.4	216.1	237.7
Manufacturing	277.0	296.9	293.0
Construction	42.7	35.6	45.6
Government, Health and Education	183.3	176.5	161.6
Other	658.8	642.9	643.8
Net Export of Goods and Services	-306.9	-784.2	-575.1
Real Per Capita GDP	357.0	342.9	337.0
Labor Force (Millions)3/	1.33	1.39	1.41
Unemployment Rate 3/ (Pct)	11.1	13.3	18.0
Money and Prices (Annual Percentage Growth Unless Otherwise Noted)			
Money Supply (M1) 4/	8,705.0	815.0	20.0
Rediscount Rate (PCT) 5/	12-16	11-15	13
Personal Saving Rate 6/ (Pct of GDP)	16.5	10.9	17.0
Consumer Price Index 7/	13,490.0	775.0	8.0
Exchange Rate (Cord/USD)			
Nominal Official 8/	2,500,000	5	5
Nominal Parallel (Year End)	3,000,000	5.40	5.55
Balance of Payments and Trade			
Total Exports FOB	330.6	268.1	252.4
Exports to U.S.	25.0	50.0	70.4
Total Imports CIF	567.4	663.4	702.0
Imports from U.S. 9/	78.0	110.0	270.5
Aid from U.S. 10/	262.2	270.2	201.6
Aid from Other Countries	200.0	528.0	415.0
External Public Debt	8,064.0	9,391.0	11,268.0
Debt Service Payments (Paid)	16.0	55.0	82.5
Gold and Foreign Exchange Reserves 11/	N/A	108.5	123.5
Trade Balance	-236.7	-395.3	-449.6
Balance with the U.S.	-53.0	-60.0	-200.1

SOURCES: The International Monetary Fund (IMF), the World Bank, and the Central Bank of Nicaragua unless otherwise indicated.

1/ Figures are all annual projections based upon 9-month data.
2/ Agriculture does not include livestock or fisheries.
3/ Data provided by the Nicaraguan Ministry of Labor

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4/ M1 Measure of money supply includes currency and demand deposits.
5/ Central Bank Rediscount Rate: Range for short and long-term credit.
6/ Based upon IMF figures September 1991. Personal saving as percent of GDP calculated as difference of consolidated public sector deficit from gross national savings.
7/ 1986 Base Year
8/ In April 1991, the Government of Nicaragua replaced the "chanchero" cordoba with the cordoba oro at an exchange rate of five million old cordobas to the cordoba oro.
9/ Data provided by Nicaraguan Customs, 1992 projection based on 9-month total
10/ Data provided by U.S. Agency for International Development, Managua, Nicaragua. Figures for 1992 reflect March 1992 projections of total U.S. assistance.
11/ Gold and foreign reserves are for December 31 each year (except 1992)

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 years of Sandinista repression, economic misrule, and civil war. Control of the police, military, and intelligence services has remained in the hands of the Sandinistas, with General Humberto Ortega staying on as Army Chief. Espousing a policy of national reconciliation, during 1990 the Chamorro Government achieved the disarmament of the Nicaraguan resistance and declared an end to obligatory military service, bringing peace to this nation of four million. Little, however, was accomplished in 1990 on the economic front as Nicaragua's economy contracted for the seventh straight year and inflation soared to 13,500 percent.

In March of 1991, the Chamorro administration implemented an ambitious economic stabilization program and subsequently signed an IMF stand-by agreement. The Government sharply devalued the cordoba oro, pared back government spending, and restricted Central Bank credit.

The measures yielded impressive results; monthly inflation fell from an average of 50 percent during 1990 to an average of minus four tenths of a percent between May 1991 and September 1992. Nevertheless, Nicaragua's GDP slipped by 0.7 percent in 1991. Encouraged by the Government's program, in September 1991 the donor community helped Nicaragua clear over $300 million in arrears with the World Bank and the Interamerican Development Bank. In December, the Paris Club accorded Nicaragua its most favorable restructuring terms to date. However, Nicaragua's foreign debt likely remains the largest in the world on a per capita basis.

In 1992, the government hoped to use fiscal policy to spur economic growth. On February 28, 1992 the Government cut Nicaragua's value added tax from fifteen percent to ten percent, replaced the country's four percent net assets tax with a one percent property tax, and cut the top income tax bracket from 35 to 30 percent. Government officials hoped the tax relief would help domestic producer efficiency without adversely affecting revenues. In October 1992, facing a financial shortfall with the freezing of U.S. assistance, the government raised the value added tax to its original level and widened its tax base.

The Government planned to dedicate $280 million to public investment spending in 1992. As a result of lower than expected credit recoveries, the Government was forced to postpone some public sector expenditures, although, as hoped, the construction sector did benefit from the program.

The 1992 budget estimated revenues equivalent to $377.4 million. For the first time in years, the Government has succeeded in financing recurring budgetary costs entirely from its own resources. Through mid-October 1992, Government revenues totalling $302.6 million exceeded its recurring expenditures of 281.4 million. Capital expenditures and budgetary deficits (which were up, but within an IMF target of 6 percent of GDP) continue to be financed entirely through foreign assistance. The Government may have to restrict spending in the final months of 1992 to avoid unfinanced expenditures.

The Government of Nicaragua also hoped to spur growth through the Central Bank's rediscount facility to both state and private banks and directed credit to specific sectors. The Government's program has had limited results, as few private banks are willing to make high risk agricultural loans, and many potential borrowers are reluctant to offer their land or production facilities as collateral in what has been an uncertain business climate. The Government's ability to encourage reactivation through liberal monetary policies is restricted by targets in the IMF stand-by agreement.

2. Exchange Rate Policy

Nicaragua maintains a fixed official exchange rate regime with the cordoba oro pegged at five to the dollar. In late September 1991, the Central Bank authorized private exchange houses to sell and buy foreign currency without reference to the official rate, creating a legal parallel market. State owned and private banks continue to buy and sell at the official rate, and export earnings must be exchanged at the official rate. The parallel market may be used only for specified purposes, including most current account transactions (imports and the payment of certain bills in foreign currency). However, foreign exchange is not available for most capital account transactions.

A foreign investment law, passed in mid-1991, guarantees new foreign investors the right to fully repatriate profits and provides for full repatriation of capital three years after the initial investment. Some U.S. companies with investments before the current law came into effect have experienced difficulty repatriating profits, in part due to shortages of foreign currency. In early 1992, the Ministry of Finance announced that the 1990 and 1991 profits of such investments would be allowed to be repatriated. Several firms, including at least one U.S. firm, recently reached agreements with the Central Bank to remit these funds.

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 Administration has since lifted price controls with the exception of those imposed upon "fiscal" goods (e.g., tobacco, soft drinks, alcoholic beverages), petroleum products, and public utilities. In an effort to keep prices down, the Government has lowered prices of inputs produced by state-owned companies and sold donated commodities at less than international prices, although the latter practice is to be phased out or eliminated according to conditionality on World Bank loans and individual commodity donation agreements.

Tax Policies: Nicaragua maintains a maximum tariff level on most imports of 40 percent. In addition, the country assesses a variable selective consumption tax (generally 10 to 15 percent) and revenue stamps (a flat 3 percent) on imports. The Ministry of Economy plans to eliminate the three percent revenue stamp tax and lower the maximum tariff to 20 percent by January 1993. The selective consumption tax is scheduled to be phased out by 1994 and replaced by a levy on certain products, whether imported or domestic. Most goods are subject to a value added tax of 15 percent at point of sale.

The highest income tax rate is 30 percent (for taxpayers earning more than 120,000 cordobas oro per year - or $24,000 at the official exchange rate of five to the dollar). Taxpayers earning less than 25,000 cordobas oro are exempt from the income tax. The other rates are: ten percent between 25,000 and 60,000 cordobas oro; and twenty percent between 60,000 and 120,000 cordobas oro. Corporations pay the same tax rates as individuals.

4. Debt Management Policies

The Chamorro Administration inherited a crushing foreign debt burden from the previous government. In June 1991 foreign debt totaled $9.4 billion, of which over 3 billion was owed to the former Soviet Union and former Eastern Bloc countries. The Government's first debt management priority was to clear its $330 million arrearages with the World Bank and Interamerican Development Bank, in order to become eligible for additional funds from these institutions. In September 1991, Nicaragua succeeded in clearing its arrears with the assistance of $135 million in grant contributions from the international community (including $75 million from the United States) and $193 million in short-term bridge loans from Mexico, Venezuela, and Colombia.

The Government's second priority has been to renegotiate its bilateral debt. In 1990/91, Mexico virtually pardoned almost half of approximately one billion dollars owed to it by Nicaragua (rescheduling the other half on twelve year terms, including debt swap provisions). The United States forgave $285 million in official debt and Venezuela and Colombia effectively forgave a combined $190 million owed to them. In 1992, Argentina and Nicaragua agreed upon rescheduling Nicaragua's $70 million debt for 15 years with concessional interest and a four-year grace period. The Nicaraguan Government is continuing its discussions with the Commonwealth of Independent States over approximately three billion dollars in bilateral debt owed to the former Soviet Union, and with Germany over debt owed to the former Democratic Republic of Germany (East Germany). However, Nicaragua's foreign debt still totals more than seven times its GDP, and more than 40 times its annual merchandise exports.

In December of 1991, Paris Club creditors agreed to grant Nicaragua the most favorable rescheduling terms offered by the club to date. The rescheduling agreement included a provision that Nicaragua might apply to the Paris Club for a reduction of debt after three years, provided that the country continues its economic stabilization and reform programs. Nicaragua continues to negotiate bilateral agreements with its Paris Club creditors to formalize the Paris Club accord.

Nicaragua has a roughly $1.8 billion outstanding debt with private U.S. banks. In 1991, the Government of Nicaragua presented documents to a representative of these U.S. banks recognizing the debt and extending the August 1991 statute of limitations expiration date. This action avoided the U.S. banks' suing Nicaragua in U.S. courts for non-payment, but left that option open. In late 1992, the World Bank made available $25 million for the establishment of a debt reduction facility and is lending technical assistance to the Nicaraguan Government on reconciliation of commercial debt obligation figures.

5. Significant Barriers to U.S. Exports

Licenses: The Chamorro Government has significantly reduced trade barriers by cutting tariffs and eliminating state monopolies and strict import licensing controls. Nicaragua still maintains a price band variable tariff on the import of basic grains and requires permits for the importation of chicken parts and sugar. As of November 1992, no permits for chicken parts are being approved. U.S. exports to Nicaragua have benefitted, growing from $78 million in 1990 to an estimated $270.5 million for 1992. Although Nicaragua's constitution reserves foreign trade as an exclusive preserve of the state, in 1991 President Chamorro signed a decree mandating pro forma five year licensing of private export and import transactions.

In most cases the issuance of these licenses is little more than a formality, or at worst an inconvenience. Licensing requirements for U.S. pharmaceutical products, for instance, include an original FDA certificate of approval. These certificates are only periodically processed by the FDA, which has resulted in delayed entry of some U.S. pharmaceuticals.

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Services Barriers: 1991 legislation allowed the establishment of the first private banks in Nicaragua in a decade. As of November 1992, seven private banks were in operation. Although current banking law allows foreign banks to open and operate branches in Nicaragua, as of November 1992 no U.S. bank has initiated the necessary proceedings. One U.S. bank maintains a Nicaraguan banking license, but does not currently operate here. Insurance activities remain in the hands of a state mor)poly.

In the absence of a bilateral aviation treaty, U.S.-Nicaraguan aviation relations are based on comity and reciprocity. In 1992 the Nicaraguan Government granted landing rights to a new U.S. carrier, bringing the total to four, while both Nicaraguan carriers enjoy landing rights in the United States.

Investment Barriers: A new investment law was passed in June of 1991, allowing 100 percent foreign ownership in virtually all sectors of the economy, guaranteed repatriation of profits, and repatriation of original capital three years after the initial investment. To benefit from this law, investments must be approved by the Foreign Investment Committee which analyzes the proposal based upon varied criteria (including an "Environmental Impact Report/Opinion" from the Nicaraguan Institute of Natural Resources and the Environment). The fishing industry remains protected by requirements involving the nationality and composition of vessel crews and a requirement for repatriation of 100 percent of the catch (i.e., for processing for later export).

Definition of property rights has remained an obstacle to both domestic and foreign investment. The legal status of large numbers of homes, businesses, and large tracts of land, confiscated without compensation by the Sandinista Government, has yet to be resolved.

Over 5,000 individuals (including 350 U.S. citizens) affected by property confiscations have outstanding claims against the Government of Nicaragua. In mid-1992, the Chamorro Government began constructing an administrative property claim resolution mechanism to resolve the over 18,000 individual claims of Nicaraguan nationals and foreigners.

The Government plans to return property to original owners or pay compensation where return is not possible. (Cases of individuals whose property was confiscated under Decress 3 and 38, which cover the family and associates of former President Somoza, will be examined by a National Review Commission). President Chamorro also issued decrees which establish an office within the Ministry of Finance to place compensation values on all claims, outline an arbitration process to negotiate disagreements over determined values, and create a bond compensation mechanism. As of November 1992, this administrative apparatus had not begun to function and the vast majority of U.S. citizen claims had not been resolved.

6. Export Subsidies Policies

In November 1990, Nicaragua was designated as a beneficiary of the Caribbean Basin Initiative II Program, allowing a wide range of products to enter the U.S. market duty free.

In August 1991, President Chamorro signed an export promotion decree, establishing a package of fiscal exoneration and incentives for exporters of non-traditional goods (goods other than coffee, cotton, wood, beef, lobster, and shrimp). These operations receive exemption on payment of 80 to 60 percent of income tax liabilities on a sliding scale from 1991 to 1996, after which the benefit will be eliminated. All exporters are allowed to import inputs duty free and are exempted from paying value added taxes on these inputs during the same 1991 to 1996 period, again on a sliding scale. In addition, the law provides for preferential access to foreign exchange for non-traditional exporters.

7. Protection of U.S. Intellectual Property

In May 1990, the Chamorro Government committed itself to "provide adequate and effective protection for the right to intellectual properties of foreign nationals" in the context of requesting designation as a beneficiary of the Caribbean Basin Initiative Recovery Act. Although as of yet unable to dedicate extensive resources to protecting intellectual property rights due to the demands of its program of economic stabilization and reactivation, the Government of Nicaragua is in the process of evaluating and modernizing its intellectual property rights protection regime. Current levels of protection do not meet modern international standards.

Since late 1991, the Nicaraguan National Assembly has been considering over one hundred articles of legislation aimed at increasing protection of copyrights and authorship rights. Protection for author rights (not strictly copyrights) currently in force were established in the 1904 Civil Code, and thus do not include protection for modern technologies, bio-patents, computer programs, etc.

The Government is also working to modernize its patent and trademark protection and services, and has signed an agreement with its Central American neighbors to adhere to the Paris Convention for the Protection of Industrial Property. Nicaragua is a signatory to the following copyright conventions: the Mexico Convention on Literary and Artistic Copyrights (1902); Buenos Aires Convention on Literary and Artistic Copyrights (1910); Interamerican Convention on Rights of the Author (1946); Universal Copyright Convention (Geneva 1952 and Paris 1971); and Brussels Satellite Convention (1974)

Trademarks: Trademarks represent a potential problem area for Nicaragua. Although only two instances of infringement involving U.S. companies have been reported, current Nicaraguan procedures allow any individual to register a trademark without restriction at a low fee, for a period of fifteen years.

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Copyrights/New Technology: Piracy of copyrighted properties has become increasingly evident as Nicaraguans spend more on entertainment. Pirated videos, generally imported from neighboring producer countries, are readily available in video rental stores throughout the country, as are imported pirated audio cassettes. It is not uncommon for copyrighted books to be photocopied. In addition, cable television operators are known to intercept and retransmit U.S. satellite signals; Managua's only functioning private television station similarly transmits pirated U.S. movies, although the practice is becoming less common.

A recent report prepared by the International Intellectual Property Alliance estimated that losses in Nicaragua due to copyright infringements involving books and motion picture industry cost U.S. firms $1.3 million annually.

8. Worker Rights

a. Right of Association

All workers, except the military and the police, are entitled to form and join unions of their own choosing, and they extensively exercise this right. New unions must register with the Ministry of Labor and be granted legal status before they engage in collective bargaining with management. Some labor groups report occasional delays in obtaining legal status. Nearly half of Nicaragua's work force, including agricultural workers, is unionized, according to labor leaders.

Workers also freely exercise their right to strike. Under the terms of the labor code, workers may strike legally only after they have exhausted other methods of dispute resolution, including mediation by the Ministry of Labor.

Unions may freely join federations or confederations and affiliate with international bodies.

b. Right to Organize and Bargain Collectively

The constitution provides for the right to bargain collectively. The Chamorro Government's labor negotiations in 1992 continued primarily to be ad hoc efforts to resolve pressing labor conflicts, usually in the public sector. Collective bargaining is not common in the private sector due to unfavorable economic conditions and continued unfamiliarity with the practice following ten years of central economic planning.

In July 1992, the International Labor Organization's Committee of Experts of the Application of Conventions and Recommendations issued a report noting that the Nicaraguan labor law provision which subjects collective agreements to the prior approval of the Ministry of Labor before entering into force violates the Convention on the Right to Organize and Bargain Collectively, ratified by Nicaragua in 1967.

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 1992.

d Minimum Age for Employment of Children

Children under the age of 14 are not permitted to work. The constitution prohibits "child labor which can affect normal childhood development or interference with the obligatory school year." Although the Ministry of Labor rarely enforces it, the Child Labor Law is generally observed in the small modern sector of the economy; however, young street vendors and windshield cleaners ply their trade in Managua and children frequently work on family farms at an early age.

e. Acceptable Conditions of Work

Over the objections of labor representatives, in mid-1991 a tripartite commission charged with establishing national minimum wages voted to set sectoral minimum wages ranging from 150 cordobas oro per month (equivalent of 30 dollars) in the agricultural sector to 300 cordobas per month (60 dollars) in the banking sector. The minimum wage for central government employees was set at 234 cordobas oro (47 dollars). In late 1992 the median monthly wage nationwide was 195 dollars, while the median central government wage was 140 dollars. In September 1992, the Permanent Workers Central (CPT), the Democratic Labor Umbrella Group, issued a public manifesto demanding that the Government immediately implement a general wage increase geared to the cost of living.

The constitution specifies an eight-hour workday in a workweek of 48 hours with one day of rest. Health and safety standards are also 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 too few inspectors and other resources, few on site inspections occur.

f. Rights in Sectors with U.S. Investments

Working conditions do not differ from the general description above in any sector with U.S. investment.

NICARAGUA

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		(D)
Total Manufacturing		-34
Food & Kindred Products	-28	
Chemicals and Allied Products	1	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	-7	
Wholesale Trade		6
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, November 1992

PANAMA

Key Economic Indicators

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

	1990	1991 (est.)	1992 (proj.)
INCOME, PRODUCTION, EMPLOYMENT			
Real GDP (1970 prices)	1,868	2,043	2,206
Real GDP growth (percent)	4.6	9.3	8.0
GDP (Current Prices)	4,949	5,473	6,032
GDP by sector (percent of total)			
Agric./forestry/fisheries	11.8	11.3	10.8
Manufacturing	9.3	9.4	9.4
Utilities	4.0	4.0	3.8
Construction	1.8	3.3	5.1
Commerce/hotels/restaurants	11.6	12.0	12.7
Panama Canal	10.3	10.0	9.3
Oil pipeline	3.0	2.5	2.2
Colon Free Zone	5.5	6.2	6.8
Transport/communications	6.4	6.8	7.1
Fin./insurance/real estate	14.8	14.4	14.0
Government services	13.1	12.2	11.2
Other	8.4	7.9	7.6
Real GDP/capita (1970 prices)	773	828	879
Labor force (thousands) 1/	839	859	921
Unemployment (rate) 1/	16.2	16.1	13.6
MONEY AND PRICES			
Money and quasi-money	2,185	2,863	3,000
Commercial interest rates			
Fixed deposit (percent)	10.0	7.5	5.5
Average lending (percent)	15.0	11.0	11.0
Gross Savings (percent GDP)	12.5	12.6	14.6
Gross Investment (percent GDP)	18.5	19.5	17.8
Consumer prices (percent, annual average)	0.5	1.3	3.0
Wholesale prices (percent - annual average)	9.5	9.0	9.0
Exchange Rate (Balboa:dollar)	1:1	1:1	1:1
BALANCE OF PAYMENTS AND TRADE			
Total merchandise exports (FOB)	340	360	380
Exports to U.S. (percent)	46	44	45
Total merchandise imports (CIF)	1,539	1,695	1,850
Imports from U.S. (percent)	43	37	40
Aid from U.S. Government	394.7	59.4	282
External public debt	5,355	5.414	5,230
Debt service paid 2/	241	272	272
Foreign assets	344	499	400
Balance of payments			
Current account 3/	137	24	50
Foreign Investment	-30	-62	N/A

PANAMA

1/ Data Revised October 29, 1992.
2/ Excludes clearance of arrears to International Financial Institutions (IFI's) in 1992.
3/ Excludes interest arrears to commercial creditors.

1. General Policy Framework

Panama's economy continues to grow in 1992 following two years of strong recovery from the adverse effects of the last years of the Noriega regime and U.S. sanctions. Private sector activity (particularly construction and the Colon Free Zone) is driving the expansion.

Panama's Gross Domestic Product (GDP) grew 9.3 percent in real terms in 1991, making Panama's economic growth one of the most impressive in the Western Hemisphere. Statistics from the Panamanian Comptroller General's office place year-end GDP at $2.043 billion (1970 prices) and nominal GDP at $5.472 billion. Strong internal demand for goods and services and better use of installed capacity were key factors in the 1991 performance. The year's results place Panama's real GDP now nearly on par with the historical peak reached in 1987. Preliminary estimates for 1992 indicate a probable repeat of strong real growth at or above 8 percent.

Panama's economy is highly dependent on a well developed services sector which comprises approximately 75 percent of total GDP. Services include the Panama Canal, banking, insurance, government, transisthmian oil pipeline, and the Colon Free Zone. Agriculture contributes another 11 percent to the GDP. Principle products include bananas, sugar, shrimp, coffee, cacao, meat, dairy products, rice, corn, and beans. The manufacturing sector (which contributes roughly nine percent to the GDP) is geared largely towards the domestic market, producing such items as clothing, processed foods, chemical products, and construction materials.

The Endara government has passed major reform legislation to modernize its tax code, facilitate privatization, and strengthen the social security administration. The government has also normalized its relations with the international financial institutions through an arrears clearing package and has received new financing from those sources for infrastructure and other development needs, if it maintains a sound macroeconomic environment, including fiscal policy. The outlook for economic growth is favorable for the medium term. Sustainable long-term growth will require further government action to liberalize the trade regime, follow through on privatization of state enterprises, and foster job creation through labor code reforms.

The use of the U.S. Dollar as Panama's currency means that fiscal policy is the government's principal macroeconomic policy instrument. During 1992, the consumer price index rose 3 percent compared to the 1991 level. Because Panama does not "print" a national currency, government spending and investment are strictly bound by tax and nontax revenues (including Panama Canal receipts) and the government's ability to borrow.

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2. Exchange Rate Policies

Panama's official currency, the Balboa, is pegged to the U.S. Dollar (USD) at B/1.00 equals USD 1.00. The fixed parity means the price and availability of U.S. products in Panama depend on transport costs and tariff and nontariff 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

The Government of Panama's trade liberalization policy aims to increase efficiency, reduce market distortions, and encourage exports. The Government has reduced ad valorum tariffs on industrial goods to a maximum rate of 60 percent, and on agro-industrial goods to 90 percent. The GOP has pledged to drop the rates further to 40 percent for industry, and 50 percent for agro-industry by spring of 1993. All specific tariffs are being eliminated. Government policy action has produced a schedule for the reduction and elimination of tariff and nontariff barriers. New industries will be given a maximum 20 percent rate of protection. Panama is in the process of preparing its Foreign Trade memorandum in order to negotiate accession to the GATT.

Panama's Privatization Framework Law was approved by the Legislative Assembly on June 29, 1992 and signed by President Endara on July 14, 1992. The law has six broad objectives; one, to harness free markets to develop Panama's economy (avoid creating monopolies/restricting competition); two, make public services more efficient; three, put state-owned capital goods into private hands to disperse and strengthen individual property rights; four, reduce the state's role in the economy; five, generate revenues to reduce the fiscal gap; and six, modernize the state to meet national priorities. The privatization law does not address certain state-held public utilities.

In principle, market-based valuations of state firms and sales of shares on securities markets, as stated in the law, should make privatization transactions more transparent. In practice, there will be difficulties to overcome. The law also stipulates that other state-owned firms (domestic and foreign) may not buy the shares of a state firm to be privatized. This will have the effect of eliminating a number of interested bidders who have competed successfully in other Latin American countries, possibly to the benefit of U.S. firms.

4. Debt Management Policies

Panama has paid all interest and principal due to the IMF, World Bank, IDB, and International Fund for Agricultural Development since May 1990, and cleared $645.8 million in arrears with these institutions during February/March 1992. Panama also disbursed $40 million to Paris Club creditors in

January 1992, including $7.4 million to U.S. government creditor agencies. Panama remains current on interest and principal payments to U.S. government creditor agencies. Panama has yet to normalize relations with foreign commercial creditors (bondholders, commercial banks, and suppliers). Some foreign suppliers may receive payment in the form of tax credits issued by Panama's Treasury that can be discounted on the local securities market. Continued accrual of interest on foreign commercial bank debt will increase this debt to 3.4 billion dols by end-1992. Nevertheless, given continued strong GDP growth in 1992 and a slight net decline in total public external debt this year thanks to arrears-clearing, Panama's debt/GDP ratio should continue to improve in 1992.

The GOP announced a plan for external bonds and commercial bank debt in August 1992. The plan called for discussions with each category of creditor in the fall of 1992 and committed the GOP to place $12.5 million in an escrow account at the National Bank of Panama (BNP) in September, $1 million per month in the BNP escrow during September - December 1992, and $1.3 million per month in the escrow during 1993. External commercial creditors did not find this plan attractive, and the government must revise its approach in order to effectively address its external commercial obligations.

5. Significant Barriers to U.S. Exports

Agricultural products such as corn, beef, and dairy products are controlled by the Ministry of Agriculture and the Agriculture Marketing Institute (IMA). These government entities have often resisted liberalization measures.

Agricultural products are subject to widespread quantitative restrictions. Import quotas on 42 products and import permits required on 23 products are the most important nontariff mechanisms used to protect national production beyond levels afforded by tariffs. All quotas and import licensing measures are scheduled to be eliminated in 1993, but some duties may be raised in compensation.

Product registration requirements, which were previously applied prior to market entry (by customs authorities) now become effecive six months after initial product entry. Thus, importers can establish product sales potential prior to an investment of financial and staff resources in the registration process.

The Government of Panama officially promotes foreign investment and affords foreign investors national treatment, as well as actively promoting specific investment opportunities in agriculture, industry, tourism, and an expanded range of services.

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.

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Panama does not have an investment screening mechanism, and the Panama Trade Development Institute (IPCE) works 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 Subsidies Policies

Export subsidies 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 currently considering legislation to modernize both its industrial property and copyright laws. Panama is a member of the World Intellectual Property Organization, the Geneva Phonograms Convention, the Brussels Satellite Convention, and the Universal Copyright Convention, but it is not a member of the Berne Convention for the protection of Literary and Artistic Works or the Paris Convention for the Protection of Industrial Property. Panama, however, recently signed with other Central American countries a declaration of intent to join the Paris Convention. 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.

Video piracy is a major concern in Panama. Some firms are illegally reproducing videos and distributing them from the Colon Free Zone to Panama, Central America, and elsewhere in South America. Recently, some U.S. firms have also complained about trademark infringement by firms in the Colon Free Zone. Industry estimates annual losses from copyright piracy at $38 million.

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Panama's Ministry of Commerce and Industries has drafted an industrial property law, modeled after the Mexican intellectual property rights law. The draft law establishes a standard of 20 years of patent protection in place of the current range of 5 to 20 years for Panamanians and 5 to 15 years for foreigners. The draft law states that patent protection would be from the date of filing, subject to paying fees established in the law. The draft law provides for only 15 years of patent protection for pharmaceuticals (20 years from filing is the international standard), but pharmaceutical patents may be renewed for an additional ten years, if the patent owner licenses a national company (e.g. minimum of 30 percent Panamanian ownership) to exploit the patent. The draft industrial property law would permit the government to issue compulsory licenses under certain conditions but requires that the government notify and hear the views of the patent holder before issuing a compulsory license. The draft industrial property law also provides for protection of trademarks and trade secrets. It simplifies the process of registering trademarks and makes them renewable indefinitely for periods of ten years.

The Education, Culture, and Sports Committee of the Legislative Assembly is considering a comprehensive copyright bill which was reintroduced into the Legislative Assembly on September 16, 1992. The copyright legislation is based on a World Intellectual Property Organization draft. The bill modernizes existing law, facilitates the prosecution of copyright violators and makes copyright infringement a felony. The Committee is studying amendments proposed by the Radio and Broadcasters Association. This new legislation, once adopted, will expand current procedures to allow easier prosecution of both big and small copyright violators.

Existing Panamanian law does not specifically address the issue of protection of new technologies, such as computer software, integrated circuits, or semiconductor chips. (Computer software, however, is included in the proposed copyright 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.

8. Worker Rights

a. Right of Association

The Panamanian labor code grants individuals the right to organize labor unions and employee associations. The code covers all private sector workers. Those employed in some important sectors, such as the banking sector and the Colon Free Zone, are not unionized. The code gives public workers the right to form representative associations instead of unions.

There are no restrictions on the civil liberties of unionists. Unions may freely form or join federations, condeferations, and international bodies.

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Unions have the right to strike. Civil servants are not permitted to strike, however.

b. Right to Organize and Bargain Collectively

As noted above, the Panamanian labor code grants individuals the right to organize labor unions and employee associations. A law, passed in 1990 in response to the economic conditions at that time, introduced temporary restrictions on collective bargaining. The Legislative Assembly has introduced a bill to restore employers' obligations to engage in collective bargaining.

c. Prohibition of Forced or Compulsory Labor

The Panamanian labor code prohibits forced or compulsory labor, and there are no reports of either in practice.

d. Minimum Age for Employment of Children

The Panamanian 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 establishes minimum wage rates for most categories of labor and requires substantial bonuses for overtime work. Panama has a substantial informal sector, some of whose workers earn below the minimum wage. A tripartite commission (government, labor, and business) is now reviewing the minimum wage rate for possible revision upward.

The labor code establishes a standard legal workweek of 48 hours throughout Panama and provides for at least one 24-hour rest period. The Labor Code establishes numerous health and safety standards for all places of employment. However, The Ministry of Labor, which is responsible for insuring that employers comply with these regulations, does not have enough inspectors and resources to enforce these laws effectively.

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 an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		900
Total Manufacturing		369
Food & Kindred Products	108	
Chemicals and Allied Products	219	
Metals, Primary & Fabricated	(D)	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	(D)	
Wholesale Trade		402
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		1,671

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

Source: U.S. Department of Commerce, Survey of Current Business, November 1992, Vol. 72, No. 8, Table 11.3

PARAGUAY

Key Economic Indicators

	1990	1991	1992/1/
Income, Production, and Employment			
Real GDP /2/	6,818	6,987	7,056
Real GDP growth rate	3.1	2.5	1.0
Sectorial GDP (pct):			
Agric./forestry/cattle	27.5	26.7	27.2
Manufacturing	16.1	15.9	15.9
Construction	5.2	5.2	5.2
Transport & communications	4.6	4.7	4.6
Commerce & finance	26.4	26.9	26.9
Central govmt.(wages only)	4.5	4.6	4.5
Other	15.7	16.0	15.7
Real per capita income /3/	1,301	1,301	n/a
Labor force (thousands)	1,377	1,597	1,641
Unemployment rate /1/	13.0	11.0	10.0
Money and Prices			
Money Supply /4/	808.2	1,069	1,165
Coml.banks (lending rates pct)	36.0	27.0	31.5
Savings rate (as a pct of GDP)	16.9	18.3	19.5
Investment rate (as a pct of GDP)	23.0	25.0	n/a
Consumer price index (pct change)	44.1	11.8	20.9
Wholesale price index (pct change)	67.2	12.4	-
Annual average exchange rate (guaranis/USD)	1,225	1,324	1,450
Balance of Payments and Trade			
Total exports FOB /5/	958.6	736.9	719.0
Total exports to U.S. /5/	39.40	34.22	31.0
Total imports CIF /5/	1,352	1,460	1,333
Total imports from U.S. /5/	146.7	375.1	n/a
Aid from U.S. /5/	1.5	1.2	1.5(est)
Aid from Japan /1/5/	20.2	23.4	n/a
Aid from Germany /1/5/	7.1	5.7	n/a
External public debt /5/	1,725	1,758	1,600
Gold and foreign exchange reserves /5/	673.0	994.9	n/a
Balance of payments /1/5/	170.0	52.6	n/a

/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 has a population of approximately 4.5 million, an annual population growth rate of 2.8 percent, and total land area of 154,047 square miles. It is predominantly agricultural with vast hydroelectric potential. The country has a small domestic market limited by the size of its population. Nevertheless, as a member of the recently created regional common market (MERCOSUR), Paraguay will have access to 200 million consumers at the end of 1994.

The heavy reliance on a few agricultural products, primarily cotton, soybeans, and cattle, makes the economy extremely vulnerable to the vagaries of weather. In addition, the industrial sector does not have adequate capacity to transform primary agricultural products for export. Paraguay has abundant electricity from the Itaipu Dam. It uses less than five percent of this electricity; Brazil buys the excess. This resource has become an important source of foreign exchange. Paraguay also exports cotton, soybeans, beef, vegetable oils, and lumber, and imports foodstuffs, machinery, transportation equipment, fuels and lubricants, and textiles. Paraguay's principal trade partners are Brazil, the United States, Japan, Argentina, Chile, and Western European countries. In 1991, total registered exports amounted to $736.9 million and total registered imports were $1,275.3 million.

During the 1980's the economy experienced a series of peaks and valleys. The decade began with the final two years of rapid construction of the Itaipu Dam (with the largest hydroelectric generating capacity in the world) fueling annual growth of ten percent. From this peak, the economy alternated periods of recession with modest growth. The 1988-1989 period saw solid economic growth averaging five percent per annum. During 1990 and 1991, the pace of expansion sustained in the preceding two years began to slow. Several internal and external factors have reduced growth projections for 1992. Lower production of the main export crops, cotton and soybeans, and the flooding of vast agricultural areas combined with a tight monetary policy and weak international prices for major commodities have been the primary causes of lower growth.

The coup d'etat in February 3, 1989 marked the end of 34 years of General Stroessner's dictatorship and the beginning of a transition to democracy. The new Rodriguez administration has implemented an economic reform program to liberalize the economy and restore confidence in the country among domestic and foreign investors. The government eliminated multiple foreign exchange rates together with foreign exchange controls, unified the exchange rate, and established a freely floating rate. At the same time, the government freed interest rates and authorized new savings instruments. The new government reduced expenditures to eliminate the deficit. The government eliminated price controls to encourage efficiency in the allocation of resources and to reduce market distortions. In addition, the government introduced tax incentives to encourage and attract investment, both domestic and foreign.

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Since late 1990, the government of President Rodriguez has given top priority to the fight against inflation. To reduce inflation, the Central Bank reduced the money supply and restricted the credit to both the public and the private sector. At the same time, the Government has made control of government expenditures one of its top priorities. It reduced the budget deficit in 1989, ran budget surpluses in FY 1990 and FY 1991, and projects a small budget deficit for 1992. As a result of these measures, the annual inflation rate fell from 44.1 percent in 1990 to 11.8 percent in 1991, the lowest level in Paraguay in the last nine years. In late 1991, the Government began to ease fiscal and monetary policies, in part responding to bad weather and declining export prices. The less restrictive monetary policy implemented during 1992 lead to an inflation rebound. The Central Bank estimates that 1992 will end with an inflation rate between 18 to 21 percent.

2. Exchange Rate Policy

Currently, Paraguay does not have foreign currency exchange controls. Foreign currency may be freely acquired at banks and exchange houses. While the government has established a freely floating foreign exchange rate, the Central Bank occasionally intervenes in the market to avoid unusual fluctuations. During 1990 and 1991, the high interest rates offered in the local market attracted millions of speculative dollars to Paraguay that effectively contributed to the appreciation of the guarani against the dollar. During this period, the Central Bank played an active role in the exchange market buying millions of dollars in order to avoid the overvaluation of the guarani. The overvaluation of the local currency against the U.S. dollar made U.S. exports more competitive in Paraguay. During 1992 the guarani has depreciated gradually following the pace of inflation.

3. Structural Policies

Pricing Policies: Economic incentives and resource allocation in general are guided by the price mechanism. Important progress has been made by the Rodriguez administration in liberalizing 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 government has power to set the price of public transportation. The minimum monthly wage is also fixed by the government.

Tax Policy: To reduce tax evasion, the government implemented a new tax code in early 1992. The new law simplified the tax system, reduced incentives to evade taxes, and expanded the tax base. It also reduced the number of taxes from 84 to 7. Like the former tax system, the new one relies primarily on indirect taxes. In July 1992, the government imposed a value added tax (VAT), the cornerstone of the new tax system. The new tax code also contained an income tax on corporations.

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The government also 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. Since its implementation in 1989 until the end of the first semester of 1992, more than 1,200 investment projects, both national and foreign, have been benefitted by this law. These investment projects add up to about $680 million and will contribute to the creation of about 32 thousand new jobs.

Regulatory Policies: On June 25, 1992 the government implemented a sweeping import tariff reform. The measure included sharp reductions on customs duties and elimination of administrative barriers to promote trade. The domestic industrial sector reacted by pressuring the government to reverse its decision to implement the reforms. As a result, the government decreed on July 10 a temporary import prohibition on a wide range of agricultural products, which compete with domestic agricultural production. In addition, the government also decreed July 16 a tariff increase on a wide range of items. Both measures seek to protect domestic producers from foreign competitors. According to the Minister of Industry and Commerce the import ban will be lifted in January 1993. So far, there is no evidence of any negative effect on U.S. exports.

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 level of scheduled debt servicing represented 92 percent of total registered exports. Since 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 $1,758 million at the end of 1991, the smallest foreign debt in Latin America. At the same time, its foreign reserves increased 45 percent from $676 million in 1990 to $977.5 million at the end of 1991. All attempts by the Rodriguez government to negotiate a standby agreement with the IMF failed. In 1992, the government, through a largely unorthodox approach, reduced external debt with both commercial and official creditors. This was done primarily by repurchasing a sizeable amount of the delinquent commercial debt in the secondary market at a substantial discount. In addition, during the second semester of 1992, the government reached agreements with France, United Kingdom, and Spain on the payment of Paraguay's total official arrears. Paraguay is negotiating similar arrangements with other official creditors.

PARAGUAY

5. Significant Barriers to U.S. Exports

The U.S. maintains a healthy trade surplus with Paraguay. From a base of $36.3 million in 1983, U.S. exports to Paraguay rose to $375.1 million at the end of 1991, a 933.3 percent increase. New U.S. products appear daily. Paraguayan consumers have strong preference for U.S. products with their excellent reputation for quality.

Import Licenses: Paraguay generally does not require import licenses. However, foreign goods competing with goods manufactured by local producers may be subject to restrictive treatment. Such treatment may consist of temporary import bans in order to protect local producers. In practice, such import bans most often are imposed on seasonal agricultural products competing with domestic production.

Service Barriers: Law Decree No. 26504 dated January 8, 1963, regulates broadcasting services in Paraguay. Article No. 6 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. For example, goods made in the United States must to be marked "made in the U.S.A." before they are shipped.

Investment Barriers: Paraguay generally maintains an open door policy to attract foreign investment. 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. Generally, U.S. companies are allowed to bid on government financed projects through a local representative or agent. When no more than one firm bids on a particular bid announcement, the government must call up to 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. Several U.S. companies brought to the attention of the U.S. Embassy instances of questionable practices and irregularities detected in the selection of bid proposals in a number of bids. In one instance the government withdrew the proposals under study and issued another bid.

Custom 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 a handicap for Paraguayan exporters, and is not seen as a discriminatory measure against imports.

6. Export Subsidies Policies

Preferential Financing for Major Crops: The government with Central Bank resources provides preferential financing to growers of soybeans, cotton, and wheat. Paraguay's economic activity is highly dependent on the performance of these crops. In 1992 the government implemented for the first time a subsidy package for cotton producers to support cotton's price in the domestic market.

Tax Exemption to Encourage and Promote Manufactured Products: The government 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 (Law No. 90/90, effective December 1990). 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

The lack of effective enforcement of existing laws contributes to the widespread violation of patent, trademark, and copyright laws. In addition, the judicial system does not have judges with adequate understanding of intellectual property issues. Paraguay subscribed in 1992 to the Berne Convention concerning copyrights.

Patents: The Government of Paraguay intends to introduce a new patent law. The current legislation, which is inadequate, states that every new discovery in any type of industry, except pharmaceuticals, whether foreign or domestic, confers upon its author the exclusive right to fully exploit the discovery for a period of 15 years. The law also contains onerous compulsory licensing and local "working" provisions. In principle, foreign patents must be registered with the office of patents of invention and are subject to the same treatment as national patents.

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, particularly shoes and designer clothing. We do not have estimates about the dollar amount of these illegal activities.

Copyrights: Paraguay recently became a signatory to the Bern Convention for the protection of literary and artistic works. However, in Paraguay there is widespread production and trade in pirated sound recordings and 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 racket. The government, pressed by the licensed international recording companies and the U.S. Embassy, has been taking some actions in order to eradicate piracy. As a result, on September 26, 1992, officials from the Ministry of Industry and Commerce confiscated 950 counterfeited cassettes from a shop in Asuncion. The government has stated that it will put an end to the pirating of sound recordings by January 2, 1993.

Semiconductor Mask Works: 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.

The Recording Industry Association of America (RIAA) estimates that trade losses due to piracy of sound recordings in Paraguay alone amount at over $200 million per year.

8. Worker Rights

a. Right of Association

Since Paraguay was reinstated in February 1991, as a beneficiary under the U.S. Generalized System of Preferences (GSP), the GOP has shown some real improvements in the recognition of worker rights. The June 1992 constitution embedded principles such as the right to unionize and the right to strike for both public and private sector workers, excluding security forces. On the other hand Paraguay failed to pass a labor law that would have codified those rights, and many workers who sought to form unions were discriminated against by employers, and frequently were fired, albeit less so than in previous years. The judicial system was still slow in responding to worker complaints.

b. Right to Organize and Bargain Collectively

The constitution of June 1992 opened the door for union organizations and collective bargaining in both public and private sectors. More unions signed collective bargaining agreements in 1992 than at any other time in Paraguayan history. However, the absence of a functioning labor code did not help many union organizers to feel more secure in this new environment, and many business managers became more entrenched in their anti-labor sentiments.

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 from 15 to 18 years of age can be employed only with parental authorization and cannot be employed in dangerous or unhealthy conditions. Children between 12 and 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 selling newspapers, shining shoes, cleaning car windows, and so forth. In rural areas, it is not unusual for children as young as 10 to work beside their parents cutting sugar cane.

PARAGUAY

e. Acceptable Conditions of Work

The executive branch established 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 has been estimated that 60 to 80 percent of Paraguayan workers earn less than the decreed minimum. A new effort by the Justice and Labor Ministry to enforce the payment of minimum wage met with mixed results.

The Ministry of Justice and Labor has statutory responsibility to govern conditions of safety, hygiene, and comfort. While the government made strides in this area, increasing the number of inspections, they had limited success due to fiscal and personnel constraints.

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 an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		-28
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals and 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 Eocnomic Analysis, November 1992

PERU

Key Economic Indicators

(millions of U.S. dollars unless otherwise noted)

	1990	1991	1992 est
INCOME, PRODUCTION, EMPLOYMENT			
REAL GDP (1979 USD)	14,532	14,909	14,462
REAL GDP GROWTH RATE (PCT)	-4.5	2.6	-3.0
GDP BY SECTORS:			
(MILLIONS OF NEW SOLES)			
AGRICULTURE	421.7	430.8	400.6
FISHERIES	37.8	33.5	28.5
MINING	390.8	371.5	349.2
MANUFACTURING	714.9	760.8	707.5
CONSTRUCTION	215.1	210.7	221.2
GOVERNMENT	282.2	262.0	272.5
OTHERS	1259.5	1338.2	1324.8
PER CAPITA GDP (CURRENT USD)	1,093	1,138	1,150
LABOR FORCE (THOUSANDS)	7,699	7,938	8,184
UNEMPLOYMENT (PCT)	8.3	9.1	16.5/1
MONEY AND PRICES (END-OF-YEAR)			
MONEY SUPPLY (M1)			
(MILLIONS OF NEW SOLES)	420.8	945.4	1,300
BANK LENDING RATE(ANNUAL USD)	12.45	21.98	17.30
BANK SAVINGS RATE(ANNUAL USD)	7.84	8.54	6.34
CONSUMER PRICES (PCT CHANGE)	7,650	139	55
WHOLESALE PRICES (PCT CHANGE)	6,534	130	60
EXCHANGE RATE (SOLES/USD)			
OFFICIAL	0.53	1.10	1.70
PARALLEL	0.53	1.10	1.70
BALANCE OF PAYMENTS AND TRADE			
TOTAL EXPORTS FOB	3,276	3,307	3,300
TOTAL EXPORTS TO U.S.	803	778	800
TOTAL IMPORTS FOB	2,885	3,515	3,900
TOTAL IMPORTS FROM U.S.	778	840	900
AID FROM U.S.	83.1	187.9	113
EXTERNAL PUBLIC DEBT /1	19,762	20,732	21,500
DEBT SERVICE PAID	140	909	600
DEBT SERVICE DUE	1,694	N/A	N/A
FOREIGN EXCHANGE RESERVES	531	1,304	1,700
BALANCE OF PAYMENTS	136	1,260	N/A

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 Government of President Alberto Fujimori continues a comprehensive economic stabilization and restructuring program begun following his inauguration on July 28, 1990. President Fujimori inherited a country with no international reserves and shunned by the international financial community. The economy was in deep recession with GDP down 23 percent over the 1988-90 period and inflation accelerating alarmingly.

The Fujimori Government has taken action to correct price distortions, liberalize trade, investment, and foreign exchange regimes, and reduce the size of the public sector. The goal of the program is to reduce inflation to international levels and create conditions for sustained economic growth. By early 1993, Peru should clear its arrears with the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD) of over $900 million with each institution.

The rigorous monetary and fiscal policies of the government have exacerbated the recession, and real GDP is forecast to decline about three percent for 1992. Inflation was reduced to the lowest monthly level in 12 years in September, and should total about 55 percent for the year, down from 139 percent in 1991 and 7,650 percent in 1990. The El Nino weather phenomenon contributed to the recession by producing a two-year drought that stunted agricultural production and severely reduced electrical generating capacity. Fishing was also adversely impacted.

The slight fiscal deficit as a result of capital expenditures has been financed by the Inter-American Development Bank and bilateral donors. The Central Bank does not finance the fiscal deficit. Through reform and more rigorous enforcement, the government has raised tax revenues from four percent of GDP in mid-1990, to about nine percent of GDP in 1992. The government has been seeking to reinject $300 million fiscal surplus built up during the first half of 1992 into the economy, primarily by raising salaries for health and education workers and increasing social and infrastructure spending.

The government's ability to manage monetary policy has been limited by the increasing "dollarization" of the Peruvian economy. Without capital and exchange controls, dollars now account for over 60 percent of the liquidity in the economy. The Central Bank uses the tools of emission, open market operations, and rediscounts to control the money supply, and affect interest and exchange rates. Since there is little demand for Soles, however, changes in Sol liquidity in the financial system have their main impact on the exchange rate.

On April 5, 1992 President Fujimori dissolved the national legislature and suspended portions of the 1979 Constitution. His "auto-coup" was widely condemned by the international community, and the United States and some other countries suspended economic (non-humanitarian) assistance to Peru. The extent to which international donors resume their assistance to Peru will depend upon the speed with which the governemnt returns the country to democracy.

2. Exchange rate Policy

The Fujimori Government liberalized the exchange rate regime, eliminating multiple rates and other distortionary policies. The exchange rate is now determined by market forces, with Central Bank intervention. No restrictions exist on purchase, use, or remittance of foreign exchange. Exporters and importers are not required to channel their foreign exchange transactions through the Central Bank and conduct their transactions freely on the open market.

The value of the Sol is considered to be at least 20 percent above its long-term purchasing power parity. The government fears too abrupt a devaluation would result in a resurgence of inflation, however. The Central Bank seeks to devalue the Sol slightly more than inflation each month, ceasing dollar purchases and conducting open market operations when it feels the devaluation has overshot. United States exports have been price competitive in the Peruvian market due to the strong Sol. With a real devaluation of the Sol in recent months, exporters, especially in the mining industry, have begun to feel a positive impact of devaluation.

3. Structural Policies

Dramatic market-oriented structural reforms are underway in Peru, although much remains to be done. Subsidies have been eliminated and regulatory regimes have been streamlined in most sectors. Other important measures have been taken to liberalize the trade, investment, and labor regimes.

The number of taxes has been reduced, and a major revision of the tax code is pending. The government has succeeded in increasing revenues from income taxes but continues to rely heavily on value added and other sales taxes. Firms located in border or jungle areas are exempt from value added taxes.

Privatization or liquidation of parastatals is underway. The privatization process has been slow and uneven due to the depressed state of the economy and the high indebtedness of many government-owned enterprises. By the end of November 1992, the government had raised about $190 million from privatization. The government plans to sell the state airline, AeroPeru, telephone companies, and key units of parastatal mining companies by the end of 1993.

The government seeks to attract both foreign and domestic investment in all sectors of the economy. Infrastructure has been neglected for years and the recession has inhibited investment. As the economy improves, U.S. producers of a wide range of products, particularly capital goods, will benefit.

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4. Debt Management Policies

The Fujimori government initiated Peru's reinsertion into the international financial community in September 1991 with the clearing of $300 million in arrears to the IDB, the negotiation of arrears clearance programs with the IMF and World Bank, and a Paris Club agreement to reschedule almost $6 billion of bilateral debt. A Support Group led by the United States and Japan pledged $1.1 billion to Peru for the 1991-92 period to cover the expected external financing gap. Peru is expected to successfully complete its programs with the IMF and World Bank and clear its total arrears of about $1.8 billion to those institutions by early 1993. Peru is negotiating an Extended Fund Facility with the IMF for the 1993-95 period.

Peru will have a significant external financing gap in 1993, currently estimated at $400 million. Peru will approach the Paris Club for another rescheduling in early 1993. The government recently signed "tolling agreements" with the commercial banks, and hopes to begin discussions on rescheduling its estimated $6.5 billion debt to the banks, including arrears, in early 1993. Peru's total medium and long-term foreign debt, including arrears and interest on arrears, is over $22 billion. Debt service paid in 1991 was 27 percent of exports. Even with extremely generous reschedulings, debt service will be a heavy burden for many years.

5. Significant Barriers to U.S. Exports

Through its structural reform program, the government has reduced substantially barriers to U.S. exports and direct investment. Import licenses are no longer required. No quantitative ceilings on imports exist currently. Ad valorem tariff rates are 15 and 25 percent. The average tariff rate is 17 percent, down from 80 percent when President Fujimori took office. The government has announced its intention to reduce tariffs further.

Import tariff surcharges remain on 18 categories of dairy products and agricultural commodities. The surcharge on 12 of these items is a variable import levy, based on a band of prices determined weekly by the Agriculture Ministry. Three categories of dairy products are subject to per ton surcharges which have not varied in recent months. The remaining products (corn and sorghum) are subject to a flat 10 percent surcharge. Imposed in May 1991, the government describes these surcharges as antidumping duties to protect Peruvian farmers from subsidized international competition. The surcharges effectively limit the access of U.S. farm products to the Peruvian market.

Peru has a more flexible and less comprehensive regimen of standards, testing, labelling, and certification than the United States. A protracted testing procedure overseen by the Ministry of Health for pharmaceutical imports has been greatly streamlined. There are several restrictions on foreign provision of audiovisual services, professional and

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advertising services, tourism services and insurance. The government monopoly in the reinsurance industry has been abolished.

Peru has removed itself from Andean Pact efforts to develop a free trade zone and a common external tariff until the beginning of 1994, arguing that other Pact members were not complying with Presidential commitments on integration policy. The government is pursuing bilateral trade agreements with the other Pact members to run through 1993. It is not clear yet whether U.S. exports will be affected by these agreements, although most of the products to be covered had been entering Peru at a zero-tariff rate under the Andean Pact.

Foreign investment is subject to national treatment, with minor exceptions. Foreign investment is permitted in industries essential to national security, or within 50 kilometers of Peru's borders with prior approval. Otherwise, no authorization or prior registry is required for foreign investment. All restrictions on remittances of profits, royalties, and capital have been eliminated. Foreign investors have the same access to local financing as Peruvian nationals, except in the petroleum sector where foreign investors must finance their activities from abroad. This restriction is currently irrelevant, however, as Peruvian interest rates are significantly higher than international rates.

To stimulate private investment, Peru offers foreign and national investors juridical stability agreements guaranteeing current statutes on taxes, labor matters, environmental regulations, etc., will remain unchanged for that investment for 10 years. To qualify, an investment must exceed $2 million or meet certain employment or export conditions. There are no performance requirements for foreign investment, however, unless an investor wants a juridical stability agreement and invests less than $2 million. Investors are also offered protection from liability for acquiring state-owned enterprises. An OPIC agreement is under negotiation with Peru.

The government signed a compensation agreement in December 1991 for the 1985 expropriation of the assets of a U.S. oil producer. Implementation of that agreement is still pending, however.

Government procurement is normally handled by public international tender. For procurements of less than $10,000 or by state companies declared in a state of emergency, bid is by invitation and exempt from many of the published procurement regulations. There is no statutory obligation to buy Peruvian goods or services. Preferential treatment for domestic suppliers is restricted to situations where goods or services offered by bidders are substantially identical. Foreign bidders must have a registered local representative. In the case of construction bids, the local agent must have been duly registered at least one year before solicitation. Greater transparency in government procurement has helped U.S. exporters. A U.S. firm recently won a major bid for a power generation plant. Although once popular in its trade with the former Communist Bloc countries, Peru no longer uses countertrade.

To combat under-invoicing, Peru now requires imports of $2,000 or more to be inspected by designated independent contractors at the port of embarcation. A fee of one percent of the export's value for the evaluation service is assessed. Peruvian importers have criticized this measure for increasing their costs and delaying imports, although we have received no complaints from U.S. exporters. Port and customs administration has been streamlined, although Peruvian port fees are still considered the highest in Latin America. Recent customs regulations changes have reduced from 27 to 10 signatures and from six to three days required to deliver imports in the hands of vendors. Imports of medicines, items for Peruvian national security, or perishable items have a "same day" customs clearance process. Peruvian customs is faulted for a lack of sufficient computerized operations, the profusion of private customs brokers clogging the clearance process, and its inability to staunch the heavy flow of contraband goods from Chile and, to a lesser extent, from Bolivia and Ecuador. Estimates of contraband range up to $1 billion per year. Enhanced efforts to combat contraband, little of which is of U.S. origin, could help U.S. exports.

6. Export Subsidies Policies

The Government of Peru provides no export subsidies. The Andean Development Corporation provides limited financing to exporters at rates lower than available from Peruvian banks, although above rates available to U.S. companies. A limited drawback regime for certain exports exists, and may be expanded as government revenues increase. Exporters of nontraditional and mining products can apply certain sales and consumption taxes paid on inputs as a credit against income and asset taxes. Peru is not a signatory to the GATT subsidies code.

7. Protection of U.S. Intellectual Property

Intellectual property is not adequately protected in Peru. Legislation and enforcement of intellectual property rights (IPR) are weak. Peru was placed on the Special 301 Watch List in 1992. Peru is a signatory to various conventions for the protection of copyrights and trademarks and is a member of the World Intellectual Property Organization. The government is studying accession to the Paris Convention for the Protection of Industrial Property.

Andean Pact Decision 313 regarding IPR is in effect in Peru. While Decision 313 lifts restrictions on the patentability of most pharmaceuticals, it permits member countries to delay granting of pharmaceutical patents for up to 10 years and excludes from patentability a list of essential medicines compiled by the World Health Organization. Decision 313 also lacks transitional (pipeline) protection and contains broad compulsory licensing provisions. The government is considering draft legislation to strenghten Decision 313, but this is strongly opposed by local pharmaceutical manufacturers.

Counterfeiting of trademarked property in Peru is prevalent. Registering a trademark is fairly straightforward. As a practical matter, local legal counsel must be obtained to register a trademark. Because there is only rare, disjointed regulatory enforcement, however, trademark owners have little security and unauthorized copiers have little to fear from infringement.

Copyrights, too, are widely disregarded. Textbooks and books on technical subjects are rampantly copied and illegal copies of audio cassettes are widely available. Pirated videos of motion pictures comprise the inventories of nearly all video rental outlets. Peruvian experts estimate that over 5,000 shops in Lima rent or sell, exclusively, pirated videos.

Although computer software appears to be protected by Peruvian copyright law, pirated computer software also is widely available. Peruvian computer hardware merchants often load pirated software programs to secure sales. A local magazine recently published a laudatory article about the business acumen of a 12-year-old enterpreneur who hustled pirated computer disks of video games. With the exception of video cassettes, it appears most copyright piracy is locally generated and consumed. Recent confiscations of pirated videos included products imported from Taiwan and the Philippines.

Peruvian law does not protect semiconductor chip layout designs. We are not aware of any infringement of integrated circuits or semiconductor chips, however. Freebooting of broadcast satellite signals may exist privately, but we have no evidence of illegal signal capture being commercialized.

The government is seeking to improve enforcement of copyright laws and to reorganize and simplify IPR regulation. Creative judicial decisions, however, have found pirates innocent in the rare instances where copyright enforcement advanced beyond confiscation of the pirated merchandise.

The losses to U.S. business due to inadequate IPR protection are difficult to quantify. The International Intellectual Property Alliance estimates U.S. trade losses due to copyright piracy in Peru, not including computer programs, at over $30 million. United States companies have clearly suffered negative effects from the lack of pharmaceutical patents in Peru's estimated $250 million pharmaceutical market.

8. Worker Rights

a. Right of Association

The Constituent Assembly which was elected on November 22 is to rewrite the 1979 Constitution. That Constitution provided for freedom of association and, with the exception of judiciary, police, military, and military parastatals, the right to form trade unions without prior authorization. A labor union may be suspended or dissolved under the 1979 Constitution only upon request of the union or upon cancellation of its registration. Unions, industry-wide federations, and confederations all freely affiliate with international labor organizations.

A comprehensive labor law was promulgated in 1992, which for the first time defines, and inherently limits, the nature of a trade union. President Fujimori has declared that the new law is necessary to establish a free and competitive labor market which will increase investment and employment. The new law, as clarified by implementing regulations, does not require prior government authorization to form a union, but provides for a legal recognition process. It allows for multiple forms of unions across company and professional lines, thus permitting multiple unions in the same company. The 1992 law enumerates the types of activity in which unions may engage, but prohibits political activity, coercion, or illegal use of union funds, and imposes new record-keeping and reporting obligations on unions. Candidates for union office must be employed at least one year in the company. Private and public sector unions in the same field may not join together. Workers in probationary status or on one year contracts are not eligible for union membership. It is estimated that 60 percent of the country's labor force works in the informal sector. In the formal Peruvian economy, probably less than 15 percent of the labor force is organized.

The 1979 Constitution provides the right to strike "according to law." The new law establishes that strikes may be called only after approval by all workers, not just union members, voting with secret ballots. Strikes in essential public services must provide sufficient workers, as determined by the employer, to maintain operations. The 1992 law specifies the conditions under which a strike may be declared illegal, which include striking in defiance of an order not to strike, any violence, strikes in the public sector except as noted above, or failure to terminate a strike following an agreement to terminate. Most strikes in Peru in recent years have been determined to be illegal by the Executive.

Several complaints against Peru involving freedom of association or collective bargaining restrictions were examined by ILO supervisory bodies in 1992. The Governing Body at several of its meetings, for example, expressed deep concern at allegations of murders, disappearances, and attacks on teacher trade unionists during a strike in 1991, and urged the Government to determine the whereabouts of four missing trade unionists. At year's end the Governing Body had under examination another complaint dealing with military and police intervention at trade union headquarters and the detention of trade union officials during the emergency measures of April. Union activists have also been threatened by terrorist groups. In December Pedro Huillca became the third CGTP (define acronym) leader to be murdered in 1992 in a terrorist type attack.

b. Right to Organize and Bargain Collectively

While the right to bargain collectively is constitutionally guaranteed, there are restrictions. Under the 1992 law bargaining agreements are now considered contractual agreements valid only for the life of the contract. Productivity provisions must be included in any collective bargaining agreement. The amount of time union officials may devote to union work with pay is limited to 30 days per year. If there is no existing labor contract at the professional or industry level, unions must negotiate with each company individually, unless the affected employers agree to industry-wide negotiations.

Unions must present their contract demands 30 to 60 days before expiration of existing contracts. Employers are now required to disclose essential financial data to unions, which unions are required to keep confidential. The union can request binding arbitration, and the Labor Ministry can choose an arbitrator if parties cannot agree. Workers, however, can opt for a strike in lieu of arbitration, but this has not yet been tested. The Ministry can impose compulsory binding arbitration in the case of essential services if agreement is not reached through negotiations or conciliation.

"Certain workers," not further defined, are protected against arbitrary dismissal under the 1992 labor law. Although discrimination against union members or organizers is illegal, employers make full use of various legal mechanisms to minimize a union presence. In practice outright harassment of union members by employers is uncommon. Union activists have been threatened by terrorist groups. Labor laws and regulations are applied uniformly throughout the country.

c. Prohibition of Forced or Compulsory Labor

The constitutional prohibition against compulsory labor is generally respected. In 1991 a Penal Code provision was repealed under which a judge could commit a "savage" to a penal agricultural colony involving compulsory labor for an unspecified period up to 20 years, irrespective of the maximum sentence that would be applicable if his crime had been committed by a "civilized man." The Government's presence outside of metropolitan areas is, however, limited. In the past there have been unverified reports of compulsory labor on plantations in remote areas. Sendero Luminoso also engages in forcible recruitment of cadres and workers.

d. Minimum Age for Employment of Children

Children under 14 may not be legally employed. Children ages 16-21 may constitute up to 15 percent of a company's work force and may be employed for periods not to exceed 18 months. Workers between 14-24 must have completed their primary schooling before being hired in apprentice programs and are entitled to receive the minimum wage. Minimum age laws for child employment are not widely enforced. Children of all ages work in the informal sector.

e. Acceptable Conditions of Work

Most wages lag behind the cost of living and many Peruvians must seek secondary employment to supplement their incomes. The legal minimum wage is insufficient to provide basic requirements for a worker and family. Economic conditions have not improved since a September 1990 World Bank report indicating that 55 percent of all Peruvians live in extreme poverty.

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, including 24 hours rest per week and 30 days paid annual vacation. Given job competition, however, these and other benefits are readily sacrificed in exchange for regular employment.

There are government standards for industrial health and safety, but they are rarely enforced either by the employers or by the Government which has no inspectors. Accidents are common, and there is usually no emphasis on prevention. When accidents occur, however, employers normally provide at least minimal compensation voluntarily.

f. Rights in Sectors with U.S. Investment

Labor laws and regulations are formulated by the national government and apply uniformly throughout Peru. Legal rights accorded workers in industries with U.S. investment are the same as worker rights in other industries.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		-37
Total Manufacturing		58
Food & Kindred Products	-2	
Chemicals and Allied Products	24	
Metals, Primary & Fabricated	27	
Machinery, except Electrical	0	
Electric & Electronic Equipment	(D)	
Transportation Equipment	0	
Other Manufacturing	(D)	
Wholesale Trade		109
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		130

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

Source: U.S. Department of Commerce, Survey of Current Business, November 1992, Vol. 72, No. 8, Table 11.3

TRINIDAD AND TOBAGO

Key Economic Indicators

(In Millions Of U.S. Dollars Unless Otherwise Specified)

	1990	1991	1992 1/
Income, Production, Employment			
Real GDP (1985 market prices)	3705.6	3805.3	3813.3
Real GDP Growth (percent)	-0.5	2.7	0.2
GDP (current market prices)	4970.6	4936.1	5232.3
GDP (current prices) by sector			
Petroleum products	1133.3	1125.4	1193.0
Agriculture	128.4	126.4	136.0
Electricity and Water	73.0	83.4	88.9
Manufacturing	441.3	484.5	512.8
Construction	391.0	455.6	481.4
Government	538.4	592.2	627.9
Transport, Storage and Communications	456.3	471.0	497.1
Financial Services	454.4	478.2	507.5
Other	810.2	804.6	852.9
Real per capita GDP	2917.8	2926.9	2933.0
Labor Force (,000)	467.7	492.4	504.0
Unemployment Rate (percent)	20.0	18.9	20.6
Money and Prices			
Money Supply (M2) (TTD)	9225.9	9656.6	9173.8
Base Interest Rate	12.9	12.9	15.5
Personal Saving Rate	6.0	6.0	6.1
Retail Inflation	11.1	3.8	7.0
Wholesale Inflation	1.4	0.2	1.5
Consumer Price Index (quarterly avg; 9/82 = 100)	223.4	232.0	250.0
Exchange Rate (USD/TTD)			
Official	4.25	4.25	4.25
Balance of Payments and Trade			
Total Exports FOB	2080.5	1985.0	2000.0
Total Exports to U.S.	1144.0	965.3	1150.0
Total Imports CIF	1208.5	1667.0	1750.0
Total Imports from U.S.	501.3	647.9	700.0
Aid from U.S.		None Provided	
External Public Debt (yr end)	2519.5	2432.5	2300.0
Annual Debt Service Paid	243.4	243.7	600.0
Gold and Foreign Exchange Reserves (year end)	187.5	23.8	-50.0
Trade Balance	872.0	318.0	250.0
Balance with U.S.	642.8	317.4	450.0

1/ Estimated based on 2nd Quarter 1992 data when available.

1. General Policy Framework

The dual-island parliamentary Republic of Trinidad and Tobago (TT) is endowed with rich deposits of oil and natural gas. During the oil boom of the 1970s, Trinidad and Tobago

TRINIDAD AND TOBAGO

became one of the most prosperous countries in the Western Hemisphere. Oil revenues enabled the nation to embark on a rapid industrial and infrastructural development program and to strive for a "mixed economy." Government investment in state-owned and -controlled corporations played a major role. The oil wealth also fueled a dramatic increase in domestic consumption. However, the collapse of the oil boom in the 1980s caused a severe decline in Trinidad and Tobago's economy, which did not bottom-out until 1990.

Recent GDP figures indicate that the economy has turned around, registering growth of 2.7 percent in 1991. But high debt-service payments, coupled with a continuing drain on TT's foreign exchange reserves, have forced the government to pursue a tight monetary policy. The resultant high interest rates have stifled local investment, and GDP growth in 1992 is expected to be only minimal. Unemployment continues to hover at around 21 percent, and is expected to rise as state enterprises retrench in an effort to become profitable, as local manufacturers face increased competition from abroad, and as public utility workers are laid off as a condition for international financial institution loans.

Trinidad and Tobago is highly import-dependent. Products imported cover a broad range of goods from its major supplier, the United States, and other developed countries. Trinidad and Tobago's 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 local natural gas and gas-derived electricity). In most other industries the country is a relatively inefficient and high-cost producer. Until mid-1992, Trinidad and Tobago relied on import licensing and foreign exchange controls to protect local industries and agriculture, a policy that is now being dismantled.

The Government of Trinidad and Tobago uses a standard array of fiscal and monetary policies to influence the economy. From late 1988 to early 1991, fiscal measures were applied in conformance with an International Monetary Fund (IMF)-monitored program.

On the revenue side, the government instituted a 15-percent value-added tax on January 1, 1990. To bring the 1992 budget into balance, corporate and personal income taxes, which had been reduced by the previous government, were raised. Beginning January 1, 1993 businesses will also be required to pay a 0.25-percent tax on all sales. Changes in customs procedures are expected to tighten collection and further increase revenues. The government has reduced its deficit from a high of nine percent of GDP in 1987 to one percent in 1991. The government forecasts a balanced budget in 1993.

To control the money supply, the Central Bank adjusts reserve requirements, the volume of currency, and the discount rate, as well as operating in the open-market. The government's efforts have generally been effective, even in the current economic decline: inflation rates during the past five years have remained relatively low, peaking at 11.4 percent in 1989 and falling to 3.2 percent in 1991. Consumer inflation rose to an annual rate of 5.8 percent in the first half of 1992.

2. Exchange Rate Policies

The Trinidad and Tobago dollar is pegged to the U.S. dollar (the currency of its major trading partner) at a rate of TTD4.25/USD1.00 set on August 16, 1988. Despite recent economic pressures to devalue, the government has repeatedly stated its commitment to maintaining the current exchange rate.

The Central Bank administers foreign exchange controls. Since January 1991, importers have been able to apply directly to commercial banks for foreign exchange to pay for imports of visible goods, upon presentation of required Ministry of Trade, Industry and Tourism permission (now freely given) to import goods in a given quantity. Central Bank approval is needed to obtain foreign exchange for the purchase of invisible goods, or for profit remittances and repatriation of capital, primarily as a control on money laundering and tax evasion. The Central Bank normally approves such requests within ten working days.

3. Structural Policies

Pricing Policies: Generally, the free market determines prices. The government maintains domestic price controls on a narrow range of items such as some basic foodstuffs, fuel, school books, and pharmaceuticals. These may act as import barriers if suppliers are unable to meet the established ceiling prices. The range of price-controlled products has been reduced in recent years, and price controls are expected to be eliminated eventually. Until mid-1992, a "Negative List" prohibited the import of certain goods without a license, which was generally issued only to exporters from Caribbean Community (Caricom) member countries. Effective July 1, 1992, however, the vast majority of items on the Negative List were removed. Items formerly on the list are now subject to high tariff surcharges, which will be reduced on January 1, 1993, January 1, 1994, and eliminated on January 1, 1995.

Tax Policies: In a major effort to spread tax burdens fairly and to curb consumption, the government instituted a 15-percent value-added tax on January 1, 1990. Corporate tax rates were raised by 5 percent, to 45 percent, in 1992. The higher rate, intended to be temporary, has been maintained in the 1993 budget. The government's 1993 budget includes substantial tax breaks for construction activity in 1993 and 1994, as well as for export-oriented venture-capital companies. The petroleum tax regime was recently revised to index tax rates to oil prices, and make Trinidad and Tobago a more competitive location for investment. A new tax of 0.25 percent will be imposed on business sales on January 1, 1993.

Regulatory Policies: All imports of food and drugs must satisfy prescribed standards. Imports of meat, live animals, and plants, a large percentage of which comes from the United States, are subject to licensing and specific regulations.

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Firearms, ammunition, and narcotics are rigidly controlled or prohibited. The government and government-owned enterprises generally adhere to an open bidding process for procurement of products and services. U.S. firms often win these bids.

4. Debt Management Policies

By the summer of 1988, government spending on services and large capital projects in excess of revenues had virtually depleted government foreign exchange reserves, forcing the government to devalue its currency and reschedule debt. Between December 1988 and March 1991 the government successfully completed two IMF standby agreements for a total of $231 million in IMF lending. Official debt was rescheduled in the Paris Club, and an was agreement concluded for a $40 million structural-adjustment loan from the World Bank.

As a result of the debt rescheduling, Trinidad and Tobago faces high debt-service payments of over $600 million per annum in 1992, 1993, and 1994. While the government has met every IMF target, it is avoiding a return to the IMF for further balance of payments support. Instead, it is relying on an Inter-American Development Bank (IDB) Investment Sector Loan and a $100 million Eurobond issue to cover 1992 payments, and plans to meet 1993 payments with proceeds from the divestiture of selected state enterprises and continued assistance from the IDB. The government hopes that by tightening its belt and using divestiture proceeds to reduce debt, to get through the three years of high debt-service payments, it will emerge in 1995 with a manageable debt burden of under $400 million per annum.

Total foreign debt now stands at approximately $2.3 billion, or 42 percent of GDP, down from a high of 59 percent in 1989. While the austerity measures now in place reduce government capacity to purchase U.S. goods and services, these same measures are putting Trinidad and Tobago on a stronger macroeconomic footing, which should enhance prospects for increased trade with the United States in the years ahead.

5. Significant Barriers to U.S. Exports

Import Licenses: Effective July 1, 1992 most of the import licensing regime (Negative List) was scrapped and replaced by tariffs. Products still requiring import licenses are certain poultries, swine, beef, mutton, goat and dairy products, fish, wheat flour, rice, vegetables, fruit, coffee and cocoa beans, sugar, most cooking oils and fats, left-hand drive and used vehicles, cigarette paper, and ships and boats under 250 tonnes. Whereas previously licenses to import most products on the negative list were nearly impossible to obtain, with advance notice, licenses are now issued for the import of many of the remaining products, particularly beef and temperate-climate fruits.

Discriminatory tariffs: Imports are subject to the Caricom common external tariff (CET). Caricom leaders recently agreed to lower the CET range to five to 35 percent of CIF value, down from the current range of 5 to 45 percent,

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effective January 1, 1993. The CET range is to be further lowered in yearly stages to 5 to 20 percent by January 1, 1998. In addition, Trinidad and Tobago levies a stamp tax of 20 percent on the CIF value of imports, plus a 15-percent Value Added Tax (VAT) on all retail sales. Most goods that previously benefitted from Negative List protection are subject to supplementary surcharges of up to 55 percent. Effective January 1, 1993, however, the top surcharge will be lowered to 25 percent; becoming 15 percent on January 1, 1994, and zero on January 1, 1995. The stamp tax, too, will be phased out completely by January 1, 1995.

Services Barriers: Most services are subject to the investment criteria outlined in the investment section below. However, within limits, foreign-ownership of service companies is permitted. Trinidad and Tobago currently has one 100-percent U.S.-owned bank, several U.S.-owned air courier services, and one U.S. majority-owned insurance company. The government has expressed interest in attracting another U.S. bank.

Investment Barriers: On August 17, 1990 the "Caricom and Foreign Investment Bill of 1990" became law. The law extends national treatment to Caricom citizens, but not to other foreigners. The law limits foreign equity participation in local companies; restricts foreign ownership of land beyond a limited size; and requires government approval for investments in certain sectors. As a rule, the government strictly controls the number of foreign personnel granted work permits. The government is taking steps, in consultation with the IDB, to revise the 1990 Investment Act and other relevant legislation to reduce investment and some employment barriers in order to attract more foreign investment.

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.

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. In addition, the press has reported allegations of widespread corruption in the Customs Division. The government is actively working with U.S. Customs Service consultants to improve efficiency and revenue collection and to eliminate opportunities for corruption.

6. Export Subsidies 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. Since 1987, there has been no evidence of subsidized Trinidad and Tobago exports to the

United States. The government is not a party to the GATT Subsidies and Countervailing Duties Code.

Effective January 1, 1993 the government will impose a five-percent tariff on the import of all factors of production. Most such products have traditionally been allowed to enter the country duty free. Manufacturers that export, however, may reclaim the duty on the reexport of the imported product. Reclaimants will be given vouchers equal in value to the tariffs previously imposed that can be applied against duties owed on further imports.

7. Protection of U.S. Intellectual Property

Although Trinidad and Tobago's laws appear adequate to protect intellectual property, few resources are devoted to enforcement. Failure in law to provide for minimum statutory damages, recovery of legal costs, and criminal penalties for willful infringement undermines the deterrent value of existing legislation. Trinidad and Tobago is a member of the Universal Copyright Convention and the Convention for the Protection of Producers of Phonograms Against Unauthorized Duplication. It is also a party to the Berne Convention, Paris Act of 1971, the Paris Convention for the Protection of Industrial Property, and the Rome Convention for the Protection of Performers, Producers of Phonograms, and Broadcasting Organizations. As a member of the Caribbean Basin Initiative, the government is committed to prohibiting unauthorized broadcasts of U.S. programs.

Patents (Product and Process): Patents are protected for a period of 14 years, but the President may extend protection by an additional seven years upon application. The current law is grossly outdated: it does not provide for many new technological advances and has few guidelines on which technologies are patentable. A new patent law to address these shortcomings is being drafted.

Trademarks: Trademark law affords protection to registered trademarks for renewable 14-year periods, but the registration process is slow, unreliable and requires two to four years to complete. The current Trademark Act is also slated for review.

Copyrights: The Copyright Act of 1985 authorizes the High Court to enforce copyrights of authors from member nations on the basis of reciprocity. The Copyright Act covers literary, musical and artistic works that are fixed in material form, expressly including computer software and compilations, and protects them from unauthorized adaptation, reproduction, publication, performance, broadcast or distribution for fifty years from the the author's death. Sound recordings, audio-visual works and broadcasts are afforded similar protection by "neighboring rights" for fifty years from the first performance, publication or broadcast.

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 descramblers is a widespread practice among the sector of the population which can afford such equipment. Industry sources estimate that up to 90 percent of all computer software used in Trinidad and Tobago is wholly or partially pirated. Despite reported threats by organizations like the West Indies Film Board of Trade that it was considering action under Trinidadian law against infringing video stores, the Embassy is not aware of any action being taken against recording pirates, possibly because the government does not have the resources to enforce intellectual property laws.

Given the popularity of U.S. movies and music, and the dominance of the United States in the software market, United States copyright holders are the most heavily affected by the lack of copyright enforcement in Trinidad and Tobago, although the market is still relatively small. A large percentage of households own video cassette players; few, however, have access to personal computers.

8. Worker Rights

a. 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 and freely represent their members' interests. Union members are free to choose representatives, publicize their views and determine their own programs and policies. Under Trinidadian law, 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 Labour 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 Labour 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 Labour or may take their cases directly to the Industrial Court. They may also file civil suits against the government. Under Trinidad and Tobago law, no union may represent more than one essential public service to avoid strikes of several essential services at one time.

b. Right to Organize and Bargain Collectively

The constitutional right of workers to organize and bargain collectively is well exercised. Anti-union discrimination is prohibited by law, and trade union property, as is other private property, is protected under law. The Ministry of Labour acts as an impartial conciliator in collective bargaining impasses. Each year brings a few complaints to the Ministry of Labour about private anti-union activities, usually involving the suspension or dismissal of an employee who alleges the action was taken in part because of union activity. The Ministry of Labor is generally able to resolve most cases brought to it.

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 ILO 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. The Probation Service within the Ministry of Social Development and Family Services is the entity responsible for compliance. Education is compulsory until the age of 12, but enforcement appears lax. In practice, if parents do not have the funds to buy required books and uniforms, their children do not attend school.

e. Acceptable Conditions of Work

A minimum wage structure is in place for service-station employees, domestic assistants, and retail-sales personnel; proposed revisions to existing minimum wage legislation are currently under review. Other sectors are not currently protected by minimum wage laws; however, most wages are covered under collective bargaining agreements and provide a decent living for workers and their families. The poorest paid workers usually have secondary sources of support, often from their families. Others drive taxis, sew, or sell in street markets. The standard work week in Trinidad and Tobago is forty hours (44 hours for domestic workers); 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 Factories Ordinance Bill (1948) 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 (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.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		(D)
Total Manufacturing		(D)
Food & Kindred Products	(D)	
Chemicals and Allied Products	(D)	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	*	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	(D)	
Wholesale Trade		20
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

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

* - Less than $500,00

Source: U.S. Department of Commerce, Survey of Current Business, November 1992, Vol. 72, No. 8, Table 11.3

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Key Economic Indicators

(millions of New Uruguayan Pesos unless otherwise noted)

	1990	1991	1992 1/
Income, Production, Employment			
Real GDP (1983 prices) 2/	211,418	215,357	223,971
Real GDP growth (pct)	0.92	1.86	4.0
GDP (at current prices) 2/	9,698,036	19,135,468	33,433,499
By sector (current prices)			
Agriculture	1,091,437	1,794,600	3,075,000
Energy and water	274,902	535,656	1,026,000
Manufacturing	2,544,332	4,812,491	8,247,000
Construction	302,408	726,369	1,245,000
Rents	1,183,034	2,554,671	4,335,000
Financial services	1,282,641	2,406.887	4,165,000
Other services	2,679,633	5,582,141	10,034,000
Government, health and education	899,512	1,683,800	3,027,000
Net exports of goods and services	724,790	717,605	-420,000
Real per capita GDP (1983 prices)	68,327	69,195	71,545
Labor force (000s)	1,355	1,369	1,382
Unemployment rate (percent)	8.5	8.9	9.0
Money and Prices (annual percentage growth)			
Money supply (M2)	91.8	86.8	55.0
Base interest rate 3/	84.0	73.6	51.0
Personal saving rate	31.0	30.0	25.0
Retail inflation	129.0	81.4	57.0
Wholesale inflation	120.7	68.6	54.0
Consumer price index	129.0	81.4	57.0
Exchange rate (New Peso /USD) interbank floating selling rate	98.0	56.1	40.0
Balance of Payments and Trade (U.S. dollar millions)			
Total exports FOB 4/	1,692.9	1,604.7	1,700.0
Exports to U.S.	162.5	162.8	169.0
Total imports CIF 4/	1,342.9	1,636.4	1,841.0
Imports from U.S.	137.0	196.7	200.0
Aid from U.S.	3.9	10.9	1.2
External public debt	4,472.0	4,141.0	4,100.0
Debt service payments (paid)	608.0	813.0	580.0
Gold and foreign exchange reserves (net)	1,054.0	826.5	980.0
Trade balance 4/	350.0	-31.7	-141.0
Balance with U.S.	25.5	-33.9	-31.0

1/ 1992 figures are all estimates based on available monthly data in October 1992.
2/ GDP at producer price.
3/ Figures are actual, average annual interest rates, not changes in them.
4/ Merchandise trade.

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 somewhat 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 successful in reducing its fiscal deficit from 6.1 percent of GDP in 1989 to 1.5 percent in 1991. Principal sources of the deficit are losses by the Central Bank on nonperforming 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 57 percent in 1992.

Seeking to reverse a long-term economic deterioration and to prepare itself for the formation of the Southern Common Market (MERCOSUR) comprising Brazil, Argentina, Uruguay, and Paraguay, the Government is attempting to implement a program of economic reform. Major elements of the Government program are privatization of state enterprises, financial sector reform and reform of the costly social security system.

Main elements of the privatization program are now in doubt. On December 13th, key provisions of the State Enterprise Reform Law, passed in September 1991, were submitted to a popular referendum. Those provisions would have permitted partial privatization of the state-owned telecommunications company (ANTEL), and allowed other state enterprises to grant concessions to, or enter into service contracts with, private bussinesses. A 71.6 percent majority of the electorate voted to overturn those provisions of the law. Thus, the planned injection of private capital into ANTEL and planned concessions by state enterprises, e.g., the state-owned railway's concession of its defunct passenger service to a private carrier, will not now go forward. The referendum did not challenge other provisions of the reform law, which remain in effect. These include the pending partial privatization of the state airline PLUNA, the already completed liquidation of the state fishing company ILPE, and the authority for the state electricity company to purchase power from privately owned sources.

More than repealing certain provisions of the reform law, the vote is widely viewed as a popular rejection of President Lacalle's economic reform program. Campaign rhetoric by principal opponents of the law portrayed foreign investment in a highly negative light.

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. The Central Bank of Uruguay uses the adjustment of reserve requirements as the main tool to control the money supply.

2. Exchange Rate Policy

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 1992 devaluation has lagged about 15 percentage points 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 30 percent to 24 percent in April 1 1992 and will be further lowered to 20 percent as of January 1 1993. This should have a positive effect on U.S. exports.

4. Debt Management Policies

Uruguay is a heavily-indebted middle-income country. As of March 1992, its total external debt was $7.163 billion, practically the same level it was in March 1991. Of this amount, $4.054 billion were public sector debt and $3.109 billion represented debts of the private sector. The public sector external debt included 1.322 billion of dollar-denominated Uruguayan government bills and bonds, $338 million of foreign currency deposits of nonresidents, $1.502 billion of long term loans of the nonfinancial public sector and $155 million of suppliers credits. The balance amounting to $737 million represents liabilities reserves and other credits of the Government of Uruguay financial sector. International reserves of the banking system amounted to $2.210 billion, resulting in a net public sector foreign debt of $1.844 billion.

The $3.109 billion of the private sector foreign debt were primarily made up of $2.082 billion of foreign currency deposits by nonresidents and $305 million of supplier credits. The balance amounting to $722 million represented liability reserves of the private banks. International reserves of the private sector banks amounted to $2.769 billion resulting a net private sector foreign debt of $340 million.

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The debt service in 1991 was $664 million, equivalent to 41.4 percent of total merchandise exports, 27.8 percent of combined merchandise and service exports and 7.0 percent of GDP. In addition, the Government of Uruguay paid $354 million to buy back $628 million of the debt with commercial banks pursuant to the debt reduction agreement under the Brady Plan signed in January 1991 with commercial bank creditors.

A stand-by and loan agreement in the amount of $72 million was approved by the International Monetary Fund in July 1992 covering the twelve month period ending March 31 1993.

5. Significant Barriers to U.S. Exports

Certain imports require special licenses or customs documents. Among these 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. 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. The government has submitted a bill overturning the state insurance bank's monopoly on major risk areas, but this has yet to be approved by the legislature. 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. A state enterprise reform law passed in September 1991 permits partial privatization of certain state-owned enterprises, including the state-owned telecommunications company, and allows others to grant concessions to or enter service contracts with private businesses. However, the December 13th referendum results derailed key elements of this strategy (see Section 1). Passage of port reform legislation in April 1992 allowed for privatization of various port services.

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 10 percent higher.

Following a recent reduction in the top rate, Uruguay's tariff structure now varies between 0 and 24 percent. Raw materials are charged 0-6 percent, intermediate goods 0-17 percent, and finished goods 0-24 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 and 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 6 percent by July 1993, and totally eliminated by July 1, 1994. 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 seeking to register intellectual property rights. Uruguay has generally sufficient laws to protect most intellectual property rights except with regard to new technology and pharmaceuticals. However, enforcement of these laws is weak in certain areas such as software.

The Government does not discriminate between foreign and domestic patent holders. Owners and asignees of foreign patents may obtain confirmation of patents in Uruguay, provided application is made within 3 years of registration in country of origin. Confirmed patents are protected for 10 years, less the period of protection already enjoyed in the country of origin. Compulsory licensing is not generally practiced, but onerous provisions are contained in the law. Medicines and chemical products are not patentable, although production processes for such products are patentable. Although no figures are available, the lack of patent protection for phamaceuticals has had a marked effect on U.S. trade and investment in the sector.

Foreign trademarks may be registered in Uruguay and receive the same protection as domestic trademarks. Protection is afforded for 10 years initially, renewable indefinitely.

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. Software suppliers have estimate that losses because of pirating could amount to $10 million. There is also considerable pirating of videotapes and audio cassettes. The International Intellectual Property Rights Alliance estimates trade losses from copyright piracy of motion pictures, sound recordings and musical compositions and books at $9.9 million.

8. Worker Rights

a. Right of Association

The Constitution guarantees the right of workers to organize freely and encourages the formation of unions. Labor unions are independent of government or political party control.

b. Right to Organize and Bargain Collectively

Under a policy instituted in March 1992, collective bargaining takes place on a plant-wide or sector-wide basis, with or without government mediation, as the parties wish.

c. Prohibition of Forced or compulsory Labor

Forced or compulsory labor is prohibited by law and in practice.

d. Minimum Age for Employment of Children

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.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		(D)
Total Manufacturing		108
Food & Kindred Products	(D)	
Chemicals and Allied Products	27	
Metals, Primary & Fabricated	(D)	
Machinery, except Electrical	(D)	
Electric & Electronic Equipment	0	
Transportation Equipment	-2	
Other Manufacturing	(D)	
Wholesale Trade		38
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, November 1992

VENEZUELA

Key Economic Indicators

(Billions of Bolivars (Bs) Unless Otherwise Noted)

	1990	1991 1/	1992 2/
Income, Production, Employment			
GDP	2,279.3	3,036.3	4,250.0
Real GDP growth rate	6.5	10.4	5.0
GDP by sector:			
Manufacturing	333.3	460.3	644.4
Agriculture	125.3	173.0	233.6
Real pc Income (Bs)	24,619	26,542	27,375
Size of labor force (million)	7.1	7.4	7.5
Unemployment rate	9.9	8.7	8.4
Money and Prices			
M1 (Dec 31)	241.8	365.7	366.1
Commercial interest lending rate (avg)	34.9	37.7	39.6
Savings rate (Percent of GDP)	22.9	15.9	17.6
Investment rate (Percent of GDP)	7.2	9.9	9.0
Consumer price index (1984=100)	534.8	717.7	968.9
Wholesale price index (1984=100)	588.0	718.9	970.5
Market exchange rate (Bs/USD at Dec 31)	50.6	61.7	81.4
Balance of Payments and Trade (USD millions)			
Total exports (FOB)	17,444	14,892	13,957
Total exports to U.S. (CV)	9,446	8,228	7,814
Total imports (FOB)	6,807	10,101	11,843
Total imports from U.S. (FAS)	3,107	4,668	5,695
Aid from U.S.	0	0	0
External public debt	25,671	26,821	28,879
Annual debt service payments	4,054	3,023	2,500
Gold and foreign exchange reserves	11,759	14,105	13,100
Current Account Balance	3,225	3,327	(1,000)

1/ Preliminary figures as of 10/27/92.
2/ U.S. Embassy forecasts

1. General Policy Framework

Venezuela, a multi-party electoral democracy with a bicameral legislature, is a major oil producer and 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, hydroelectric power, iron ore, coal, bauxite, and gold. Venezuela is in the process of modifying its economic policies to diversify from dependence on petroleum exports (though the petroleum sector still dominates the economy) and to develop nontraditional basic export industries such as petrochemicals, aluminum, steel, cement, forestry and manufactured consumer products, and mining (gold, iron ore, bauxite, and coal).

Venezuela encourages foreign investment in most sectors. 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 46 percent of its imports in 1991.

Venezuela has had rapid economic growth after several years of tough austerity measures, and shows significant growth prospects for the future. Real GDP grew 10.4 percent in 1991, principally driven by a 10.3 percent increase in the oil sector, and is expected to expand by at least eight percent in 1992. The Government recorded a small fiscal surplus of about one percent of GDP for the consolidated public sector in 1991. For 1992, a central government fiscal deficit equivalent to five percent of GDP is expected.

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 49.5 percent in nominal terms in 1991 as a result of sharply increased public spending and a rise in international reserves. 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 1992 at a much lower rate due to a more aggressive program to control liquidity undertaken by the Central Bank through an increase in its sale of short term bills (zero coupon bonds). For the first six months of the year, M2 grew by 1.3 percent.

The Government has continued its efforts to reduce inflation. Prices increased 31 percent in 1991 - a decline from the 37 percent jump recorded in 1990. However, during 1992, there has been an upward trend, with an estimated inflation rate of 35 percent for the entire year.

The Caracas Stock Exchange, which recorded substantial gains over the past two years, has slumped following the attempted coup. The broad market index which climbed by 64 percent in 1991 fell by ten percent during the first two quarters of 1992. Market valuation has fallen from $12.3 billion in February to $10.4 billion at the end of July. Several private sector firms list their shares in foreign markets, such as ADRs in the United States.

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 1991, the bolivar fell by 18 percent against the dollar to close the year at 61.7 bolivars to the dollar. During the January-October 1992 period, the bolivar depreciated 19.7 percent in nominal terms and closed at Bs 76.8/$1. (Inflation was 27.9 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 $14.1 billion at the end of 1991. However, for 1992, a decrease is expected of about $1 billion, closing the year at about $13.1 billion. 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 from 50 to 30 percent, except in the case of certain oil investments, e.g., services contracts. 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 18 percent. Joint ventures in the areas of coal and petrochemicals are also taxed at the lower 30 percent rate. 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.

The Venezuelan tariff schedule has been substantially liberalized and quantitative restrictions have been completely removed. On January 1, 1992 tariff rates were reduced to a maximum of 20 percent, in order to be harmonized with the Andean Pact Common External tariff. Selected items are subject to surcharges. Sensitive agricultural products (milk, meat, rice, wheat, feedgrains, oilseeds, and sugar) are subject to a price band system which may impose a variable surcharge in addition to the duty when the futures market for these commodities drops below trigger prices. In addition, the Venezuelan tariff legislation permits the duty to be increased by 60 percent (e.g. from 20 percent to 32 percent) should the Economic Cabinet determine that imports of these products pose a particular threat. 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.

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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 1991, Venezuela's public sector external debt totaled $26.8 billion. Public external debt represents almost 55 percent of GDP. In 1991, Venezuela's debt service payments totaled $3 billion, or 24.3 percent of total exports.

The government is off the track on 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

Venezuela has reduced substantially its barriers to U.S. exports. The average tariff rate has fallen to under ten percent. While Venezuela's entire tariff schedule is "bound" in the GATT, most bound rates are well above the applied rates, which would allow Venezuela to increase its tariffs and remain in compliance with its GATT obligations.

Import License Requirements: Overall, the entry of imports has been freed considerably. Import license requirements have been removed pursuant to the government's reform program. Sanitary certificates from the Ministries of Health (Nota 3), Agriculture (Nota 6), or country of origin (Nota 5) are required to import certain agricultural products and pharmaceuticals.

Service Barriers: Foreign equity investment in banking, insurance, 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 into 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.

Standards, Testing, Labelling and Certification: The new Consumer Protection Law, which went in to effect in May 1992, contains provisions regulating labelling. All goods placed on sale must bear a label indicating price to the public and expiration date (where appropriate). In the event of future price increases, goods in stock with previous price labels must be sold at no more than the prior price.

Investment Barriers: In February 1992, the Venezuelan Government issued Executive Decree 2095, 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 repatriation. 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.

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 (joint ventures) 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.

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.

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 Procedures: Customs clearance procedures are time consuming, and delays can occur if documents are not in order. The Government of Venezuela is in the process of reforming customs procedures and privatizing the ports; the Port of Maracaibo has been privatized. The government has said it will join the GATT Customs Valuation Code.

6. Export Subsidies Policies

Venezuela has revised its export incentive regime. The export bonus was eliminated on June 15, 1991 for all exports of manufactured goods. A joint resolution of the Foreign and Finance Ministries, published in Official Gazette 34,735 dated June 13, 1991 lists those agricultural products for which the credit is still available. A credit against tax of one percent is provided for certain agricultural items whose national value added is from 30 to 98 percent. For goods whose value added is from 99 to 100 percent, a credit of 10 percent of free on-board value is available.

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The Government has established a duty drawback system as a partial replacement for the export bond program. (Note: The partial drawback system will be eliminated with the reform of the Regulation to Venezuela's Organic Customs Law, which may pass in late 1992). Article 363 of the Organic Customs Law defines the drawback as a rebate, whether whole or partial, of the import taxes paid on the exported merchandise or on the material used in the production of the merchandise. Exporters who want a full rebate must submit documents showing the customs declaration for importation of the inputs. Those willing to accept a partial rebate need show no proof of duties on inputs. Decree 780, published in Official Gazette of May 20, 1990, sets the partial rebate at 2 percent of those exports processed under one of the special export regimes, such as the temporary admissions (maquila), stock replenishment and customs warehousing programs. The partial rebate is set at 5 percent for all other exported items.

7. Protection of U.S. Intellectual Property

In November 1991 the Commission of Cartagena (the Andean Pact) passed Decision 313 on the protection of intellectual property rights, which replaces Decision 85. Decision 313, if implemented and enforced, will provide patent protection for most products, including pharmaceuticals (with some exceptions), and will raise the protection of trademarks. In addition, Decision 313 will allow individual members to negotiate stronger regimes with other nations. However, Decision 313 maintains some serious deficiencies, including limited patent and trademark terms, compulsory licensing provisions, working requirements, and lack of transitional ("pipeline") protection. Trademark protection is based on first to register.

Venezuela's major copyright problems concern enforcement of existing laws and the lack of explicit computer software protection. Although there is no specific reference to computer software in the law on authorship (copyrights), computer programs can be, and have been, copyrighted in Venezuela. Piracy of software and videos is widespread in Venezuela. Frequent unlicensed public exhibitions of feature films are common in small towns, hotels, and condominiums. Sanctions for violating the copyright law seem insufficient to deter pirates.

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's Economic Cabinet has approved a measure for Venezuela to join the Paris Union for the Protection of Industrial Property as well as the Patent Cooperation Treaty (PCT).

8. Worker Rights

a. Right of Association

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Both Venezuela's Constitution and its labor law recognize and encourage the right of unions to exist. The comprehensive labor law 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 and no special rules or laws governing labor relations in export processing zones. 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.

b. Right to Organize and Bargain Collectively

Collective bargaining is protected and encouraged by the 1990 labor law and is freely practiced throughout Venezuela. According to the law, 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 the decree is sent to Congress for approval. The law prohibits employers from interfering with the formation of unions or with their activities and from stipulating as a condition of employment that new workers must abstain from union activity or must join a specified union.

c. Prohibition of Forced or Compulsory Labor

There is no forced or compulsory labor in Venezuela. The 1990 labor law stated that no one may "obligate others to work against their will".

d. Minimum Age for Employment of Children

The 1990 labor law 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. Minors may not work in mines, smelters, or in occupations "that risk life or health", in occupations that could damage intellectual or moral development, or in "public spectacles". 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 ($117 monthly) and a national rural minimum wage rate ($91 monthly). (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 law 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. Sundays are declared to be holidays, and those who must work on Sundays are entitled to a full day of rest during the following week. The 1990 labor law stated that employers are obligated to pay specified amounts (up to a maximum of 25 times the minimum monthly salary) to workers for accidents or occupational sicknesses regardless of who is responsible for negligence. It also declared that work places must maintain "sufficient protection for health and life against sicknesses and accidents", and it imposed 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.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		262
Total Manufacturing	1,164	
Food & Kindred Products	241	
Chemicals and Allied Products	225	
Metals, Primary & Fabricated	83	
Machinery, except Electrical	7	
Electric & Electronic Equipment	85	
Transportation Equipment	153	
Other Manufacturing	370	
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, November 1992, Vol. 72, No. 8, Table 11.3

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Key Economic Indicators

(Millions of US Dollars Unless Otherwise Stated)

	1990	1991	(Est.) 1992
Income, Production, and Employment			
Real GDP (Current Dollars)	60,500	44,931	42,060
Real GDP Growth Rate (Constant AD - Pct Chg)	-.8	-1.2	1.0
GDP by Sector (Billions of Current AD):			
Petroleum	126.2	234	269.5
Manufacturing	51.5	74.9	98.6
Agriculture	57.6	78.1	108.3
Energy and Water	4.5	5.6	7.0
Services	72.3	97.3	130.3
Real Per Capita Income (Current Dollars 000)	2,391	1,727	1,573
Labor Force (Millions)	5.8	6.0	6.2
Unemployment Rate (Pct. Yrly. Avg.)	26	30	35
Money and Prices			
Money Supply (M1) (Billions of Dinars)	275.2	327.7	360
Commercial Interest Rates (Short-Term)	13	17	N/A
Savings Rate (Pct. of GDP)	40	35	N/A
Investment Rate (Pct. of GDP)	32	30	35.0
CPI (Pct. Chg.)	30	50	55
Wholesale Price Index	25	40	74.4
Exchange Rates:			
Official (Avg. Exchg Rate for USD One)	8.96	18.13	23
Parallel (est.)	16	27	45
Balance of Payments and Trade (Millions of USD)			
Total Exports FOB	12,928	12,567	11,419
Total Exports to U.S.	2,645	2,247	2,000
Total Imports FOB	9,775	7,694	8,998
Total Imports from U.S.	948	727	600
Aid from U.S. (USD 000)	340	357	375
External Debt	26,500	25,000	26,000
Annual Debt Service	8,890	9,370	8,000
Foreign Exchange Reserves	774	1,613	1,653
Current Account Balance	1,395	2,555	55

1. General Policy Framework

Despite the political uncertainty and changes of government during 1992, Algeria continued to make progress in moving away from its former total reliance on autarchic economic development, characterized by central planning and government control over all economic activity. However, the economic reform program begun in 1987 slowed down as the new government regrouped to map out its economic strategy for the long-term, while dealing with its immediate problems of unemployment, inflation, underutilization of plant capacity, shortage of foreign exchange, and foreign debt burden.

The new government unveiled an austerity program in September 1992 that was designed to take the country through a difficult financial period over the next three years. The plan expressed a commitment to developing a market economy at a pace appropriate for Algeria and to creating investment incentives that will be conducive to the move towards privatization. While the plan introduced import controls to assure availability of scarce foreign exchange for the basic needs of the population and state industries, the system is still more liberal than that existing before 1990 when state companies enjoyed a monopoly over imports. Also, 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. Algeria has an application pending for GATT membership.

A new investment law which will provide mechanisms for attracting foreign investment and encouraging privatization was being proposed for possible completion by late 1992. In the hydrocarbons sector, the government enacted legislation in late 1991 to allow foreign firms to exploit existing oilfields in Algeria for the first time since the hydrocarbon sector was nationalized in the late 1960's and early 1970's. A number of U.S. and other foreign companies have already invested or are contemplating sizeable investments in the hydrocarbon sector as a result of the new legislation.

Other reforms have continued to relax the former rigid system of price controls. Major revisions to the tax system and the tariff schedule have both streamlined their structures and reduced some rates. Tighter enforcement measures are being introduced to increase compliance with tax laws, and a new commercial law is expected to introduce stricter anticorruption measures. In addition, a new real estate law is expected to introduce significant land ownership rights for private investors. Finally, the government has recently designated a number of major state enterprises to be given autonomy as a first step towards eventual privatization.

Despite these changes, the government still retains at preponderant economic role, and inefficient state enterprises divert scarce economic resources. The most important sector is the state owned petroleum industry, which accounted in 1991 for 97 percent of exports, 26 percent of GDP, and 60 percent of Algerian Government revenues.

The oil price slumps in 1986 and 1988 drastically reduced Algeria's hard currency earnings, from $13 billion in 1985 to $8 billion in 1988, and forced the government to curtail imports. Low oil prices will continue to aggravate Algeria's balance of payments situation, which was handicapped by a $9.4 billion debt service obligation in 1991. Algeria's trade balance, while positive, is minimal, due to a high import bill for foodstuffs, spare parts, and consumer goods. Economic performance has been sluggish since the mid-1980's with marginally positive or negative growth rates registered each year.

Given Algeria's roughly balanced trade picture, external financing has been essential. 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 limited the potential for U.S. exports, after a significant increase from the mid-1980's through 1990. The earlier increase occurred primarily because of the growth of sales of agricultural commodities financed by USDA guaranteed credits. American agricultural product sales grew from $282 million in 1986 to approximately $800 million in 1990, before declining to $566 million in 1991. Algeria's total import bill for foodstuffs is reported to be over $2 billion, reflecting both Algeria's great reliance on agricultural imports and its current need for financing. Industrial exports from the United States to Algeria also rose due to a cheaper dollar and the need of Algerian industries to modernize their operations.

Algerian private enterprise remains crippled by limited access to bank credits and foreign currency and other preferences shown to parastatals. Further, high tax rates force many private operators into the black market and diminish the profit incentive for state enterprise managers. However, the private sector's role in construction and services, particularly tourism, is expanding and some private manufacturing firms are being established.

2. Exchange Rate Policies

The dinar is a nonconvertible currency. The Central Bank states that its value is set against an undisclosed basket of foreign currencies. Since September 1987 the Central Bank has allowed the official rate to slide approximately 144 percent against the dollar in nominal terms. There was a major devaluation of 22 percent in September of 1991. Despite its decline since 1987, the official exchange rate remains valued at approximately twice the non-officially-determined parallel rate. The Central Bank had stated its intention to unify the official and parallel rates and make the dinar convertible by 1993, but this target date has been pushed back by the new government. In fact, the new governemnt has a plan to create a multi-tiered exchange rate system which it describes as an interim step towards convertibility. Since the dinar remains overvalued, further devaluation will be necessary to increase significantly non-hydrocarbon exports or reduce dramatically the competitiveness of imports in relation to local production. The government, however, opposes devaluation.

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3. Structural Policies

During 1991 and the first part of 1992, the Algerian Government took steps to liberalize the trade regime. The government enacted several regulations (Executive Decree 91/37 of February 1991 and Bank of Algeria regulation 91-03 of April 1991) that abolished 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. Subject to recently introduced constraints, 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 hopes that this new arrangement will stimulate agricultural and industrial production and alleviate shortages of consumer goods.

The implementation of a new import control regime in September 1992 was a major setback to many of the companies that were being set up to handle the liberalized flow of imports. Under the new import regime, the government has designated three categories of imports, specifying different types of controls applying to each category, including a total ban on imports of most luxury goods and some consumer goods produced in Algeria. The most significant effect of this new policy on U.S. exports will be felt by potato seed exporters. (Potato seeds have been the major U.S. seed export to Algeria in the past, accounting for more than twice the value of all other U.S. seed products combined.) In contrast, banks are directed to provide financing for the category of goods considered essential for meeting the basic needs of the population: unprocessed food, medicines, agricultural equipment and supplies, raw materials for factories, etc. A third category is comprised of goods that are importable, provided that the importers themselves finance the transaction. Notwithstanding the tightening of the import regime, Algeria still has an application for GATT membership pending and has adopted the harmonized tariff system.

The Algerian Government revised and streamlined the tariff schedule in 1992, cutting the top tariff rate from 120 to 60 percent and the number of tariff categories from 19 to six. At the same time, however, new taxes were also imposed. In addition to paying the tariff, importers must pay two other taxes: a value added tax, which ranges from seven to 40 percent; and a compensatory tax, which ranges from ten to 50 percent.

In addition to the reform noted above, the Algerian Government has taken other steps to liberalize allocation of 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 to the banks, which in turn allocate it to claimants according to fixed guidelines for 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 system is not market driven, however, and the reform momentum has recently slowed. For products that are not currently banned from import, hard currency availability and financing terms remain by far the most important constraints on purchases, even outweighing such items as pricing and tax policies. The Algerian government is not promoting countertrade, particularly that which involves hydrocarbon exports.

4. Debt Management Policies

Algerian Government officials are proud of the country's 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-1980's owing to lower oil prices and the weakness of the dollar against other currencies. At the end of 1991, Algeria's external debt totalled $26 billion. Repayments during 1992 are projected to total $8 billion. The 1992 debt service level was estimated at about 60 percent of export earnings, down from the 1991 level of 73 percent.

Since the average maturity of Algeria's debt remains less than five years, debt servicing will continue to be a heavy burden during the next two to three years. To reduce the servicing burden, the Algerian Government in 1992 succeeded in reprofiling approximately $1.5 billion of short-term debt, obtaining medium- and long-term loans to replace short-term obligations. The government is also trying to undertake a similar program to alleviate the pressures of short-term obligations maturing in 1993. 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. Algeria's current standby agreement with the IMF expired in April 1992. The World Bank has lent over $600 million in structural adjustment loans.

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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 taken some measures to open up the economy to greater imports, many barriers -- including the ban announced in October on luxury goods -- remain which are designed to conserve scarce hard currency and also 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 as Algerian banks -- a level which has not yet been defined. One U.S. bank currently operates a representative office in Algeria, which was established in early 1992. 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, in some cases they still can pose problems for U.S. suppliers. Algeria requires that U.S. seed exports 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 -- a process that can take up to three years before the seeds are certified. This procedure seriously constrains the marketing of U.S. seeds.

The Algerian Government has also radically revised and liberalized its approach to foreign investment in recent years. Under the money and credit law of 1990, 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 has not yet been specified, leaving the door open to investors to establish their own firms or create joint ventures with private and public Algerian firms. Investments are currently 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 has been regulated by the Hydrocarbon Investment Law of 1986, as amended in 1991. The law allows foreign companies to exploit existing oil deposits, and explore for and produce natural gas along with the Algerian state oil company Sonatrach. Foreign firms can exploit the deposits under a production sharing contract or joint venture with Sonatrach. However, their share of the resulting oil production is limited to a maximum of 49 percent. The 1991 amendment also provides for international arbitration of any disputes they may have with Algerian entities. Numerous contracts with foreign oil firms, including five with U.S. firms, have been signed under the terms of the 1986 law as amended in 1991.

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.

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, as well as other European products are made in Algeria under license. While Algerian Government policy is to enforce these trademarks, some counterfeiting exists, particularly of basic consumer goods.

8. Worker Rights

a. Right of Association

Algerian workers have the right to form and be represented by trade unions of their choice. Government approval for the creation of a labor union is not necessary, although considerable limits are imposed on union activities. Unions are not legally allowed to be associated with political parties, although in practice some, including the National Patriotic Rally-backed General Union of Algerian Workers [UGTA], still are. Unions are forbidden to receive funds from abroad, and the Government may suspend a union's operations if it violates the law. Unions are also subject to dissolution by judicial means if a court finds the union has engaged in illegal activities.

Article Six of the state of emergency declaration authorized the Government to require workers to do their usual jobs in both public and private enterprises in the event of an unauthorized or illegal strike. The 1990 law on industrial relations permits strikes only after 14 days of mandatory conciliation, mediation, or arbitration efforts. This law states that arbitration decisions in worker-management disputes are binding on both parties. If no agreement is reached, and provided a majority of the workers vote by secret ballot to strike, the workers may legally strike. A minimum level of public services must be maintained during public service sector strikes.

Numerous (at least 20) strikes in all sectors occurred in 1992. Although many of these strikes did not satisfy terms set by the 1990 law [in many cases there were no attempts at arbitration or mediation before striking], the Government did not prosecute the workers involved. Strikes included those by dockworkers, taxi-drivers, and customs officials. Many strikes were averted due to successful mediation or arbitration. Most of the strikes were resolved by wage or other concessions from management. The Government did not rely upon the state of emergency provisions to force striking workers back to work.

Unions may form and join federations or confederations and affiliate with international bodies. Several Algerian unions, including the UGTA, have sought international contacts beyond the quasi-official Arab and African Trade Union Organizations in which they participate.

b. Right to Organize and Bargain Collectively

The 1990 law permits collective bargaining for all unions, and this right has been freely practiced. The law also prohibits antiunion discrimination by employers against union members and organizers and provides mechanisms for resolving trade union members complaints of antiunion practices by employers. It further permits all unions, whether longstanding or newly created, to recruit members at the workplace.

ALGERIA

There are no special economic zones in Algeria.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is incompatible with the Constitution's provisions on individual rights, and the Penal Code was amended in 1990 to ban compulsory labor explicitly. This ban is effectively enforced by labor inspections and penal sanctions.

d. Minimum Age for Employment of Children

The minimum employment age is 16 years. Work inspectors, who report to the Ministry of Labor, are responsible for enforcing the minimum employment age by periodic or unannounced inspection visits to the workplace. The minimum age is enforced in the state sector, the country's largest employment sector. It is not effectively enforced in the agricultural or small private sectors, but violations are not widespread. However, there was an increase in the number of children occupied in informal employment, such as street vending, due to the poor state of the economy.

e. Acceptable Conditions of Work

The 1990 Law on Work Relations defines the overall framework for acceptable conditions of work, but leaves specific policies with regard to hours, salaries, and other work conditions to the discretion of employers in consultation with employees. Minimum wages are fixed by government decree after negotiations between the Government and the UGTA. Although Ministry of Labor work inspectors are responsible for ensuring compliance with the minimum wage regulations, enforcement has been inconsistent.

Algeria has a 44-hour workweek and well-developed occupation and health regulations, but enforcement by government work inspectors is generally lax.

f. Rights in Sectors with U.S. Investment

A limited number of U.S. firms are engaged in commercial activities in Algeria, mostly in connection with the hydrocarbon sector. 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.

ALGERIA

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad on an Historical Cost Basis - 1991 (Millions of U.S. dollars)

Category		Amount
Petroleum		21
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals and 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		21

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

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, November 1992

BAHRAIN

Key Economic Indicators

(Billions of U.S. dollars unless otherwise indicated)

	1990	1991	1992
Income, Production and Employment			
GDP at Current Prices	3,970	4,090	4,300
GDP Growth (nominal)	11.1	3.0	5.0
GDP by Sector			
Oil and gas	1,239	1,276 est	n/a
Agriculture/fishing	40	41 est	n/a
Manufacturing	325	335 est	n/a
Construction	236	243 est	n/a
Trade/hotels/restaurants	380	391 est	n/a
Transport/communications	427	440 est	n/a
Finance & real estate	585	603 est	n/a
Government & defence	815	840 est	n/a
Per Capita GNP (U.S.$)	8,120	8,115	8,300
Labor Force (1000's)	198	203	208
Unemployment (percent)	7	8	8
Money and Prices			
Money Supply (M2) (annual percentage growth)	-11.8	+16.9	n/a
Prime Interest Rate	13	11	7.5
Savings Rate	7.0	5.0	3.5
Consumer Price Inflation	1.2	1.0	2.0
Consumer Price Index (1983-84=100)	95.9	96.9	98.8
Exchange Rate (U.S.$/BD)	.377	.377	.377
Balance of Payments and Trade			
Total Exports (FOB)	3,750.6	3,459.7	3,800
Non-Oil Exports to U.S.	70.3	68.1	80
Total Imports (CIF)	3,701.8	4,057.8	4,500
Non-Oil Imports From U.S.	263.9	346.6	400
Aid from Other Countries	26.3	25.0	n/a
Aid from U.S.	0	0	0
Gold and Foreign Exchange Reserves	1,241	1,333	1,300
Trade Balance	+48.8	-598.1	-700
Non-Oil Balance with U.S.	-215.1	-278.5	-320

1. General Policy Framework

Although the Government of Bahrain 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 (BD) 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; production in 1991 was about 14 million barrels. Oil and gas revenues constitute approximately 60 percent of governmental revenues, and oil and related products account for about 80 percent of the island's exports.

Fiscal Policy: The budgetary accounts for the central government are prepared on a biennial basis. The current budget is for 1991-92, and was approved in April 1991. Budgetary revenues consist primarily of receipts from oil and gas (approximately 60 percent) supplemented by fees and charges for services, customs duties, and investment income. Bahrain has no income taxes, and thus does not use its tax system to implement social or investment policies. In the 1991-92 budget, 1992 revenue is projected to be BD 1.010 billion and 1992 expenditures BD 1.157 billion. The projected deficit of BD 147.5 million ($390.9 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 was forced to suspend its weekly auction 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 dinar liquidity positions of the commercial banks. Liquidity to the banks is provided now through secondary operations in treasury bills, including: (a) discounting treasury bills; and (b) 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.

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 = $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 three 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. Bahrain is also an active participant in the recently renewed United States-GCC economic dialogue. For the present, U.S. products and services compete on an equal footing with those of other non-GCC foreign suppliers. Bahrain participates in the Arab League economic boycott against Israel. Not only does Bahrain prohibit direct trade with Israel, it also formally subscribes to the secondary boycott against third-country firms found to have certain economic relationships with Israel.

With few exceptions for basic foodstuffs and petroleum product prices, the Government of Bahrain does not attempt to 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 in 1985, 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. 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. A few indirect and excise taxes are assessed. Aside from customs duties, 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.

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 Aluminum Bahrain (ALBA) smelting plant 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. The Government of Bahrain has no International Monetary Fund or World Bank programs.

5. Significant Barriers to U.S. Exports

Standards: Processed food items imported into Bahrain are subject to strict shelf life and labeling requirements. Pharmaceutical products must be imported directly from a manufacturer which has a research department and must be licensed in 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 establishement 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. (This may be modified somewhat by a new commercial agency law expected to be put into effect near the end of 1992.)

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 cheap video and audio tapes and computer software is widespread. Patents and trademarks are, however, protected by Bahraini law, and a copyright law is in preparation.

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. The U.S.- based Cable News Network (CNN) is transmitted during a limited schedule on an open channel by the Ministry of Information with the agreement of the firm, and viewers wishing to receive CNN on a 24-hour basis must pay a fee.

There are no reliable estimates of losses to U.S. trade as a result of Bahrain's failure to provide copyright protection.

8. Worker Rights

a. Right of Association

Although the Constitution recognizes the right of workers to organize, there are no trade unions; their formation is actively discouraged by the Government. In response to labor unrest in the mid-1950's and in 1965 and 1974, the Government encouraged--and now closely controls--the formation of elected workers' committees in major companies. Since 1982, when the

Government granted permission to form the first joint labor-management consultative committee (JCC), 12 JCC's have been established in the major state-owned industries. The JCC's, composed of equal numbers of management and worker representatives and serving in a purely advisory role, cover close to 70 percent of the island's indigenous industrial workers [but not foreign workers]. Nonindustrial foreign workers, who comprise about 60 percent of the overall work force, are denied participation even in these limited rights. The General Committee of Bahraini Workers (GCBW), established in 1983 by law, is a quasi-independent tripartite organization, controlled by its government and management representatives, that oversees and coordinates the work of the JCC's. The Committee also hears complaints from workers, Bahraini and foreign alike, and assists them in bringing their complaints to the attention of the Ministry of Labor or the courts. In March 1992, the ILO Committee on Freedom of Association reported that a Bahraini worker who had been incarcerated while serving as chairman of the GBCW in 1987 had been released and amnestied by the Bahraini authorities.

b. Right to Organize and Bargain Collectively

Bahraini law does not grant workers the right to organize and bargain collectively, and, in the absence of legitimate trade unions, there are no collective bargaining entities or collective agreements. While the JCC's described above are empowered to discuss labor disputes, organize workers' services, and discuss wages, working conditions, and productivity, the workers have no independent, recognized vehicle for representing their interests on these or other labor-related issues.

Minimum wage rates are established by Council of Ministers' decree. Increases in wages above the minimum are set by management, with government salaries for comparable work serving as an informal guide.

There are two export processing zones, but labor law and practice are the same in these zones as in the rest of the country.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is legally prohibited, and the Labor Ministry is charged with enforcing the law. The press has reported instances in which private sector employers occasionally compelled foreign workers from developing nations to perform work not specified in their contracts. Once a complaint has been lodged by a worker, the Labor Ministry opens an investigation and often takes appropriate remedial action. Many abuses, however, undoubtedly go unreported.

d. Minimum Age for Employment of Children

Juveniles under the age of 16 may not be employed in hazardous conditions or at night and may not work over 6 hours per day or on a piecework basis. Child labor laws are effectively enforced by Ministry of Labor inspectors in the industrial sector, but child labor outside that sector is less well monitored.

e. Acceptable Conditions of Work

Minimum wage scales, set by government decree, exist for both private and public sector employees. For foreign workers, employers consider benefits such as annual repatriation and housing and education bonuses part of the salary.

In practice, however, foreign workers, particularly those from developing countries, are disadvantaged by the requirement that all foreign workers be sponsored by Bahrainis or Bahrain-based institutions and companies. Sponsors are able to cancel the residence permit of any person under their sponsorship and thereby blacklist them so that they cannot obtain entry or residence visas from another sponsor. Thus, foreign workers are often unwilling to report abuses for fear of forced repatriation. Instances of foreign workers being denied their guaranteed holidays, days off, and vacations without compensation have been reported by the English-language daily newspaper, which serves as an unofficial ombudsman for the foreign community.

Bahrain's Labor Law, enforced by the Ministry of Labor and Social Affairs, mandates acceptable conditions of work for all adult workers, including adequate standards regarding hours of work (maximum 48 hours per week) and occupational safety and health.

Bahrain's Labor Law does not recognize the concept of equal pay for equal work. Asian workers are paid lower wages than their Bahraini counterparts [excluding housing and educational allowances]. Western expatriates and Bahraini workers are paid comparable wages; women are generally paid less than men. Women are entitled to 60 days of paid maternity leave, nursing periods during the day, and up to 1 year of unpaid maternity leave.

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 Fuelling 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.

BAHRAIN

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad on an Historical Cost Basis - 1991 (Millions of U.S. dollars)

Category		Amount
Petroleum		7
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals and Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Eqpt	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		1
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		8

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

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, November 1992

BANGLADESH

Key Economic Indicators

(millions of US Dollars, unless otherwise noted)

	FY 90	FY 91	FY 92 1/
Income, Production and Employment			
Real GDP (1985 prices)	15,990	16,550	17,180
Real GDP Growth (pct.)	6.22	3.50	3.80
Real GDP (current prices)	22,400	23,100	23,790
By Sector:			
Agriculture	8,422	8,459	9,040
Other Services 2/	10,136	10,820	10,706
Net Exports of Goods and Services	-1,541	-932	-701
Real Per Capita GDP ('85 BPS)	142.44	144.49	147.63
Labor Force (000s)	50,200	52,200	54,300
Money and Prices (Annual Percentage Growth)			
Money Supply (M2)	223.0	250.9	285.3
Base Interest Rate	9.75	9.75	N/A
Personal Saving Rate	6.5	6.9	N/A
Retail Inflation 3/	9.29	8.95	5.09
Consumer Price Index 3/	632.7	689.3	724.4
Exchange Rate (USD/Taka)			
Official	32.93	35.79	38.80
Balance of Payments and Trade			
Total Exports FOB	1,512	1,699	1,986
Exports to U.S. 4/	538	524	666 5/
Total Imports CIF	3,756	3,469	3,396
Imports from U.S. 4/	181	179	189 5/
Aid from U.S. 6/	131	140	135
Aid from Other Countries 7/	1,810	1,733	1,661
External Public Debt	10,514	11,392	N/A
Debt Service Payments	363.4	423.9	N/A
Gold and Foreign Exchange Reserves	469	775	1,578
Trade Balance	-2,244	-1,770	-1,410
Balance with U.S. 4/	357	345	477 5/

1/ The Bangladesh fiscal year is July 1 - June 30.
2/ Figures are for all services.
3/ Inflation figures are based on General Price Index.
4/ Figures are for the January 1 - December 31 calendar year.
5/ Estimates based on partial 1992 U.S. Department of Commerce figures.
6/ Figures are for the October 1 - September 30 fiscal year.
7/ Figures are for total foreign assistance disbursements.

1. General Policy Framework

Bangladesh is a one of the world's poorest, most densely populated, and least developed nations. With 116 million people and a GDP of $23.8 billion in FY92, per capita income was just over $200. Many factors have inhibited the growth of Bangladesh's overwhelmingly agricultural economy. These include frequent cyclones and floods, government interference with the economy, a rapidly growing labor force which cannot be absorbed by agriculture, a low level of industrialization, underdeveloped energy resources, and inefficient power supplies. 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.

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 country's IMF and World Bank supported economic reform programs, and encouragement of foreign investment. Following the expiration of an International Monetary Fund Structural Adjustment Facility which began in 1987, Bangladesh negotiated a three-year Enhanced Structural Adjustment Facility (ESAF), approved in August 1990. Over its second year in this program, Bangladesh continued to meet or exceed fiscal and monetary targets.

Government expenditures, composed primarily of current expenditures and the Annual Development Program (ADP), stayed under control for FY92, despite large wage increases granted to public sector workers. Current expenditures actually fell in real terms, while by contrast, expenditures on the ADP increased about 5 percent from FY91. Domestic revenues, buoyed by improved tax revenue performance, exceeded current expenditures, while the ADP was once again mostly funded by foreign grant or highly concessional aid.

The government has followed a tight stabilization program since the beginning of 1991. The growth of credit has decelerated, as the government has limited the use of credit by public enterprises, and private sector demand has been reduced in recent years, first by political uncertainties and increasingly by revised credit requirements instituted by ongoing financial sector reforms. In spite of achieving macroeconomic stability, the economy only grew at 3.8 percent in FY92, and then largely on the strength of a third consecutive bumper rice crop and spectacular growth in the privately-owned garment export industry. Huge losses to the economy from state-owned enterprises continued, and an inability to absorb aid at the levels pledged by donors were also a missed opportunity to boost economic growth. Although investment incentives were liberalized in the Industrial Policy of 1991, the investment climate continues to be generally poor. Both private and gross investment in Bangladesh remain substantially below that of competitor countries in the region.

2. Exchange Rate Policy

During FY92, the Bangladesh Bank devalued the currency from 35.79 to 39.00 taka to the dollar, a drop of about nine percent, well ahead of inflation. During the second half of

FY92, however, the taka has only been devalued by one percent against the U.S. dollar. The Bangladesh Bank follows a flexible exchange rate policy of revaluing the currency on the basis of a weighted basket of economic indicators. The high level of hard currency reserves and a black market rate close to the official rate suggest that the government has been able to peg the exchange rate at close to its equilibrium level. The taka's market value is bolstered by the large sums of foreign exchange Bangladesh receives every year through aid transfers.

Inbound and outbound foreign investment flows are too small to affect the exchange rate. Most foreign firms are able to repatriate profits, dividends, royalty payments, and technical fees without difficulty, provided the appropriate documentation is presented to the Bangladesh Bank. Outbound foreign investment by Bangladeshi nationals requires government approval and must be in support of export activities. Most Bangladeshi travellers are limited by law to taking no more than $1,200 out of the country in a year.

3. Structural Policies

Bangladesh has continued to meet the targets of the International Monetary Fund-sponsored ESAF, which is now in its third year. At less than 14 percent, broad money supply growth in FY92 is well within ESAF parameters. Moreover, the replacement of the standard excise tax with a value-added tax (VAT) has generated higher than anticipated revenues for the government over the past year with collections up 10 percent over the previous year's in real terms. Government spending has also been reined in through subsidy reductions in several areas, the biggest one being the food account. Inflation is estimated at approximately 5 percent, low by Bangladeshi standards. While Bangladesh has been able to meet the overarching monetary and fiscal targets under the ESAF, progress on sectoral reforms which have been supported by bilateral donors and multilateral banks has been halting.

Financial sector reform has improved and provided some efficiencies in the government-controlled national banks (NCBs). Concerns about capital adequacy, loan classification, and debt management continue to shade any examination of the NCBs and the private sector banking system. Two years of discussion and planning by the government to privatize several parastatals has yet to bear any fruit. Overall parastatal performance remains dismal. On a brighter note, donor pressure has resulted in some improvement in the management and technical efficiency in the national power utility, and the government has accepted the need to downsize and privatize the hemorrhaging parastatal jute sector.

The effect of the ESAF's tight fiscal and monetary policies has inhibited import demand and helped constrain domestic private investment. In terms of foreign investment, the promulgation of an open industrial policy in 1991 has not led to any significant developments. Inadequate implementation by various ministries and agencies has contributed to a stagnant investment picture. The impact of the much publicized Board of Investment remains to be seen.

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4. Debt Management Policies

On the basis of outstanding principal, Bangladesh's national debt was $12.2 billion as of June 1992, up 7 percent from the previous year's level of $11.4 billion. Given the fact that virtually all of the debt was provided under highly concessional terms by bilateral and multilateral donors, the net present value of the total outstanding debt is significantly lower than its face value. Bangladesh currently owes approximately $700 million to the United States, primarily incurred under the old PL-480 Title I food program. In September 1991, the United States provided $293 million in debt relief to Bangladesh in response to the country's adherence to IMF/IBRD macroeconomic reforms. Under the current ESAF program, Bangladesh's debt service ratio is expected to decline to a sustainable level for the foreseeable future.

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

The government continues to liberalize the import regime by relaxing quantitative restrictions. It has simplified import procedures, rationalized tariffs, and allowed remittances from Bangladeshi wage earners working abroad to be channelled to additional import financing. 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 50 or 100 percent for finished 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 or 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 attempted to ease barriers to foreign investment, at least on paper as underscored by the 1991 Industrial Policy. The areas open to foreign investment have been expanded, and the need for investment approvals has been reduced. As provided in previous policies and in the United States-Bangladesh bilateral investment treaty, foreign and domestic investors receive equal treatment. Many of these provisions have yet to be translated into action, however. The major exception is investments in the country's only Export Processing Zone (EPZ), located in Chittagong, Bangladesh's second largest urban center and principal seaport. Investment proposals for the EPZ are processed quickly, and the EPZ administration is able to take care of most of the investors' needs, from tax treatment to utility hook-ups. Investment proposals outside of the EPZ can be delayed in processing for years.

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6. Export Subsidies Policies

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 exporters of all products except raw jute and unprocessed leather. 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. The government is moving to reduce if not eliminate these subsidies.

Established in 1983, the Chittagong EPZ contained 48 active factories as of July 1992, representing an investment of about $80 million and directly employing about 14,500 people. Their combined 1992 exports were $76 million. Six more plants are under construction and fifteen others approved. Twenty-one have withdrawn their proposals, eight postponed implementation after approval, and three have stopped operations. Five U.S. firms are currently operating in the EPZ, including one garment factory and four specialized textile manufacturers. Projects in the EPZ benefit from duty free imports of capital goods and raw materials. The government plans to open a second EPZ near Dhaka in 1993 and a third in the city of Khulna in southwest Bangladesh at some later date.

7. Protection of U.S. Intellectual Property

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.

Drafts of new legislation have been produced by the legal profession. These drafts have been under review by governmental committees, in one case, that of a new company law, since 1986. Although the government has not given intellectual property issues a high priority, Bangladesh has been a member of the World Intellectual Property Organization (WIPO) in Geneva since 1985 and is represented on two of its permanent committees. Intellectual property infringement is common, but is of limited significance for U.S. firms, with the possible exception of pharmaceutical products and audio and video cassettes.

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8. Worker Rights

a. 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."

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 EPZ, where union activity has been suspended since 1985, unions in the private sector can generally bargain collectively without government interference. However, laws against anti-union discrimination are often violated, and workers are frequently fired from their jobs for union activities. Claims of anti-union discrimination are especially prevalent in the garment industry, Bangladesh's most dynamic growth industry, where the work force is predominantly female. Business leaders, noting worker indiscipline and lost production resulting from in-fighting among Bangladesh's heavily politicized and fragmented trade unions, admit to resisting unionization.

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 the existing labor law generally prohibits employing children under the age person under 14, it is not effectively enforced. Sanctioned by tradition and encouraged by dire economic necessity, child labor is quite prevalent. Legal minimum ages for various types of employment, which range from 12 to 17, are seldom enforced, and children are regularly engaged in a variety of jobs.

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. Actual income averages between $1.50 and $2.00 per day. 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 forty-eight hours per week (with overtime, not more than sixty hours per week).

Enforcement of this legislation is weak to non-existent.

f. Rights in Sectors with US Investment

U.S. investment in Bangladesh is very small, totalling approximately $30 million. It is concentrated in the physical assets of one life insurance company, the financial capital of one commercial bank and one representative banking office, and a few manufacturing operations. The 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.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		(D)
Total Manufacturing		3
Food & Kindred Products	0	
Chemicals and Allied Products	3	
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, November 1992

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Key Economic Indicators

(Millions of Egyptian Pounds (LE) Unless Otherwise Noted)

	1990	1991	1992 1/	
Income, Production and Employment				
Real GDP (86/87 prices) 2/	53859.2	55108.7	N/A	
Real GDP Growth (pct) 2/	2.4	2.3	N/A	
GDP (factor cost/current prices)	81341.0	103344.0	125485.0	
By Sector:				
Agriculture/Irrigation	15834.0	17823.0	20675.0	
Industry/Mining	14669.0	17417.0	21409.0	
Petroleum/Products thereof	3921.0	10986.0	13342.0	
Electricity	1033.0	1435.0	2009.0	
Construction	4490.0	5226.0	6076.0	
Transportation	4943.0	5351.0	6831.0	
Communications	931.0	1100.0	1187.0	
Suez Canal	1610.0	4371.0	6154.0	
Trade	14493.0	17681.0	21725.0	
Finance	3293.0	3995.0	4857.0	
Insurance	46.0	68.0	76.0	
Tourism	1510.0	1071.0	1954.0	
Housing	1039.0	1188.0	1359.0	
Public Utilities	246.0	287.0	318.0	
Social Insurance	73.0	78.0	86.0	
Government Services	6857.0	7898.0	8894.0	
Personal Services	6353.0	7369.0	8533.0	
Real Per Capita GDP (LE)	978	975	N/A	
Labor Force (000s)	14332.0	14760.0	15268.0	
Unemployment rate (percent)	8.5	8.6	N/A	
Money and Prices				
Money Supply (M2)	74669.0	92707.0	N/A	
Bank Lending Rate (percent)	19.0	21.0	20.0	
Bank Saving Rate (percent)	12.0	15.5	15.0	
Consumer Price Index (pct change)	21.2	14.7	21.1	
Wholesale Price Index(pct change)	19.7	15.9	N/A	
Exchange Rates (USD/LE) 3/				
Free Market Rate	0.383	0.336	0.301	
Balance of Payments and Trade (Millions of US Dollars)				
Total Exports FOB	3144.8	3886.8	2741.2	4/
Exports to U.S. (calendar year)	396.0	206.0	360.0	5/
Total Imports CIF	11441.1	11424.5	7831.1	4/
Imports from U.S.(calendar year)	2249.0	2721.0	2313.0	5/
Aid from U.S. (USFY, Obligations)	2595.0	2357.0	2387.0	
External Public Debt	42200.0	29800.0	29800.0	
Debt Service Payments	N/A	N/A	N/A	
Gold and Foreign Exchange Reserves	2267.0	4512.0	8691.0	
Trade Balance	-8296.3	-7537.7	-5089.9	
Balance with U.S.(calendar year)	-1853.0	-2515.0	-1953.0	5/

1/ Except where otherwise noted, data years are based on Egypt's fiscal year, which runs from July 1 to June 30 (i.e.,

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1992 = Egypt's fiscal year July 1, 1991 to June 30, 1992).
2/ GDP at factor cost 1986/87 prices, provisional data using new method of computation. Subject to revision.
3/ Average estimate
4/ Provisional data for July 1991 to March 1992
5/ Figures for January-September 1992

1. General Policy Framework

The United States is Egypt's largest supplier of imports. U.S. exports to Egypt in 1991 totaled $2.7 billion. Annually, about $300 million is financed through AID's Commodity Import Program and various projects and about $200 million under Department of Agriculture programs. A substantial portion of $1.3 billion in U.S. military assistance finances U.S. exports to Egypt.

Egypt's past economic performance has been far below potential. State ownership of most manufacturing has burdened the economy with inefficient and overstaffed enterprises. Pervasive subsidies and economic controls have inhibited private initiative, encouraged waste and stifled competition. At the same time, lax monetary and fiscal policies have sustained high rates of inflation, which combined with low productivity, contributed to external weakness only partly suppressed by exchange controls and import barriers. In sum, Egyptian policies sapped growth and made the economy less open to foreign trade, which reduced opportunities for U.S. and other countries' exporters.

In early 1991, Egypt launched a program of sweeping economic reforms to correct macroeconomic and external payments imbalances and to provide for a more open, market-oriented economy. Under an IMF standby, the government has freed the market for foreign exchange and unified the exchange rate, significantly reduced the budget deficit, trimmed inflation and instituted a system which allows both for market-determined interest rates and greater reliance on market-oriented monetary policy tools (i.e., a treasury bill auction is used to finance the budget deficit, but there is no secondary market).

Supported by the World Bank, the government has put in place broad structural reforms to liberalize its pricing, trade, financial, and investment practices. A legal basis has been instituted to reform and eventually privatize the large public sector. As these reforms proceed, U.S. exporters may find improved opportunities to compete against public-sector firms. As a part of trade sector reform, Egypt has also significantly reduced nontariff barriers to imports, which, in some cases, may improve U.S. export prospects. On the other hand, a large increase in customs tariffs, enacted in 1991 as a revenue measure, has been a factor inhibiting imports.

On balance, new stabilization policies have dampened demand, especially for imports and investment goods; thus export opportunities will suffer for a transitional period. However, the rapid post Gulf Crisis economic recovery and strong receipts from tourism and workers' remittances support good U.S. export opportunities in selected areas, most notably in some services. The recent removal of limits on bank loans to the private sector may also help to revive import demand. Nevertheless, high interest rates, remaining trade restrictions and a measured pace toward public sector restructuring will continue to restrain import growth.

2. Exchange Rate Policy

As part of its IMF-supported stabilization program, Egypt adopted a liberalized, largely free-market exchange system in February 1991. Exchange controls were almost entirely removed; banks and licensed nonbank dealers were allowed to set rates based on market factors, although limits were set on their open positions. For a few months, a separate rate was provided for specific official transactions, but the market was fully unified on October 1, 1991.

After an initial depreciation of the pound by approximately ten percent, the exchange rate stabilized at about LE 3.31 per dollar in May 1991 where it has remained. Assisted by generous Gulf Crisis aid, exceptional debt relief, and strong inflows from remittances, tourism, and Suez Canal receipts, Egypt's balance of payments moved resoundingly into surplus in FY 91, and by June 1992 Central Bank reserves had swollen to approximately $10 billion. Further, tight credit controls, high interest rates, and confidence in financial reforms have led to significant dedollarization of the economy (largely to fund short-term investments--i.e., treasury bills and bank deposits). In the longer run Egypt's ability to earn foreign exchange will depend on its ability to make sustained progress on fiscal and monetary policies and to greatly accelerate action on structural reforms needed to stimulate export production.

Exchange rate stability and the sharp increase in the availability of hard currencies, now readily accessible in the new free market, should increase opportunities for foreign trade when demand conditions become more favorable and with expected future reductions in trade restrictions.

3. Structural Policies

In 1991, Egypt began a substantial transformation of its economy. In conjunction with its commitments under an IMF standby arrangement and a World Bank Structural Adjustment Loan (SAL) agreement, Egypt reduced foreign-exchange controls, unified the exchange rate, and freed interest rates. In addition, the government liberalized prices, investment approvals, and the trade regime. Changes in the trade regime included: removing items from the import ban list, narrowing the tariff band, revoking mandatory financing by letters of credit, reducing the number of commodities requiring approval before importation, and eliminating one-third of tariff preferences and exemptions. Export barriers were also reduced. During the first nine months of Egypt's Fiscal Year 91/92 (July 1991 through March 1992), both exports and imports dropped compared to the previous year. The 9.1 percent drop in exports was primarily due to the fall in world oil prices, but the 10.2 percent import drop resulted from a combination of high interest rates, increased tariffs, and the generally sluggish state of the domestic economy. Despite this trend, U.S. exports to Egypt rose by 21 percent in 1991, with significant increases in sales of tobacco, aircraft, chemicals, machinery, and vehicle parts.

Egypt's trade policy liberalization program is to operate in tandem with the elimination of most domestic price controls. In 1992, further reductions in the import ban list were made and about half of the remaining tariff preferences for public sector companies were eliminated. Since 1991, Egypt has made substantial progress in liberalizing industrial, energy, and agricultural prices, but there is still work to be done. Prices in industrial subsectors have been freed, with the exception of products with high input subsidies or produced by monopolies (e.g., cement and fertilizers). Of particular concern to U.S. industry are price controls on pharmaceutical products, which are inflexibly administered and financially harmful to U.S. and other foreign manufacturers operating in Egypt. In June 1992, the government increased petroleum prices by an average 25 percent, in order to bring domestic rates closer to international market prices and to increase budget revenues. Electricity prices were increased by a weighted average of 32 percent in July 1992, moving closer to meeting long-run marginal costs and eliminating preferential electricity rates for most public sector industries. Agricultural price deregulation, except for cotton, is expected to be completed by 1993. In early 1992, domestic cotton procurement prices were raised on a variety-by-variety basis to the equivalent of 66 percent of the corresponding international price. In the medium term, liberalization of the import regime and free-market pricing of domestically-produced goods will help U.S. goods to be more competitive in the Egyptian market.

Progress on structural reform and privatization of the vast public sector has been slower than anticipated. Reform and privatization of inefficient public sector enterprises are key to the economic transformation. Public Business Law 203, implemented in October 1991, established a legal basis for privatization. Since passage of the Law, the government reorganized 314 wholly-owned public-sector enterprises under the umbrella of 27 holding companies. In June 1992, new capital market and banking laws were issued in conjunction with the government's quest to deepen financial markets, stimulate interest in new investment instruments, and facilitate public offerings of shares in state enterprises. By the end of 1992, the government is expected to begin offering for sale public-sector enterprises and government-held shares in some 245 joint ventures. The government cites concern over labor's reaction to the loss of jobs as a primary reason for not moving more quickly to restructure, privatize, or liquidate state enterprises. U.S. exports will have a better chance in Egypt when the market, not the public sector, controls production, prices, and spending decisions.

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4. Debt Management Policies

With the tapering off of receipts from oil exports, remittances, and aid inflows in the mid 1980's, Egypt borrowed heavily to sustain high government spending and subsidized consumption, and built large arrears. By mid-1990 its external debt reached approximately $46 billion.

Paris Club creditors agreed in May 1991 to reduce the net present value of Egypt's debt by 50 percent over the next three years, provided Egypt remains in compliance with its IMF program. U.S. forgiveness of $6.7 billion in military debts in 1990, which preceded this action and reduced the net present value of Egypt's U.S. debt by 70 percent, was recognized as a part of the Paris Club package. The United States agreed to reschedule Egypt's remaining $5.1 billion debt on generous terms.

As a result of debt forgiveness and generous rescheduling terms, interest payments on external debt were reduced by over 50 percent. U.S. debt forgiveness alone will save Egypt approximately $1 billion per year in debt service over the next five years. Egypt's total outstanding medium and long-term debt has declined to about $34 billion, from a pre-Paris Club peak of about $46 billion in 1989-90. In compliance with the Paris Club agreement, Egypt has cleared-up virtually all its arrearages to Paris Club creditor countries and must remain current on its Paris Club payments. The reduction in Egypt's debt service bill has helped it build reserves and sustain priority imports necessary to feed the growing population and promote economic growth.

5. Significant Barriers to U.S. Exports

Import barriers: Egypt's import ban list was developed in 1986 to protect domestic industry and to prevent foreign exchange expenditures on luxury items. Exemptions to 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. 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.

In August 1992, in the latest of a series of reductions, the Egyptian government reduced the number of items on the import ban list from 105 to 78. With this step, the ban's level of protection was reduced to approximately 10 percent of total manufacturing and agricultural production, compared to 37 percent in 1990. Products still on the list include: poultry, coffee, alcoholic beverages, vegetable oil, writing instruments, paper, textile products, leather, wool, steel pipes, batteries, bicycles, and passenger cars. The government also removed seven items from the list of goods requiring prior approval before importation. Items remaining on the list are: petroleum, engines, motors, bearing housings, lathes, drills, planes, electric motors, radiators, and generators. Continued liberalizations of the import regime should have a positive effect on U.S. exports.

Standards: Many of the items removed from the import ban list in August 1992 were added to the list of commodities requiring inspection for quality control before importation. There are now 104 items on this list, including: fruits, flour, meat, poultry, cosmetics, tobacco, radios, televisions, refrigerators, and automobile spare parts. Egyptian authorities stress that standards applied to imports are the same as for domestically produced goods. Egypt is a party to the GATT Standards Code. Under the SAL, the Egyptian government made a commitment to further reduce coverage of the ban list and not to introduce any new non-tariff barriers.

Tariffs and customs procedures: In August 1992, the government issued a decree amending the tariff schedule. Tariffs on a number of commodities removed from the import ban list were raised, as were tariffs for items still on the ban list. For example, the tariff rate for poultry (still on the ban list) was increased from five to 85 percent. In 1991, the government narrowed the tariff band to a 5 percent minimum and 100 percent maximum rate (except for basic foodstuffs and luxury items). The government did not institute an expected second phase of compression, in which tariffs would range between 10 and 80 percent. The government does not publish tariff rates bound in GATT. Importers have complained that customs authorities do not always apply the lower rates that should be applicable to imports from GATT member countries.

Barriers to trade in services: Branches of foreign banks have been prohibited from engaging in local currency and foreign exchange operations. In June 1992, the People's Assembly passed a new Bank Law which will allow subsidiaries (not branches) to deal in local currency. 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. Only Egyptian nationals may become certified accountants.

Investment barriers: In order to ease barriers to private investment, the government eliminated its investment licensing system and instituted, instead, a system for automatic approval of investments in sectors not on the "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 government pledged to review the list annually, with a view to further reductions and eventual elimination. While certain specific product lines were deleted from the Negative List in

1992, broad sectoral prohibitions remain.

Foreign investors seeking incentives under Investment Law 230 must obtain project approval from the General Authority for Investment and Free Zones (GAFI). This often causes lengthy delays as GAFI's board does not meet regularly. Industrial establishments may also be formed under Companies Law 159, but they will not receive the incentives or protections offered by Law 230. The U.S.-Egypt Bilateral Investment Treaty (BIT), was implemented in June 1992. It is too soon to see any concrete results of BIT implementation, but interest among potential U.S. investors has increased. More U.S. investment could stimulate the demand for U.S. machinery, inputs, and spare parts.

Government procurement practices: Egypt does not employ systematic or discriminatory policies which adversely affect U.S. businesses. In practice, however, the government buys from public-sector firms whenever possible. Generally, domestic private-sector firms are chosen for government contracts when their offers are within the range of the best foreign bids. Egypt has not signed the GATT Government Procurement Code. Over the years, Egypt established a number of countertrade arrangements with Eastern European, Middle Eastern, and developing countries (as well as with Western firms) to promote Egyptian exports and to secure necessary imports. Egypt now is moving away from government-to-government barter agreements and toward private sector initiatives.

6. Export Subsidies Policies

Export subsidies as such do not exist in Egypt. Egypt's trade reform program aims at removing barriers to 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. The Egyptian government does not impose export performance requirements. Under Investment Law 230, free zone projects, the majority of which produce goods for export, benefit from duty exemptions on imported inputs.

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 sizeable and, in some cases -- Egyptian aluminum production is a prime example -- decisive in making the product competitive in the international marketplace. Under its SAL commitments to the World Bank, the Egyptian government has increased 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 continuing U.S. concerns regarding inadequate protection of intellectual property in Egypt, the U.S. Trade Representative elevated Egypt to the Section 301 Priority Watch List in May 1992. U.S. and Egyptian officials had comprehensive discussions on a wide range of copyright and patent issues in September 1992.

Patents (product and process): The Egyptian patent law excludes certain categories of products and contains overly broad compulsory licensing provisions. Product patent protection for pharmaceuticals and food products is excluded. 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. Compulsory licensing limits the effectiveness of patent protection. A compulsory license is granted if the patent is not worked in Egypt within three years or is inadequately worked. The government is drafting a new patent law to replace the 1949 law currently in effect.

Copyrights: Copyright piracy is widespread in Egypt and affects all categories of works. Holders of copyrights on motion pictures (in video cassette format), sound recordings, printed matter (notably medical textbooks) and computer software suffer the greatest harm. In response to U.S. and domestic industry calls for improved protection, the government passed amendments to the 1954 Copyright Law in June 1992. Penalties against piracy were increased substantially, and computer software was afforded specific protection, but the amendments did not resolve all areas of U.S. concern. In September 1992, U.S. officials discussed with Egyptian officials issues such as rental rights, translation rights, and protection for sound recordings.

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. In a 1991 test case, the claimant won. Other cases are still pending.

Trademarks: Trademark protection is provided by law 59 of 1939. Egypt is a member of the Paris Convention for Protection of Industrial Property of 1883 and the Madrid Convention for the International Registration of Trademarks of 1891. Instances of alleged trademark infringement have been cited recently by foreign firms.

8. Worker Rights

a. Right of Association

Egyptian workers may, but are not required to, join trade unions. A union local, or worker's committee, may be formed if 50 employees express a desire to organize. Most union members, about 25 percent of the labor force, are employed by state-owned enterprises. The law stipulates that "high administrative" officials in government and public enterprises may not join unions.

There are 23 trade unions, all required to belong to the Egyptian Trade Union Federation (ETUF), the sole legally recognized labor federation. The International Labor Organization's Committee of Experts (COE) has long noted that the law requiring all national trade unions to join a single federation infringes upon workers' freedom of association. The Government has shown no sign that it intends to accept the establishment of more than one federation. The ETUF leadership asserts that it actively promotes workers' interests and that there is no need for another federation. ETUF officials have close relations with the NDP, and some are members of the People's Assembly and the Shura Council. They speak vigorously on behalf of workers concerns, but public confrontations between the ETUF and the Government are rare. Disputes are more often resolved by consensus behind closed doors.

The Government considers strikes a form of public disorder, not a contractual dispute. Hence, they are de facto illegal. Nevertheless, strikes do occur. The union leadership keeps its distance from workers who organize job actions because the law empowers the Government to remove from office any union executive board member who provokes a strike. Strikers may be sentenced to up to 2 years in jail, and those who incite others to strike may receive more severe penalties. A 1977 law stipulates hard labor for strikers in key industries, the disruption of which would pose a "threat to the national economy." In the past, police have used lethal force to break up strikes at state-run companies. In some cases, the Government has forcibly relocated strikers to new jobs in different parts of the country. Strikes occurring in 1992 were brief and isolated. The ETUF leadership is seeking the right to strike as part of economic reform.

The ETUF is affiliated with the International Confederation of Arab Trade Unions and participates in the tripartite forums of the ILO and the Arab Labor Organization. Some unions within the ETUF have affiliated with international trade union organizations, and others are in the process of doing so.

b. Right to Organize and Bargain Collectively

Law 137 of 1981 authorizes collective bargaining agreements for the public and private sectors. In theory, the law should apply to the export processing zones. However, Egypt's public sector is undergoing reorganization, and the law has not yet been applied. There have been no known agreements negotiated under this law. Furthermore, the law does not specify how disputes arising from negotiated agreements would be resolved. Nevertheless, in 1992 the ETUF leadership began training union leaders in collective bargaining techniques. Meanwhile, the Government still sets wages, hours, and conditions of employment by law. Unions may negotiate work contracts with public enterprises if the latter acquiesce voluntarily, but unions otherwise lack collective bargaining power in the state sector. However, the ETUF leadership anticipates a greater role for collective bargaining as a result of the Government's economic reform program and is training union leaders in collective bargaining techniques.

Labor law and practice are the same in the export processing zones as in the rest of the country.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is illegal and not practiced.

d. Minimum Age for Employment of Children

The minimum age for employment is 12. Education is compulsory until age 15. An employee must be at least 15 to join a labor union. The labor law of 1981 states that children 12 to 15 may work 6 hours a day, but not after 7 p.m. and not in dangerous or heavy activities. Child workers must obtain medical certificates and work permits before they are employed. A 1989 study estimated that two-thirds of the child labor population of perhaps 720,000 work on farms. However, some children also work as apprentices in repair and craft shops and as workers in heavier industries such as brickmaking and textiles. It is difficult to verify how closely the Ministry of Labor enforces child labor laws, especially in family-owned enterprises.

e. Acceptable Conditions of Work

For government and public-sector employees, the minimum wage for a 6-day, 48-hour workweek is determined by a combination of law and presidential decree. Base pay is supplemented by a complex system of fringe benefits and bonuses that may double or triple a worker's take-home pay. Larger private companies generally observe the requirement and pay bonuses as well. Smaller firms do not always pay the minimum wage or bonuses.

The Ministry of Labor sets worker health and safety standards, which also apply in the export processing zones, but enforcement and inspection are uneven.

f. Rights in Sectors with U.S. Investment

The worker rights described in the foregoing sections also apply to workers in the following industries: petroleum, food and related products, metal, non-electric machinery, electric and electronic equipment, and transportation equipment.

EGYPT

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		1,110
Total Manufacturing		44
Food & Kindred Products	(D)	
Chemicals and Allied Products	(D)	
Metals, Primary & Fabricated	6	
Machinery, except Electrical	1	
Electric & Electronic Equipment	5	
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, Survey of Current Business, November 1992, Vol. 72, No. 8, Table 11.3

INDIA

Key Economic Indicators

(billions of Indian rupees unless noted otherwise)
(Indian fiscal year is April 1 to March 31)

Income, Production & Employment	1990-91	1991-92 estimate	1992-93 proj.
GDP	2,382	2,425	2,522
Real GDP growth (pct)	5.5	1.8	4.0
GNP by Sector (pct)			
Agriculture	31.6	31.3	31.6
Manufacturing	28.7	28.7	28.8
Services	39.7	40.0	39.6
Per-Capita Income (current rupees)	6,277	7,054	7,800
Labor Force (millions)	336	345	354
Unemployment Rate (pct)	21	22	22
Money and Prices			
Money Supply (M1)	928.9	1,141.1	1,370.0
Commercial Interest Rate (pct)	20.0	21.0	18.8
Gross Savings Rate (pct)	21.9	21.7	21.9
Investment Rate (pct)	24.6	24.4	24.6
Consumer Price Index (1982=100)	193	219	245
Wholesale Price Index (1982=100)	182.7	207.5	227.0
Average Exchange Rate (Rs/$)	17.9	24.5	28.5
Parallel Rate, est. (Rs/$)	22.0	28.0	31.0
Balance of Payments and Trade			
Total Exports, fob	325.5	439.8	563.0
Exports to U.S.	57.1	78.1	91.2
Total Imports, cif	431.9	478.1	678.0
Imports from U.S.	44.5	49.1	62.7
Aid from U.S., excluding Title II ($ million)	79.7	74.1	136.8
Aid from Other Countries ($ million, net)	2,282	1,964	1,878
External Public Debt ($ billion)	70.1	73.3	79.0
Debt Service ($ million)	6,890	6,901	7,548
Foreign Reserves ($ million)	2,338	5,722	6,100
Gold (market value, $ billion)	3.8	3.9	3.9
Current Account Bal ($ million)	-8,123	-3,206	-6,600

Sources: Central Statistical Organization; Reserve Bank of India; U.S. Department of Commerce; World Bank and IMF.

1. General Policy Framework

India has a population of 875 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. 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. 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, relatively high rates of inflation and growing unemployment. In July 1991, the Indian government initiated a broad range of trade and industrial liberalization measures to improve long-term economic prospects. While the most pressing macroeconomic stabilization measures were rapidly implemented, structural reforms have faced greater political opposition and have thus taken more time to implement.

The central government fiscal deficit, which had reached nearly nine percent of gross product in 1990, was brought down to 6.5 percent of GNP in 1991. Politically sensitive subsidies on fertilizers, food and petroleum products were cut in 1991, and have been further reduced in the 1992 budget. Defense spending was cut in real terms, and government-funded investment has come virtually to a halt. As a result, the fiscal deficit should fall to 5.5 percent of GNP by March 31, 1993, the end of the current fiscal year. The government's goal is to bring the deficit down to 3.5 percent of GDP by 1995. 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. The government is beginning to take some of these steps. Equity in some government-owned companies is being sold to public and private mutual funds, largely as a fund-raising measure. The ability of the state governments to run overdrafts against receipt of centrally-collected taxes has been sharply curtailed.

Monetary expansion -- needed to cover budget deficits --

has averaged 17 percent per annum since 1986. The resulting liquidity overhang pushed inflation to over 15 percent in 1991. Demand limitation measures and slower growth in the rate of monetization of the fiscal deficit have brought inflation below 10 percent as of late 1992. 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 (just reduced to 19 percent) according to credit ratings and project risk. A government-appointed committee has recommended further financial and monetary reforms, but the government has yet to act on most of the committee's recommendations.

2. Exchange Rate Policy

The Foreign Exchange Regulation Act of 1973 established a complex and comprehensive system controlling use of foreign exchange for travel, trade, investment and employment of expatriates. The government has recommended a number of changes in this Act, which are being considered by Parliament. 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 has been dropped.

In April 1992, the government made the rupee partially convertible, permitting hard-currency earners to exchange 60 percent of their foreign exchange at a market-determined rate and 40 percent at the slightly overvalued official rate. The dual rate allows the government to subsidize its imports of bulk commodities such as petroleum products, edible oils and newsprint. As subsidies are cut, the need for a preferential exchange rate for government imports will be reduced, and the rupee will be made fully convertible for trade transactions. As this is written, there is speculation this move is imminent.

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 remain below market levels despite a series of subsidy cuts. 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 the government's cost-plus formula; some of these formulas have not been changed in more than a decade. Regulation of drug prices has been a particular problem for U.S. firms operating in India. Unsubstantiated government allegations of overcharging by foreign firms and demands for large penalty payments could result in effective nationalization of the India operations of some firms.

Tax policies: Indirect taxes -- mainly excise and customs duties -- account for 90 percent of government revenues. India's tariff rates are the highest in the world, although the government has imposed a ceiling rate of 110 percent, down from the 150-percent ceiling of the 1991 budget. Even with the new ceiling, restructuring of tariff rates has maintained the effective protection rate at over 100 percent. India has said it would cut 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 15 to 80 percent, down from the 40 to 100 percent range of 1991. The government recognizes that high excise and customs rates raise local production costs and make Indian goods less internationally competitive, and appointed a tax reform committee charged with finding ways to increase government revenues while reducing tax-based production costs. The committee has submitted its final report for implementation in the Fiscal Year beginning April 1, 1993. Corporate tax rates are high, but have been reduced from 65 percent to about 57 percent for most foreign companies and could be reduced further in the IFY 1993 budget. 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.

Regulatory policies: The Indian economy remains highly regulated, although movement toward deregulation has accelerated under the Rao government. Restrictions on foreign investment have been relaxed, permitting majority foreign equity in 34 industries; limits on capacity expansion and the 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. Projects not fitting the Reserve Bank guidelines are referred to a specially-empowered interministerial committee for review, if the total project cost is under $100 million. Larger or politically sensitive projects may be referred to the Foreign Investment Promotion Board in the Prime Ministry. Indian Embassies abroad are actively soliciting foreign investment, and Indian industrialists have accompanied the Prime Minister on recent state visits, a dramatic change from past practice. Several long-pending U.S. investment projects have been approved and others are in the works. Severe balance of payments problems led the goverment to tighten import restrictions in 1991; these constraints have been relaxed as foreign exchange reserves have improved.

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. The World Bank is also providing structural adjustment finance to cover unemployment-insurance payments 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 $75 billion in 1992. Debt service may reach 38 percent of export earnings in 1992. 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. Major outflows of NRI deposits that reached maturity in 1991 (and were not rolled over) contributed to India's balance of payments crisis. While the NRI repatriation tide has ebbed, deposits have yet to reach pre-crisis levels. India is relying heavily on donor and IMF assistance to make up the shortfall.

Relationship with creditors: The World Bank (IBRD/IDA) is India's largest creditor, holding nearly 30 percent of outstanding debt as of 1991. IMF standby and 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 in response to chronic balance of payments problems, rising reserves and structural reforms should boost creditor confidence by mid-1993.

5. Significant Barriers to U.S. Exports

Import licensing: India has significantly scaled down its comprehensive import-licensing regime, which had severely limited a wide range of U.S. goods and services exports. However, import of consumer goods is still banned. Only a few commodity imports, including petroleum products, are still channeled through public sector trading companies. Motion pictures and fertilizers are the most recent products to be opened to private importers. India has improved access to imported capital and intermediate goods for exporters and cut tariffs on most capital goods to 15 percent. 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. Relaxation of these restrictions, promised for early 1992, has not yet taken place. India does not allow foreign nationals to practice law before Indian courts, nor to hold membership in Indian stock exchanges. Exchange controls that had restricted hiring of expatriate managers and consultants have been sharply reduced. Government monopoly over life and general insurance services led to India being cited in 1989 under the Super-301 provisions of the U.S. Trade Act of 1988. India has included some insurance services in its offer under the Uruguay Round services negotiations.

Investment: The 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. From July 1991 to July 1992, nearly $250 million in U.S. investment has been approved, over one-third the amount of all U.S. investment in India since independence. The government has 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-owned ventures, though these requirements are being interpreted more flexibly than in the past. There have been no forced disinvestments in manufacturing industries over the past decade, though some 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.

6. Government Export Subsidies

Direct export subsidies were abolished ih the 1991 budget. The government is relying on the 1991 devaluation of the rupee and introduction of partial convertibility in 1992 to promote exports. Indirect export incentives remain. Export profits are tax-exempt, and 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

India is a member is the World Intellectual Property Organization and is a signatory to the Berne Convention and the Geneva Phonograms Convention.

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 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 Special-301 investigation initiated by USTR in 1991 determined that Indian IPR practices -- in particular the lack of adequate patent protection -- were unreasonable and unduly burdened or restricted U.S. commerce. In response to this finding, in April 1992, the United States suspended duty free entry privileges under the Generalized System of Preferences (GSP) on $60 million in trade from India. This suspension applied principally to pharmaceuticals, chemicals, and related products.

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. Further, recent studies by Indian researchers show that under 10 percent of patents filed by Indians resident in India have significant technological value.

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. The government is trying to beef up the enforcement efforts of states with major population centers by providing training to enforcement officials. India is in the process of eliminating regulatory provisions that have discriminated against foreign trademarks, and is drafting an amended Trademarks Act to incorporate recent decisions by Indian courts upholding strong trademark protection. The new legislation will also include language to protect service marks.

8. Worker Rights

a. Right of Association

India's Constitution gives workers the right of association. Workers may form and join trade unions of their choice; work actions are protected by law. Unions represent under 25 percent of industrial and service workers, and almost none of the 70 percent of Indian workers employed in agriculture.

b. Right to Organize and Bargain Collectively

Indian law recognizes the right to organize and bargain collectively. Procedural mechanisms exist to adjudicate labor disputes that cannot be resolved through collective bargaining. State and local authorities occasionally use their power to declare strikes "illegal" and force adjudication.

c. Prohibition of Forced or Compulsory Labor

Forced labor is prohibited by the Constitution; a 1976 law specifically prohibits the formerly common practice of "bonded labor." 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 implementation of the 1976 law, 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. The handloomed carpet and fireworks industries, among others, openly defy this law. Resource constraints and the sheer magnitude of the problem limit ability to enforce child labor legislation.

e. Acceptable Conditions of Work

India has a maximum eight-hour workday and 48-hour work week. This maximum is generally observed among the 30 percent of the labor force employed outside agriculture. 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 manufaturing, banking, and petroleum -- all sectors in which organized labor is predominant and working conditions well above average for India. U.S investors generally offer better than prevailing wages, benefits, and work conditions. Intense government and press scrutiny of all foreign actibities ensures that any violaiton 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 an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		(D)
Total Manufacturing		373
Food & Kindred Products	1	
Chemicals and Allied Products	191	
Metals, Primary & Fabricated	18	
Machinery, except Electrical	109	
Electric & Electronic Equipment	(D)	
Transportation Equipment	10	
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, November 1992, Vol. 72, No. 8, Table 11.3

IRAN

Key Economic Indicators

(Millions of Iranian Rials (IR) unless otherwise stated)

Years ending March 20	1989/90	1990/91	1991/92
Income, Production, and Employment			
Real GDP			
billion rials	28,122	35,990	46,800
million US$	40,000	47,013	52,000
Per Capita GDP US$	738	861	945
Population (millions)	54.2	54.6	55.0
Real GDP Growth Rate (pct)	3.6	10.5	10.0
GDP by sector			
Manufacturing	4.4	15.0	n/a
Agriculture	3.8	4.7	n/a
Petroleum	6.5	15.7	n/a
Income per capita($US)	n/a	2,450 1/	n/a
Labor Force (millions est.)	27.5	n/a	n/a
Money and Prices			
Money supply (M1) (bil rials)	n/a	n/a	n/a
Commercial interest rates	19 (max)	n/a	n/a
Consumer price index(% change)	8.6	14.0	14.6
Wholesale price index 2/	291.9	361.7	n/a
Exchange rate (IR/$)			
Official (IR/$)	71.4	68.6	67.4
Black market(IR/$)	1,375	1,400	1,400
Balance of Payments and Trade ($ millions)			
Total exports FOB	13,100	18,800	18,400
Exports to U.S.	7.0	260.5	362.6 3/
Total imports CIF	14,740	19,800	28,000
Imports from U.S.	166.5	527.1	342.8 3/
Trade balance ($ billions)	-0.4	0.8	n/a
Current Account ($ billions)	-2.7	-2.2	-10.3

1/ 1990 figure
2/ 1982/83 = 100
3/ Figure shown is for Jan-June 1992 only

1. General Policy Framework

In 1992, the Iranian economy enjoyed a second year of vigorous economic growth resulting from a large influx of imports and continued postwar reconstruction. However, external imbalances and lack of progress in economic reform make further increases in output extremely problematic. Iran's external debt has grown rapidly over the past three years, and Iran will likely have increasing difficulty servicing its external debt without taking politically unpopular reform measures.

There are continuing reports of domestic unrest sparked by deteriorating economic conditions. The government of President Rafsanjani has undertaken some market oriented reforms and has hinted that more are to come. However, there is determined resistance from both Islamic hardliners and various interest groups that fear adverse impacts from such reforms. Parliamentary elections in early 1992 were expected to give the regime greater flexibility in implementing its reform program by eliminating key members of the opposition; by late 1992, however, no apparent progress had been made.

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. trade 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 1992.

2. Exchange Rate Policies

Iran currently has a three-tiered system of legal exchange rates ranging from $1 = 67 rials to $1 = 1,450 rials, plus an unofficial "free rate" which is currently about $1 = 1,510 rials. The government has announced that unification of the exchange rate will take place by the beginning of the Iranian new year on March 20, 1993. However, similar promises have been made in the past, but not implemented.

It is still unclear whether the proposed exchange rate reforms would allow relaxation of the strict import controls that the overvalued exchange rate has necessitated to conserve scarce foreign exchange. Although shifting most imports to a more depreciated exchange rate will reduce the shortage of foreign exchange, Iran's debt service problems may result in new foreign exchange shortages.

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.

The Iranian Government is attempting to move towards reducing restrictions on economic activity, selling government-owned shares in various state companies and institutions to the public, activating the stock market, establishing free trade and industrial zones, and engaging in joint investments with foreign firms. Progress in these areas in 1992 was uneven.

The Government has imposed price controls on certain commodities. However, reportedly, rice, and meat prices continue to increase. Rationing of cooking oil and rice continues due to short supply. Low domestic prices for petroleum products encourage consumption, reducing the amount of crude oil and refined products available for export, thus reducing export earnings considerably.

IRAN

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

During the eight year war with Iraq, Iran contracted almost no external debt. During the past three years, Iran has begun to borrow large amounts of money, primarily in the form of short-term trade credits, in order to increase domestic living standards, rebuild its petroleum and industrial sectors, and modernize its armed forces.

Although overall debt levels are still modest, the government has had difficulties managing them. Arrears have started to accumulate, and Iran is increasingly unable to agree terms with its creditors. Longer term borrowing is being held up by legal and political barriers to issuing the types of sovereign guarantees required by creditors. Although several official lending agencies, including those in Japan, France, Germany, and Italy, continue to consider loans for Iran, they are clearly becoming much more cautious.

5. Significant Barriers to U.S. Exports

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. As a result of the Iran-Iraq Non-Proliferation Act, passed by Congress and signed by the president on October 23, 1992 all goods exported to Iran which require a validated export license will be subject upon application to a policy of denial. This affects all dual use commodities. Iranian exports to the United States were prohibited by order of the President on October 29, 1987. An exception to the embargo, allowing licensed imports of Iranian oil, accounts for the increase in Iranian exports to the U.S. in both 1991 and 1992. U.S. sanctions can be considered the most significant barrier to the export of U.S. goods and services to 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 a 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.

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IRAN

Patent protection is below the level of protection in the United States. Copyright protection is below the standards provided for in the Bern Copyright Convention.

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8. Worker Rights

a. Right of Association

Article 131 of the Labor Code grants workers and employers alike the right to form and join their own organizations. In practice, however, there are no real labor unions. A national organization known as the "Worker's House," founded in 1982 as the labor wing of the now defunct Islamic Republican Party, is the only authorized national labor organization with nominal claims to represent all Iranian workers. It works closely with the workplace Islamic councils that exist in many Iranian enterprises. The Workers' House is largely a conduit of government influence and control, not a trade union founded by workers to represent their interests.

The officially sanctioned Islamic labor councils also are instruments of government influence and not bodies created and controlled by workers to advance their own interests, although they have frequently been able to block layoffs or the firing of workers.

There is also a network of guild unions, which operates on a regional basis. These guild unions issue vocational licenses, fund financial cooperatives to assist members, and help workers to find jobs. The guild unions operate with the backing of the government.

No information is available on the right of workers in Iran to strike. It is unlikely that the Government would tolerate any strike deemed to be at odds with its economic and labor policies. There were reports throughout 1992, however, of sporadic, politically motivated strikes of short duration in factories and in the petroleum industry, sparked chiefly by economic conditions in the country.

b. Right to Organize and Bargain Collectively

In practice, the right of workers to organize independently and bargain collectively cannot be documented. 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. No information is available on the mechanism used to set wages.

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. This provision has been frequently criticized by the Committee of Experts (COE) of the International Labor Organization (ILO) as contravening ILO Convention 29 on forced labor. In its 1990 report, the COE noted an indication by the Government in its latest report to the Committee that Section 273 had been abolished and replaced for a trial period by a new provision approved by the Parliament. The Government, according to the COE, stated that the new provision was not incompatible with Convention 29, and promised to provide a copy after the provision was translated. The COE noted that the Government had indicated in its 1977 report that similar regulations concerning unemployed persons and vagrants had been repealed, but had not yet complied with the Committee's request for a copy of the repealing legislation.

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 15 years (compulsory education extends through age 11) 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 by the Labor Inspection Department of the Ministry of Labor and Social Affairs and the local authorities is not known.

e. Acceptable Conditions of Work

The Labor Code empowers the Supreme Labor Council to set minimum wage levels each year determined by industrial sector and region. It is not known if minimum wage levels are in fact issued annually or if the Labor Ministry's inspectors enforce their application. The Labor Code stipulates that the minimum wage should be sufficient to meet the living expenses of a family and should take into account the announced rate of inflation. It is not known what share of the working population is covered by the minimum wage legislation.

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.

According to the Labor Code, a Supreme Safety Council, chaired by the Labor Minister or his representative, is responsible for promoting workplace safety and health and issuing occupational safety and health regulations and codes of practice. The Council has reportedly issued 28 safety directives. The Supreme Safety Council is also supposed to oversee the activities of the safety committees that have reportedly been established in about 3,000 enterprises employing more than 10 persons. It is not known how well the Labor Ministry's inspectors enforce the safety and health legislation and regulations nor whether industrial accident rates are compiled and show positive trends (Iran does not furnish this data to the ILO for publication in its Year Book of Labour Statistics).

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.

IRAN

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 - 1991
(Millions of U.S. Dollars)

Category		Amount
Petroleum		48
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Metals, Primary $ Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transport Equipment	0	
Other Manufacturing	0	
Wholesale Trade		*
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		48

(*-Under $500,000)

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, November 1989

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IRAQ

In response to the Iraqi invasion of Kuwait on August 2, 1990, President Bush, acting under authority of the International Emergency Economic Powers Act, issued Executive Orders 12722 and 12724 which, respectively, froze Iraqi Government assets within the United States or in the possession or control of U.S. persons, and barred virtually all unlicensed transactions between US persons and Iraq. The U.S. trade embargo against Iraq remains in effect.

U.S. sanctions against Iraq comply with United Nations Security Council Resolutions 661 (1990), 666 (1990), and 670 (1990), which also remain in effect. These forbid member states, companies and individuals from undertaking any economic intercourse with the Iraqi Government or with private Iraqi firms, except with regard to goods deemed by the UN Sanctions Committee to be of a humanitarian nature.

United Nations Security Council Resolutions 706 (August 15, 1991) and 712 (September 19, 1991) authorize the export of up to $1.6 billion of petroleum for a 6-month period. Revenues from those sales would accrue to a United Nations escrow account, from which funds would be drawn to purchase humanitarian supplies for the people of Iraq. In addition, a portion of the escrow fund would go to pay Gulf War compensation claims against Iraq and to support the UN program to destroy Iraqi weapons of mass destruction. However, the Government of Iraq has refused to implement these resolutions.

On October 2, 1992, the Security Council adopted resolution 778. This new resolution stipulates that states possessing assets resulting from the sale of Iraqi petroleum after August 6, 1990, must, in most cases, transfer such assets to a United Nations escrow account. The resolution also directs states holding Iraqi petroleum or petroleum products to liquidate such holdings and transfer the proceeds to the escrow account. The escrow account will support the same UN humanitarian and operational programs as enumerated in 706/712.

In summary: 1. UN resolutions preclude trade with Iraq except approved exports to Iraq of humanitarian-related goods. 2. Treasury Department regulations and licensing requirements enforce U.S. compliance with the UN embargo. 3. Iraqi implementation of UNSCR 706 and 712 would open the possibility of a limited resumption of trade with the United States.

IRAQ

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		0
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals and 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, November 1992

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Key Economic Indicators

	1990	1991	1992 1/
Income, Production, and Employment			
Real GDP (1986 prices)(USD billion)	51.5	54.2	57.4
Real GDP Growth (pct.)	3.9	5.2	5.6
GDP (nominal) (USD billion)	51.2	57.9	66.6
By Sector:			
Trade and Services	16.9	20.3	N/A
Manufacturing	15.4	16.7	N/A
Transport and Communications	7.7	8.7	N/A
Construction	5.1	6.4	N/A
Agriculture	4.1	4.1	N/A
Water and Electricity	2.0	1.7	N/A
Real Per Capita GDP (USD)	10,685	10,733	11,060
Nominal Per Capita GDP (USD)	10,622	11,465	12,832
Civilian Labor Force (million)	1.65	1.77	1.85
Unemployment Rate	9.6	10.6	11.1
Money and Prices (Annual Percentage Growth)			
Money Supply (M2)	25	35	N/A
Commercial Interest Rate 2/	4.4	6.4	N/A
Savings Rate (private)	17.3	27.3	26.2
Investment Rate (gross)(prices)	16.5	16.6	10.8
Wholesale Price Index	12.6	14.6	10
Consumer Price Index	17.6	18.0	12
Exchange Rate (shekel)	2.02	2.30	2.4
Balance of Payments and Trade (USD billion)			
Total Exports FOB	11.60	11.30	11.83
Exports to U.S.	3.48	3.59	
Total Imports CIF	15.12	18.28	19.61
Imports from U.S.	2.72	3.26	N/A
Aid from U.S.	3.30	3.7	3.00
External Total Debt 3/	24.35	23.88	25
Annual Debt Service Paid	3.01	2.69	3.6
FOREX Reserves 4/	6.3	6.3	5.6
Balance of Payments (current)	0.6	-0.04	N/A
Balance with United States	-0.75	0.33	N/A

1/ Estimates from proposed 1993 Israeli government budget.
2/ Annual nominal interest rate for short-term, credit in shekels (unlinked to dollar), linked to rate of inflation.
3/ Net liabilities of Government sector, nonfinancial private sector, and banking system.
4/ 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).

Sources: Bank of Israel; Central Bureau of Statistics; Ministry of Finance.

ISRAEL

1. General Policy Framework

Economic growth rebounded in 1991 following the Gulf War. Israel's GDP growth, still feeling the effects of a dramatic population influx, measured above 5 percent for 1991, but remained relatively flat on a per capita basis. The increase in consumer prices in 1991 held at 18 percent.

The first half of 1992 witnessed an economic slowdown, and annualized GDP growth registered 2.5 percent. The rate of increase in consumer prices has been falling throughout 1992, and is projected to increase between 11-13 percent in 1992. Inflation has declined in part because of high unemployment, which has hovered at 10.5 percent or above since 1991. Employment remains difficult for a labor force that continues to expand through immigration. A sharp downturn in residential building, the major stimulus for economic activity in 1991, continues to act as a drag on economic growth.

The United States remains Israel's single largest trading partner, although trade with the EC is larger overall. Excluding U.S. military exports, bilateral trade with Israel approached $7 billion in 1991, with the United States accruing a $333 million trade surplus. U.S. non-military exports totaled $3.3 billion in 1991, up from $2.7 billion in 1990. Israel continues to be an attractive market for U.S. products. The U.S.-Israel Free Trade Area Agreement (FTA) has eliminated duties on most American manufactured items, and beginning last year, the Israeli government embarked on a program to dismantle non-tariff barriers.

Balance of payments worsened in 1991 and the first half of 1992, although foreign exchange reserves increased to some $6.5 billion, partly because of increased foreign aid. Despite expanded government outlays for infrastructure, housing, social services, and employment, the very large internal debt did not increase greatly. However, increased private consumption did lead to higher imports and the consequent widening of the trade deficit in 1991 and the first half of 1992. Poor export performance compounded the situation.

In 1989 and 1990 Israel's central bank (Bank of Israel) pursued an expansionist monetary policy. The short-term interest rate declined throughout 1989-90. Interest rates initially remained low in 1991, but soared at the end of the year as a result of two factors. First, the Bank of Israel implemented a tight monetary policy in August as the Bank instituted a strong anti-inflationary policy. Second, a six percent devaluation of the shekel prompted a rush to buy foreign currency, which depleted local-currency sources and drove up interest rates to a peak of 25 percent in October and November of 1991. The introduction of a new exchange rate mechanism helped quell foreign exchange speculation, and the Bank of Israel exerted pressure to bring interest rates down during the first half of 1992.

The Labor-led government which took office in July has publicly stated a commitment to structural economic change. A consensus for economic reform is developing across the political spectrum, reinforced by difficulties in absorbing large numbers of highly skilled immigrants into the economy. The new government hopes to create a macroeconomic environment in which sustainable private sector growth can occur, by focusing especially on the areas of privatization, trade liberalization, and capital market deregulation. In the 1993 budget deliberations, the government is emphasizing job creation through expansion of the private sector, and heavy investment in infrastructure.

2. Exchange Rate Policies

The introduction of a new "diagonal" foreign exchange mechanism in December 1991 ended the previous practice of periodic unannounced shekel devaluations. Like the former exchange rate system, the new system permits the shekel to float five percent above or below an established midpoint for exchange rates tied to a basket of foreign currencies. Unlike the previous system, however, the midpoint now shifts gradually against a basket of foreign currencies on a daily basis. Previously, the midpoint shifted only as pressures on the shekel necessitated changes. The actual exchange rate is, as before, determined in response to supply and demand for foreign currency.

To date, the diagonal system has successfully forestalled large speculative currency movements and their attendant swings in reserves and interest rates. Acting as a brake on inflationary pressure, the new exchange rate mechanism has injected greater stability into import-export transactions, thereby fostering a more favorable business climate for foreign investors.

3. Structural Policies

Structural reform efforts continue to move forward slowly, although public government statements call for accelerated action. Under the leadership of Prime Minister Yitzhak Rabin, the Labor government elected in June 1992 proposes to accelerate the economic reform process, suggesting privatization of national assets such as Bezek, the state telephone company, and Zim, the state shipping company. The government has implemented other reforms through administrative action (most notably capital market liberalization) and continues to move toward a more liberal trade regime. The government is pulling out of the housing market after several years of heavy intervention in response to the expected flood of immigrants from the former Soviet Union. A significant drop in immigration has resulted in a housing surplus, and no publicly promoted housing construction is proposed for 1993. The public sector, however, remains bloated, and state enterprises exercise oligopolistic power over such sectors as oil refining, utilities, telecommunications, aviation, transport, and banking.

Recent changes in tax law have increased the value added tax from 15 to 18 percent (a reduction to 17 percent is scheduled for January 1993) and reduced the employer's tax from four to three percent. The government has also decreased

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the maximum marginal tax rate for companies from 45 to 41 percent.
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

External debt fell to $23.7 billion at the end of 1991, a decrease of 2.6 percent ($628 million) compared to 1990. Of ~~this, the government owed $17.4 billion, the~~ banking sector $2.7 billion, and the nonfinancial private sector $3.7 billion. Net external liabilities declined $617 million through 1991, ending at $15.3 billion or 26.4 percent of GNP. Israel's debt service/export ratio has dropped from 27.5 in 1985 to 16.0 in 1991. Government debt levels will likely increase in the coming years if the Government of Israel exercises its option to borrow up to ten billion dollars over the next five years using U.S. loan guarantees.

The $17.4 billion Israeli government debt is held by private holders of negotiable bonds (32 percent), Israel bond holders (32 percent), the U.S. government (24 percent), other foreign governments and international institutions (10 percent), and commercial banks (2 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. Duties on a second group of products, a "B list," are falling toward zero by January 1, 1994 in annual increments, and are now at 10 percent of MFN rates. Tariffs on a third "C-list" of 1,300 products (about 5 percent of U.S. exports to Israel in value terms) are to drop to zero on January 1, 1995. The FTA liberalized and expanded goods trade between the United States and Israel, and 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 continue to impede U.S. exports. Although licensing for U.S. products (except foodstuffs) is largely automatic under the FTA, potential problems remain in textiles, apparel and steel.

A purchase tax (ranging from 25 to 100 percent) is applied on items 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 two to five 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 charges exporters less than 1 percent for the same services. The GOI budget for 1993 proposes that the port fee be reduced to 2 percent for imports.

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/labeling for food items) in which standards are written so that domestic goods meet the standards requirements more easily than imports.

Israeli Government policy encourages foreign private investment, including joint ventures, especially in industries based on exports, tourism, and high technology. Foreign firms are accorded national treatment in terms of taxation and labor relations, and 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, including banking, insurance, and defense industries, requires government approval. Israel's small market and certain nontransparent regulations have hindered both foreign and domestic investment; and the Arab boycott has deterred investment in Israel.

Israel is a signatory to the GATT Government Procurement Code, but its 14 code-covered agencies represent only a small percentage of total government purchases. Obtaining full and timely information on existing tenders can also be a problem.

The Government of Israel recommends strongly "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 government awards. Although Israel pledged to relax offset requests on civilian purchases under the FTA, U.S. firms may still encounter pressure to enter into offset arrangements.

Starting September 1, 1991 Israel embarked on an import liberalization program which substituted steep tariffs on non-U.S., non-EC products for licensing and other administrative barriers previously applied to this trade. The gradual reduction in tariffs over a five to seven year period will dilute U.S. advantages under the bilateral FTA. Israel signed a third FTA agreement with the EFTA countries, which will present U.S. exporters with additional competition from EFTA duty-free products, effective in 1993.

6. Export Subsidies Policies

As part of the FTA, 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 is weak. U.S. industry has complained that Israeli companies are violating intellectual property rights on illegal duplication of video cassettes. Unauthorized showings of films and television programs by pirate cable television systems constitute another form of copyright infringement. Protection for software has been upgraded. 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 an infringement. 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.

8. Worker Rights

a. Right of Association

Israeli workers are free to join labor organizations of their own choosing. About 60 percent of adult Israelis, including Arab Israelis, are members of Histadrut, the national labor federation, and another 20 percent are covered by Histadrut collective bargaining agreements and social and insurance programs. Nonresident workers (primarily Palestinians from the West Bank and Gaza Strip) are not eligible for Histadrut membership.

b. Right to Organize and Bargain Collectively

The right of Israelis to organize and bargain collectively is enshrined in law and freely exercised, as is the right to strike. The majority union (Histadrut) is the executive 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.

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. The Labor Inspection Service enforces provisions against underage employment, although enforcement can be difficult in smaller, unorganized enterprises.

e. Acceptable Conditions of Work

Most work conditions are established in collective bargaining agreements. Legislation enacted in 1987 calls for periodic adjustments in the minimum wage to 45 percent of the average wage. As of January 1992, the minimum monthly wage was approximately 509 dollars. The private sector workweek is 45 hours, the public sector, 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). Nonresident Palestinians working illegally in Israel can face wages and working conditions below legal standards.

f. Rights in Sectors with U.S. Investment

U.S. direct investment is concentrated in the high-technology sectors, especially in electric and electronic equipment sector, including software, where the degree of union organization and collective bargaining is less than in other sectors. Although many employees in the electric and electronic equipment sector are Histadrut members, they often choose not to exercise the right to organize and bargain collectively, preferring to negotiate contracts individually. Employers often prefer to pay more than union scale in order to retain management flexibility and avoid collective bargaining.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		(D)
Total Manufacturing		429
Food & Kindred Products	0	
Chemicals and Allied Products	38	
Metals, Primary & Fabricated	*	
Machinery, except Electrical	(D)	
Electric & Electronic Equipment	342	
Transportation Equipment	0	
Other Manufacturing	(D)	
Wholesale Trade		(D)
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

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

* - Less than $500,000

Source: U.S. Department of Commerce, Survey of Current Business, November 1992, Vol. 72, No. 8, Table 11.3

JORDAN

Key Economic Indicators

(Millions of Jordanian Dinars)

	1990	1991	1992 1/
INCOME, PRODUCTION AND EMPLOYMENT			
REAL GDP 2/ (1985 Prices)	1,921.8	1,931.2	2,003.0
REAL GDP GROWTH (PCT.)	-0.1	0.5	3.7
GDP (AT CURRENT PRICES) 2/	2,618.4	2,805.5	3,100.0
BY SECTOR:			
AGRICULTURE	184.9	179.4	175.0
ENERGY AND WATER	48.9	54.9	60.0
MANUFACTURING	292.5	314.9	325.0
CONSTRUCTION	41.6	122.5	200.0
FINANCIAL SERVICES	378.3	414.6	420/0
OTHER SERVICES	77.4	82.8	85.0
GOVERNMENT, HEALTH AND EDUCATION	434.8	471.2	500.0
NET EXPORTS OF GOODS AND SERVICES (NEGATIVE)	1,162.3	1,083.2	935.0
REAL PER CAPITA GDP (85 BPS)	495.2	549.0	560.0
LABOR FORCE (000S)	630.1	680.0	700.0
UNEMPLOYMENT RATE (PERCENT)	15.0	19.0	25.0
MONEY AND PRICES (ANNUAL PERCENTAGE GROWTH)			
MONEY SUPPLY (M2)	5.0	19.0	8.0
BASE INTEREST RATE	8.75	7.5	7.0
PERSONAL SAVING RATE	9.0	10.0	12.0
RETAIL INFLATION	-37.6	-49.1	-39.0
WHOLESALE INFLATION	-57.4	-63.9	-50.0
CONSUMER PRICE INDEX	16.1	8.2	5.0
EXCHANGE RATE (USD/JD) OFFICIAL	-13.2	-2.6	-2.0
BALANCE OF PAYMENTS & TRADE			
TOTAL EXPORTS FOB	770.6	706.0	800.0
EXPORTS TO U.S.	3.5	2.3	3.2
TOTAL IMPORTS CIF	1,725.8	1,710.5	1,735.0
IMPORTS FROM U.S.	299.5	178.2	205.0
AID FROM U.S.	19.0	25.0	28.0
AID FROM OTHER COUNTRIES	228.0	322.0	315.0
EXTERNAL PUBLIC DEBT	6,052.5	5,516.8	4,800.0
DEBT SERVICE PAYMENTS (PAID)	900.0	1,300.0	N/A
GOLD AND FOREIGN EXCHANGE RESERVES	1,389.7	2,941.4	3,400.0
TRADE BALANCE (NEGATIVE)	1,019.8	939.8	935.0
BALANCE WITH U.S.	-296.0	-175.9	-201.8

1/ 1992 Figures are all estimates.
2/ GDP at Producers' Prices.

1. General Policy Framework

Jordan's economy was able to develop despite economic setbacks in 1990 caused by the Gulf crisis. The return of about 300,000 Jordanian passport holders from the Gulf had a positive impact on new investments in the country. Most of Jordan's external debts, standing at about 8.5 billion dollars by the end of 1990, were rescheduled. An agreement was reached with the Paris Club to reschedule debt payments for 1992 and 1993.

The Government of Jordan was able to achieve most of the objectives in 1989-1993 Economic Adjustment Program and implement reform policies required by the program. Early in 1992, a 3-4 percent GNP growth rate in 1992 was expected. However, positive economic developments that were reported during the early seven months of 1992 strongly suggest that between 7 and 9 percent in overall economic growth could be achieved during 1992.

The Central bank of Jordan (CBJ), together with the Ministry of Finance, is exercising direct and close control over the management of the country's monetary and financial policies. Both institutions carry out weekly, monthly, bimonthly, and quarterly reviews of the country's achievement vis-a-vis Jordan's adherence to economic policies and performance requirements as agreed to by Jordan and the International Monetary Fund.

Monetary Policies. The government's priorities are to: 1) Control monetary expansion in conformity with the rate of GDP growth; 2) Maintain the stability of and enhance confidence in the JD by rebuilding the Kingdom's foreign exchange reserves; 3) Continue to adopt flexible interest rate policies to achieve a balanced interest rate that mobilizes national savings and leads to efficiency in the allocation of financial resources among the various economic sectors; 4) Develop financial and monetary markets compatibile with economic developments and in a manner that provides for more efficient use of monetary policy instruments in affecting macro-economic variables; 5) Develop the banking system, bring the Deposits Guarantee Corporation into existence and reorganize the banking system; 6) Continue to pursue a policy of maintaining the Kingdom's forex reserves since they are one of the most important criteria in maintaining the external/internal stability of the Jordanian economy; and 7) Continue to develop the legal framework that improves the performance of monetary policies and its role in development.

Financial Policies. The government's priorities are to: 1) Reduce the government budget deficit in absolute terms and as a ratio of GDP to a level where it can be financed from external aid and domestic resources; 2) Improve domestic revenues by increasing and improving the methods of collecting public receipts; 3) Control public current and capital expenditures; and 4) Increase the flexibility of the tax system by revising the income tax and customs tariffs and introducing a general sales tax as an introduction to the Value-Added Tax (VAT).

Reform Policies. Jordan was able to achieve most of the objectives of the 1989-1993 Reform Program: 1) Real GDP growth in 1991 was 1 percent; 2) Inflation went down from 25.8 percent in 1989 to 8.2 percent in 1991; 3) The budget deficit (without external aid) went down, as a ratio of GDP, from 20.3

percent in 1989 to 17.7 percent in 1991; and 4) The current account deficit (without external aid), as a ratio of GDP, went down from 16.7 percent in 1989 to 16.3 percent in 1990, and achieved a surplus of 0.2 percent in 1991.

New reform measures on the government's agenda will be featured in a New 1992-1998 Mid-Range Reform Program. The new reform measures will include: 1) Encouraging exports by establishing the Export Credit Guarantee Corporation, 2) Privatizing some public sector corporations, 3) Abolishing the Agricultural pattern Policy (an annual policy mandating farmers to plant certain types of vegetables), 4) Improving the system of marketing agricultural produce; 5) Imposing a general sales tax; 6) Controlling the high liquidity of commercial banks; and 7) Setting the credit facilities granted to the private sector to be compatibile with the Reform Program's terms.

Remittances. Following the Gulf crisis, remittances accelerated considerably and were sent to Jordan as savings, unlike before (when they were transferred to cover consumption expenses). Returnees who need a place to stay have put their money in real estate and some of them have invested in stocks and bonds.

Domestic Liquidity. CBJ's role is to control domestic liquidity and the level of credit expansion in order to conform to GDP growth rates. Measures taken by the CBJ to ensure the implementation of the above directions were to: 1) Raise commercial banks' minimum statutory reserve requirements from 11 percent to 13 percent, and from five percent to seven percent on investment banks and financial companies; 2) Set ceilings on credit facilities granted by each licensed bank, not to exceed 10 times the capital and reserves and 90 percent of total client deposits in JD; 3) Provide an investment opportunity to licensed banks by raising the interest rate on bank deposits with the CBJ to four percent on six-months call deposits; 4) Impose a cash reserve on external exchange units affiliated with Jordanian banks to 15 percent; 5) Urge banks to avoid offering direct credit facilities to non-residents, against foreign currency collateral, purchases of financial market stocks, or purchases of securities from their own portfolios; 6) Subjugate credit given to the public sector (government and public agencies) to a quarterly credit ceiling, and depressing it by controlling public expenditures and improving budget revenues; and 7) Impose Indicative ceilings on credits given to the private sector and another on net foreign assets.

2. Exchange Rate Policies

The Central Bank of Jordan (CBJ) regulates dealing in foreign currencies in Jordan. A system of one official rate is enforced by the CBJ. The rate is called the Jordanian Banking System Exchange Rate. This one rate system is binding on all commercial banks and financial institutions. Moneychangers, who were only recently licensed to operate but have not yet opened their doors because the CBJ has yet to issue procedural guidelines, will also be restricted to dealing within a range for a dollar-dinar buying and selling rate. The exchange rate for moneychangers will be another official, but parallel, rate. (A parallel rate in this context will not represent a black market rate, but another exchange rate mechanism closely controlled by the CBJ.) The current dollar/dinar average (between buying and selling) exchange rate is One dinar equals 1.46 dollars, or one dollar equal 684 fils. There are 1,000 fils to the dinar. The current rate is only one point lower than the previous rate (1.47) which prevailed during 1991 (average) and the first eight months of this year.

In accordance with the Foreign Exchange Control Law No. 95 and other instructions, The CBJ represents the ultimate authority on enforcing foreign exchange controls in Jordan. CBJ issues memoranda from time to time to amend these instructions. These memoranda are channeled to the banking system though public announcements. CBJ's foreign exchange controls cover all fields of foreign exchange transactions in the Kingdom. These include: Inflow and outflow of Jordanian and foreign means of payment, dealing in foreign currencies, resident and non-resident accounts in dinars and foreign currencies, lending in foreign currencies, commercial payments, free trade zone payments, invisible payments and capital transfers, guarantees, export earnings repatriation, commissions on foreign exchange permits, reporting requirements, and auditing and statement of account regulations.

3. Structural Policies

Market forces are generally allowed to set prices. The government imports and subsidizes the prices of basic foodstuffs such as cereals, sugar, milk and chilled meat. The government also sets and controls the prices of other non-strategic food commodities and non-food commodities. 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 remains in force. Jordan is an importer of U.S. grains and cereals which are considered among the food staples. Subsidized prices and price controls have no impact on U.S. exports to Jordan with respect to food staples. However, if pricing controls are lifted on other non-strategic commodities, it would encourage more U.S. exports into Jordan. The World bank and the International Monetary Fund have discussed this issue with government officials several times. However, the government has not yet adopted a sweeping market liberalization policy. In general, price controls imposed on a number of consumer commodities have a negative impact on market competition in Jordan. Taxes on imports is the chief source of domestic revenue. The government collects import taxes and custom duties on a very large number of products. A high tariff rate is imposed on luxury items. Import tariffs and other taxes imposed on U.S. automobiles represent a historical impediment to the sale of U.S. made automobiles in Jordan. The consumption tax is an additional tax imposed on a large number of imports and products produced by domestic industry.

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 55 percent, with large personal, educational and medical deductions permitted. Except for financial institutions, interest, dividend and capital gains earnings are exempt from taxation; in addition, income derived from agriculture is exempt.

4. Debt Management Policies

Early in 1992, the government pursued three strategies to deal with its foreign debt burden: 1) Changing the structure of the present external debt by directing borrowing towards long-term loans at low interest rates (The government restructured all short-term loans as medium-term loans.), 2) Reaching an agreement in principle with the Paris and London Clubs to reschedule debts owed to member countries of both Clubs, and 3) Concluding agreements with other official creditors to reschedule debt, in a fashion similar to those concluded with the Paris and London Clubs, or to buyback these loans at an appropriate discount price.

As part of Jordan's present debt management strategy, replacing debts with assets was an option that the government tried to pursue with creditors. The balance of external debts (disbursed and contracted) amounted to $8.5 billion as of 1991 year-end. Jordan was able to deduct about one billion dollars of this amount after cancelling military sales contracts with France.

Due to the Gulf crisis, Jordan was not able to reschedule its 1991 debts. Despite that, most of debts accruing in 1992 to official and commercial creditors were rescheduled. An agreement was reached with the Paris Club to reschedule all payments and interest accrued to Jordan from 1992 until mid-1993 and to reschedule all overdue payments plus 50 percent of overdue interest from 1991.

As for commercial postponed debt (The London Club), negotiations were put off pending the Group's response to Jordan's request for better rescheduling terms. Jordan is seeking an agreement with The London Club similar to that reached with The Paris Club, which would cover all the Kingdom's debts to the institutions included in the Club (which amount to 1.2 billion dollars). The terms being discussed with The London Club include partial debt buy-back, partial conversion of debt into investments in Jordanian dinars, and partial payment. However, negotiations with The London Club did not succeed in September because the Group was seeking a one time payment representing a portion of Jordan's commercial debt and the rescheduling of the rest, with no options for conversions into investments in Jordanian dinars as suggested by Jordan. The London Club was willing to give Jordan a discounted sale of Jordanian debt but at a rate not acceptable to Jordan. According to official statements, Jordan paid The London Club $30 million as a sign of good intent before the September negotiations.

As for loans due to the Ex-Soviet Republics, which amount to $750 million, private arrangements were made to settle part of these loans and settle the balance in exports of Jordanian goods and services to these Republics. Negotiations with these Republics were finalized in September 1992.

5. Significant Barriers to U.S. Exports

Import Licenses. licenses are required for 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.

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 government regulations on standards, testing, labeling and certification are not barriers to U.S. exports or U.S. direct investment to/in Jordan. Imported foodstuffs and domestic food industries must 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. Importers of 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 importers and manufacturers in the private sector; thus enabling them meet internationally-accepted standards.

Investment Barriers. No restriction is placed on the 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 and transportation. The government officially encourages foreign and private investment. Foreign investments must be approved by the Council of Ministers prior to the investment. Funds and the foreign share of the capital and any additional funds should be transferred to the kingdom through the country's banking system before final approval is granted.

Government Procurement Practices. The Central Tenders Committee and the General Supplies Department are the two central authorities on government procurement in Jordan. Foreign bidders are permitted to compete directly with local counterparts in international tenders (financed by the World Bank). However, local tenders are not directly open to foreign bidders and suppliers. By law, foreign companies must bid through their Jordanian representatives and agents. There are no legal statutes in Jordan's procurement law which invite non-competitive bidding. However, the law does not prohibit a government or semi-government agency from pursuing a selective tendering process. The law gives the tender issuing department, in addition to the review committees at the Central Tenders Department and the General Supplies Department, the ultimate right to accept or reject any offer or bid and the right to withhold information on rejection decisions. A due process for protest is legal in Jordan, but the foreign bidder or supplier must conduct a protest within the domain of the Jordanian legal system.

Customs Procedures. Under the prevailing Import Tariff Schedules, enforced since 1989, a high tariff rate is imposed on luxury goods and on major categories of consumer goods. On automobiles, the tariff rate ranges from 110 percent to 130 percent. Import tariffs are low on many 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, maintaining at least 40 percent Jordanian value-added content. Such procedures are subject to review by the Ministry of finance, which has been charged with streamlining customs procedures. The Director General of the Ministry of Finance and Customs is empowered under the customs law to grant temporary admission status to certain goods such as heavy machinery and equipment necessary for the execution of government projects or important projects which have government approval. Foreign construction companies operating alone or in a joint venture with a Jordanian partner can apply for this temporary admission status.

The advantages of temporary admission status is temporary exemption from payment of customs duties, against the submission of an appropriate bank guarantee and under conditions that are approved by the Director General of Finance and Customs. These conditions include the forfeiting of the guarantee if the goods are used for a purpose other than that for which they were imported, or are sold in Jordan without payment of the customs duties. Such goods are normally re-exported or sold locally against payment of customs duties by the purchaser; failing that, the equivalent amount of the bank guarantee will be forfeited.

6. Export Subsidies Policies

Export earnings repatriated into the Kingdom are exempt from corporate income tax in proportion to their share of total output. The maximum exemption is 30 percent of total income. Bilateral Credit arrangements with Arab countries are also used to bolster Jordanian exports. The Central bank of Jordan (CBJ) implements measures that are aimed at encouraging Jordanian exports. CBJ exempts exporters of Domestic manufactured goods from submitting a bond that guarantees the repatriation of export earnings into the Kingdom, eventhough this requirement applies to all exports. CBJ considers the export sector as a priority sector. Export Enhancement Advances are exempted from the interest rate control requirements. Interest rate ceilings on loans, which CBJ grants to banks and financial institutions is less by 3.5 percent from the prevailing re-discount rate of 8.5 percent. However, banks were allowed to collect 2 percent per year in interest commission.

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The ceiling for pre-shipment credit advances was raised to 75 percent of the value of the export Letter of Credit (L/C). Post-shipment credit was increased to 90 percent of the value of bills for collection and drafts. The acceptable value-added content by the CBJ was reduced to 25 percent as a minimum requirement. CBJ is also cooperating with the Industrial Development Bank (IDB) to introduce a new facility under which mid-term low-interest export encouragement loans could be extended to exporters.

To enhance export subsidies, CBJ gives preferential treatment to productive sectors that make use of the specialized credit institutions. Interest on loans granted by specialized credit institutions were excluded from the floating of commercial interest rate, where it should not exceed 10 percent.

7. Protection of U.S. Intellectual Property

Jordan's Copyright law which provides for the protection of intellectual property was passed by Parliament early this year. Other than this Law, no specific Jordanian laws or regulations exist to protect foreign intellectual property. Only the intellectual property of Jordanian authors and foreign authors who register their works inside the Kingdom are protected by the Copyrights Law. Infringement of U.S. intellectual property rights is not subject to any controls in Jordan, particularly if these rights are not recognized in Jordan (for having not registered inside Jordan) and do not fall under any agreement that binds the Kingdom as a signatory.

Patents (product and process). These must be registered at the Ministry of Industry and Trade to receive protection. A foreign company is entitled to have a patent registered by sending a power of attorney in this regard to a patent agent or to a lawyer. Registration may be renewed once, for a period of 14 years. The law, however, applies more to domestic patents and un-registered foreign patents which are not already protected. Infringement of a foreign patent, such as manufacturing of chemical compounds, is observed as a violation by Jordanian courts if it proves to be an infringement of the exact manufacturing process.

Trademarks. No cases of counterfeiting have been brought under public inquiry, nor have there been any court of law cases on counterfeiting. A foreign company is entitled to have its trademarks registered in Jordan by sending a power of attorney in this regard either to a trademark agent or to a lawyer. The Jordanian Trademark Law is based mainly on British trademark law and rules. Trademarks may be registered unless they fall within recognized prohibitions, such as being similar or identical with an already-registered trademark, likely to lead to deception of the public, or contrary to public morality. It is anticipated that the present trademark law will be amended or replaced.

Copyrights. One concern is the unauthorized reproduction of audio and video tapes. For a small fee, a customer can rent or buy copies of a wide selection of popular U.S. films. While the copies are frequently of inferior quality, this does not seem to have discouraged customers, 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.

The Jordanian Copyrights law protects only foreign works that are made and registered in Jordan or those subject to international agreements Jordan is party to and those subject to the principle of reciprocity. Foreign works made outside Jordan should be registered in Jordan in order to be protected and recognized. The Jordanian Copyrights law deals with all aspects relating to the exclusive rights to 1) copy or reproduce works; 2) translate, revise, or otherwise adapt or prepare program derivatives work; 3) distribute copies of the work, and 4) publicly communicate same. Royalties may be remitted under licensing agreements approved by the Ministry of Industry and Trade.

New Technologies. There are a sufficient number of vendors in the Jordanian market who engage in technological fields, such as software, integrated circuits, semiconductor chips, broadcast satellite signals, and biotechnology.

There is no agreement between the United States and Jordan concerning the protection of U.S. exports of intellectual property. However, the impact of Jordan's intellectual practices on U.S. export, although it cannot be estimated, is not severe enough to cause lost export or investment opportunities to U.S. firms.

8. Worker Rights

a. Right of Association

While Jordanians are free to join labor unions, only about 15 percent of the workforce is unionized. Unions represent their membership in such areas as wages, working conditions and worker layoffs. Seventeen unions comprise the Jordan Federation of trade Unions (JFTU). The JFTU actively participates in international organizations such as the International Labor organization.

b. 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, working conditions and health and life insurance. If a union is unable to reach agreement with an employer, the issue is referred to the Ministry of labor for arbitration. If the Ministry fails to act within 2 weeks after receiving a union complaint, the union may strike. In fact, union-employer-government relations are generally tranquil, so arbitration is rarely required.

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c. Prohibition of Forced Compulsory Labor

Compulsory labor is forbidden by the Jordanian 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 30 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 per week, with the exception of hotel, bar, restaurant and movie theater employees, who can work up to 54 hours. Jordan also has a workers' compensation law and social security which covers companies with more than five employees.

f. Rights in sectors with U.S. Investment

Workers' rights in sectors with U.S. investment do not differ from those 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 an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		0
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals and 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

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

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, November 1992

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Key Economic Indicators

(millions of Kuwaiti Dinars, KD, unless otherwise noted)

INCOME, PRODUCTION AND EMPLOYMENT	1990	1991	1992
Real GDP growth (PCT)	-42.0	-55.0	80.0
GDP (at current prices)	4,500	2,500	4,500
By sector:			
Oil sector	1,800	400	2,200
Non-oil sector	2,300	2,100	2,300
Net exports of goods and services ($ mil)	5,497	7,037	N/A 1/
Real per capita gdp (KD)	N/A	2,170	3,030
Labor force (000s)	N/A	450	600
Unemployment rate (percent)	NIL	NIL	NIL
MONEY & PRICES (annual percentage growth)			
Money supply (m2)	3.2	-2.1	-1.2
Base interest rate	7.5	7.5	7.5
Personal savings rate	N/A	N/A	N/A
Retail inflation	2.0	9.5	5.0
Wholesale inflation	3.4	n/a	n/a
Consumer Price Index	5.3	n/a	n/a
Exchange Rate (usd/kd)	.294	.289	.294
BALANCE OF PAYMENTS AND TRADE (MILLIONS US DOLLARS)			
Total Exports FOB	7,800	1,060	5,060
Exports to U.S.	570	40	285
Total Imports CIF	3,800	5,040	6,500
Imports from U.S.	400	1,230	1,700
Aid from U.S.	0	0	0
Aid from other countries	0	0	0
External Public Debt	N/A	5,500	5,500
Debt Service payments (paid)	N/A	N/A	300
Gold & Forex Reserve	1,996	3,179	2,771
Trade Balance	4,000	-3,980	-1,440
Balance with U.S.	170	-1,190	-1,415

1/ IMF Staff estimates

1. General Policy Framework

Kuwait has a small and relatively open, oil-rich economy. Its population is only slightly more than one million, but its proven crude oil reserves amount to approximately 94 billion barrels (ten percent of total world reserves) making Kuwait a very rich nation.

The Kuwaiti economy has been subject to several severe shocks over the past two decades. These include a massive increase in government intervention and control of the commercial economy during the late 1970s and early 1980s; the collapse of the Souk al Manakh -- an unregulated curbside securities market -- in 1982; the collapse of world oil prices during the mid-1980s; and, finally, the Iraqi invasion of 1990. Together, the first three of these blows produced a 40 percent decline in real GDP in Kuwait between 1972 and 1989. The last finished the job, leaving Kuwait in the spring of 1991 with its oil fields ablaze, its treasury depleted by the costs of the war, its population reduced, its public sector institutions in disarray, and its private sector largely crippled by Iraqi arson and sabotage.

The Government of Kuwait was able to meet the challenge of this situation. Within two years, it has re-established basic services, reconstructed its oil industry to the point where production in November 1992 had already reached 1.5 million barrels per day (compared to a pre-war level of some 2.2 million barrels per day), and restored life in general to its pre-1990 mode throughout the Emirate.

The costs of this effort were very high. Overall, Kuwait appears to have run a cumulative fiscal deficit of approximately $70 billion over its past two fiscal years, reducing in the process the foreign assets in its Fund for Future Generations to approximately $35-40 billion and increasing its public debt to a similar level.

In the nonoil sectors of Kuwait's economy, an initial trade boom stimulated by the demands of reconstruction petered out in late 1991 as confusion in Kuwaiti labor and capital markets combined with uncertainties about Kuwait's political and economic future to limit both demand and output. In labor markets, the main problem was the government's new demographic policy, which severely limited the capacity of Kuwaiti firms to recruit either low cost or highly skilled foreign workers for production in Kuwait. In capital markets, the government's long delay in approving and then implementing a bailout program for Kuwait's commercial banks prevented companies from preparing financial statements, banks from borrowing or lending freely, and the stock market from re-opening. The net result: severe restrictions on company access to new credit or capital.

Looking ahead, a number of these negative factors may be eliminated during 1993, including remaining doubts about Kuwait's internal political stability. Elections held in October 1992, seen as the freest and most open ever held in Kuwait, resulted in a consensus government with a mandate to deal with critical national problems in regard to the economy and the nation's security. Constraints on company access to credit and capital should also be relaxed following the re-opening of the Kuwaiti Stock Market in September 1992, and the full implementation of the government's plans for a more competitive banking system. In addition, the government has begun to look seriously at the possibility of privatizing and liberalizing economic activities in Kuwait.

As a result, the recovery in Kuwait should be stronger and broader in 1992 and 1993 than it was in 1991. For 1992, GDP is estimated to have risen to somewhere in the region of $15 billion, and is projected to increase in 1993 to slightly more than $20 billion, largely on the strength of increased oil production.

2. Exchange Rate Policy

There are no restrictions on current or capital account transactions in Kuwait, beyond a requirement that all foreign exchange purchases be made through a bank or licensed foreign exchange dealer. Equity, loan capital, interest, dividends, profits, royalties, fees, and personal savings can all be transferred in or out of Kuwait without hindrance.

The Kuwaiti dinar itself is freely convertible at an exchange rate calculated daily on the basis of a basket of currencies which is weighted to reflect Kuwait's trade and capital flows. In practice, the Kuwaiti dinar has closely followed the exchange rate fluctuations of the U.S. dollar over the past year.

3. Structural Policies

There are three basic points to note about the government's structural policies. First, those policies as a body tend to 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 of all net income. Foreign investment, similarly, is welcome in Kuwait, but only in select sectors as minority partners and only on terms compatible with continued Kuwaiti control of all basic economic activities. Moreover, some sectors of the economy -- including oil, banking, insurance, and real estate -- have traditionally been closed to foreign investment. Foreigners (with the exception of nationals from some Gulf Cooperation Council states) are also forbidden to trade in Kuwaiti stocks on the Kuwaiti stock exchange except through the medium of unit trusts.

Biases are also in place in regard to trade. Government procurement policies generally specify local products, when available, and prescribe a 10 percent price advantage for local companies on government tenders. There is also a blanket agency requirement, which requires all foreign companies trading in Kuwait to either engage a Kuwaiti agent or establish a Kuwaiti company with majority Kuwaiti ownership and management. Finally, in labor markets, resident foreign nationals are subject to special taxes and fees that are intended to both discourage their employ and limit their tenure in Kuwait.

Second, price signals are only partially operational in Kuwait. In many ways, Kuwait is still a welfare state in which many basic products and services are heavily subsidized. Water, electricity, and 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.

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Finally, and perhaps most important of all, some major aspects of this system of preference and privilege have begun to change. Amendments have been proposed to Kuwait's commercial law which may permit foreign joint ventures in banking and other sectors as early as 1993. In addition, the Kuwait Petroleum Company, for the first time in its history, is now actively seeking foreign joint venture partners for planned investments in petrochemicals.

There is also an increased interest in the commercialization and privatization of public services and institutions. The Government of Kuwait has, for instance, already announced plans to privatize its telecommunications services and retail gas stations. It has also engaged the World Bank to work with the Gulf Investment Corporation on a nationwide privatization plan that could ultimately take in the full range of public services and government-owned commercial companies.

4. Debt Management Policies

Prior to the Gulf War, Kuwait was a significant net international creditor, having amassed a foreign investment portfolio under the auspices of the Kuwait Investment Authority that was valued at $80-$100 billion. All of this changed with the war as major expenditures on defense, reconstruction, and aid severely depleted the government's resources. Altogether, Kuwait appears to have run a fiscal deficit of approximately $70 billion over its last two fiscal years (90/91 and 91/92), half of which was apparently financed through the sale of assets. The balance was covered by a domestic bond issue of approximately $20 billion to cover the Central Bank's purchase of all the domestic credits of Kuwait's banking system; repurchase agreements worth approximately $9 billion; and a $5.5 billion commercial bank loan. Combined with previously outstanding Kuwaiti treasury bills, these new borrowings have now raised the combined foreign and domestic government debt of Kuwait to between $38-40 billion.

It appears likely that the government will run deficits for the next three to five years, despite rising oil revenues. While the size of these future deficits is difficult to estimate, they could ultimately add as much as $20 billion to $25 billion to the overall debt of the Government of Kuwait.

5. Significant Barriers to U.S. Exports

There are few significant barriers to U.S. exports in Kuwait. Tariffs are low (currently no higher than four percent on any product), and, since the conclusion of the Gulf War, U.S. exports to Kuwait have boomed.

On the other hand, Kuwait is a Muslim country and prohibits the importation of alcohol or pork from any country. It participates officially in the Arab League boycott of Israel, though that boycott has not been rigidly enforced against U.S. and other coalition country firms since the conclusion of the Gulf War. Finally, Kuwait is now developing a new offset program which will establish significant investment and/or countertrade obligations for all foreign suppliers for all government contracts in excess of KD 1 million ($3.5 million). According to the draft guidelines, these obligations will be equivalent to 30 percent of the value of the contract, with settlement expected within eight years.

6. Export Subsidies Policies

Kuwait does not directly subsidize its exports, which consist almost entirely 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 vegetables are grown or traded to make a significant impact on local or foreign markets.

7. Protection of U.S. Intellectual Property

Intellectual property rights protection is lax in Kuwait. Kuwait is not party to any of the international conventions for the protection of intellectual property rights and, while it has had patent and trademark laws since 1962, the penalties under both are so low (a maximum fine of $2,100) as to be ineffective in deterring illegal activities. The patent law, moreover, excludes certain chemical inventions involving foods, pharmaceuticals, and medicines, and provides protection of only fifteen years. It also contains provisions for compulsory licensing whenever a patent is insufficiently used in Kuwait or is deemed of "great importance to national industry".

Kuwait has no copyright law, with the result that there is now a large, overt market for pirated software, audio cassettes, and videotapes, as well as unauthorized Arabic translations of foreign books. A new draft copyright law is under preparation by the Government of Kuwait. However, that law may not provide adequate protection for foreign works, sound recordings, or compilations of facts and data. The terms of protection for different types of works are also short and penalties for infringement relatively light.

8. Worker Rights

a. Right of Association

Workers with Kuwaiti nationality have the right to establish and join unions and, after liberation, about 33,000 Kuwaiti workers were organized as union members. Expatriate workers, who comprise about 80 percent of the labor force in Kuwait, are allowed to join unions after five years residence, but only as nonvoting members. In addition, Kuwaiti law forbids the establishment of more than one union per "functional area".

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b. Right to Organize and Bargain Collectively

The right to strike is recognized, but is limited by Kuwait's labor law, which provides for compulsory negotiations followed by arbitration if a settlement cannot be reached in a timely fashion. The civil service law also provides 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 Kuwaiti Constitution prohibits forced labor "except in the cases specified by law for national emergencies and with just remuneration." This prohibition appears to have been generally respected.

d. Minimum Age for Employment of Children

The minimum age for employment under Kuwaiti law is 18 years for all forms of work, both full and part-time. This law appears to have been generally observed.

e. Acceptable Conditions of Work

General conditions of work are established by Kuwaiti labor law for both the public and private sector, with the oil industry treated separately. The basic labor law limits the workweek to 48 hours, 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 in industry in general.

The law governing the oil industry is more generous. It provides for a 48-hour workweek, 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 and activities, and are promised equal pay for equal work.

Employers in general provide suitable working conditions for their employees. However, abuses do occasionally occur in the treatment of unskilled foreign workers, such as housemaids, servants and industrial laborers.

f. Rights in Sectors with U.S. Investment

There is little U.S. investment in Kuwait. Where it exists, firms operate under and in full compliance with Kuwaiti labor law

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		0
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals and 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

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

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, November 1992

MOROCCO

Key Economic Indicators

	1990	1991	1992 (proj)
Income, Production and Employment			
GDP (current dh bil)	207.9	232.7	242.9
GDP (current $bil)	25.4	26.8	30.4
Real GDP growth (dh, pct)	2.6	5.0	0.0
GDP by sector (pct of total)			
Agriculture	15.7	18.0	N/A
Mining	2.6	2.2	N/A
Energy	6.7	6.2	N/A
Manufacturing	18.2	17.4	N/A
Construction	5.5	5.3	N/A
Commerce	20.8	20.9	N/A
Services	11.9	11.3	N/A
Transport	6.5	6.4	N/A
Government	12.2	12.5	N/A
Per capita income (dh)	8,246	8,965	9,166
Per capita income ($)	1,006	1,030	1,145
Labor force (million) 1	3.9	4.1	4.3
Unemployment (pct) 1	15.8	17.3	N/A
Money and Prices			
Money (M2, pct change) 2,3	18.5	16.8	8.0
Commercial interest rates			
Short term	13.0	14.0	14.5
Long term	14.0	15.0	15.0
Savings rate (pct GDP)	23.2	21.3	22.8
Investment rate (pct GDP)	25.7	24.5	24.8
CPI (pct change) 2,3	4.6	7.2	5.0
WPI (pct change) 2,3	6.7	8.2	6.0
Exchange rate (dh/$)	8.2	8.7	8.0
Balance of Payments and Trade			
Total exports ($bil)	4.2	4.3	5.3
Exports to U.S. ($mil)	109	154	N/A
Total imports ($bil)	7.0	6.9	8.5
Imports from U.S. ($mil)	495	403	N/A
Aid from U.S. (FY, $mil)	150.1	137.8	123.6
Aid, other countries ($bil)	2.4	2.1	NA
External pub. debt ($bil)	23.0	21.2	20.5
Debt service payments($bil)	1.8	2.2	N/A
Foreign exch res ($bil) 3	2.6	3.4	4.0
Balance of payments ($bil)			
Trade balance	- 2.7	- 2.6	- 3.3
Current account	- 0.2	- 0.6	- 0.7

1/Urban 2/December/December 3/Est. based on 7 mo. data

1. General Policy Framework

Morocco is a lower middle income country with a market-oriented economy. Its major sources of foreign exchange have traditionally been phosphates, tourism, and workers' remittances, but exports of agricultural products (including fish) and manufactured goods (particularly textiles) are becoming increasingly important. About one-third of Morocco's current account earnings come from tourism and remittances of Moroccan workers abroad. Mineral exports total about half of merchandise exports; phosphates and its derivatives alone account for about 30 percent of exports. Agriculture (including fishing) and manufacturing each account for about a quarter of merchandise exports.

Morocco has pursued an economic reform program supported by the International Monetary Fund (IMF) and World Bank since the early 1980's. Reforms under the program included lifting import restrictions, liberalizing foreign exchange controls, opening the foreign investment regime, and reducing subsidies.

The government has steadily reduced its fiscal deficit in recent years. The 1991 fiscal deficit (excluding grants) was 3.1 percent of GDP, down from 9.6 percent of GDP in 1985. More than half of the deficit was financed from external sources. The projected 1992 fiscal deficit is less than one percent of GDP.

Foreign exchange inflows in 1990 and 1991 along with reform of the financial system led to a sharp increase in the money supply. The monetary authorities stemmed the growth in money supply by raising reserve requirements four times between July 1991 and February 1992. The Central Bank also increased the rate it charges banks for overnight borrowing to meet reserve shortfalls. Inflation, as measured by the consumer price index, rose from 4.6 percent in 1990 to 7.2 percent in 1991. Inflation slowed in 1992; consumer prices are expected to rise by less than six percent for the year.

2. Exchange Rate Policies

The Moroccan government has announced its intention to make the dirham freely convertible for current transactions (as defined by the IMF's article VIII) by the end of 1993. It has already eliminated the requirement for prior authorization for access to foreign exchange for most current and some capital transactions, delegating the authority to the banks. Explicit authorization for foreign exchange is still required for imports from countries other than those of origin or imports purchased on a CIF basis, although approval is routinely granted.

The Moroccan monetary authorities set the rate of the dirham against a basket of currencies of its principal trading partners. The basket is dominated by currencies of EEC nations, especially France which supplies about a quarter of Morocco's imports and buys about a third of its exports. There are no parallel or multiple rates, and the discount on the dirham in the small black market is small. The dirham rate against the dollar reflects the rate between the dollar and the other currencies in the basket. The depreciation of the dollar against other major currencies is therefore reflected in its depreciation against the dirham.

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3. Structural Policies

Morocco steadily reduced barriers to trade over the last decade. Less than ten percent of product categories currently require import licenses, and the government has announced plans to eliminate the licensing requirement for most of the remaining items by the end of 1993. The maximum tariff rate was recently reduced from 45 to 40 percent, and the average effective rate is estimated at under 25 percent, although there is also a 12.5 percent import surcharge. Morocco's value added tax of up to 30 percent applies equally to imported and domestically produced goods.

The Moroccan government also liberalized the financial system. Previously, monetary authorities set credit ceilings by bank and sector, and required banks to hold a minimum amount of low yield treasury bills. In 1988 the treasury began to pay market interest rates for new debt issues through treasury auctions. In 1990 the government moved to a system of indirect credit controls. Changes in the reserve requirement and the central bank's interest rate on overnight funds needed by banks to meet reserve requirements rather than credit ceilings are now used to control the money supply. Interest rates on deposits were deregulated but lending rates are subject to a ceiling representing a one-third markup over the average auction rate for recent issues of one year treasury bills.

Morocco has a three-part tax structure consisting of a value added tax (VAT), a corporate profits tax, and an individual income tax. The Investment Code provides exemptions from some taxes based on the size, sector, and location of the investment.

In 1989 the Moroccan parliament approved a privatization law calling for the privatization of 112 enterprises by the end of 1995. The government promulgated implementing regulations for the privatization program in October 1990 and completed naming members to the commissions set up to oversee the program in September 1991. The government announced the request for bids for the first company to be privatized on October 21, 1992.

4. Debt Management Policies

The Moroccan government's prudent debt management policies have resulted in a significant reduction in its foreign debt burden. External debt now stands at about $21 billion, of which about $3 billion is owed to commercial banks, $4.5 billion to International Financial Institutions, and most of the remainder to foreign government official creditors. Morocco's external debt represents about 73 percent of GDP, down from almost 88 percent in 1989. Similarly, scheduled debt service as a percent of goods and services exports fell from 54 percent in 1989 to a projected 33 percent in 1992, which is roughly what actual debt payments averaged in recent years. In February 1992 the Moroccan government signed a fifteen-month standby arrangement with the

IMF and rescheduled its Paris Club debt. It does not anticipate the need for further borrowing from the IMF in upper credit tranches for the foreseeable future, and expects to be able to service its debt profile as currently configured without further rescheduling.

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

Import Licenses: The government reduced the number of items covered by the licensing requirement over the last few years; less than 10 percent of Moroccan imports -- mainly agricultural products -- currently require import licenses. The 1967 decree establishing the licensing requirement was designed primarily to protect local production from foreign competition, to promote import substitution, and to regulate the importation of luxury goods. A new foreign trade act passed in 1991 reverses a legal presumption of import protection, spelling out permissible grounds for exceptions to the general principle. While many bulk agricultural commodities no longer require an import license, purchases of politically sensitive items such as wheat, feed grains, vegetable oils, tobacco, sugar and tea are made through government agencies or monopolies. More than half of U.S. exports to Morocco are agricultural products.

Services Barriers: In November 1989 King Hassan abrogated a 1973 law requiring majority Moroccan ownership of firms in a wide range of industries, thus eliminating what had been a significant barrier to U.S. service exports to Morocco. A 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 Government of Morocco actively encourages foreign investment. The investment law contains separate sectoral codes covering industry, tourism, housing, maritime, mining, petroleum exploitation, crafts, and exports. The crafts code applies only to Moroccan firms, and some benefits contained in the Maritime code are limited to Moroccan firms. The other sectoral codes provide incentives equally to Moroccan and foreign investors. There are no foreign investor performance requirements, although investors receive incentives such as tax breaks under the various sectoral codes depending on the size, sector, and location of the investment. Investment screening procedures only apply when an investor requests benefits under a sectoral code.

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 (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 8 percent. This rate 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.

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 dating from the era of the French and Spanish Protectorates requires patent applications for industrial property to be filed in both Casablanca and Tangier for complete protection.

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. Trademarks must also be filed in both Casablanca and Tangier.

8. Worker Rights

a. Right of Association

The Moroccan Constitution explicitly "guarantees to all citizens ... the right of association and the right to join any trade union and political organization of their choice." Workers are free to form and join unions throughout the country. The right is exercised widely but not universally, although the selection of union officers and their ability to carry out their duties is sometimes subject to government pressure.

b. Right to Organize and Bargain Collectively

The Constitution guarantees the right to strike, and includes labor organizations among the entities that serve to "organize and represent the citizens." The right to organize and bargain collectively is seen as implicit in these guarantees. The multiplicity of trade union federations creates competition to organize workers. A single factory may contain several independent local or locals affiliated with more than one labor federation. In both the process of organizing and during collective bargaining, labor laws are honored most often in the corporate and parastatal sectors of the economy, where ad hoc government mediation and arbitration procedures to promote worker-employer negotiations are more easily applied. In the informal and underground economy, and in the textile and artisanal field, labor laws and regulations are routinely ignored. Despite legal safeguards against it, employers regularly fire workers for trade union activities that they see as threatening to employer interests.

c. Prohibition of Forced or Compulsory Labor

Morocco has ratified both ILO conventions against forced labor. The ILO's committee of experts in its report for 1990 noted that there is no Moroccan legal or constitutional prohibition against forced or compulsory labor. As far as is known, forced or compulsory labor is not practiced in Morocco.

d. Minimum Age for Employment of Children

Children cannot be legally employed or apprenticed before age 12. Special regulations govern the employment of children between the ages of 12 and 16. In practice, children are often apprenticed before age 12, particularly in artisanal work. Poverty and a cultural acceptance of child labor militate against observation or enforcement of the applicable laws. Poverty and a cultural acceptance of child later keep abuse of the child labor laws prevalent nationwide, but they are generally well observed in the industrialized, unionized sector of the economy.

e. Acceptable Conditions of Work

The law provides a 48-hour maximum workweek, with not more than 10 hours for any single day, premium pay for overtime, paid public and annual holidays, and minimum conditions for health and safety, including the prohibition of night work for women and minors. As with other regulations and laws, these are observed unevenly, if at all, in the informal sector.

f. Rights in Sectors with U.S. Investment

U.S private direct investment in Morocco is small. The few U.S. companies in Morocco, nearly all of which have local partners, maintain high standards with regard to worker rights and thus encounter few labor problems.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		20
Total Manufacturing		(D)
Food & Kindred Products	(D)	
Chemicals and Allied Products	*	
Metals, Primary & Fabricated	4	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	(D)	
Wholesale Trade		2
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

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

* - Less than $500,000

Source: U.S. Department of Commerce (unpublished(
Bureau of Economic Analysis, November 1992

OMAN

Key Economic Indicators

(Millions of U.S. dollars unless otherwise noted)

	1990	1991	1992 /1
INCOME, PRODUCTION AND EMPLOYMENT			
REAL GDP (1988 PRICES)	9445.5	8563.1	N/A
REAL GDP GROWTH (PERCENT)	14	-9	N/A
GDP (AT CURRENT PRICES)	10531.8	10233.1	N/A
BY SECTOR:			
PETROLEUM	5174.8	4311.8	N/A
AGRICULTURE & FISHING	347.9	374.1	N/A
MINING	30.9	27.8	N/A
MANUFACTURING	359.3	399.4	N/A
OIL REFINING	36.9	38.2	N/A
CONSTRUCTION	320.6	426.7	N/A
ELECTRICITY	97.2	87.6	N/A
WATER	58.0	75.4	N/A
WHOLESALE/RETAIL TRADE	1154.1	1338.0	N/A
RESTAURANTS/HOTELS	65.0	67.6	N/A
TRANSPORT/COMMUNICATIONS	336.2	381.7	N/A
FINANCIAL SERVICES	432.1	383.2	N/A
REAL ESTATE	490.1	532.7	N/A
GOVERNMENT SERVICES	1712.4	1740.7	N/A
OTHER SERVICES	148.5	185.9	N/A
IMPORT DUTIES	85.5	102.7	N/A
LESS: IMPUTED BANK SERVICES CHARGES	316.7	240.5	N/A
REAL PER CAPITA GDP ('88 BPS)	5247.6	4506.8	N/A
LABOR FORCE (OOOS)/2	356	429	530
MONEY AND PRICES (ANNUAL PERCENTAGE GROWTH)			
MONEY SUPPLY (M2)	1014.3	1048.3	1098.5
BASE INTEREST RATE 3/	8.22	5.44	3.89
CONSUMER PRICE INDEX (1988 BASE)	111.5	119.5	122.6
EXCHANGE RATE	1 RIAL EQUALS USD 2.6		
BALANCE OF PAYMENTS AND TRADE			
TOTAL EXPORTS FOB 4/	5506.9	4870.0	5062.2
EXPORTS TO U.S.	15.6	23.4	N/A
TOTAL IMPORTS CIF 4/	2797.6	3325.4	3642.6
IMPORTS FROM U.S.	249.6	241.8	N/A
AID FROM U.S./7	4.4	9.2	22.5
AID FROM OTHER COUNTRIES	25.2	40.5	72.7
GOLD AND FOREIGN EXCHANGE RESERVES/5	2225.6	2606.5	2438.8
TRADE BALANCE 4/	356.2	574.6	1419.6
BALANCE WITH U.S.	(234)	(218.4)	N/A

1/ 1992 Figures are all estimates based on monthly data available in October 1992. No current GDP figures are available for 1992.
2/ Based on estimated population figures. Oman's fiirst census is scheduled for December 1993.
3/ Weighted average interest rates on foreign currency

lending.
4/ Merchandise trade.
5/ Gold and foreign currency are central bank reserves. State general fund figures are not available.
6/ Timely statistics are not readily available in Oman. The government publishes few figures on its finances.
7/ These figures denote expenditures not obligations.

1. General Policy Framework

The Sultanate of Oman is a small nation of about 1.9 million people (400,000 expatriates) living in the arid mountains and desert plains of the eastern Arabian Peninsula. Oil production is the base of the economy. Oman is a small oil producer, and its economy goes in lockstep with the world price of oil. When the price of oil falls, Oman's oil revenues and government spending swiftly follow. Although Oman has a per capita GDP of approximately $6,000, a significant proportion of its population lives in rural poverty. Oman and the United States have had diplomatic relations for 150 years, and commercial relations for even longer.

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 which is applicable to Omani-owned firms, it has not been implemented. There is no personal income tax nor are there any property taxes. The most significant sources of income besides oil royalties are the 5 to 20 percent tariffs levied on imports, revenues from government-owned utilities, and revenues from the 100 percent tariff on tobacco, liquor, and pork.

The 1991 government budget deficit was at 18 percent of net government revenues, and was due to the 18.5 percent fall in average oil prices and its effect on government revenues. The shortfall was financed by a combination of drawing down on reserves and the issuance of development bonds, which the government began selling in August 1991. At least 35 percent of Oman's budget is spent on defense, 36 percent on the activities of the civil ministries, and 21 percent on capital spending projects.

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 investments. Access by foreigners to the Omani economy is generally through Omani agents or partners, although restrictions on asset ownership, especially by fellow nationals of the Gulf Cooperation Council states (GCC), are decreasing. The two year old Muscat Securities Market currently requires shareholders to be GCC nationals, but there are growing pressures to ease this restriction.

Oman's economy is too small to need a complicated monetary policy. The Central Bank of Oman directly regulates the flow of currency into the economy. The most important instruments which the bank uses are reserve requirements, loan to deposit ratios, rediscount policies, currency swaps, and interest rate ceilings on deposits and loans. Such tools are, however, used to regulate the commercial banks and raise revenue, not as a means of controlling the money supply. Oman has no legal provision for using government bonds to regulate the money supply.

2. Exchange Rate Policies

The rial is pegged to the U.S. dollar at a value of one rial to $2.60. Oman last devalued the rial in 1986. The pegging of the two currencies means that U.S. exports to Oman keep their competitive position. There have been recent discussions in the GCC about delinking Gulf currencies from the dollar, because of the latter's current weakness. These discussions, a regular feature whenever the dollar is weak, have led to no decisions to change the status quo.

3. Structural Policies

Oman operates a free-market economy, 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 two largest purchasers, the national oil company and the defense ministry, are on the basis of open tenders overseen by a tender board. Private sector purchases of goods and services are made free from government involvement, although for most private firms, the government is the main client. Oman has fairly rigid health and safety and environmental standards (mostly British origin), which are inconsistently enforced.

Wholly Omani-owned firms are not taxed, giving them a clear advantage over companies with substantial foreign ownership. New companies, regardless of ownership, are given a five year tax exemption. Firms which are 100 percent foreign-owned (international banks or other services) are taxed at the highest rates. For firms which are less than 51 percent Omani-owned, the tax schedule is higher than for firms with 51 percent or more Omani ownership.

4. Debt Management Policies

Oman's sovereign debt of just under $2.4 billion is easily managed and is owed to a consortium of commercial banks. The consortium has no difficulty in finding buyers of this debt. There are no International Monetary Fund or World Bank adjustment programs and there is no rescheduling of official or commercial government debt. Oman gives little publicity to the foreign aid that it donates. Recent, modest aid packages have gone to Somalia and Bosnia.

5. Significant Barriers to U.S. Exports

OMAN

A license is required for all imports to Oman. Special licenses are required to import pharmaceuticals, liquor, and defense equipment. The licenses for general merchandise are issued to the sole agents of individual products in order to protect the exclusivity of the relationship. Once entered into, the agency agreements are difficult to break. This may cause problems for exporters who enter into agency agreements without fully judging the qualifications of the agent. For instance, some local agencies will not have strengths in all the markets that a U.S. firm may want to tap. Because the agreements are hard to break, a firm dissatisfied with its agent may be forced to endure a prolonged dissolution of the agency relationship or withdraw from the market completely.

Service barriers consist of simple prohibitions on entering the market. For example, entry by new firms in the areas of banking, accountancy, law and insurance is not permitted.

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 have also been adopted for many items. Oman is a member of the International Standards Organization and applies standards recommended by that organization. U.S. firms sometimes have trouble meeting dual-language labeling requirements or, because of long shipping periods, complying with shelf-life requirements.

With few exceptions, companies in Oman must be majority Omani-owned, and foreign investment is allowed only through joint stock companies or joint ventures. In order to obtain a waiver for more than 49 percent foreign ownership, a company must petition the Minister of Commerce and Industry. Even when this privilege is granted, most foreign companies in Oman find that their ownership is limited to 65 percent. For foreigners willing to invest in high-priority industries, such as food processing, 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. The government 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. The Tender Board evaluates bids of Omani companies for products at 15 percent less than the actual bid price, and, for services, at 10 percent less. In addition, the extremely short lead times for tenders make it difficult to notify U.S. firms of trade and investment possibilities and difficult for those firms to have time then to obtain a local agent and prepare tender documents.

Oman's customs procedures are complex, and there are complaints of unequal enforcement and sudden changes in the practice of regulations. Processing of shipments in and out of the port can add significantly to the amount of time that it takes to get goods to the market or inputs to a project.

6. Export Subsidies Policies

Oman's policies on development of light industry, fisheries, and agriculture are geared to making those sectors competitive internationally. As noted above, investors in those areas receive 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 which both subsidizes the cost of export loans and guarantees Omani exporters payment for exported products. Oman is not a member of the General Agreement on Tariffs and Trade.

7. Protection of U.S. Intellectual Property

Oman has a trademark law, which the government enforces actively. Official registration of trademarks 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. A U.S. intellectual property rights delegation visited Oman in May 1992. During the talks, Omani officials tentatively acknowledged the need to draft patent and copyright laws and are interested in examining the process. 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 almost exclusively of pirated copies. Nevertheless, there are signs that local private industry is beginning to push for copyright protection in order to begin importing legally-reproduced English-language audio and video tapes. Pirated versions of U.S. computer software are available on the local market. Oman's market in all these areas is quite small, and major customers buy only original computer equipment.

8. Worker Rights

a. Right of Association

The Omani Labor Law does not anticipate or address the formation of labor unions. In practice, organizations formed to represent only workers do not exist in Oman. The Labor Law specifies that "it is absolutely forbidden to provoke a strike for any reason." Labor unrest has been rare during the two decades Oman has been developing a modern economy, and there were no reports of informal work stoppages or related activity in 1992.

b. Right to Organize and Bargain Collectively

According to the Labor Law, employers of more than 50 workers are required to form a joint body of labor and management representatives as a forum for communication between the two groups. Generally, such committees discuss living conditions, for example in a company housing compound. Wages and hours are not under the purview of these committees; they are agreed upon by workers and employers in individual contracts, within the guidelines delineated by the Ministry of Social Affairs and Labor under the law. The committees are not formed across company lines; membership is confined to management and labor representatives from each individual company.

The 1973 Labor Law (as amended) defines conditions of employment for both Omanis and foreign workers, who constitute 50 percent of the work force [setting aside the traditional Omani occupations of fishing, subsistence farming, and herding, foreign nationals make up 80 to 90 percent of the work force in the modern sector.] Foreign nationals from India, Pakistan, the Philippines, Bangladesh and Sri Lanka continue to seek employment in Oman in large numbers, usually entering into employment contracts prior to their arrival. Work rules must be approved by the Ministry of Social Affairs and Labor and posted conspicuously in the workplace. Similarly, any employer with 50 or more workers must establish a grievance procedure.

Regardless of the size of the company, any employee, Omani or expatriate, may file a grievance with the Labor Welfare Board, which comprises 6 inspectors who arbitrate disputes. Lower paid workers such as clerks, mechanics, and salesmen use the board regularly. Both plaintiff and defendant may retain and be represented by counsel. Representative workers may present collective grievances, but most cases are filed on behalf of individual workers. The board has a docket of about 150 cases per month, about 80 percent of which involve foreign nationals. Sessions convene daily; procedures are informal and summary in nature. The Labor Welfare Board operates impartially and generally gives workers the benefit of the doubt in grievance hearings. Disputes that the board cannot resolve go to the Minister of Social Affairs and Labor for decision.

There are no export processing zones in Oman.

c. Prohibition of Forced or Compulsory Labor

Although prohibited by law, a form of compulsory labor occurs occasionally. Some employers withhold the letters of release that foreign workers require in order to transfer employment and residency sponsorship from one employer to another. Failing to secure a letter of release and legal transfer to another firm in Oman, a foreign national must either continue working at his current workplace or become technically unemployed. To avoid that status and the consequent possibility of mandatory departure from the country, some employees submit to their employers' coercion. Some employers demand that foreign workers perform overtime or remain at a firm for several months against their wish, in some cases without compensation, in exchange for the promise of a release letter. This practice is proscribed by law; however, it generally falls to the worker to approach the Labor Welfare Board to report a violation. Workers may engage attorneys to argue cases before the Board, and in most cases the Board releases the employee immediately from service with back compensation for the time worked under compulsion. The employer faces no penal sanction. The only penalty against an employer is the loss of the worker and the compensation payment made to him.

d. Minimum Age for Employment of Children

Under the law, children, defined as those under the age of 13, are prohibited from working. Juveniles, defined as those over 13 years and under 16 years of age, are prohibited from performing evening or night work or strenuous labor. Juveniles are also forbidden to work overtime or on weekends or holidays without ministry permission. Education is not compulsory, but the Government encourages school attendance; over 90 percent of eligible school age children begin primary school.

e. Acceptable Conditions of Work

Using its legal authority to determine the minimum wage and make adjustments according to economic circumstances, the Government issues minimum wage guidelines for various categories of workers. Minimum wage guidelines do not cover domestic servants, farmers, government employees, or workers in small businesses.

There is also a statutory minimum wage for foreign workers. However, many foreign workers are in categories exempt from the minimum wage statute. For menial work that is subject to the minimum wage, lax enforcement usually permits employers to pay less than the legal standard. The private sector workweek is 40 to 45 hours [less for Muslims during Ramadan] and includes a rest period from Thursday afternoon to Saturday morning, which many shopkeepers and their employees opt not to observe. While the law does not designate the number of days in a workweek, it requires at least one 24-hour rest period per week and mandates overtime pay for hours in excess of 48 per week. In practice, the workweek is 5 days in the public sector and generally 5 1/2 days in the private sector. Some menial laborers not protected by the labor law are required by a few employers to work longer hours under substandard working conditions.

Supplemental income through compensated overtime work is common for lower level employees. Every worker has the right to 15 days of annual leave during the first 3 years of employment and 30 days per year thereafter. Employers provide many foreign nationals, including maids, with annual or biannual round-trip tickets to their countries of origin. Employers commonly hold foreign workers' passports, as they are legally responsible for the workers' actions while they are in Oman.

Labor laws and regulations cover in detail issues of occupational safety and access to medical treatment. Employees covered under the labor law can recover compensation for industrial injury or illness through medical insurance, which the employer must provide. The health and safety standard codes are scrupulously enforced by inspectors who make frequent on-site inspections, as required by law. The laws on child and female labor are effectively and uniformly enforced by inspectors.

f. Rights in Sectors with U.S. Investment

Oman's petroleum 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.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category Amount		
Petroleum		75
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals and 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		75

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

Source: U.S. Department of Commerce (unpublished)
Bureau of Economic Analysis, November 1992

PAKISTAN

Key Economic Indicators

(Millions of Pakistani Rupees unless otherwise indicated)

	FY 1990	FY 1991	FY 1993
Income, Production,& Employment			
Real GDP Growth Rate	5.3	6.5	n/a
Real GNP Capita (USD)	385	388	414
GDP (Nominal)	862,452	1,016,728	1,202,346
GDP by Sector (PCT)			
- Agriculture	22.7	22.7	25.7
- Manufacturing	15.3	15.2	17.9
- Services/1	35.1	35.0	48.0
Labor Force (Millions)	31.8	32.8	33.8
Unemployment Rate (PCT)/2	3.1	3.3	3.1
Money and Prices			
Money Supply (M1)	236,980	284,538	331,809
Comm.Interest Rates (PCT)/3	11.0	11.0	15.5
Saving Rate (PCT of GNP)	13.4	13.8	12.7
Investment Rate (PCT of GNP)	17.6	17.8	18.5
Consumer Price Index			
(Annual PCT Change)	6.0	12.6	9.4
Wholesale Price Index			
(Annual PCT Change)	7.3	13.4	6.9
Exchange Rate			
Official (FY AVG)	21.3	22.4	24.7
Parallel (EST)	22.4	23.5	25.5
Balance of Payments & Trade (USD Millions)			
Total Exports (FOB)	4,954	6,114	6,818
Total Exports to US	655	698	784
Total Imports (CIF)	6,935	7,599	9,143
Total Imports from US	955	886	955
Aid from US			
(USFY, Commitments)/4/5	504	0	0
Aid from Other Countries			
(Non-mil commitments)	3,939	4,000	3,349
External public Debt	15,094	15,961	16,481
Debt Service Payments /6	1,323	1,342	1,517
Foreign Exchange Reserves			
(End of Fiscal Year)	604	492	952
Balance of Payments	-83	-75	763

/1 Includes banking, insurance, commerce, housing, storage, transportation, communications and other services.

/2 The official unemployment rate includes only persons who did no 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 U.S. FY 1989, all military aid was forgiven.

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/5 As of October 1, 1990, new civilian assistance and all military aid for Pakistan is withheld pending a presidential certification under the Pressler Amendment to the Foreign Assistance Act.

/6 Excludes interest on short-term loans and IMF charges.

The economic and financial data given above pertains to Pakistan fiscal year 1991/92. 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 entrepeneurial 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. This trend has continued in the period FY 1990-92. However, serious fiscal imbalances 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 in the tax system, administrative and financial barriers to trade and investment, and 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. With the end of FY 1992, the government completed a four-year, IMF-sponsored structural adjustment program to reduce the deficits to manageable levels. The government is currently negotiating with the IMF for an extended facility (ESAF).

With IMF assistance, deficit financing has been rationalized with the introduction of an auction system for government securities debt instruments, and tighter control over borrowing from the State Bank of Pakistan (the central bank). However, government efforts to substantially reduce the fiscal deficit under the IMF program have not been successful. The budget deficit, which was 6.9 percent of GDP in FY 1992, has been financed through domestic borrowing (treasury bills, long-term bonds, and bank lending) and external financing (both commercial and concessional loans). Debt service was the largest spending category in the FY 1992 budget, consuming 31 percent of total expenditures.

For FY 1993, the government is aiming to reduce the budget deficit to 5.5 percent of GDP. However, the government is unlikely to meet this target, primarily due to unanticipated expenditures and borrowing requirements for extensive damage to the country's infrastructure caused by massive flooding in September 1992. Ultimately, the fiscal policies required to reduce the budget deficit will require cuts in the government's defense and non-defense expenditures, new direct and indirect tax measures to expand revenues, increases in administered prices to reduce subsides and better tax administration.

To restore monetary discipline, the government has substantially reduced central bank holding of government debt, increased commercial bank reserve requirements, and raised its discount rate on government securities. Beginning in FY 1993, the government eliminated credit ceilings as its primary monetary policy tool in favor of the following: (a) a market-based system utilizing interest rates to allocate credit, and (b) a ceiling on bank lending, under which banks are permitted to lend up to 35 percent of deposits, and the remaining 65 percent must be utilized either to purchase government securities or as reserves.

2. Exchange Rate Policies

Pakistan's exchange rate policy is based on a managed float, with the central 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 13 percent against the dollar over the last two fiscal years.

Since FY 1991, foreign exchange controls have been significantly liberalized. 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 profit and capital without prior central bank approval. Similar liberal remittance procedures were extended for the first time to foreign portfolio investment in Pakistan's capital market. Other measures made 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

The Pakistani economy has undergone significant reform under the government of Prime Minister Nawaz Sharif. Since taking office in November 1990, the goal of the Sharif coalition government has been to establish a dynamic, open-market economy in which Pakistani firms are competitive in both global and domestic markets.

To accomplish this, the government is pursuing reform in three principal areas: trade liberalization through the reduction of tariff and non-tariff barriers; encouraging foreign and domestic private investment through deregulation and a relaxation of capital and exchange controls; dismantling state control over key areas of the economy through demonopolization and privatization of state-owned enterprises.

The government has already sold 56 of the 115 state-owned industrial enterprises it intends to privatize. It has sold two previously-nationalized banks to the private sector, and three more are on the block. The government is also planning the privatization of two giant state-owned enterprises: Pakistan Telecommunications Corporation (PTC) and the State Electric Utility, WAPDA. In all cases, bidding is open to foreign investors, though foreign investment in Pakistani banks is permitted on a non-repatriable basis only.

Despite the market-based reforms, the government retains considerable power to manage prices in many sectors of the economy. The use of direct price controls has been largely eliminated, although prices in such industries as oil and gas and pharmaceuticals 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. Similar pricing policies have discouraged foreign investment in natural gas exploration and development as well, but in FY 1993, the government has moved to liberalize pricing policies in both of these sectors in order to encourage foreign investment.

Although direct price controls are no longer prevalent, public sector entities involved in banking, manufacturing, services, and trading frequently influence market prices in accordance with government policy or political considerations. Other state-owned corporations can set prices for their products with little regard to generating a positive return on equity. Examples include fertilizer, tractors, and steel products and castings. This is especially true for wheat where the government's artificially low prices raise consumption and lead to smuggling to neighboring countries where prices are higher.

As 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 and the government's incentive to control prices. Over the past two years, the government has sold most of the state-owned ghee factories. As a result, the public sector share of the ghee (vegetable oil) industry has dropped from nearly total dominance to about 15 percent of the market, and the government no longer sets the retail price of the product. The cement industry is undergoing a similar transformation.

In years past, Pakistan was an occasional importer of wheat. Recently, domestic wheat production has lagged behind population growth 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. In September 1992, USDA launched a large export enhancement program for U.S. wheat (USD 24 million). About 70 percent of the vegetable oil consumed in Pakistan is imported. Vegetable oil imports are roughly 85 percent palm oil, most from Malaysia, and 15 percent soybean oil, almost all from South America.

Pakistan's 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 85 percent of FY 1992 gross revenues were generated by sales taxes, excise duties, surcharges and non-tax revenue. Only about 15 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. As a result of these factors, tax revenues have not kept pace with the growth of the economy or with government spending.

In FY 192, 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. 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, to 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 1992 (the most recent statistics available) consisted of the following (USD billions):

TOTAL EXTERNAL DEBT	18.2
Medium/long term debt	17.0
Consortium	7.5
Multilateral	7.4
Non-consortium	1.6
SBP private debt	0.5
Short-term debt	0.3
IMF credits	0.9

Pakistan's debt service ratio was about 22 percent of export earnings in FY 1992. Pakistan has a sound credit rating and has consistently met its debt service obligations on time.

Despite the government's efforts to liberalize the trade regime and incentives to exporters in FY 1992, trade performance fell short of government projections. Due to increased purchases of wheat and machinery, imports rose 20 percent over FY 1991. Exports in FY 1992 increased only 11 percent over FY 1991, primarily due to lower international prices for cotton. The increased trade deficit, together with a 25 percent decline in overseas workers' remittances in FY 1992 over the previous year, resulted in an increase in the current account deficit in FY 1992 by USD 639 million, to USD 2.8 billion.

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 the World Bank. Import license requirements were eliminated for all "freely importable goods" (i.e., items not on the government's restricted or negative lists), except machinery and millwork, goods financed with foreign assistance, some public sector imports, and imports from India. All imports, however, continue to be subject to a six percent license fee, which annually generates about USD 350 million in revenues. Under the new Trade Act Policy, both the restricted and negative lists are reduced to 14 and about 80 items respectively. Items remaining on these lists are restricted for reasons of religion, national security or reciprocity, luxury consumption, or they are capital and consumer goods banned to protect local industry.

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.

In air transportation, the government recently announced an "open skies" policy under which foreign carriers may operate an unlimited number of international passenger flights to and from Pakistan's principal international airport in Karachi. Foreign carriers are also permitted to operate unlimited cargo service, both domestic and international. The state-owned airline's monopoly over domestic passenger service has also been eliminated, but competition is currently limited to domestic carriers.

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 promoter firm or government facility. Pakistan recently opened its life insurance sector to private sector participation, but has limited entry to domestic firms only. Commercial insurance for imported goods must be procured through domestic carriers, except imported goods financed by USAID programs. Foreign banks in Pakistan, including four U.S. banks, are limited to three branches each (although one U.S. bank was recently permitted to open a fourth branch) 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 investments, except those in restricted industries (see below). Other rule changes gave foreign investors better access to domestic credit facilities, both eliminated controls on the movement of foreign currency and opened up the domestic capital market to fully repatriable foreign portfolio investment.

Pakistani law provides foreign investors rights concerning repatriation, security against expropriation, and national treatment with respect to import and export of goods. All investors, both foreign and domestic, are to be treated equally. Foreign investors can now both obtain local financing from private banks and have 100 percent equity in their investment.

The government has designed incentive packages to attract investment to certain "underdeveloped areas" and to key industries - bio-technology, fiber optics, solar energy equipment, computers and software, other electric equipment, and fertilizers. Pakistan's "investment priority areas" include energy, telecommunications, transportation, 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 building), radioactive materials, insurance and health. Foreign investment in domestic banks is permitted only on a non-repatriable 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 procedures involved are cumbersome and competing suppliers are often played off against each other. Government entities must also procure services, such as banking and insurance, from the public-sector firms.

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 have been 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 engineered 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 eight percent (although two of these banks have been privatized and the remaining three are slated for sale).

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. Since then, the government has introduced legislation to revise its patent, copyright and trademark legislation. This legislation remains pending in the National Assembly.

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. 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. Videotape piracy is widespread; the GOP estimates there are over 30,000 outlets with 110,000 employees. Legislation recently passed in the National Assembly and pending in the Senate would, inter alia, revise copyrights legislation and 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. Anyone dissatisfied with the availability and price of a patented item may apply for a compulsory license at any time. Revised patent legislation was submitted to the National Assembly in late 1989, but was 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 now revising its trademark legislation and has assured the United States that infringement penalties and legislative coverage will be expanded.

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8. Worker Rights

a. 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 in any case after it has continued unresolved for 30 days. Work slowdowns and police crackdowns on workers' demonstrations are fairly common. Workers do not seem to be subject to any official sanctions based on political beliefs, but unions traditionally have remained aloof from party politics. Political parties have established affiliated unions, undermining activist organizations. Pakistani labor federations may affiliate with international labor organizations; an International Labor Organization (ILO) office operates in Pakistan. Pakistan has been criticized by the ILO for not abiding by several ratified conventions.

b. 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 states," such as education, public utilities, and nationalized banks. Union leaders complain that the hiring of contract labor has undercut union strength by employing workers who do not receive benefits, such as pensions, and who are not covered by collective bargaining agreements.

c. Prohibition of Forced or Compulsory Labor

Forced labor is 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 the rural areas. No legislative action has been taken but some progress has been made in the courts toward abolishing bonded labor, especially 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 farms or small businesses, but the abusive employment of children in non-family businesses, particularly the carpet industry, 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 and welfare provisions are often not enforced and apply to a minority of the labor force. Specifically, workers in agriculture, small factories with fewer than ten employees, and small contract groups of under ten employees are not covered. The Nawaz Sharif government announced in August 1992 a new minimum wage rate of USD 60 per month for unskilled laborers. However, this bill is yet to be passed by the National Assembly. Worker health and safety conditions are generally poor by western standards, and the government has moved slowly in addressing these problems.

f. Rights in Sectors with U.S. Investment

Significant investment by U.S. companies has occurred in the petroleum, food and related products, and chemicals and related products sectors. 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. 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 American 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 mangerial 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 rights 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 Essential Services Act is likely in the near future.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		111
Total Manufacturing		56
Food & Kindred Products	0	
Chemicals and Allied Products	56	
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, November 1992

SAUDI ARABIA

Key Economic Indicators

(Billions of Saudi Riyals (SR) Unless Otherwise Indicated)

	1990	1991 1/	1992 2/
Income, Production and Employment			
Nominal GDP	371.0	390.0	414.0
Real GDP (1989 prices)	362.0	378.0	386.2
Real GDP Growth (pct)	19.1	3.0	3.6
GDP by Sector:			
Petroleum Sector	137.0	146.0	158.0
Nonoil Private Sector	139.0	144.0	152.0
Nonoil Govt Sector	96.0	99.0	104.0
Real Per Capita GDP (1989 prices, thousand Riyals)	25.3	25.4	25.6
Size of Labor Force (Millions) 3/	5.5	5.7	5.9
Unemployment Rate 4/	6.5	6.5	6.5
Money and Prices			
Money Supply (M2) (Billion Riyals, annual avg)	141.5	154.1	N/A
Comm. Interest Rates (pct)	7.9	6.2	3.7
M2/GDP (pct)	38.4	38.2	N/A
Consumer Price Index (1988 = 100)	103.1	107.8	110.5
Wholesale Price Index (1988 = 100)	102.9	106.1	108.7
Exchange Rate (SR/US$)	3.75	3.75	3.75
Balance of Payments and Trade (USD billions)			
Total Exports (FOB)	44.4	47.8	52.0
Total Exports to US (FOB)	10.6	10.9	12.1
Total Imports (CIF)	24.0	29.0	29.7
Imports from US (CIF)	4.0	5.9	7.5
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)	1.5	1.8	N/A
External Public Debt	0.7	5.2	5.2
Annual Debt Service (paid) 5/	N/A	N/A	4.3
Net Foreign Assets	57.0	54.0	55.0
Gold & Foreign Exchange Reserves	8.0	9.7	8.6 (Jul)
Current Account Balance	-5.2	-15.2	0.0

1/ The Saudi Government has not yet published year-end 1991 data on GDP and Trade.
2/ 1992 Figures are all estimates based on available monthly data in October 1992.
3/ Embassy estimates - no official statistics.
4/ Official statistics for Riyadh only
5/ Includes debt service on domestic public debt.

SAUDI ARABIA

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.

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 nonoil sector's share of Saudi GDP is, however, misleading. Oil accounted for all of GDP's fall from $154.4 billion in 1981 to $104 billion in 1991. Nonoil as a percent of the pie rose because of oil's substantial decrease. In addition, much of nonoil GDP is in fact tied to oil. Supplies and services are sold to the oil sector, and consumption and investment are dependent 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. Allocation limitations are 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 structural deficit (along with Desert Storm and Desert Shield expenditures) created, by 1992, a Saudi public debt of $60 billion in the last five years. The budget deficit is equivalent to eight percent of Saudi GDP on an annualized basis. Foreign assets managed (and reported) by the central banking authority, the Saudi Arabian Monetary Agency (SAMA), have fallen from 1981's level of $127.7 billion to roughly $55 billion. The central government claims roughly $7 billion of this total (from $90 billion in 1982), the remainder of which, the IMF has indicated is composed of roughly one-third for hard currency backing for the Riyal; one-third represents lender claims against the government (primarily the autonomous government institutions loans to the government); and another one-third represents debts owed to Saudi Arabia by creditors such as Iraq and Syria. 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 have netted over SR 6 billion since November 1991. It is unlikely that the government would substantially increase its revenues from taxes and fees, which are imposed almost entirely on foreign entities operating within the Kingdom. These revenue sources 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 nonbank 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 Kingdom's economic growth. During times of crisis such as August 1990, however, it intervenes 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 was 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 but also reflecting the postcrisis return of capital and the high rate of saving in the Kingdom.

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.

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 currency transactions by residents or nonresidents, 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 12 percent tariff.

3. Structural Policies

Pricing Policies: The Saudi Government has traditionally eschewed price controls, with the exception of basic utilities, pharmaceuticals, 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 and natural gas are sold essentially at production cost, leaving domestic prices well below world market levels.

In agriculture, government procurement prices for wheat (now $400 and $533.33 per ton to large and small farmers respectively) are substantially above world market levels. As a result, wheat production has risen to more than two times domestic demand and led to exports of wheat totaling some two million tons or more per year recently. The government has adjusted policies in an attempt to restrain booming production of wheat by encouraging diversification. Farmers must now have government prior approval in order to produce and sell wheat at the support price, and the government no longer is encouraging new wheat production operations. These measures have failed so far to substantially slow the production of wheat. The government's budgetary problems cause slow and late subsidy payments and are having some effect in discouraging some production. 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 near term.

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.

SAUDI ARABIA

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. With the exception of goods originating from Gulf Cooperation Council countries, import tariffs are levied at a general minimum rate of 12 percent ad valorem with exceptions for essential commodities (GCC tariffs are 4 percent). 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. Arabic must be one of the languages used on the label. Imagery on labeling, in particular the depiction of women, has also been used to exclude U.S. products from the market. 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. The events of the Gulf War showed this policy to be unproductive for Saudi interests. Concern over the effectiveness of foreign aid, when combined with current Saudi government financial difficulties, has caused foreign aid to be less plentiful and more closely scrutinized. 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 five years the Government of Saudi Arabia has become heavily dependent upon borrowing to finance its budget. 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. The government has also borrowed heavily from its autonomous government institutions (AGI) and may have borrowed as much as $30 billion from the AGIs using assets overseas as collateral. Total outstanding Saudi debt at year end 1992 probably will reach $60 billion.

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 participates in the Arab boycott of Israel and also bans products and investment from companies that are judged to contribute to Israel's economic or defense capabilities. There has been considerable relaxation of the secondary and tertiary boycotts over the last year.

Government procurement regulations also strongly favor Saudi and GCC nationals. Under a 1983 decree, foreign contractors must subcontract 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. The Government also gives a preference to national maritime shipping companies: up to 40 percent of Government purchases must be shipped on Saudi bottoms (although shipping has yet to reach this level and these preferences are permitted by GATT rules).

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 avoid the highly restrictive "expiration date" deadlines.

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 of $400 per ton for large producers and $533 per ton for small producers. Of the nearly four million tons harvested in 1991, roughly two million were exported at world market prices, with the government covering the organization's losses. The total cost to the government of the wheat production and marketing programs in 1991 was over

$1 billion.

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 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 summer of 1992, the Saudi Patent Registration Administration reported that over 1000 patent applications had 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; unfortunately, 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 but 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. The Copyright Office operates from a loose set of regulations that are being actively enforced within the manpower limits at the Ministry of Information.

8. Worker Rights

a. Right of Association

Government decrees prohibit the formation of labor unions and strike activity.

b. 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.

SAUDI ARABIA

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.

There are numerous reports of foreign nationals coming to Saudi Arabia on promises of a certain level of pay and benefits, only to find that the contract they sign upon arrival specifies a longer contracting period with lower pay and benefits. Other workers has signed contracts in their home countries and are then required to sign substitute contracts for less pay and benefits. Some employees reaching the end of the term of service in a contract have been involuntarily extended and refused permission to leave the country.

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 as 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.

SAUDI ARABIA

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		(D)
Total Manufacturing		746
Food & Kindred Products	5	
Chemicals and Allied Products	(D)	
Metals, Primary & Fabricated	(D)	
Machinery, except Electrical	0	
Electric & Electronic Equipment	3	
Transportation Equipment	0	
Other Manufacturing	(D)	
Wholesale Trade		22
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, November 1992, Vol. 72, No. 8, Table 11.3

SYRIA

Key Economic Indicators

(Millions of Syrian pounds (SP) unless otherwise noted)

	1990	1991	1992 Est.
Income Production and Employment			
Real GDP (1985 prices)	89,485	97,490	106,264
Real GDP growth (pct)	7.8	8.9	N/A
By sector:			
Agriculture	17,891	19,073	21,000
Minerals & Petroleum	20,765	25,115	27,000
Manufacturing	4,900	5,200	5,500
Construction	2,300	2,400	2,700
Financial Services	4,000	4,000	4,000
Other Services	26,900	28,600	31,500
Government, Health and Education	12,000	12,400	12,800
Real per capita GDP ('85 BPS)	7,385	7,781	N/A
Money and Prices			
Money supply (M2) current prices	144,912	183,540	187,211
Base Interest rate 1/	9.0	9.0	9.0
Consumer Price Index	360	432	462
Exchange Rate (USD/SP)			
Official	11.20	11.20	11.20
Promotional	20.00	20.00	20.00
"Neighboring Country Rate"	40.00	40.00	42.00
Offshore market	40-46	42-47	46-52
Balance of Payments and Trade (USD million)			
Total Exports FOB	4,156	3,438	N/A
Exports to U.S.	52	25	48
Total Imports CIF	2,062	2,354	N/A
Imports from U.S.	150	209	150
Aid from U.S.	0	0	0
Aid from Other Countries	88	234	N/A
External (est. nonmilitary) Public Debt (in billion USD) 2/	3.3	3.4	N/A
Exchange	163	235	N/A
Gold holding (millions of troy ounces)	0.833	0.833	0.833
Trade Balance 3/	2,094	1,084	N/A
Balance with U.S.	(98)	(184)	(102)

1/ 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.

2/ Does not include debt under bilateral clearing arrangements or non-civilian debt.

3/ Surplus is almost entirely reflected in a reduction in liabilities mostly to the former Soviet Union, rather than an increase in reserves, and does not reflect Arab contributions from the Gulf war.

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. We do not consider any of the statistics to be totally reliable and are aware that there may be discrepancies. These 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 foreign policy 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 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. Under the 1986 sanctions, Syria is ineligible for the Export Enhancement Program (EEP) guaranteed loans and the Commodity Credit Corporation (CCC) credit guarantee 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 has not been 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. The absence of an organized securities exchange market forecloses the possibility of open market operations. Interest rates are fixed by law, and most rates have not changed in the last several years. Efforts to reduce the budget deficit, especially since 1986, have met with considerable success, thanks to increased transfers from state enterprises and improved tax collections, as well as a compression of capital expenditures not covered by external assistance financing. 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.

Until recently, the severe foreign exchange constraint has limited capital expenditures for imported equipment. Now, thanks to expected financing from Arab Gulf and other donors, capital budget expenditures are rising. In 1992, the increase was about 33 percent over 1991. Nevertheless, the need to allocate foreign exchange to maintain a large standing army plus the Syrian presence in Lebanon continues to burden the national economy, 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

In recent years, 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/USD 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/USD in July 1990, but devalued in April 1991 to 42 SP/USD. In the summer of 1992, the middle rate, the so-called "Promotional" rate, set at 20 SP/USD, was largely phased out. During 1992, the offshore free market rate, centered in Beirut, has fluctuated between SP 46 and 52 to the 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 opened at the Commercial Bank of Syria. Outward private capital transfers are prohibited, unless approved by the Prime Minister or transacted under the new investment law noted below. 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, in most cases, at the "Neighboring Country" rate. In 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.

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/USD rate for the past two years. In prior years, prices on many items were computed at the over-valued official 11.2 SP/USD 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. Since 1989, the Government has increased farm gate prices to encourage production and to enable state marketing boards to purchase larger quantities of locally produced commodities. By 1991, the local price of wheat was double the world price computed at the free market rate.

Although private investment has picked up, Syria's public sector remains 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 tariffs are high, reaching 200 percent for passenger cars. Income taxes are highly progressive. In 1991, marginal rates in upper brackets were 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 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.

SYRIA

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 three billion dollars. Very little Syrian commercial debt is held by U.S. companies. In 1992, various government committees were established to negotiate settlements of supplier credit claims against public sector importing agencies. However, progress has been slow. Debt to the former Soviet Union and Iran (both clearing account arrangements) is estimated to be at least 10 billion dollars. The Government continues to manage its bilateral debt by indefinite deferment. Payments to the successor Russian Republic were suspended in January 1992. The Government remains badly in arrears on payments to official export credit agencies and bilateral donors, including USAID. Syria has been in violation of the Brooke Amendment since 1985. In March 1988, because of nonpayment of debt, the World Bank halted disbursements and cancelled projects.

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 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 guarantees for the remission of profits. The law also requires that the foreign exchange repatriated be generated from company operations. 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 Government continue to be encouraged.

Service barriers exist for banking, insurance, telecommunications, advertising, 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 U.S. suppliers. In addition, problems remain in the prompt return of performance bonds. Formerly, bids on government tenders were considered to be indefinitely valid regardless of the expiry date. This practice is no longer permitted under regulations issued in 1987. Current bid bond forms stipulate that the guarantee becomes null and void if the tender is not awarded upon its expiry date, without need for any other procedure. Some government tenders include a clause allowing the bidder to cancel his bid at six-month intervals, provided a written notice is received within a stipulated time frame. If such a clause is not included in the tender, it can be often negotiated. Tenders for wheat and flour stipulate that bids are invalidated after one month, if no contract is signed.

Syria participates in the Arab League boycott of Israel. Many Syrian government tenders contain language unacceptable under U.S. antiboycott law. In many cases, public sector agencies accept positive certification from U.S. companies in response to tender application questions. Once interested parties obtain tender documents, they would be well advised to obtain competent advice regarding the antiboycott regulations before proceeding. One source of such advice is the U.S. Department of Commerce Office of Antiboycott Compliance (telephone advice line: (202) 482-2381).

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 company expenditures 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.

Given the centralized structure, specific "buy national" laws do not exist. Goods not produced locally or in sufficient quantities are procured by public sector importing agencies from the international market, provided foreign exchange is allocated by the Supreme Economic Council.

6. Export Subsidies Policies

Export financing and subsidies are not available to either the public or the private sectors. Recent government decisions allowing private firms to transact exports and imports at the "Neighboring Country" rate, instead of the unfavorable official rate, have encouraged private trade through official channels. Similar concessions to public sector companies to transact exports have enhanced the foreign exchange position of these companies. In any event, the free market rate remains more favorable. In the past, the system of multiple exchange rates had little or no impact on the level of exports of the private sector. Exporters simply resorted to unofficial channels when official exchange rates did not offer adequate incentives. As already noted, under the foreign exchange retention system, private sector exporters of agricultural products are permitted to apply 75 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's legal system recognizes and facilitates the transfer of property rights, including intellectual property rights. Syria is a member of the Paris Union for the International Protection of Industrial Property. Prior registration of intellectual property is required to bring infringement suits.

Due to the unsophisticated industrial structure and existing limits on private industry, there are few major infringement problems. Local courts would likely give plaintiffs fair hearings, but any financial awards would be in Syrian pounds. Requests for payment in foreign exchange would probably be delayed indefinitely.

Most books printed in Syria are in Arabic and by Arab authors. 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 records, cassettes, and videos, and sell them. These operations are not sanctioned by the Syrian government. The amount of lost revenue is probably minimal. In any event, enforcements and the associated litigation would be, if not impossible, extremely costly compared to any positive benefits which might result.

The U.S. motion picture industry estimates the home video market in Syria is 100 percent pirated, and is also concerned with unauthorized hotel video performances, which are said to be common. However, only a few hotels have internal video systems.

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. Right of Association

Although the 1973 Constitution provides fro the right to form trade unions, the Government uses the Syrian General Federation of Trade Unions (GFTU) as its framework for controlling nearly all aspects of union activity. Effectively, workers are not free to form trade unions independent of the government-prescribed structure. Strikes are not legally prohibited, but are actively and effectively discouraged.

The GFTU is affiliated with the International Confederation Of Arab Trade Unions. The AFL-CIO filed a petition against Syrian labor practices under the auspices of U.S. Generalized System of Preferences (GSP) legislation in 1988. In 1992, the US Special Trade Representative announced that the US government concluded that Syria had not taken steps to afford its workers internationally recognized workers' rights, and that, accordingly, Syria had been suspended from eligibility as a beneficiary under the U.S. GSP.

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. The Government has cited 10 specific examples of such sectoral collective bargaining agreements. The fifteen-member board of directors in each public enterprise includes two union representatives, as well as representatives of enterprise management and the relevant government ministries, but such boards are firmly under government control. They also monitor and enforce compliance with the labor law.

In the private sector, unions are active in monitoring compliance with the laws and ensuring workers' health and safety. The unions, under the law, can undertake negotiations for collective contracts with employers. Unions have the right to litigate contracts with employers and the right to litigate in defense of their own interests and those of their members (individually or collectively) in cases involving labor relations. Union organizations may also claim a right to arbitration.

c. Prohibition of Forced or Compulsory Labor

There is no Syrian law banning forced or compulsory labor, but such practices may be imposed in punishment, usually in connection with prison sentences for criminal offences, under the Economic Penal Code, the Penal Code, the Agricultural Labor Code, and the Press Act. Resignations of public employees from their jobs are not automatically accepted but require an administrative and occasionally even a judicial process.

d. Minimum Age for Employment of Children

The minimum employment age in the predominant public sector is fourteen, although 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 from working at night. The Ministry of Social Affairs and Labor is responsible for enforcing minimum age requirements, but the number of labor investigators is small, and violation of the law may be extensive.

e. Acceptable Conditions of Work

The government sets minimum and maximum wage limits in the public sector. Many public sector employees moonlight or rely on extended families for support.

Syrian labor law extensively regulates conditions of work. This includes rules and regulations which severely limit the ability of an employer to fire an employee without due cause. One exception to the heavily regulated labor field relates to day laborers. They are not subject to minimum wage regulations and receive compensation only for job related injuries. Small private firms and businesses commonly employ day laborers in order to avoid the costs of permanent employees who are well protected, even against firing.

f. Rights in Sectors with U.S. Investment

There is no direct US investment, other than oil exploration and development, in Syria. US firms are required to comply with Syrian labor law.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		(D)
Total Manufacturing		0
Food & Kindred Products	0	
Chemical & Allied Products	0	
Metal, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		1
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, November 1989

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Key Economic Indicators

(Millions of Dinars, unless otherwise noted)

	1990	1991	1992 1/
Income, Production, and Employment			
Real GDP (1990 base) 2/	10,990	11,379	12,334
Real GDP Growth (pct)	7.6	3.5	8.4
GDP (current prices) 2/	10,990	12,120	13,938
By Sector			
Agriculture	1,587	1,938	1,990
Manufacturing Industries	1,641	1,849	2,133
Nonmanufacturing Ind.	1,453	1,511	1,627
Tourism	432	326	550
Services	3,739	3,913	4,623
Real per capita income	1,351	1,372	1,461
Labor force (mil)	2.39	2.44	2.50
Unemployment rate (pct)	N/A	15.3	15.7
Money and Prices			
Money Supply	2,643	2,636	2,935
Commercial interest rates	max 14	max 14	max 14
Savings rate (pct)	avg 8	avg 8	avg 8
Consumer Price Index	165.1	177.9	188.6
Wholesale Price Index	N/A	N/A	N/A
Official Exchange Rate ($/TD)	1.15	1.10	1.20
Balance of Payments and Trade			
Total Exports FOB 3/	3,087	3,417	3,387
Exports to US	32.0	25.0	45.0
Total Imports CIF 3/	4,826	4,789	5,502
Imports from US	177.0	171.0	235.0
Aid from US (FY basis)	72.5	27.1	21.8
External Public Debt	5,810	6,400	6,980
Debt service payments	1,124	1,135	1,280
Gold Reserves	4.3	4.3	4.3
Foreign Exchange Reserves	622	637	600
Balance of Payments	-61.6	-95.0	50.0

1/ 1992 figures are estimates based on data available through October, 1992
2/ GDP at factor cost
3/ Merchandise trade

1. General Policy Framework

Tunisia has a mixed economy composed principally of agriculture, tourism, manufacturing, and hydrocarbon and phosphate extraction. The largest sector is services, comprising about 33 percent of GDP. Tourism, the single largest source of foreign exchange, was severely affected by the Gulf War but has recovered well and is up in 1992. The manufacturing sector consists primarily of textiles and electronic assembly operations, together comprising about 15

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percent of GDP. Agriculture also comprises about 15 percent. This sector, so vulnerable to the vagaries of weather, suffered real decline during a period of extended drought in the late 1980s, but has recorded excellent harvests the past two years. Phosphate mining and hydrocarbon extraction are the principal components of the nonmanufacturing industrial sector and account for 12 percent of GDP.

The Central Bank is now predicting 8.4 percent real growth in 1992. This is well above the 6.5 percent predicted in December, 1991 and largely the result of better than expected performance in agriculture, tourism and trade. The cereals harvest was more than 35 percent above average. Tourism and trade, both of which got off to a slow start, picked up sharply in the third quarter. Exports rose 11.5 percent above the third quarter 1991 level, and overall export growth for the first nine months of 1992 is 2.2 percent above the same period in 1991.

The country is now in the sixth year of a major structural reform program that has emphasized export led growth through price and import liberalization, privatization of publicly held companies, financial sector reform, the attraction of foreign investment, and diversification of the economy.

Fiscal Policy: The 1992 government budget is an austere one providing for 4.4 percent real increase. Those sectors enjoying a real increase include public works, education, health, interior, justice and defense. Those suffering a real decrease include foreign affairs, finance, plan and agriculture. Defense spending constitutes three percent of GDP and received a five percent real increase in the 1992 budget.

Nominal expenditures are up 11.4 percent and nominal anticipated revenues are up 13.4 pct. The net result is a 950 million dinar (MD) gross deficit (excludes foreign aid and donations). The government plans to finance this deficit through both international and domestic borrowing. The international component is expected to be 300 MD as compared to 330 MD in 1991.

For the past several years the national deficit has ranged between 3.5 and 3.9 percent of GDP. The 1991 figure was 3.9 percent. The Central Bank is predicting a 1992 figure of 2.2 percent, thanks to increased customs revenues from imports and greater royalty revenues from petroleum production.

Food subsidies continue to be a drain on the budget. The government is committed to the ultimate elimination of these subsidies, but the pace of action is slow because of adverse social impacts. In 1992, food subsidies will cost 225 MD (1.9 percent of GDP). This compares favorably with the 272 MD (2.3 percent of GDP) devoted to food subsidies in 1991.

Monetary Policy: The principal objective of the Central Bank remains the effective control of inflation. Since 1987 the inflation rate has varied from six to eight percent. In 1991 it was eight percent. For 1992, the Central Bank is predicting six percent. This improvement is largely the result of the excellent 1992 agricultural harvest, and the price and import liberalization policies which have encouraged greater international and domestic competition.

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 code applies to investments made by Tunisian or foreign promoters, whether resident or nonresident, or by any combination of the above, in manufacturing industries producing either totally or primarily for export. The law contains very generous fiscal and customs advantages. It provides nonresidents with a transfer guarantee for capital invested through the import of foreign convertible currency, and income earned from that capital. Companies are considered nonresident when at least 66 percent of their capital is held by Tunisian or foreign nonresidents.

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 also 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 treatment of American companies in Tunisia, expropriation, remittance of profits, and international arbitration of disputes. It has recently been ratified by the U.S. Senate, and formal exchange of the instruments of ratification should take place around the end of 1992.

Late in 1989 the United States and Tunisia signed a protocol to a Double Taxation Treaty under which both countries have agreed to avoid double taxation on corporations or individuals active in both countries. The treaty, as amended by the protocol, went fully into effect January 1, 1991.

2. Exchange Rate Policy

Tunisia's long term goal is full convertibility of its currency, and the government recently signed a contract with the U.S. Agency for International Development for a technical study of this issue. In the meantime, foreign accounts in convertible dinars or convertible foreign currency may be held by nonresidents, whether Tunisian or non-Tunisian. 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 nonresidents.

The principal currencies quoted against the Tunisian Dinar (TD) are the U.S. dollar, the Deutschmark, and the French franc. The exchange rate is determined via a controlled floating system based on a basket of currencies.

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Daily rates are fixed for all major currencies. Rates over the past 13 years have varied considerably from a high in 1979, when the Tunisian Dinar equaled $2.47, to the 1991 average figure of one TD equals $1.10. For 1992 the rate will probably average about one TD equals $1.20.

3. Structural Policies

In the mid-1980s, Tunisia was faced with rising unemployment, stagnant economic growth, and dwindling foreign exchange reserves. The domestic economy was protected and inefficient, and the government was running unsustainable budgetary deficits. A severe balance of payments crisis in 1986 finally prompted the government to undertake IMF and World Bank sanctioned structural reforms. To date, those reforms have enjoyed remarkable success.

The economy has grown at an average annual rate of 4.2 percent, exports have expanded at more than 10 percent per year, and inflation has been held to approximately 7.5 percent per year. In 1992, the government embarked upon its eighth five year economic plan. The previous plan emphasized export led growth. The new plan emphasizes private investment and domestic consumption as well as continued export growth.

Import regulations have been relaxed to stimulate economic expansion through export of manufactured goods. The import of raw materials and semifinished goods has been liberalized. Fully 85 percent of the products on the import list can now be imported freely as compared to 23 percent in 1986. Customs tariffs on imports of capital goods have been cut considerably. By 1991, the maximum customs tariff had been decreased by nearly 80 percent. Total taxes on imported goods have not, however, been cut 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.

Tax Policies: The only taxes having significant effect on U.S. exports to Tunisia are import tariffs. By 1991 the maximum effective tariff had been reduced to 43 percent. However, when faced with dwindling revenues because of the adverse economic impacts of the Gulf War the government imposed a "temporary" five percent surcharge on all merchandise imports. Originally scheduled to end on December 31, 1991 it was later extended through 1992. In October, 1992 the government reaffirmed its intent to eliminate this surcharge by the end of the year.

Tunisia also imposed a system of custom duty increases, for the period 1992 through 1994, on certain items which compete with locally produced goods. Prior to this action the maximum basic customs duty was 43 percent, and the average tariff had been reduced from 36 percent to 27 percent. The new policy authorizes a maximum additional duty of 30 percent in 1992, reduced to 20 percent in 1993, 10 percent in 1994, and eliminated by 1995. By 1995, the average tariff rate should be down to 25 percent.

Tunisia acceded to full GATT membership 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 nonresident enterprises. Regulations effectively create free zone conditions, duty free imports, tax exemptions, and generous repatriation terms. Special regulations encourage oil exploration by foreign companies 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 (OFFITEC) carries out quality control procedures on items for export. Sanitary and health controls are carried out on both exported and imported food items.

4. Debt Management

External debt continues to grow. The Central Bank now predicts the 1992 current account deficit will be 500 MD, 25 percent more than the 400 MD forecast at the beginning of the year. Total external debt may reach 6,980 MD. Debt service payments will rise to 740 MD, 26.2 percent of the government budget, but much of debt service doesn't appear in the budget. Interest on the debt will be 425 million dinar, 3.1 percent of GDP. Debt service ratio in 1992 will be about 20 percent, down slightly from the 1991 level. One indication of the overall prudent debt management policy of the government is the fact that Tunisia has never rescheduled any of its debt.

The Central Bank closely monitors the level of external debt and tries to keep it as low as possible. In the past, when currency reserves reached a comfortable 77 days of import coverage, the Bank used its own foreign exchange instead of accessing other available sources. Import coverage is now considerably less, recently estimated by a Bank official at 40 days, and the bank finances the deficit through concessionary lines of credit from its major trading partners, and loans from official multilateral creditors such as the World Bank and the African Development Bank.

The Central Bank has also moved toward more sophisticated debt portfolio management. It has taken steps to align debt service payment dates with receipts from sectors such as tourism, where there are seasonal variations in receipts. It has also taken steps to align debt service payments due with the currencies of anticipated export receipts.

5. Significant Barriers to U.S. Exports

There are no significant barriers to U.S. exports in Tunisia and the United States enjoys a traditional bilateral trade surplus. However, the level of sales of American products in Tunisia remains low.

Historical and geographical factors have given Tunisia a special relationship with Europe. It has bilateral trade agreements with all of its major trading partners there, and most of them 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. The special relationship with Europe is also seen in the fact that Tunisia frequently adopts European product standards, a policy that works to the disadvantage of U.S. exporters.

Tunisia's leading supplier in 1991 was France ($1,385 million), followed by Italy, ($927 million), Germany ($760 million), and Belgium ($284 million). The United States was in fifth place with $255 million of exports. Agricultural products (much of it financed by U.S. aid and export credit programs) accounted for a significant portion of U.S. exports to Tunisia.

There exists real possibilities for increasing the level of U.S. exports to Tunisia in areas such as textile manufacturing equipment, oil and gas services, consumer goods, spare parts for construction and mining, airport equipment, telecommunications, environmental services, and irrigation equipment. However, lack of strong financing support discourages U. S. competitiveness.

6. Export Subsidies Policy

Tunisia has a wide range of of export subsidy policies, including a special Export Promotion Fund (FOPRODEX). FOPRODEX provides preferential financing and funding in order to improve the productivity and competitiveness of companies producing for export. Only companies legally incorporated in Tunisia are eligible for these subsidies, but those who are can receive transport subsidies of 50 pct for air freight and 33 pct for sea freight. There is also a government agency to promote exports, the Export Promotion Centre (CEPEX), and a program providing long term financing for exports of capital goods and durable consumer goods.

7. Protection of U.S. Intellectual Property

Tunisia is a member of the World Intellectual Property Organization (WIPO) and a signatory of the Universal Copyright Convention, the Paris Convention for the Protection of Industrial Property, and the Berne Convention for the Protection of Literary and Artistic Works.

The Tunisian National Institute of Standardization and Industrial Property (INNORPI) processes and grants patents, trademarks, and registration of designs. It also regulates standardization, product quality, weights and measures, and the protection of industrial property. Foreign patents and trademarks are registered with this organization.

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There are no active cases of intellectual property right disputes with Tunisia. However, the unauthorized use of foreign trademarks, especially in cheap copies of clothing and sporting goods, continues to be a problem as does the unauthorized duplication of music and video cassettes.

8. Worker Rights

a. Right of Association

The right of Tunisian workers to form unions is provided for in the Constitution, and in the National Labor Code, and that right is freely exercised. Union federations, including those of civil servants, have the right to strike provided 10 days advance notice is given and the central labor organization, the Tunisian General Federation of Labor (UGTT), approves. The International Labor Organization's Committee of Experts cited the government-mandated UGTT approval of strikes as being inconsistent with ILO Convention 87 on freedom of association. However, the strike restrictions are rarely enforced. In the past few years the vast majority of strikes, both private and public, failed to provide the required notice and thus were technically illegal, but as far as is known none of them prompted government action against the leaders.

b. Right to Organize and Bargain Collectively

The Tunisian Labor Code prohibits the firing of workers for union activity. Wages and working conditions are established by negotiation between the UGTT member federations and the employer representatives. There are 47 collective bargaining agreements which set standards applicable for entire economic sectors. The UGTT is by law the labor negotiator for these agreements which cover approximately 80 percent of the work force whether unionized or not.

Antiunion discrimination by employers against union members and organizers is prohibited by law and there exist mechanisms for resolving such complaints. However, the UGTT has complained of increasing antiunion activities by private sector employers. The central labor organization has characterized the propensity of certain industries to hire temporary employees as "antiunion activity" because enforcement of worker rights for temporary workers is more difficult than for permanent ones, and the hiring of workers on a nonpermanent contract basis exempts the employer from paying certain otherwise required benefits. This problem is most acute in the textile sector.

c. Prohibition of Forced or Compulsory Labor.

Compulsory labor is not specifically prohibited by local law, but there have been no reports of its practice in recent years.

d. Minimum Age of Employment of Children

The minimum age for employment in the manufacturing sector is 15 years and in the agricultural sector, 13 years. Tunisian children are required to attend schooluntil the age

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of 16. Inspectors from the Social Affairs Ministry check the records of employees to verify that employers comply with the minimum age law. Nevertheless, underage children often perform agricultural work in rural areas and sell food and other items in urban areas. Small enterprises in the informal sector allegedly violate the minimum age law frequently. It has been alleged that certain apprenticeship programs, principally in the craft sectors such as ceramics and stone carvings, are in fact a form of child labor.

e. Acceptable Conditions of Work

Tunisia's labor code sets a range of administratively determined minimum wages. Regional labor inspectors are responsible for enforcing these standards but most firms are inspected only about once every two years. The Social Affairs Ministry has an office responsible for improving health and safety standards in the workplace. These regulations tend to be interpreted more strictly in the Tunis area than in the rural areas, and working conditions and standards tend to be better in export-oriented industries than in those producing for the domestic market.

f. Rights in Sectors with U.S. Investment

U.S. investment in Tunisia is not significant. It exist primarily in the petroleum industry, and both union and nonunion firms operate there.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1991
(Millions of U.S. Dollars)

Category	Amount	
Petroleum		33
Total Manufacturing		(D)
Food and Related Products	(D)	
Chemicals and Related Products	0	
Metals, Primary and 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, November 1992

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Key Economic Indicators

(millions of dirhams)

	1990	1991	1992
Income, Production and Employment			
Real GDP (1985 prices)	113432	111027	n/a
Real GDP growth (percent)	17.5	-2.1	n/a
GDP (at current prices)	125266	125224	n/a
GDP at Factor Cost by Economic Sector			
Mining and Quarrying:			
Crude oil	57632	53806	n/a
Other	307	332	n/a
Agriculture/fishing	2056	2241	n/a
Electricity and water	2461	2532	n/a
Manufacturing	9701	9478	n/a
Construction	9687	10410	n/a
Wholesale/retail trade, Restaurants/hotels	11237	12483	n/a
Transport, storage,, Communication	6211	6541	n/a
Financing, insurance, Real estate:			
Financing/insurance	5126	5959	n/a
Real estate	6864	7445	n/a
Other services	2467	2697	n/a
Less imputed bank services charge	1950	2594	n/a
Producers of government services	12968	13373	n/a
Domestic services of households	499	521	n/a
Total	125266	125224	n/a
Non-oil	67634	71418	n/a
Net Exports of Goods and Services(current dirhams)	36440	26565	n/a
Real Per Capita GDP (thousand 1985 dirhams)	61.5	58.2	n/a
Labor force	694201	717940	n/a
Money and Prices (annual percentage growth)			
Money Supply (m2)	-8.2	14.3	0.2
Retail Inflation	9	5	5
Exchange Rate (dirhams/usd)	3.671	3.671	3.671
Balance of Payments and Trade			
Total Exports	78950	77687	n/a
Exports to U.S. (millions usd)	888.5	713.4	n/a
Total Imports	42510	51122	n/a
Imports from U.S. (millions usd)	1003.9	1455.0	n/a
Aid from U.S.	0	0	0

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Aid from other countries	0	0	0
Gold and Foreign Exchange Reserves (millions usd)	4765.7	n/a	5357.7
Merchandise Trade Balance	36440	26565	n/a
Balance with U.S. (millions usd)	109.7	686.5	n/a

1. General Policy Framework

The UAE is a federation of seven Emirates that retain a high degree of control over their respective political and economic activities, including the ownership and management of their oil resources and oil revenues. The federal government, which is responsible for defense, internal security, justice, health, education, and foreign aid, relies mostly on transfers from individual Emirates for its revenue. The GDP per capita of Abu Dhabi Emirate in 1990, at $28,052, was almost five and a half times that of Ajman Emirate's $5,154.

Economic activity in the UAE depends largely on developments in the oil sector, which accounts for over 80 percent of government revenue and 70 percent of the country's export receipts. While progress has been made to diversify the economic base, the non oil sector continues to be driven largely by the level of government spending. Budgetary policy has been used to cushion the impact of fluctuating oil receipts on the domestic economy: official foreign assets are drawn down to allow an orderly reduction in government expenditures when oil receipts decline.

In 1991 oil production averaged 2.455 million barrels per day (mmbd), up from 2.059 mmbd in 1990. However, revenue from oil in 1991 was $13.9 billion, an 11.5 percent drop from $15.7 billion in 1990, due to generally lower oil prices in 1991. According to statistics of the UAE Central Bank and the Federal Ministry of Planning, the oil sector's contribution to nominal GDP and revenues from oil exports fell from 1990 to 1991. However, total revenues from oil received by Emirate governments and the federal government rose from 1990 to 1991, from 35.6 billion dirhams ($9.7 billion) to 39.4 billion dirhams ($10.73 billion).

Abu Dhabi Emirate is in the midst of a major program to expand oil and gas production through extracting larger quantities from existing reservoirs. Abu Dhabi plans to increase its crude oil production capacity from around two million barrels per day today to between 2.6 and 3 mmbd by 1995. In Dubai, despite efforts to maintain production at its traditional level of about 400,000 barrels per day, output is falling, and could be only slightly over 300,000 barrels per day by the end of 1993.

The Central Bank does not control the money supply or interest rates. Trends in domestic liquidity continue to be primarily influenced by residents' demand for UAE dirhams relative to foreign exchange. Domestic liquidity is influenced by the Central Bank through its sale and purchase of foreign exchange, use of the swap facility, and transactions in the Central Bank's certificates of deposit. (Under the Central

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Bank's swap facility to provide dirham liquidity to commercial banks, banks seeking to swap foreign currency for dirhams must show net dirham assets or, if their balance sheets show net foreign currency assets, these must be due to forward transactions for commercial purposes. The number of banks meeting this requirement has been fairly stable and stood at 17 of a total of 47 banks in the UAE in 1991.) The money supply tends to be determined by government spending. The economy is largely project driven. Banks convert dirham deposits to foreign assets and back again in search of higher rates of return and in response to fluctuations in lending opportunities in the domestic market.

The government's gathering and publishing of statistics is incomplete. Little current information is available on oil and gas output, pricing, inflation, or on service and capital transactions in the balance of payments. Comprehensive information on the UAE's foreign assets is unavailable.

2. Exchange Rate Policy

Since January 28, 1987 the UAE dirham has been officially pegged to the IMF's Special Drawing Rights (SDR) at one SDR equals 4.76190 dirhams. The margin of fluctuation was set initially at 2.25 percent and widened on August 15, 1987 to 7.25 percent. In practice, however, the dirham has been effectively pegged to the U.S. dollar, the intervention currency, which the Central Bank buys and sells at rates it determines. Since November 1980 the buying and selling rates for the U.S. dollar have been Dh 3.6690 and Dh 3.6730 respectively. While the commercial banks are free to engage in foreign exchange transactions at rates of their choosing, in practice these rates have been close to those quoted by the Central Bank. For currencies other than the U.S. dollar, the rates quoted by commercial banks are determined on the basis of the previous day's closing rates in New York as well as the international quotations in the Gulf Cooperation Council area and the Far East. There are no taxes or subsidies on purchases or sales of foreign exchange.

As a result of the appreciation of the U.S. dollar in the first half of the 1980's, the dirham's exchange rate vis-a-vis the SDR remained outside the official margins through July 1986, reaching a maximum appreciation of 26 percent relative to the SDR peg value in February 1985. Since then the depreciation of the U.S. dollar vis-a-vis other major currencies has led to a depreciation of the dirham in terms of SDRs of about 24 percent between December 1985 and September 1991. On a trade-weighted basis, excluding oil, the dirham's nominal effective exchange rate has depreciated by 3 percent during the four years ended September 1991.

There are no exchange controls in the UAE and no registration requirements for inward or outward transfers. Import and export licenses, where required, are issued by the authorities of the emirate concerned. Similarly, there are no rules governing prescriptions of currency in force. In addition, distinction is made between accounts held by residents and those held by nonresidents.

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3. Structural Policies

The UAE has long been and continues to be the most open Asian capitalist economy west of Hong Kong. Government regulation of and interference in the economy is minimal.

Expenditures under the consolidated government accounts have not been covered by revenues since the beginning of the period of the oil price collapse in the mid-1980s. The government has responded by cutting investment spending and drawing down its overseas assets to cover the deficits. There are very few taxes in the UAE: taxes and royalties on oil, taxes on the profits of foreign banks, a minimal two percent tariff on a limited number of items, an export tax on textiles and garments, and fees, such as a ten percent fee on courier services. The UAE authorities have not sought to increase government revenues through additional taxation. They have said that such measures would discourage investment and reduce commercial activity. At the same time, there are indications that UAE authorities see the tax system as dynamic and evolving in the direction of acquiring a broader revenue base.

4. Debt Management Policies

The UAE central government has no official foreign debt. Individual emirates are believed to have foreign debts, and there is private external debt, but there are no reliable statistics on this in the UAE. The foreign assets of Abu Dhabi, Dubai, and their official agencies are believed to be significantly larger than the reserves of the Central Bank, while foreign debt obligations of some of the emirates (Dubai, Sharjah, and Umm Al Qaiwan) remain relatively small.

Analysis of developments in the UAE's balance of payments is constrained by the lack of a systematic recording and reporting system for many external transactions. In view of the concern of the emirate governments for the confidentiality of data on the oil and gas sector transactions, no official data on the export earnings of this sector, or on investment income or repatriated foreign company profits, have been released since 1985. Furthermore, only partial information is available on official capital flows. Apart from non oil exports and merchandise imports, for which data are collected and reported by the customs on a timely basis, the official balance of payments data are estimates made by the Central Bank on the basis of information gained from various sources, supplemented by assumptions about developments in the various emirates.

The external position of the UAE has been largely influenced by oil export earnings and the policy response of the authorities to changes in oil revenues through its effect on domestic activity and imports. The overall balance of payments, reflecting substantially higher capital outflows due to uncertainties associated with the Kuwait crisis, went into deficit for the first time in several years in 1990 by the equivalent of almost one percent of GDP.

UAE authorities manage their official foreign assets carefully in order to ensure the stability of the international capital markets. There is every indication that this practice will continue in the future. Official grants and aid fell to four percent of GDP in 1991, but this is still considerably higher than the performance of more developed countries in this respect.

The UAE drew down its foreign assets during the oil price collapse years of the mid-1980s and again during the Kuwait crisis in 1990. Without access to figures, it is difficult to estimate the size of official assets. Net foreign assets of the banking system, as published by the Central Bank, amounted in March 1992 to 63 billion dirhams, or about $17.26 billion.

5. Significant Barriers to U.S. Exports

Except for companies located in duty free zones like the Jebel Ali port, at least 51 percent of a business establishment must be owned by a UAE national or national entity. The Finance Ministry is considering an income tax that would apply only to foreign, not UAE, businesses. The profits of foreign banks are taxed. Foreign sellers are required to have a local agent or distributor. There are restrictions on foreigners owning real estate.

A supplier or contractor bidding on federal projects must either be a UAE national or a company in which at least 51 percent of the share capital is owned by UAE nationals. Therefore, foreign companies wishing to bid for a federal project must enter into a joint venture or agency arrangement with a UAE national or company. Federal tenders are required to be accompanied by a bid bond in the form of an unconditional bank guarantee for five percent of the value of the bid.

6. Export Subsidies Policies

The UAE Government does not use subsidies to provide direct or indirect support for exports. The UAE is not a member of the GATT subsidies code.

7. Protection of U.S. Intellectual Property

In 1992, the UAE passed three laws pertaining to intellectual property: a copyright law, a trademark law, and a patent law. All three have been signed by President Zayed and implementing regulations are being drafted.

Trademark Law. The trademark law broadly defines trademark as any commercial mark distinguishable by names, words, signatures, letters, numbers, drawings, codes, addresses, engravings, statements, or packaging, or as any other mark or group of marks used or intended to be used to distinguish products or services.

The law provides that a foreign trademark that has achieved international prominence may only be registered by its original foreign owner. The law contains reciprocity provisions enabling the foreign owner of a trademark to register it in the

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UAE even though no commercial activity is conducted in the UAE by the foreign owner, provided the owner is a national of a country that grants reciprocity to UAE nationals.

The law provides for registration of trademarks with the UAE Ministry of Economy and Commerce and for the creation of a trademark committee to be chaired by the Under Secretary of the Ministry of Economy and Commerce. The Committee will include representatives from the Ministry of Economy and Commerce and a representative from each of the seven emirates. Under the law, the Minister of Economy and Commerce will issue implementing regulations, which are likely to contain specific provisions on registration procedures and other issues related to the administration of the trademark law.

Patent Law (Industrial Property Law). The patent law stipulates that a patent may be granted for any invention resulting from an original idea or for an original improvement of a patented invention, provided that such invention or improvement is suitable for industrial use. Inventions suitable for industrial use but not original enough to qualify for a patent may be granted a "certificate of benefit," which accords protection similar in many respects to that of a patent.

The law states that a patent registration is valid for 15 years from the submission date of the application, with the exception of patents for certain chemical inventions related to food and pharmaceutical products, which are valid for 10 years. A certificate of benefit registration is valid for 10 years from the submission date of the application. According to the law, nationals of countries that grant reciprocal treatment to UAE nationals may avail themselves of all rights granted by the industrial property law. In addition, the law provides that holders of patents and certificates of benefits may license their rights to third parties. The law provides for compulsory licensing in certain cases, particularly when the patent or certificate of benefit is not industrially exploited by its holder.

Under the law, all registration applications for patents must be filed with the Department of Industrial Property of the UAE Ministry of Finance and Industry, the decisions of which may be appealed to a committee to be created by a decree of the Ministry of Finance and Industry. This committee will be chaired by a judge and will include a representative from the UAE Ministry of Finance and Industry, the UAE Ministry of Economy and Commerce, the Federation of the UAE Chambers of Commerce and Industry and the General Secretariat of Municipalities. The law provides that implementing regulations under the industrial property law will be adopted by the Minister of Finance and Industry.

Copyright Law. The law will protect a wide variety of original works including written matter, oral works, cinema and television works, video compilations and computer software. Translations of original works will also be eligible for protection, particularly if the translator enhances the original work in some way. Items excluded from protection include laws, court judgments and international agreements, and news which is publicly transmitted or broadcast.

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The works of foreign authors being published for the first time within the UAE will be covered by the new law. However, the works of foreign authors already published here will only benefit if the authors are nationals of a foreign state which has reciprocal arrangements for UAE nationals. As the UAE is currently not a signatory to any major intellectual property convention or treaty, it is unclear how foreign works already published in the UAE will be protected under this reciprocal arrangement.

As with the trademark law, the new copyright law will operate a registration system. However, registration will not actually be required for protection. It will still be advisable since it will clarify and provide evidence of an author's rights. All registrations will be subject to clearance by the censorship department of the Ministry of Information, which will verify that the material is not morally objectionable or in contravention of the Arab boycott of Israel.

An author will obtain exclusive control over whether to publish, the manner of publication, and the general use and exploitation of his work. An author will also have the right to have his work attributed to him on publication. However, the new law will permit some limited use without the author's consent. This will include the copying of radio and television programs for private use, the use of works for educational, religious and cultural purposes, and the right of libraries and other institutions to duplicate works, provided the financial or legal interests of authors are not prejudiced. In addition, newspapers and other written media will be able to publish articles of current political economic, social, or religious interest without consent provided the author is identified. News broadcasts of current events may also be reproduced and transmitted without the author's consent in televised, radio, or printed forms provided the transmission is for public information purposes and the author is identified.

No translations of a work will be permitted unless authorized by the author. The exception to this rule is when the owner of the copyright fails to translate his work into Arabic within three years from the date of its publication. Afterwards protection against unauthorized Arabic translations will lapse. The intention of this provision is to encourage non Arabic speaking authors to convey their works to Arabic speaking people.

Copyright protection under the new law will generally last for the duration of the author's life plus 25 years. However, there will be exceptions. Cinema works, applied art, works published under a pseudonym, works published after death, and works by institutions rather than individuals will enjoy protection for 25 years from publication. Photographic works will receive only ten years protection from publication.

The new copyright law contains criminal sanctions. Any person who publishes a work without consent or who falsely claims ownership will be punished by imprisonment or a fine of up to dhs 50,000 ($13,700) or both. Any person who publishes a work in a manner contrary to the author's instructions or who republishes it without consent will be punished by imprisonment or a fine of up to dhs 10,000 ($2,740) or both. Commercial outlets will have to be properly licensed before they can publish, copy, or print protected works. Proprietors who breach this requirement will be punished by imprisonment of six months or a fine of up to dh. 10,000 or both. In addition, the sale of master copies by commercial outlets will require the consent of the author. Proprietors who breach this requirement will be punished by imprisonment and a fine of up to dh 50,000 or both. The authorities will also be able to close down the commercial outlets in question.

Four new offices will be set up in the Ministry of Information to administer the copyright law: video products, audio products, books, and computer software.

8. Worker Rights

a. Right of Association

UAE law is silent on the right of workers to organize unions and to strike, but it is a criminal offense for public sector workers to strike. In practice, there are no unions and no strikes. Foreign workers who attempt to organize a union risk deportation.

There are a variety of informal associations of workers, organized by nationality, to deal with the social welfare or legal concerns of their members. For example, the Pakistani taxi drivers have a dues paying association which will pay the fines of drivers involved in traffic accidents. Similarly, several "social" associations provide legal assistance for workers who have grievances with or have absconded from their employers.

b. Right to Organize and Bargain Collectively

There is no legal provision for the right of workers to engage in collective bargaining. For the resolution of work-related disputes, workers must rely on conciliation committees organized by the Ministry of Labor and Social Affairs. Domestic servants and agricultural workers are not covered by the UAE labor laws and thus have great difficulty in formally resolving labor disputes. The UAE has no official minimum wage, but the Ministry of Labor reviews labor contracts and does not approve any contract that stipulates a clearly unacceptable wage.

There is manufacturing in the duty free ports, such as Jebel Ali, but the same laws and regulations apply there as in the rest of the country.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is illegal and is not practiced.

d. Minimum Age for Employment of Children

Labor regulations prohibit employment of persons under age 15 and have special provisions for employing those aged 15 to 18. Labor regulations allow only contracts for adult foreign workers. In practice, the government tolerates the employment of 5-8 year-old boys who ride as jockeys in the local sport of camel racing. These expatriate children apparently enter the country illegally, often with the assistance of organized agents. There were several press reports in 1992 that Indian authorities broke up rings of agents who had procured children to ride camels in the UAE. Reportedly, these boys are kept deliberately underfed (the preferred weight for a camel jockey is under 40 pounds) and there are a number of children being treated in government hospitals for injuries sustained during riding accidents. Conditions in the camel yards were described as "inhumane" by a local judge ruling on a case where two 10-year-old jockeys killed a 6-year-old boy who was perceived as threatening because he wanted to learn how to become a jockey. If the local police are summoned to deal with a labor or criminal dispute involving these children, they are usually repatriated.

e. Acceptable Conditions of Work

There is no legislated or administrative minimum wage. Supply and demand determine salaries. However, according to the Ministry of Labor and Social Affairs, there is an unofficial, unwritten minimum wage which would afford a worker and his family a minimal standard of living. As noted in Section 6.B., the Labor and Social Affairs Ministry reviews labor contracts and disapproves those it deems unfair.

Work hours are restricted to 8 hours per day, 6 days per week, but these standards are not strictly enforced. The law provides for a minimum of 24 days per year of annual leave plus 10 national and religious holidays. Most workers receive subsidized housing, medical care, and homeward passage through their employers. The vast majority of workers, however, do not earn the minimum salary ($1,000 per month) required for them to sponsor their families for a UAE residence visa. Foreign workers must get permission from a previous employer to move to a new job with a different employer. In addition, only workers in specific occupations can change jobs without leaving the country during a six month period.

The government sets health and safety standards, which are enforced by the Ministry of Health, the Ministry of Labor and Social Affairs, municipalities, and Civil Defense. Every large industrial concern is required to employ an occupational safety officer certified by the Ministry of Labor. If an accident occurs, a worker is entitled to fair compensation. Health standards are not uniformly applied in the housing camps provided by employers. All workers have the right to complain to the Labor Ministry, whose officials are accessible to any grievant, and an effort is made to investigate all complaints. The Ministry of Labor and Social Affairs, which oversees worker compensation, is, however, understaffed and underbudgeted so that complaints and compensation claims are usually backlogged.

Foreign nationals from India, Pakistan, the Philippines, Bangladesh, and Sri Lanka continue to seek work in the UAE in large numbers. There are many complaints that recruiters use unscrupulous tactics to entice foreign manual laborers and domestics to the UAE on the basis of false salary and benefits promises. Such cases may be appealed to the Labor Ministry and, if this does not resolve the issue, to the courts.

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However, many laborers are reluctant to protest or to engage in such a lengthy process because of fear of reprisals by their employers. Also, the fact that domestic servants and agricultural workers are not covered by the UAE's labor code makes them vulnerable to employer pressure and enforcement of any complaints difficult.

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.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position Abroad
on an Historical Cost Basis - 1991
(Millions of U.S. dollars)

Category		Amount
Petroleum		472
Total Manufacturing		14
Food & Kindred Products	0	
Chemicals and Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	(D)	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	(D)	
Wholesale Trade		64
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		550

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

Source: U.S. Department of Commerce, Survey of Current Business, November 1992, Vol. 72, No. 8, Table 11.3

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